Spire Healthcare

Looking after you

ANNUAL REPORT 2016

Spire Healthcare is a leading independent hospital group in the United Kingdom. We deliver high standards of care to our insured, Self-pay and NHS patients with integrity and compassion within high-quality facilities.

We are totally focused on our customers. Our business is more than just treating patients, it's about looking after you.

Hospitals
38

Clinics
10

Specialist Cancer Care Centres
2

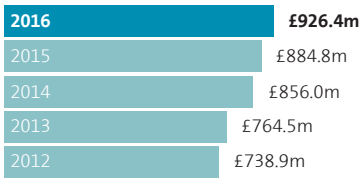
Patients
773,000*

Consultants
3,800

Full-time equivalent staff
8,055

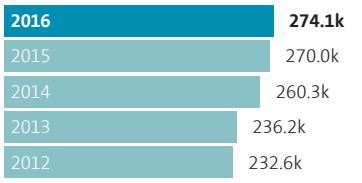
* Including out-patient, in-patient, daycase and individual patients treated at least once during the year.

Revenue (+4.7%)
£926.4m
2015: £884.8 million



Operating cash flow before exceptional items and tax** (+12.1%)
£186.3m
2015: £166.7 million

Patient discharges (+1.5%) (in-patient and daycase)
274.1k
2015: 270.0k



EBITDA* (+1.2%)
£162.0m
2015: £160.1 million

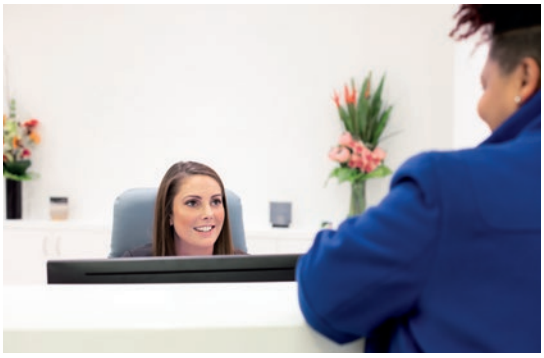
Profit for the year (-10.7%)
£53.6m
2015: £60.0 million

Operating profit before exceptional items (-2.0%)
£108.2m
2015: £110.4 million

* Operating profit, adjusted to add back depreciation, profit or loss arising from the disposal of fixed assets and exceptional items, referred to hereafter as 'EBITDA' (2014 EBITDA adjusted to conform the property rental base and PLC operating costs base, referred to hereafter as 'Adjusted EBITDA').
** Operating cash flow adjusted to add back the cash flow effect of exceptional items and income tax.

06
Executive Chairman's statement

12
Getting my life back
Self-pay at Spire Healthcare



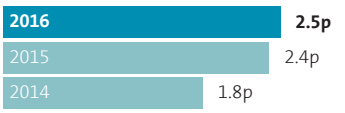
24
Local hero
The new Spire Manchester Hospital at West Didsbury

Adjusted basic earnings per share*
(+4.9%)

19.2p
2015: 18.3 pence

Proposed final dividend per share
(+4.2%)

2.5p
2015: 2.4 pence



34
Cutting edge partnerships
Innovative treatments at Spire Southampton

40
Full support
Partnering and supporting Scottish Rugby

This Annual Report is also available on our website: spirehealthcare.com/AR2016

* 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. For 2014, profit is calculated as earnings after tax adjusted for the capital restructuring, exceptional items, to conform the property rental base, PLC operating costs and the net profit arising on the sale of property and other assets.

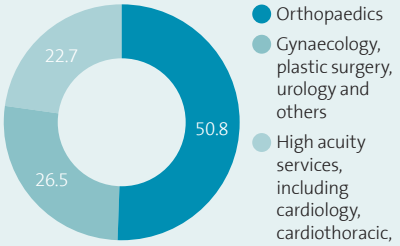
At a glance

Spire Healthcare provides diagnostics, in-patient, daycase and out-patient care from 38 hospitals, 10 clinics and two Specialist Cancer Care Centres throughout the UK.

We also own and operate sports medicine, physiotherapy and rehabilitation brand, Perform.

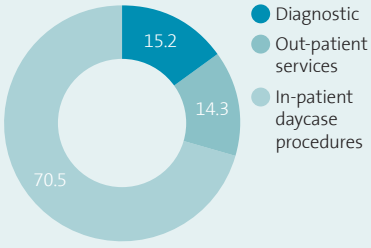
A well diversified business

2016 Percentage of revenue*



* In-patient and daycase revenue.
Source: Company information.

2016 Key activities (%)



- Diagnostic
- Imaging
- MRI/CT scanning
- Pathology
- Out-patient services
- Consulting
- Minor procedures
- Treatments
- Health checks
- Physiotherapy
- In-patient daycase procedures
- Orthopaedics
- Cardiology
- Neurology
- Oncology
- General surgery

Source: Company information.

What we provide

Providing high-quality patient care is our top priority. To improve our patient offering, we invest consistently in a wide range of services and treatments at each stage of the care pathway: from initial GP referral, through consultation, diagnosis and treatment, to recovery and rehabilitation.

Who we serve

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

Private medical insurance (PMI)

Self-pay

NHS patients

Read more on pages 18 and 19

Market trends

Demand growth

Driven by a growing and ageing population – with a higher incidence of long-term and chronic conditions, such as cancer, obesity and diabetes.

NHS funding gap

Funding and capacity constraints are forecast to continue throughout this Parliament. The independent sector can help to bridge the gap.

Read more on pages 18 and 19

Our services

Primary care

Working with GPs to facilitate speedy, convenient and fully informed referrals. Enabling patients to make a considered choice at the start of the care pathway. We are investing in our own hospital-based primary care service to offer patients convenience and to facilitate speedier referrals.

Consultants

Improving the quality of our facilities and providing a wide range of services and highly-trained staff, so that our experienced consultant body can deliver outstanding healthcare.

Working with consultants throughout their careers to develop their skills and their private practices.

Diagnostics

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

Treatment and surgery

Offering a wide range of treatment and surgery, including good outcomes for routine procedures such as knee and hip replacements, and specialist procedures across our network, providing choice to patients.

Recovery

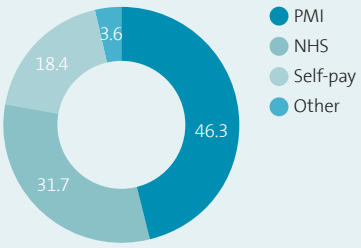
From high dependency and intensive care units to our injury rehabilitation facilities, getting patients back on their feet as fast as possible.

Diversified payor mix

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

Read more on pages 6 to 8

2016 Funding sources (%)



Source: Company information.

Our strategy development

- **Clinical quality**
- **Operational excellence**
- **Growth engine**
- **Our people**

Read more on our strategy on pages 14 and 15

How we create value

Through our operations, we create and deliver measurable value for our stakeholders.

Investing in
New sites and services

Our people

Improved efficiency

Providing

Patients
We provide fast and convenient access to diagnostics, hotel-style customer service and excellent clinical outcomes.

Consultants
We offer high-quality facilities and well-trained staff to help consultants deliver effective care and develop their private practices.

Employees
We provide excellent training, flexibility and a supportive working environment, enabling our staff to deliver outstanding care.

Payors
We deliver value for money, price transparency, patient choice and additional capacity to insurers, Self-paying patients and the NHS.

Shareholders
Strong cash flow enables dividend payments in line with our policy and the return of excess cash to shareholders when available.

Read more about how we create value in our Business model on pages 10 and 11

LOOKING AFTER YOU — *Delivered in 2016/17*

01 *Spire Manchester* £63m

Designed with extensive input from consultants, staff and patients, the new 76-bed Spire Manchester Hospital will offer highly complex surgery and medicine through a large and fully functioning Intensive Therapy Critical Care Unit (CCITU), together with ultramodern diagnostic and imaging equipment.

Read more on pages 24 and 25

02 *Spire St Anthony's* £27m

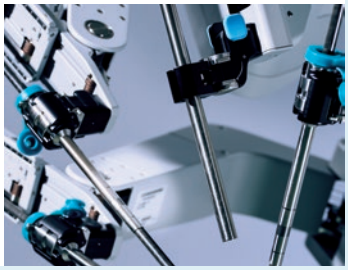
In August 2016, we opened a purpose-built theatre suite at Spire St Anthony's Hospital, Sutton, increasing capacity from four to six theatres whilst thoroughly modernising the rest of the complex.

Read more on page 21

03 *Spire Southampton* £6m

Last year, we partnered with the NHS to install a surgical da Vinci robot for the treatment of prostate cancer as well as the specialised theatre to house it. We also enlarged an existing ward at the hospital to take extra capacity.

Read more on pages 34 and 35



LOOKING AFTER YOU — *Schemes in progress for 2017*

04 *Spire Nottingham* £60m

Creating 150 new jobs for the local area, the 58-bed Spire Nottingham Hospital will have five theatres, an endoscopy suite, a 20-room outpatients department and an oncology suite, as well as an advanced radiology department that comprises a 3T MRI, CT and X-ray.

Read more on pages 21 and 22

05 *Spire Bushey* £23m

One of the principal investments agreed in 2016 was the development of a medical centre based in Hertfordshire, serving the Greater London market.

Designed as a 'satellite centre' to Spire Bushey Hospital, the Spire Bushey Medical Centre will see patients for diagnostic and outpatient appointments, creating additional surgical capacity at the main hospital.

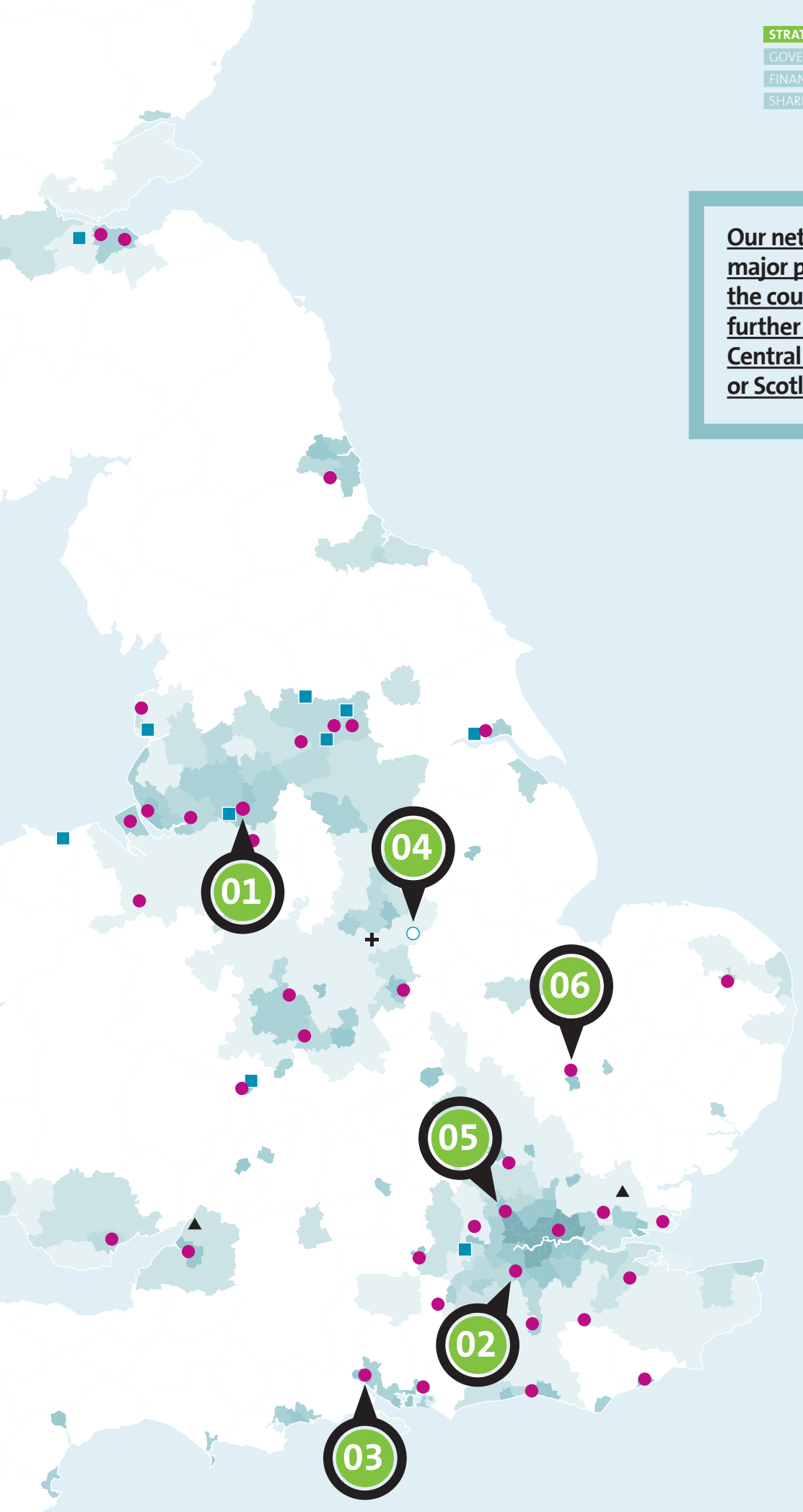
Read more on page 21

06 *Spire Cambridge Lea* £10m

A considerable refurbishment project which includes patient bedrooms, public areas and nurse's stations; 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.

Read more on page 21

Our network of hospitals covers major population centres across the country – with scope for further expansion, for instance in Central London, South Yorkshire or Scotland's central belt.



- Spire Healthcare Hospitals
- Spire Healthcare Clinics
- Perform at St George's Park
- Specialist Cancer Care Centres
- Development

People per sq km

- 0–250
- 250–500
- 500–1,000
- 1,000–1,500
- 1,500–2,500
- More than 2,500

Hospitals

East of England
Cambridge Lea
Harpenden
Hartswood
Norwich
Wellesley

London
Bushey
Roding
St Anthony's
Thames Valley

Midlands
Leicester
Little Aston
Nottingham
Parkway
South Bank

North East & Yorkshire
Elland
Hull and East Riding
Leeds
Methley Park
Washington

North West
Cheshire
Fylde Coast
Liverpool
Manchester
Murrayfield, Wirral
Regency

Scotland
Murrayfield, Edinburgh
Shawfair Park

South East
Alexandra
Clare Park
Dunedin
Gatwick Park
Montefiore
Portsmouth
Southampton
Sussex
Tunbridge Wells

South West
Bristol 'The Glen'

Wales
Cardiff
Yale

Clinics

Abergele
Dewsbury
Droitwich
Hale
Harrogate
Hesslewood
Ilkley
Livingston
Lytham
Windsor

Specialist Cancer Care Centres

Baddow
Bristol

Executive Chairman's statement

In the year to 31 December 2016, Spire Healthcare's 12,400 dedicated staff and the 3,800 plus consultants who work with us, provided treatment of the highest quality to over 773,000 private and NHS patients. Working together, we delivered outstanding value for patients and continued our profitable growth as a listed company.

Garry Watts
Executive Chairman

Performance

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

Financial performance in 2016 was reasonable. In a year when we faced some market headwinds and continued our major investment in two new build hospitals, we still achieved a ninth successive year of growth. Total revenue increased 4.7% to £926.4 million; resulting in an adjusted profit after tax of £76.6 million* (2015: £73.0 million).

As we announced in January 2017, results were negatively impacted by performance at our latest acquisition, Spire St Anthony's Hospital, Sutton. Following significant redevelopment and reconfiguration work, it has taken longer than expected to adapt staffing and working practices to the increased capacity and the highest standards we expect.

We continued to invest significantly, particularly in the new Manchester and Nottingham hospitals, together with their equipment and staff, but also in our people, services, treatments, hospitals and equipment across the network. Overall, we invested £149.5 million in the business during the year.

Dividend

Reflecting this performance, and subject to shareholder approval, the Company intends to pay a final dividend in respect of the year of 2.5 pence per ordinary share. Together with the interim dividend of 1.3 pence per ordinary share this amounts to a total annual dividend of 3.8 pence per ordinary share, in line with our stated dividend policy which aims to pay out around 20% of profit after taxation each year.

Service quality

Our hospitals are subject to the same Care Quality Commission ('CQC') inspection regime as all private and NHS hospitals in England and to inspection by the relevant authorities in Wales and Scotland. We fully support the CQC's approach and aim for all of our hospitals to be rated at least 'good'. Reviewing our clinical governance performance is always top of our Board agenda.

During the year under review, the CQC completed its initial inspections of the majority of our hospitals and while we await the final reports I am pleased to announce that our overall performance is better than

* Adjusted profit is calculated as earnings after tax adjusted for exceptional and other items and related tax (detailed on page 27).

the average for the rest of the private sector and far exceeds the NHS average. However, there is always room for improvement in individual inspection domains. All of our hospitals have specific improvement plans in place to address points raised by their regulatory inspections. These are followed up by the Operations Board with oversight by the Executive Committee and the Board's Clinical Governance and Safety Committee, chaired by Professor Dame Janet Husband. You can read her report on this committee's activities on pages 72 and 73.

Service development

The opening of our new hospital in Manchester in January 2017 marked not only the culmination of many months of extremely hard work by our staff and contractors but also a major enhancement in our capacity to serve patients in its catchment area. We are also well-advanced with a new-build hospital in Nottingham which we expect to open around Easter 2017.

Spire Manchester Hospital is a new build, replacing and improving the facilities of an existing hospital. You can read more about Spire Manchester Hospital and the services it provides on pages 24 and 25, and see how it is a clear example of our business growth strategy in action.

Our Nottingham hospital marks Spire Healthcare's entry into an entirely new local market. Both new hospitals demonstrate our ability to identify and invest in emerging customer needs.

Plans for further capacity expansion through new builds will be considered on a case-by-case basis. We continue to research opportunities to fill our Central London coverage gap. The change in the Central London property market brought about by the Brexit vote last year has delayed our plans and we are re-evaluating suitable, available sites and the quantum of the future opportunity. We hope to update on progress later this year.

Strategic development

Spire Healthcare operates within the UK's healthcare system, which is, of course, dominated by the NHS. While nearly a third of our work is on behalf of the NHS, we never forget that the majority of our patients have chosen to pay for their care – either through Private Medical Insurance ('PMI'), or, increasingly, directly by Self-paying. The size of the PMI sector is closely linked to economic and corporate growth which, over the last decade has been limited, restricting our PMI sector growth opportunity to gains in market share.

At the same time, our NHS work has grown markedly. We greatly value working with the NHS, so while NHS funding constraints will continue to drive tariff reductions – for the fiscal year commencing 1 April 2017 the prices for the weighted basket of services we currently deliver will reduce by circa 3.9% – we will continue to pursue strategies to mitigate these pricing pressures so as to ensure we continue to offer services to the NHS.

Our third payor group, Self-pay, continues to show good growth both in numbers of patients and in the complexity of care we provide. As discussed elsewhere in this report, demographic drivers, technological advances and public service restrictions suggest this trend will continue.

The number of patients we treat, and the efficiency with which we do it, are the key determinants, regardless by which route they come to us. Our capital expenditure programme is designed to ensure we have adequate capacity and appropriate technology both to meet demand and continually to improve productivity.

"The development of services at Spire Manchester and Nottingham hospitals, and other hospitals, supported by increased investment in a customer focused strategy, will provide accelerated revenue and profit growth in 2018 and beyond."

Proposed final dividend per share (+4.2%)

2.5p

2015: 2.4 pence

Total revenue (+4.7%)

£926.4m

2015: £884.8 million

"Spire Healthcare's clinical and financial performance go hand in hand – and both are created by our outstanding team of people."

The Spire Healthcare name clearly has resonance with our customer and patient base, as well as with the consultant community; and we intend increasingly to focus on building Spire Healthcare's name recognition and brand by re-examining every stage of the patient journey and experience from a customer viewpoint, and by optimising our operational efficiency for the benefit of patients. Throughout, we will be driven by a relentless focus on quality.

We regard the investment required in this total customer focus – both in terms of time and money – as being as fundamental to our future success as the capital expenditure we make on buildings and equipment, or the investments we make in our staff.

Board development

We seek to ensure we have a diverse and experienced Board and senior management team in place at all times.

My role as Executive Chairman originally resulted from the departure of Rob Roger in June 2016, but has now been extended as the Board's intended successor Chief Executive Officer, Andrew White, undergoes a sustained period of medical treatment. We wish Andrew the very best for a complete recovery, and in the meantime, the appointment of Catherine Mason as Chief Operating Officer in December has very efficiently supplemented our executive team. Together, with our experienced Chief Financial Officer, Simon Gordon, we provide leadership and supervision of the day-to-day running of the business until Andrew is able to return to full time activity.

We regretfully accepted the resignation, for personal reasons, of Robert Lerwill as a Non-Executive Director in June. Robert was appointed as an independent Non-Executive Director in the lead up to the Company's listing in July 2014. He left with the thanks of the Board for his contribution both in that role and also as chair of the Audit and Risk Committee.

In July, we were pleased to announce the appointment of Adèle Anderson as an independent Non-Executive Director of the Company. She also became chair of the Company's Audit and Risk Committee. Until July 2011, Adèle was a partner in KPMG and held a number of senior roles across their business. She has been a non-executive director of easyJet plc since September 2011 and of intu properties plc since February 2013 and chairs the audit committees of both companies. She brings considerable recent and relevant financial experience to our Board.

Our Senior Independent Director, John Gildersleeve, has indicated that he wishes to step down from the Board. We are in the process, with external advisers, of recruiting a successor. John originally intended to leave by the end of December 2016 but has agreed to remain until an appointment has been made; he will not stand for re-election at the annual general meeting in May.

Our people

Spire Healthcare's clinical and financial performance go hand in hand – and both are created by our outstanding team of people. It is they, working with the best consultants and clinicians, who deliver first-class care to our patients. We owe all our staff an immense debt of gratitude for their dedication and unstinting efforts on behalf of our patients and our organisation.

The entire UK healthcare system faces well publicised staff shortages – shortages that are currently made up for through the recruitment of overseas staff (an area where Brexit could have an impact on our business), but in the meantime recruiting, training, motivating and retaining the best staff, while trying to minimise reliance on expensive agency staff, is crucial not only to the quality of our care but also to the long-term health of the business.

We are focused on the creation of an even more attractive employee career offer and on the development of our leaders, throughout the business. Of particular note in this regard is the work we are doing in developing our cadre of Hospital Directors – both by 'growing our own' and through external recruitment – and our programme to increase the training we offer to clinical staff eventually aims at providing a further source of qualified professionals for our business.

You can read more on the development of our employee proposition and the work we are doing on leadership development in Group HR Director's review – Our people on pages 42 to 45.

Looking ahead

Two and a half years after becoming a listed company, our business is in good health. We have good people, are well capitalised and invested, and have a strong quality care proposition. To seize the opportunity that we have to lead and innovate in the UK healthcare market, we now need to accelerate our transformation.

In 2017, we are looking forward to the first contributions of our two new build hospitals in Manchester and Nottingham, and to a positive contribution from Spire St Anthony's Hospital, Sutton. The development of services at these, and at our other hospitals, supported by increased investment in a customer focused strategy, will provide accelerated revenue and profit growth in 2018 and beyond.

In the longer term, I remain convinced that the recognised breadth and quality of Spire Healthcare's services and the macro demographic and technological trends in healthcare – together with funding constraints in the NHS – will continue to drive significant growth in our business.

I look forward to reporting further progress in the months to come.

Garry Watts
Executive Chairman
1 March 2017

Five reasons to invest in Spire Healthcare

01

Attractive and growing market

The UK private healthcare market should continue to grow as the persistent supply and demand gap in publicly funded healthcare continues to widen, resulting in longer waiting lists and increased restrictions on the availability of procedures by the NHS. We have a stable platform for the future and are seeing real evidence of this market growth.

02

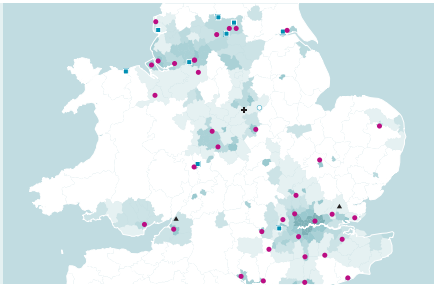
Robust business underpinned by growth in our Self-pay and NHS groups

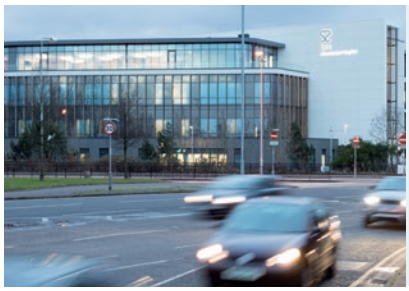
We continue to grow our asset base to meet the growth in demand, and continue gaining overall market share. We achieved strong growth in our Self-pay and NHS business and increased market share in the PMI sector; the inherent 'payor hedge' between these three separate groups means we are well placed to weather any market volatility.

03

The core Spire Healthcare proposition continues to be validated

Our considered and disciplined investment in both assets and operational improvements helps to grow revenue while maintaining high levels of cash generation. The increasingly stretched NHS and favourable underlying healthcare demographics will help drive attractive revenue growth in all our payor groups over the medium to long term.





04

Well positioned to meet market needs

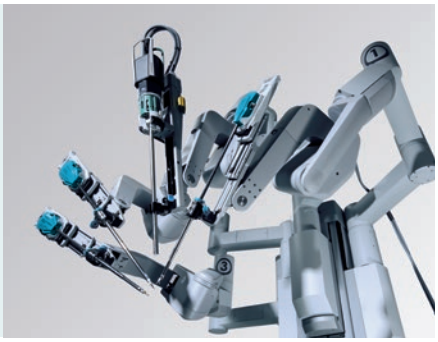
Our large network of hospitals, aligned to major population centres, and the breadth of our services, positions us to address key market opportunities. Our financial resilience and the development projects underway put us in a strong position to gain market share and to open in new geographic markets in the UK.

05

Expanding capability through innovation and partnership

Modern equipment and outstanding clinical and theatre spaces allow us to provide excellent treatment for our patients, increasing access to advanced surgical technology and reducing recovery times. Read about the recent launch of the innovative partnership between Southampton NHS Foundation Trust and Spire Southampton Hospital, to provide and use a new da Vinci state-of-the-art 3D surgical robot system.

Read more on pages 34 and 35

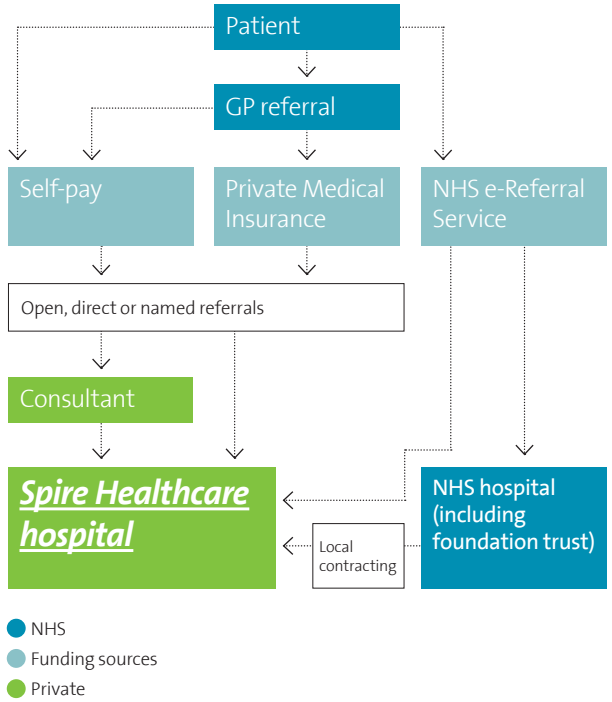


Business model

Spire Healthcare is a well-diversified business and a key part of the UK's healthcare system. Our business is built on providing outstanding care, clinical outcomes and value to our patients.

The patient pathway

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



Our resources

The sustainability of our business model relies on several interconnected resources and relationships.

Financial strength
We benefit from financial strength and stability, supported by a cash-generative operating model and properties in commercially attractive locations across the UK.

Well invested hospitals
Our growing portfolio of hospitals is equipped with up-to-date technology and comfortable treatment facilities.

Highly skilled employees
Our 8,000 employees are highly skilled and our nursing and medical support staff have the expertise to provide an excellent standard of patient care.

Our relationships

Referrers
We work with GPs to facilitate speedy, convenient and fully informed referrals. We are investing in our own hospital-based primary care to offer patients convenience and facilitate speedier referrals.

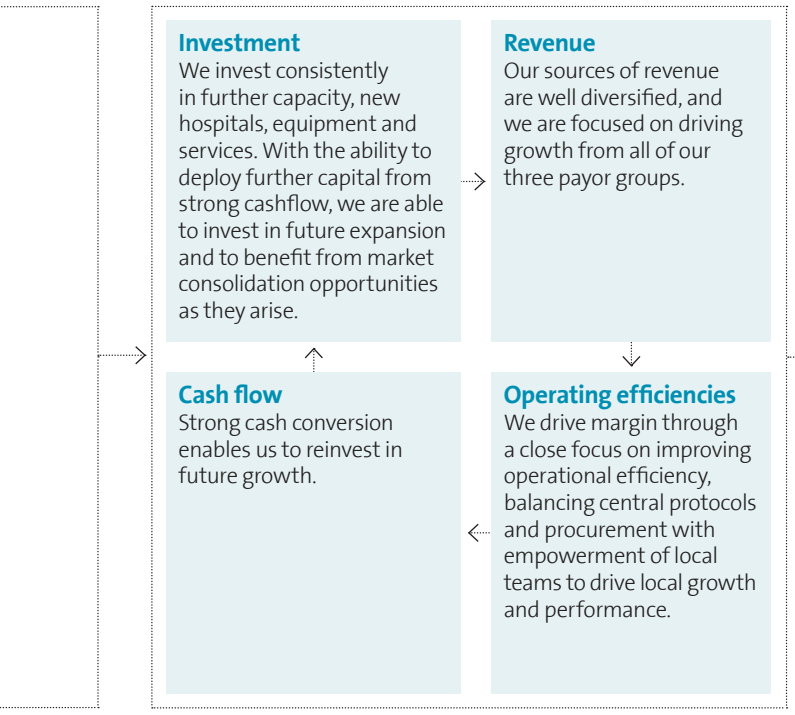
Consultants
Consultants are integral to providing high levels of medical care to our patients and we offer them the facilities and support they need to deliver outstanding healthcare. All our consultants are on the General Medical Council's Specialist Register.

Patients
We expand access to treatments for patients facing rationing and/or increased waiting times in the NHS. We offer them choice of when and where to be treated, in hospitals that combine excellent levels of infection control with 'hotel style' levels of service.

Payors
Treatment is funded by a PMI, the NHS or patients who Self-pay.

Our operating model

By investing in excellent medical facilities and patient care, and operating efficiently to drive margins and generate strong cashflows, we are able to create a virtuous circle, which allows us to reinvest in future growth whilst providing shareholder returns.



* 2015 employee satisfaction score. The 2016 employee engagement survey was postponed until Q2 of 2017 in order to undertake a review of the survey.

How we create value

Through our operations, we create and deliver measurable value for our stakeholders.

Patients
NHS Referral to Treatment Time (reporting month December 2016)

94.7%

Percentage of patients seen within 18 weeks of referral (National standard: 92%, NHS: 89.7%)

Consultants
95%

of consultants believe our hospitals go out of their way to make a difference to their working relationship.

Employees
We provide a wide range of training, and a flexible and supportive working environment.

93%*

Employees who believe what they do at work makes a positive difference.

Payors
We deliver value for money, price transparency, patient choice and additional capacity to help relieve pressure on overstretched NHS hospitals.

+9%

Growth in NHS e-referral admissions.

Shareholders
We aim to continue to pay a dividend in line with our policy and to return excess cash to shareholders when available.

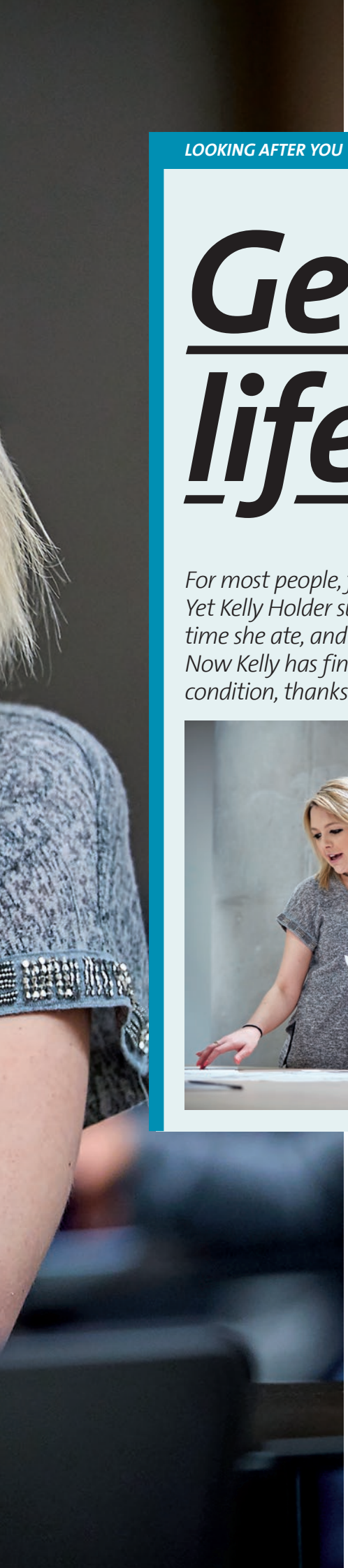
2.5p

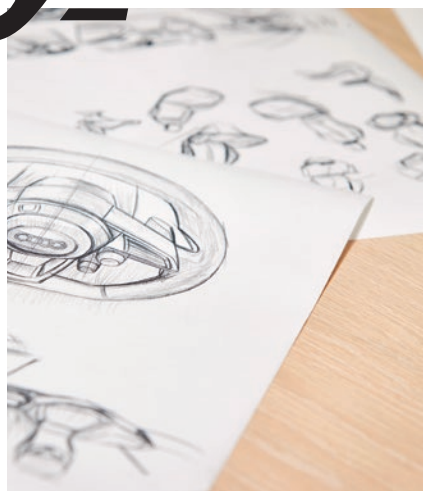
Proposed final dividend per share (+4.2%)

Spire Healthcare transforms people's lives for the better every day. Increasingly we are offering patients complex solutions to high acuity and rare conditions.

Getting my life back

For most people, food is one of life's great pleasures. Yet Kelly Holder suffered 10 years of feeling ill every time she ate, and she was literally wasting away. Now Kelly has finally found some relief from her condition, thanks to Spire Healthcare.





Kelly, who worked as a designer in the auto industry, suffered the debilitating symptoms of stomach pain, bloating and nausea for years, to the point where she had to put her career on hold and move back home. While several doctors failed to diagnose the cause, it was a consultant at Spire Hull and East Riding Hospital who finally diagnosed her condition as gastroparesis, and was able to refer her to Spire Leeds Hospital.

Kelly underwent two procedures to insert gastric and sacral nerve stimulators. The results have transformed Kelly's life.

In her own words: "Without the surgery I don't believe I'd be here today. Having the stimulators fitted was a life changer. I can eat almost normally again, not big meals but little and often. I'm putting weight back on. And eating chocolate again!"

Kelly is now rebuilding her career and her life.

"I saw various doctors without finding a successful treatment. In the end it was a Spire Healthcare doctor at Hull who diagnosed me and referred me to Mr Maslekar and Mr Dexter, the consultants at Spire Leeds Hospital."

Kelly Holder

Our strategy – focusing on the customer

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

Our business is built on patient choice. Whether that is through a specific consultant, an NHS referral, or a personal decision, we need to make Spire Healthcare the first choice, unprompted or prompted, for anyone thinking of where to receive the healthcare that we can provide.

We need to attract those who have not used private healthcare before, by making it more affordable and more accessible to people across the UK.

This insight has prompted us to review our strategy, looking at all our services through the prism of the customer.

This means re-examining every stage of the patient journey and experience from a customer viewpoint, and optimising our operational efficiency for the benefit of patients.

It also means building Spire Healthcare's brand, making Spire Healthcare the most recognised quality private healthcare provider in the market.

Our 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 effectively and efficiently as possible.

01

Clinical quality

- Continue to build on clinical experience and expertise to ensure every one of our hospitals is 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

03

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

Customer strategy
Continue to invest in our existing hospitals to improve the look and feel of our facilities, and enhance the customer experience.

02

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 our 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

04

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

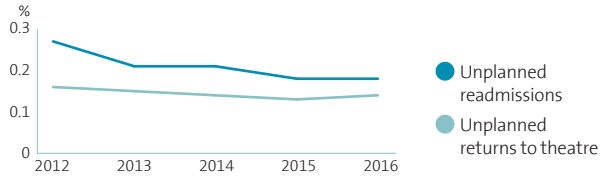
Key Performance Indicators

We measure our strategic and operating progress using a range of financial and non-financial performance indicators, all of which are aligned to our strategy.

Key:
- Clinical quality
- Growth engine
- Operational excellence
- Our people

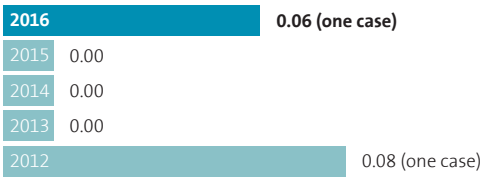
KPIs

Unplanned returns and readmissions



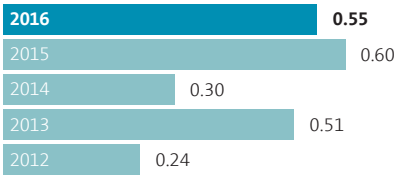
Unplanned readmissions remain at their lowest level on record for a second consecutive year

MRSA (infection rate per 10,000 bed days)



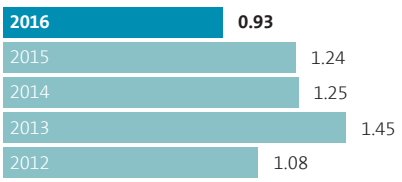
We reported a single case across all 38 hospitals throughout 2016

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



Infection rates continued to remain extremely low – approximately a third of the level seen across the NHS

Post-operative mortality* (per 10,000 anaesthetic episodes)



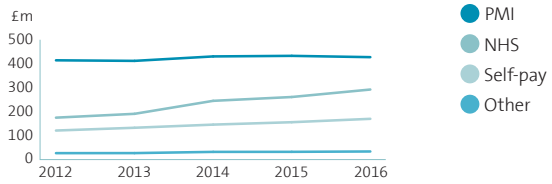
* Within 31 days of surgery.

Post-operative mortality fell to the lowest rate on record

Patient discharges (In-patient/daycase) =

We grew the volume of patients requiring an overnight stay or an in-hospital recovery period by 1.5% in 2016

Revenue by payor



Revenue increased, year-on-year, in total by £41.6 million (4.7%) over 2015 with growth in NHS revenue, up £31.4 million (12.0%), and Self-pay which increased by £14.2 million (9.1%)

Number of theatres

A net five new theatres, including the theatre block opened in September 2016 at Spire St Anthony's Hospital

Theatre utilisation

Utilisation was constant despite additional theatre capacity put on in the year, which offset underlying like-for-like increases

KPIs

Net debt/Adjusted EBITDA

Despite capital expenditure of £149.5 million in 2016, strong working capital management led to stable net indebtedness (as a multiple of EBITDA)

Conversion of EBITDA to cash

Conversion of EBITDA to operating cash flow before exceptional items and taxation increased to 115.0%

EBITDA margin

Including disposals and Spire St Anthony's Hospital

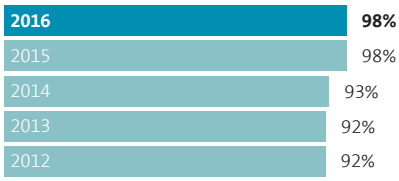
Adjusted (excluding disposals and Spire St Anthony's Hospital)

Factors adversely impacting margin included Spire St Anthony's Hospital, in part as a result of the significant physical reconfiguration of the site and the establishment of a new theatre block in 2016. After adjusting for the performance of Spire St Anthony's Hospital and Spire St Saviour's Hospital which closed, 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%

Patient satisfaction: Net Promoter Score

Our Net Promoter Score (NPS), a measure which aligns our reporting with the NHS and other providers, improved to 83

Patient satisfaction: Quality of service



The rating of our overall quality of service remained high at 98%

Clinical staff costs as a percentage of revenue

Including disposals and Spire St Anthony's Hospital

Adjusted (excluding disposals and Spire St Anthony's Hospital)

In line with the prior year, despite supply-side constraints of nursing resource

Other direct costs* as a percentage of revenue

Including disposals and Spire St Anthony's Hospital

Adjusted (excluding disposals and Spire St Anthony's Hospital)

Up 0.6% of revenue, mainly due to improvements in case mix complexities in 2016, which has driven growth in average revenue per case in both NHS and Self-pay revenue. This has been largely offset by supply chain cost management initiatives

* Comprises direct costs and medical fees

Employee Engagement Survey

The 2016 employee engagement survey was postponed until Q2 2017 in order to undertake a review of the survey (which has been in use since 2012) and incorporate questions from our safety culture survey which was introduced as a standalone activity in 2014. These changes will simplify and streamline gathering feedback from employees by bringing both important surveys together and conducting them on an annual basis

Consultant Satisfaction

Consultants are our partners in delivering quality patient care – satisfaction scores remained high at 77%

The UK healthcare market

Spire Healthcare operates in the UK, a healthcare market dominated by the NHS and Government spending, but subject to strong macro growth drivers. Demographic pressures, rising demand and a growing public funding gap present challenges. And opportunities.

UK private acute medical care market

UK Market (2015)

£5.6bn

Annual growth (nominal) since 2006

5.8%

Independent (Private/Voluntary) hospitals

£5.0bn

NHS private patient revenues

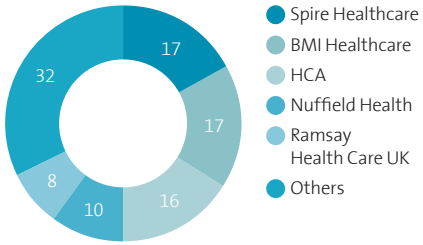
£0.5bn

Overall Private Acute market growth forecast to end 2019

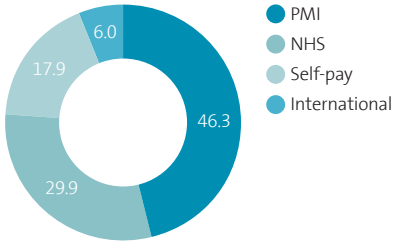
5.0%

Source: LaingBuisson Private Acute Medical Care – UK Market Report Fourth Edition.

2016 Private sector providers (%)

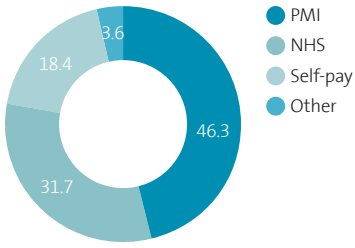


2016 Revenue split – independent acute medical hospitals and clinics (%)



1.8%–2.0% pa PMI nominal growth rate forecast to end 2019

2016 Spire Healthcare revenue (%)



Source: Company information.

Market trends

The UK 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.

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 provide universal healthcare, free at the point of use.

The NHS's Five Year Forward View (published in October 2014) required efficiency savings of £22 billion by 2020/21 to balance the books – higher than has ever been achieved by the NHS or indeed any other major health economy. It is unlikely to be achieved.

At the same time, Simon Stevens, the chief executive of NHS England, told the Commons Public Accounts Committee that UK health spending is already much lower than in many other European countries and, in real-terms, NHS spending per person in England is forecast to go down.

The NHS has relatively fewer staff and hospital beds: France, Germany, Sweden and the Netherlands have more doctors, nurses and beds per head of population. The result for the UK is that resources are worked hard and capacity is always tight, with bed occupancy rates often over 90%.

Source: Office of Budget Responsibility – Fiscal sustainability analytical paper: Fiscal sustainability and public spending on health.

Sector leading, gaining market share and well positioned for further growth.

Not surprisingly, the NHS is increasingly extending waiting times, missing Emergency Department (ED) and Referral to Treatment (RTT) targets, and rationing non-urgent treatments.

The private sector not only provides capacity for the NHS, but also outstanding healthcare at affordable prices. This is subject to the twin drivers of volume and productivity. Static or falling prices, driven by cost pressures across the sector, mean that margin enhancement is a factor of scale, efficiency and productivity.

Smaller operators face disproportionate costs, having to meet the same regulatory and operating costs as larger groups, without the benefit of their economies of scale or buying power.

Why Spire Healthcare

17%
share of UK private acute hospital market

Source: LaingBuisson Private Acute Medical Care – UK Market Report Fourth Edition.

Investment since Spire Healthcare was formed

£875m*

* including acquisitions

Source: Company Information.

NHS Referral to Treatment Time
(reporting month December 2016)

94.7%
Percentage of patients seen within 18 weeks of referral
(National standard: 92%, NHS: 89.7%)

Source: Company Information.

UK leaders in hip and knee replacements by volume
(of the private sector)

24.4%
and gaining market share

Source: National Joint Registry.

Today:

PMI

- Our scale and national coverage allows us to negotiate on an even basis with key insurers
- Our Greater London 'ring' and the expansion of Spire St Anthony's Hospital provides lower priced alternatives to central London competitor facilities

Self-pay

- We are developing a strong and visible brand
- Our national network provides local care
- We provide simple fixed prices for over 70 procedures including those most likely to be rationed by the NHS
- We continue to invest in new theatres

NHS eReferral

- We expect market growth, driven by increased patient and GP awareness
- Spire Healthcare is consistently gaining market share, as our well invested estate influences patient choice and GP recommendation

Tomorrow:

- NHS e-Referral and Self-pay growth should remain strong
- New capacity will meet demand – e.g. new hospitals in Nottingham and Manchester
- Ongoing cost optimisation will drive margins
- Although significantly affected by the uncertainties occasioned by Brexit, London remains an attractive market provided an appropriate entry strategy can be executed

Customer focus

We continue to seek ways in which we can improve operational efficiency – safely delivering outstanding healthcare to our patients while never forgetting that the safety, comfort and wellbeing of our customers is paramount.

Catherine Mason
Chief Operating Officer

98%
Patients rating overall quality of service either 'Excellent' or 'Very good'

77%
Consultants rating our quality of service either 'Excellent' or 'Very good'

In my first three months I have visited hospitals across the country – the commitment, care and efficiency shown by everyone I have met is a testament to Andrew's leadership as the previous Chief Operating Officer and to the strong culture that runs through Spire Healthcare.

2016 performance

We judge our operational performance using a range of metrics and key performance indicators (KPIs) on a balanced scorecard that covers service quality, people and engagement, reputation, and shareholder value. We also track our engagement and reputation through regular surveys.

Overall, results during the year were good.

Patient satisfaction continued to be high. Our Net Promoter Score (NPS), a measure which aligns our reporting with the NHS and other providers, improved to 83 out of a possible 100 (2015: 82). Patient satisfaction with overall care remained high, with 98% of our patients rating overall quality of service either 'Excellent' or 'Very good' (2015: 98%).

Consultant satisfaction also remained high, with 77% rating our quality of service either 'Excellent' or 'Very good' (2015: 79%). The proportion of consultants who believe that our hospitals go out of their way to make a difference to their working relationship was 95% (2015: 96%), and those who would be 'Certain' or 'Very likely' to recommend a Spire Healthcare hospital to their friends and family was 81%.

While there are always areas for improvement, taken overall, we are pleased with a good performance for the year.

Regulatory compliance

It is a similar story in our compliance with regulatory standards. As at 28 February 2017, all of our hospitals in England have now had full Care Quality Commission ('CQC') inspection visits. More information on our CQC inspections can be found on pages 36 to 39. The CQC inspection regime is welcome and necessary, but imposes a considerable burden on everybody involved, including the CQC itself.

Our staff have worked extremely hard, preparing for inspections, sharing best practice and making improvements in response to CQC reports and all this while continuing their 'day job', delivering outstanding care to our patients. We are very pleased with the way the business has responded, and with the results achieved.

Our hospitals are in the main 'Good', and 'Outstanding' in some areas, putting us well ahead of the NHS average.

However, there are always areas which can be improved and, where these have been identified by CQC, we have addressed all such areas as a matter of urgency, drawing up and following through on detailed improvement plans addressing all areas highlighted by the inspections.

Our hospitals in Wales are regulated by Healthcare Inspectorate Wales (HIW) and those in Scotland by Healthcare Improvement Scotland (HIS). There was one inspection in 2016 by HIW at Spire Cardiff Hospital, and one in January 2017 by HIS at Shawfair Park Hospital in Edinburgh. No ratings are applied by HIW following inspections, but feedback was very positive and only one minor action was required following a two-day review. The rating for Shawfair Park was 'Very good' for all five quality themes.

Continued investment

We continue to invest both to expand capacity and to improve our existing facilities.

In August 2016, we opened a new £27 million purpose-built complex at St Anthony's, increasing capacity to six theatres from four. Other investments in capacity and enhanced care across the network in 2016 included:

- Spire Parkway Hospital – the completion of a theatre expansion and chemotherapy development with endoscopy unit
- Spire Hull and East Riding Hospital – a development comprising a purpose-built outpatient clinic and new MRI/CT provision
- Spire Southampton Hospital – a project to enlarge an existing ward and the creation of a robotics theatre and installation of a da Vinci surgical robot (see further details on pages 34 and 35)
- Spire Clare Park Hospital – a JAG accredited endoscopy unit
- Spire Cheshire Hospital – a JAG accredited endoscopy unit

Further enhancements are underway, including a considerable refurbishment project 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. The development of a medical centre based in Elstree, Hertfordshire, is in the planning phase. Designed as a 'satellite centre' to Spire Bushey Hospital, Spire Bushey Medical Centre will increase our capacity to see patients for diagnostic and outpatient appointments. Completion of these projects is expected in 2018.

Spire Manchester and Nottingham

Our largest developments during the year were the new hospitals in Manchester and Nottingham.

Developing state-of-the-art hospitals, from the ground up, presents a range of challenges unique to the sector – from the demands of the most modern healthcare technology to optimising the patient experience, and from building project management to the recruitment and training of caring hospital teams.

LOOKING AFTER YOU | *Spire Parkway Hospital*

Investment in cancer services

Major investment in cancer services at Spire Parkway Hospital in East Midlands

In June, the Mayor of Solihull, Councillor Mike Robinson, performed the official opening of a new £1.3 million cancer treatment centre at the Spire Parkway Hospital.

The centre offers treatment for a wide range of cancers with specialist nursing and medical staff as well as some of the region's top oncology consultants. It has six individual treatment pods for the administration of systemic anti-cancer therapy (chemotherapy, immunotherapy and biological therapies) and supportive treatments.

Before cutting the ribbon at the Specialist Cancer Centre in the grounds of the hospital on Damson Parkway, Councillor Robinson said, "I know the heartache that cancer can cause and I am delighted that this excellent facility is now open to the people of this region."

Macmillan Cancer Services Manager, Elisa Follen, said she felt the centre represented a major boost to cancer services in the Solihull area. "We have a fantastic team with in-depth specialist knowledge along with some experienced and very well respected consultants."

"The cancer journey is a tough and emotional one for everyone involved – including family and friends – but I think we have what we need to make that journey as comfortable and successful as possible."

Elisa Follen
Macmillan Cancer Services Manager

£1.3m
Investment

Spire Manchester Hospital is the largest new-site, in-patient hospital that we have built. Successful project management, CQC certification and commissioning of Spire Manchester Hospital is a testament to our development team, contractors, Hospital Director and staff.

The hospital offers six theatres, 76 beds, a 150-seat education centre, and an ITU, replacing our older four-theatre hospital, but in a location that offers more convenient travel, better parking and room for further expansion. After three years of planning, building, training and testing, first patients were treated in the new hospital in January 2017 after a seamless transfer of operations from the old site. More detail on Spire Manchester Hospital can be found on pages 24 and 25.

Spire Nottingham Hospital is expected to open around Easter 2017; it is not only a new-build, but also in a new operational area for Spire Healthcare. Before commissioning, we will recruit and train an entirely new clinical, nursing and administrative team. The recruitment and staffing of our two new hospitals requires in excess of 180 new positions to be filled, a number which will grow significantly throughout 2017.

Both hospitals, in their individual ways, demonstrate Spire Healthcare's approach to satisfying patient demand and building businesses.

"Our staff have worked extremely hard, preparing for inspections, sharing best practice and making improvements in response to CQC reports – all this while continuing their 'day job', delivering outstanding care to our patients."

Operational development

During 2016, we continued to develop our cancer services. While growth in our two Specialist Cancer Care Centres has been building gradually, we are now focused on establishing better alignment with local hospitals and improving referral relationships with local consultants and oncologists.

In line with the strategic refocus on our core customer proposition through our hospital operations, we decided to exit two of our ancillary services.

We took advantage of a five-year contract break option to serve notice that we intend to cease providing Perform services at St George's Park from September 2017. High fixed rents and a revenue sharing agreement were producing lower than expected returns, without clear or significant revenue growth opportunities. Despite this disappointment, we are exploring proposals to continue working with the Football Association, given that an excellent working relationship has been created, based on high levels of customer satisfaction with our clinical performance.

Following a strategic review of the business, we made the decision to withdraw the Lifescan product from the market and to close the Lifescan operational business unit.

We continued to expand our pathology service. The focus in the year was on further exploiting capabilities within the Spire Healthcare network and developing opportunities in the wider pathology market by bringing tests in-house from third-party providers, as well as developing new laboratories at Spire Hull and East Riding Hospital, and our two new hospitals in Manchester and Nottingham.

Our pathology laboratories undertook 2.3 million tests and showed a 6.5% improvement in operational efficiency (cost per test). Seven of our 22 laboratories have now successfully completed the transition from CPA to ISO accreditation.

Optimising efficiency

The third of our strategic pillars is to drive efficiency and improve productivity.

Hospital leadership teams are empowered to develop services tailored to the needs of local patients and consultants whilst working within Spire Healthcare's operating framework and management systems. Maintaining the right balance of central protocols, requirements and quality standards, with local circumstances so as to drive growth and performance, remains a key aspect of operational management.

The Spire National Distribution Centre (NDC) operates to the highest quality and compliance standards, underpinned by ISO 14001 and ISO 18001 accreditations. The medical consumable kitting/assembly service continued to be rolled out to the network, providing hospitals with a more efficient and effective service. During 2016, the NDC produced internal sales of medical consumables to its hospital customers of circa £54 million.

Our Supply Chain continues to create value from the expertise within its teams by reducing costs and increasing efficiency. A number of supply chain staff achieved Black Belts in LEAN Six Sigma across purchasing, warehousing and distribution, medical records archiving, stock, and management teams. Looking ahead, this internal capability will further improve services and the efficiency of our hospitals.

We also made progress in applying performance management disciplines consistently across the network. While central management facilitates, it is the leadership of our Hospital Directors and the teams behind them that is crucial in delivering consistent performance and quality. Every month, we share the same performance metrics across all our hospitals, and across the whole patient pathway and customer journey. We look both for examples of best practice to share and for outliers or trends where we need to intervene appropriately. In this way, using peer review and peer support, we continue to develop best practice, codifying, where appropriate, into Spire Healthcare's methodologies and processes.

Theatre utilisation is a key performance indicator of operational efficiency. Over the previous two years, average utilisation has remained between 63% and 64% across our hospitals. In 2016, the figure remained the same at 63% despite an additional five theatres opening during the year.

We are evolving tools within the business to enable more efficient theatre list planning, to ensure that we are making best use of not only the physical asset, but also the clinical staff we have at our disposal. By joining together the various data points that exist within the business we have been able to create a management system that provides an effective framework for hospitals to improve their forward planning.

Results from our hospitals that have fully adopted and embedded the new tools indicate higher utilisation rates, however, elsewhere performance remains static, often impacted by agency staffing requirements.

By being more proactive in planning our theatre lists we can ensure a better patient experience, for instance by scheduling daycase procedures at times that give the patient the best chance of being able to get home the same day.

Utilisation is only part of the story. Last year we highlighted our desire to move beyond theatre utilisation, to theatre optimisation – in other words, ensuring that the right teams are in the right theatres at the right time, with the appropriate skill mix and consumable packs for the procedures immediately to hand. This is an ongoing process – getting it right will make the journey faster and smoother for our patients and better for our consultants.

Digital development

We believe there is an opportunity to lead the UK Private Healthcare market through our digital distribution and customer strategy. A key component of this strategy was the successful launch of a new responsive website with enhanced search functionality at the end of last year.

We will be delivering a number of key enhancements to the website to help patients self-serve in the coming months, and will also be upgrading our partner-facing digital propositions. In addition, we will continue to strengthen our online marketing capability to support patients in choosing Spire Healthcare by providing key information from which they can make informed decisions regarding their healthcare needs.

We continue to invest in our Customer Relationship Management (CRM) and linked SAP systems. The CRM system, covering areas such as enquiry management and conversion, call handling and direct patient bookings for insurers and GPs, is a key enabler not only of operational efficiency, but also for our customers, helping them to have the best experience throughout their care pathway – from reception to discharge and after care.

The dynamic nature of our business requires a proactive approach to IT network integration. For instance, our new hospitals in Manchester and Nottingham, together with new theatre builds and other expansion projects, all require our IT team to deploy and support the appropriate systems to ensure the businesses operate effectively and efficiently from the moment we open our doors to first patients.

Priorities for 2017 include the continued maintenance and enhancement of the existing estate; continued compliance with NHS Information Governance Toolkit and ISO Standards; a focus on IT Security to combat the increased level of threat from Ransomware and other malicious attacks; continued implementation of regulatory projects such as PHIN and NHS e-discharge; and a programme of replacement and upgrades of Pathology, Imaging and HR systems.

2017

Our staff are the heart of our service and our success. It is they that deliver outstanding care for our customers – both our patients and the consultants that choose to work with us. During 2016, our staff continued to deliver on all fronts, contributing above and beyond when faced by extra demands such as regulatory inspections or the commissioning of new facilities.

In the face of the UK's well documented shortage of trained nurses, clinicians and allied healthcare professionals, the recruitment, development and retention of outstanding staff is critical to our future. During 2016, we did much to develop our recruitment and retention strategies. In 2017, we will be going further in the development of a compelling employer brand proposition aimed at attracting and retaining the outstanding people we need for future success. Further details can be found in the section, Group HR Director's review – Our people, that follows this review on pages 42 to 45.

Elsewhere in this report we have outlined the development of our strategy and, in particular, the increase in focus we are placing on the customer's experience in all aspects of our service.

The contribution that operational efficiency can make to customers spans the full patient journey – from diagnostics and links to primary care to admissions forecasting, enquiry conversion, admission processing and treatment, through to timeliness, quality of discharge and post-operative rehabilitation. Linking all aspects of a customer's journey seamlessly – and doing it well – will have a direct impact on safety, quality and, ultimately, patient satisfaction.

Catherine Mason
Chief Operating Officer
1 March 2017

Operating efficiency

How we constantly drive efficiency in our hospitals

Deploy available asset capacity

Utilise diagnostic facilities, surgical theatres and beds to optimal effect.

Demand side

Maximise geographic reach of facilities and ensure service proposition represents highest quality and best available value for money.

Clinical supply

Attract and retain the best available clinical talent, build flexibility into the skill base of the clinical team and deliver continuous improvement in clinical care pathways and manpower planning over time. Retain a sufficiently large pool of high-quality clinicians to optimise the supply of clinical services and match it to available asset capacity.

Supply chain

Continuously improve clinical care pathways to provide scope to further reduce costs, consolidate purchasing and standardise delivery. In-source clinical supply capability (e.g. pathology, sterilisation services) where opportunities exists to deliver highest quality service at lowest available unit cost.

Administration

Improve administration process to deliver best customer experience at lowest transaction costs. Use information technology solutions to improve workflow and reduce information handling costs.

Management information

Invest in best in class management information systems to allow for effective monitoring and management decision-making.

Read more in our Clinical Review on pages 36 to 38

Local hero

New hospitals, new services, new capacity. Same high levels of clinical care excellence for our patients.

LOOKING AFTER YOU

Opened in January 2017 in Princess Parkway, our new £63 million flagship Spire Manchester Hospital replaces the previous facility in Whalley Range, offering more patients a significantly enhanced range of services, in a convenient location.

State-of the-art treatment in Manchester

Designed with extensive input from consultants, staff and patients, the hospital offers highly complex surgery and medicine through a large Intensive Therapy Unit (ITU), together with state-of-the-art diagnostic and imaging equipment from Siemens. New services include hydrotherapy, a hybrid theatre and a 150 seat education centre.

Designed with the environment and local residents in mind, the new facility also features a range of carbon reducing features such as solar panels and living roofs.

Fast track development

- February 2015: Planning permission granted for new hospital
- April 2015: Ground broken
- December 2016: Build and fit out completed
- January 2017: First patients treated

6
Operating theatres

44
In-patient beds

27
Daycase beds

5
Level 3 Critical Care beds

23
Out-patient consulting and treatment rooms

150
Seat education centre

LOOKING AFTER YOU

"We're supported at every level – from management through ward, theatre and radiology staff. Everyone worked round the clock to complete the move and open the new hospital on time. It was very much a joint effort, with all the levels of staff up through to the Hospital Director."

Max Fehily
Consultant at Spire Manchester Hospital

From strength to strength

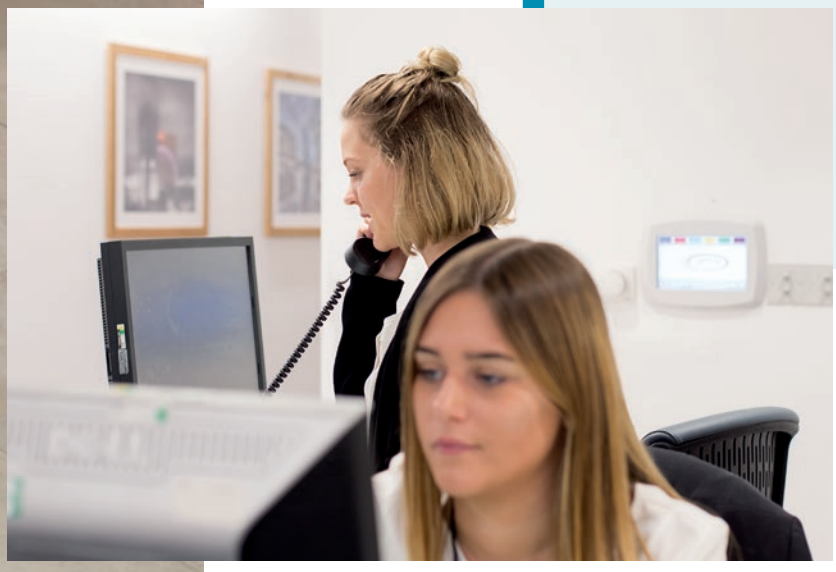
Manchester's larger capacity and state-of-the-art facilities will allow Professor Max Fehily's successful specialist orthopaedic service to treat even more patients.

Max Fehily is a consultant orthopaedic surgeon at Spire Manchester, specialising in hip surgery. He joined Spire Healthcare's previous Manchester hospital at Whalley Range five years ago to establish a young adult hip service, specialising in keyhole surgery and soft-tissue hip injuries associated with athletes in a range of top level sports.

The service proved highly successful. As Professor Fehily recounts, "We've a mix of private and NHS work across the whole of the north of England – working with some 22 Clinical Commissioning Groups and covering a range of elite and Olympic sports, including taekwondo, swimming, squash and various rugby clubs, like Sale Sharks, and lots of rugby league clubs.

"I was Chairman of the Medical Advisory Committee while we were planning the new hospital. Spire's been very supportive in developing the young adult hip service and now with the new hospital obviously even more so. With state-of-the-art theatre suites, diagnostic imaging and out-patient facilities, we're now able to develop it further – in Greater Manchester, nationally and internationally as well.

"I believe it is the best private hospital in the UK right now."



All our staff from Whalley Range transferred to the new site in a carefully planned phased programme. Over 30 new posts have been created in the new, larger facility.

Group Financial review

Revenue growth continued in 2016, up £41.6 million in the year (+4.7% on 2015) with growth in NHS and Self-pay revenue, flowing through to increased EBITDA. Strong conversion of earnings to cash flow led to stable net debt leverage notwithstanding significant investment in capital expenditure in the year.

Simon Gordon
Chief Financial Officer

Financial highlights

Patient discharges (+1.5%)
(in-patient and daycase)

274.1k

In-patient and daycase patient volumes up 1.5% on prior year to approximately 274,100 patients (2015: 270,000 patients)

Revenue (+4.7%)

£926.4m

Revenue increased by 4.7% to £926.4 million (2015: £884.8 million)

EBITDA (+1.2%)

£162.0m

EBITDA[2] up 1.2% to £162.0 million (2015: £160.1 million)

Adjusted basic earnings per share (+4.9%)

19.2p

Adjusted, basic earnings per share[5] (2015: 18.3p)

Capital investments

£149.5m

Investment in capital projects totalled £149.5 million (2015: £109.5 million)

Net debt

£432.3m

Net debt increased to £432.3 million, with leverage at 2.67 times EBITDA (2015: £419.5 million and 2.62 times EBITDA)

Selected financial information

	Year ended 31 December							
	2016			2015				
(£ million)	Total before exceptional and other items	Exceptional and other items[5]	Total	Total before exceptional and other items	Exceptional and other items[5]	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%	
Operating cash flows	**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%**	

1 Excludes the impact of Spire St Saviour's Hospital which closed in September 2015 (referred to as 'Underlying' in this report).
2 Operating profit, adjusted to add back depreciation, profit or 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 at 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).

Analysis by payor

(£ 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 report).
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 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.

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 e-Referrals 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 Healthcare surgical capacity. Growth in out-patients revenue contributed 3.1% to underlying NHS revenue growth in the year.

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

- NHS e-Referral (previously NHS Choose and Book) revenue grew by 16.9% in the year ended 31 December 2016;
- 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
- NHS e-Referrals revenue account for 79.8% of underlying NHS revenue in the year ended 31 December 2016, up from 77.4% in the prior year.

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 with 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.

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 26 on page 126 of the financial statements.

Exceptional items

	Year ended 31 December	
(£ million)	**2016**	2015
Business reorganisation	**4.8**	3.1
Write-off of intangible assets	**1.3**	–
Hospital 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. Hospital set-up costs refer to pre-opening costs for the new Spire 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 8 on page 116.

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's 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) 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.

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 Spire Manchester and Spire 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.

Borrowings

At 31 December 2016, the Group had bank debt of £424.1 million (2015: 423.1 million), drawn under facilities which mature in 2019 and finance lease debt of £76.1 million (2015: £75.3 million). Additionally, the Group has a revolving loan facility of £100.0 million (2015: £100.0 million) available until July 2019, which was undrawn at 31 December 2016.

(£ million)	2016	2015
Cash	**(67.9)**	(78.9)
External debt (incl finance leases)	**500.2**	498.4
	432.3	419.5

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

Risk management

The principal risks faced by the Group are identified in the Principal risks section on pages 50 to 53.

Treasury policies and objectives

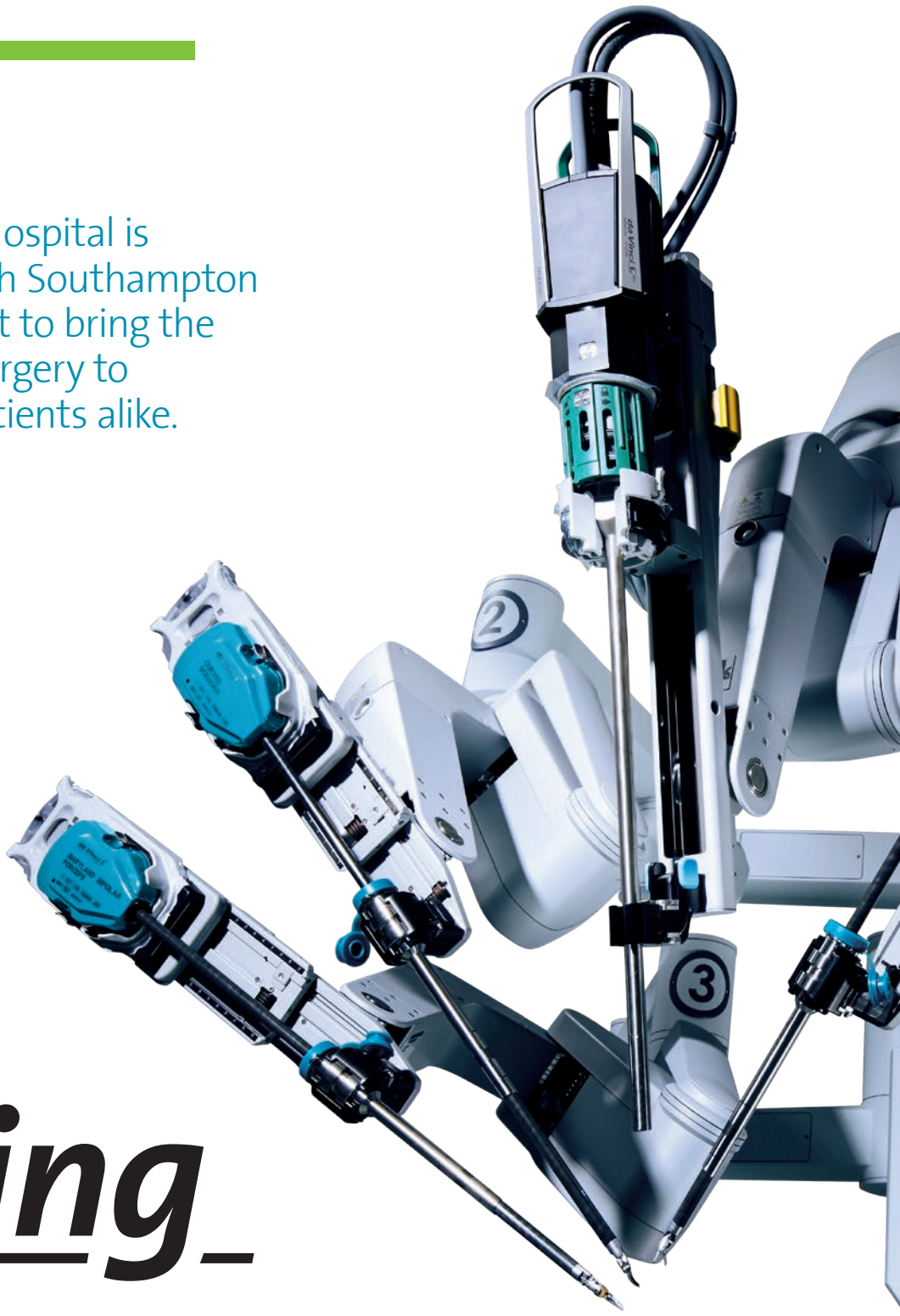
The Group has established treasury policies aimed at reducing financial risk.

Further information about financial risk management (including interest rate, credit and liquidity risks) is provided in note 30 to the financial statements on pages 130 to 132.

The consolidated cash and cash equivalents as at 31 December 2016 was £67.9 million (2015: £78.9 million). Surplus cash balances are held with UK-based investment-grade banks.

Simon Gordon
Chief Financial Officer
1 March 2017

Spire Southampton Hospital is working together with Southampton NHS Foundation Trust to bring the benefits of robotic surgery to public and private patients alike.



Cutting edge partnerships

LOOKING AFTER YOU | ***Innovative treatment for all***

Consultants across the country know that patients can benefit from robotic surgery for prostate cancer, both in terms of cancer clearance and reduced side effects (potency and a faster return to urinary continence). But da Vinci robotic systems, and the training required to operate them successfully, are expensive.

Our urologists at Spire Southampton Hospital were keen to offer robotic surgery, but we didn't have the volume of patients needed to pay back such a large investment. That's when we approached our local NHS Foundation Trust to see if we could make the investment viable by working together to improve services for our community – treating both private and NHS patients.

Fiona Dalton, Chief Executive of Southampton NHS Foundation Trust, takes up the story, "We have a good, long term, working relationship with Spire Healthcare, with our surgeons regularly treating NHS patients in their facilities – freeing NHS capacity and helping us reduce waiting lists. Our consultants also wanted local NHS patients to have the benefits of robotic surgery. But with the current capital expenditure constraints in the NHS, and da Vinci systems already operating in Portsmouth and Bournemouth, we couldn't justify it on our own."

The solution was for Spire Healthcare to make the investment on the basis of guaranteed joint use of the system – a minimum of two days a week being reserved for treating NHS patients at NHS tariff rates – in order to treat a viable number of patients.

Installed in June 2016, the unit treated 103 cases in its first six months and is set to comfortably exceed first year projections. In addition, we are already using the unit to train consultants from Salisbury and Winchester and both hospitals will look to extend the use of robotic surgery to other treatments (such as bowel, thoracic and head and neck) as the procedures are approved for use.

Spire Healthcare hospitals around the country are always encouraged to work with their local NHS providers – for the benefit of all our patients. As we say, let's work together.

The patient benefits of robotic surgery

- Less invasive surgery
- Shorter hospital stay
- Less pain, fewer painkillers
- Less blood loss, fewer blood transfusions
- Faster recovery and return to normal daily activities
- Lower complication rate
- Lower wound infection rate

"We have a good, long term, working relationship with Spire Healthcare, with our surgeons regularly treating NHS patients in their facilities."

Fiona Dalton
Chief Executive of Southampton NHS Foundation Trust

The da Vinci surgical system

The first robotic operation in the UK took place in 2000; there are now some 60 units in the country, each costing approximately £1 million. About one in four hospitals that perform major surgery has one. They are mostly used by urological surgeons performing prostate cancer surgery; with smaller use in other surgical specialities.

The da Vinci surgical system consists of a surgeon console and a slave unit with robotic arms for keyhole surgery using a miniature video camera and surgical instruments. The surgeon benefits from improved 3D visualisation, enhanced dexterity and greater precision.

£3.4m
total investment including theatre reconfiguration

Clinical review

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

Dr Jean-Jacques de Gorter
Group Medical Director

As Group Medical Director, I am responsible for defining our clinical governance and quality strategy. My team sets the clinical standards, which they use to audit, monitor and report on clinical performance in our hospitals. They continuously provide hands-on support to our hospitals to enable them to comply with relevant healthcare regulations across England, Scotland and Wales.

During 2016, 26 Spire Healthcare hospitals underwent an inspection by either the Care Quality Commission ('CQC') in England (25) or Healthcare Inspectorate Wales ('HIW') (1). Whilst we prepared for these by strengthening our systems for performance management and assurance, this nevertheless required a considerable effort by hospitals and central teams working together to manage the process of Inspection, repeated requests for data and checking the factual accuracy of draft reports, often extending beyond 60 pages.

I am therefore pleased to report that whilst opportunities to improve were identified and acted upon immediately, Spire Healthcare's ratings from inspection reports published up to the end February 2017 were better than the sector average, with 65% rated 'Good' compared with the sector average of 64% and the NHS average of 39%. Of special mention is the fact that Spire Liverpool Hospital was the first independent hospital to be rated 'Outstanding' by the CQC for the Caring domain and Spire Washington Hospital was the first independent hospital to be rated 'Outstanding' for the Well-led domain.

Our patients continue to rate the care and attention our people deliver with 98% saying that they would be extremely likely or likely to recommend Spire Healthcare to their family and friends. Our Net Promoter Score rose one point from an already high level to 83.

In terms of outcomes, of the top ten hospitals (NHS and independent) in England for health gain following hip replacement, three were Spire Healthcare hospitals – Sussex, Alexandra and Regency. In relation to knee replacement, again three Spire Healthcare hospitals featured in the top ten – Spire Sussex, Regency and Murrayfield (Wirral) hospitals.

Infection control continues to feature as one of Spire Healthcare's strengths. With only a single case of MRSA bacteraemia in 2016 – our first for four years – and very low rates of other healthcare acquired infections, we continue to significantly outperform NHS providers according to data published by NHS England. Indeed, surgical site infection following hip and knee replacement fell to its lowest on record.

In terms of clinical performance and safety indicators, I am pleased to report that the Group as a whole achieved all clinical KPI targets for 2016.

Notably, post-operative mortality also fell to an all-time low, whilst at the same time, rates for returns to theatre (0.14%), unplanned transfers (0.05%) and readmissions within 31 days (0.18%) all remained exceptionally low following on from the previous year's strong performance.

LOOKING AFTER YOU | Spire Washington Hospital CQC

The inspectors call

Spire Healthcare is one of the CQC top rated providers in the country.

'Good' and 'Outstanding' ratings – like those achieved at Spire Washington Hospital – are based on preparation, engagement, experience and sharing best practice.

In Washington, we used the expertise of our central clinical team and other Hospital Directors to advise the team throughout the process. Our staff wanted to showcase the excellent patient care and customer service they deliver. Preparing them for what to expect on the day was key. We helped them refresh their knowledge on likely inspection topics through regular forums and staff updates. Consultants were briefed on the importance of the inspection and the role they can play in a successful outcome.

We reviewed reports from hospitals that have already been inspected and previous CQC findings to identify and perform a gap analysis on the CQC's Key Lines of Enquiry. This feeds into a clinical review, to identify any areas that might require improvement.

Regular environmental and security audits, 'seeing things through the eyes of an inspector', help our staff to spot the small things, like unlocked cupboards, and to ensure that information posters such as pain management or infection prevention and control, are up to date and well displayed.

Washington's overall 'Good' rating is a testament to the team's performance – and our approach.

"It was a delight to see staff queuing to hear feedback from the inspectors. The lead inspector's first comment was how friendly, professional and welcoming the staff had all been."

Shelagh Alderson
Hospital Director, Spire Washington

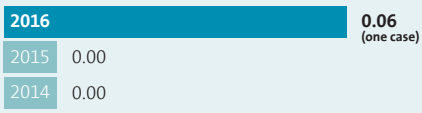
Summary of inspection results

The following table shows the percentage of published reports receiving a positive rating (good or outstanding) by domain for the independent sector.

Hospital	Published Reports	Overall rating	Safe	Effective	Caring	Responsive	Well led
Spire Healthcare (28/02/17)	**20**	**65%**	**60%**	**79%**	**100%**	**100%**	**65%**
Sector excl. Spire Healthcare (28/02/17)	68	66%	51%	77%	100%	91%	63%
NHS (01/01/17)	255	39%	29%	61%	96%	41%	45%

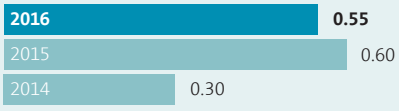
Infection control continues to feature as one of Spire Healthcare's strengths. With only a single case of MRSA bacteraemia in 2016 and very low rates of other healthcare acquired infections, we continue to significantly outperform NHS providers.

MRSA bacteraemia
(infection rate per 10,000 bed days)



MSSA bacteraemia
(infection rate per 10,000 bed days)

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



In-patient surgical mortality
(per 10,000 theatre episodes)

Returns to theatre (%)

This level of safety and effectiveness of care is a reflection of the dedication of our clinical teams. Good teamwork, robust and up-to-date care pathways, and a willingness to challenge have together created a basis for reliable and high-quality care.

Our in-house system for clinical assurance is now well established and has proven to be an effective assessment of regulatory compliance and performance. Nevertheless, in 2016 I commissioned an independent review into the way that we undertake incident management – from reporting through to taking action to ensure continuous improvement. There is now in place a programme of work to bring our systems and processes up to the standard of the best. This will create a helpful platform to ensure we learn and act as quickly as possible when things do not go as expected.

At the back end of the year we further strengthened our Clinical Services capability and welcomed on board our new Chief Nursing Officer – Alison Dickinson.

In conclusion, in 2016 our hospitals delivered patient care that was safer and more effective than in previous years. At the same time, patients have responded by telling us that their experience of receiving care was better than ever.

As an organisation we are well prepared to challenge ourselves that bit more and to continue delivery high-quality care for our patients and value to those who fund their care. As a clinician, I would like to pay tribute to my colleagues at the front end, those who understand the value of touch, time and compassion and who by doing so ensure our continued success.

Dr Jean-Jacques de Gorter
Group Medical Director
1 March 2017

LOOKING AFTER YOU ***Musculoskeletal specialist***

I moved because it's my dream job

Anna Laws, sports physiotherapist

The new Spire Manchester Hospital at Didsbury offers more facilities to patients and healthcare professionals alike, extending the range of treatments, speeding recovery and creating new jobs.

One new recruit at Spire Manchester Hospital is musculoskeletal specialist Anna Laws, who joined the established team, attracted by the opportunities in what is now the region's most advanced physiotherapy setting.

Anna is a sports physiotherapist, specialising in running injuries, but working with a wide range of patients, including the GB Water Polo team.

As she says, "In my previous role, I worked alone in physio and fitness centres, but I missed the camaraderie and support of working within a wider team. I wanted a specialist role in a team environment with great people, in the best facilities for my clients.

"I had read about the new Spire hospital in Manchester – and I have a friend who works at Perform at Spire Cardiff Hospital, who told me how excellent the facilities were there and how good Spire Healthcare is as an employer.

"The new hospital has the best facilities on offer in the area – including an anti-gravity treadmill, Technogym equipment and hydrotherapy. And I'm also free to explore setting up new facilities and services, such as Pilates classes and a functional movement screening service to pre-empt injury, so I can see a wider range of patients and build my experience."

Full support

Spire Murrayfield Hospital and Scottish Rugby have partnered for nearly a decade, providing healthcare services that have developed and grown to meet the changing needs of elite, professional rugby players, including Scotland's national team.

LOOKING AFTER YOU

Keeping Scotland's internationals on their feet

Dr James Robson

Professional sport at the international level puts immense stress on the players – and on the coaching and medical staff that support them. The pressure is always on to be fit to play next week, however hard the last game.

As Dr James Robson, Scotland's team doctor and the Scottish Rugby's Chief Medical Officer, puts it,

"I answer to a head coach who wants instant answers. In professional sport the need for quick decisions can be vital. While we use a range of Spire Healthcare's services at Murrayfield – orthopaedics, maxillofacial, neurosurgery, plastics, and even psychiatry – our biggest areas are radiology, scanning and interventional radiology.

"If we're able to get a scan after the game and get the results the same day, it makes an enormous difference to how we manage that player. We get a superb service from Spire Healthcare, the equal or better than any of our counterparts on other teams. You can't beat the level of trust and confidence we've built up with Spire Healthcare's consultants."

The team at Spire Murrayfield Hospital is proud of their part in keeping Scotland's rugby internationals on their feet.

"I answer to a head coach who wants instant answers. In professional sport the need for quick decisions can be vital."

Dr James Robson
Scottish Rugby's Chief Medical Officer

Dr James Robson in action, treating an injured player on the pitch.

Group Human Resources Director's review – Our people

Skilled and dedicated people really are at the heart of what we do in providing outstanding healthcare for our patients every day, and building the business for the future.

Caroline Roberts
Group Human Resources Director

At 31 December 2016, we employed 12,454 people, comprising 3,365 bank workers and 9,089 permanent employees. These numbers include nurses, theatre staff, allied health professionals, and administration and clinical support staff.

Our priorities and landscape

Finding, recruiting, developing and retaining the best leaders, clinical and support staff with the right skill mix to serve increasingly complex and high acuity patient needs is one of our key priorities.

We know that engaged, motivated and highly trained staff deliver the best care for our patients, and we are committed to recruiting and retaining the right talent across our portfolio.

However, we, in common with the whole UK healthcare economy, are subject to a number of human resourcing issues: from staff shortages in nursing and trained healthcare professionals, to an ageing workforce and declining applications for nursing courses, to the potential impact of Brexit on EU nationals thinking of coming to work in Britain, as well as those who are already working in the UK.

In response to these challenges facing healthcare provision in the UK, and the specific staffing requirements of our new and expanded hospitals, we are developing a refreshed and integrated people strategy. We recognise that the private sector can provide exciting, rewarding and professionally challenging opportunities, with many advantages in terms of flexibility, training, long-term career development and other benefits.

A compelling employer brand

This year, we have been developing and evolving our 'people strategy', aiming to create a compelling recruitment and employment proposition to attract and retain the staff we need.

We have conducted extensive research to enable us to develop a refreshed employer brand and employee value proposition. Based on the facts and insights that this research has given us, our new employee value proposition reflects the areas which employees have told us they value most – flexibility, training, career development and a clear articulation of what Spire Healthcare stands for and how private healthcare works in relationship with the NHS and our customers. Nurses, in particular, also want to understand how they can transition to the private sector.

Our new end-to-end recruitment delivery model now targets specific recruitment groups, such as newly qualified, experienced or returning to practice nurses, and works by designing and tailoring bespoke and specific strategies centred on the needs and specifications of our particular employment groups.

The recruitment and staffing of our new hospitals in Manchester and more particularly Nottingham, has required in excess of 180 new positions to be filled, a number which will grow significantly throughout 2017. The process of filling these positions has enabled us to trial successfully our new approach to attracting, recruiting, inducting and training staff.

Leading Hospitals

What makes a Spire Hospital Director?

Spire Healthcare's Hospital Directors are the key leaders across our healthcare network – delivering outstanding care to patients, motivating their teams and building businesses with the consultants in their area. Great Hospital Directors are rare – so we find and develop them where we can – both internally and externally, through targeted recruitment.

Will Pressley, who leads our new Nottingham hospital, transferred to the role after three years as Hospital Director of Spire Regency Hospital in Cheshire. He has both a 15-year clinical background and four years' executive experience running a privately owned, multi-site physiotherapy business.

Will Pressley and Nayab Haider

His successor at Spire Regency Hospital, Nayab Haider, is a new recruit, joining from a large facilities management company and the NHS. Nayab comments,

"I'm not a clinician, but my role here is to work with the Head of Clinical Services and medical advisory committee to improve our core business. We're subject to the same CQC governance structure and standards, but compared to the NHS we have much more choice in the development of our business plan, marketing, business development and the services we can offer our customers.

"We share the same care and compassion, but I think the private sector is more advanced in the way we manage the care pathway, use our theatres, monitor KPIs and manage procurement. The result is better care for our patients."

"One of the core values of Spire Healthcare is compassionate care and in my short experience that's a living and breathing reality. It's a genuine difference. I think it's in Spire's DNA."

Nayab Haider
Hospital Director, Spire Regency Hospital

Diversity

Diversity and equality within our workforce remains a key element to our people strategy. Our employees are predominantly female, 10,166 or 82%, compared to 2,288 or 18% male. Our management includes 111 females out of a total cadre of 199 (compared to 149 females out of a total cadre of 247 in 2015).

Overall employees

Senior Managers

Board

Male
Female

"We are committed to playing our part in the training and development of future generations of healthcare professionals."

Caroline Roberts
Group Human Resources Director

£62,000
Funds raised by hospitals

Hospitals fundraised over £62,300 for their local communities and charities over the last year.

1,700
Educational events

1,700 GP/clinical education events were held at our hospitals.

26,000
Attendees

Over 26,300 GPs, nurses, physiotherapists and other healthcare professionals attended these events.

Growing our own

In parallel with the progress made on our employee value proposition, we are also committed to playing our part in the training and development of future generations of healthcare professionals.

We regard the UK Government's apprenticeship levy scheme, due to come into force in April 2017, as offering a great opportunity for us to enable young people to enter the healthcare workforce, in both clinical and non-clinical roles, throughout our business, as well as providing our existing employees with a real career progression route.

Our focus in 2017 is to design a strategy which enables us to develop our own people; we believe 'growing our own', which includes apprenticeships and defining clear career paths for our current employees, is a key element in meeting our future staffing requirements.

Engaging our people

When it comes to engagement and communications, our vision is to inspire all Spire Healthcare employees through timely, informative and compelling communications so that our people are fully aware and motivated to support the strategic direction of the Company. We want colleagues to feel valued, listened to, and part of the current and future success of our business.

During 2016, we took significant steps to bring this ambition to life. For instance we launched the 'Spire Healthcare discussion channel', a new communication channel established to provide colleagues, on a regular basis, with audio updates from our leadership team – covering topics which are pertinent to our business; from our strategic direction to operational and people highlights. In terms of recognising our people, we continue to celebrate the achievements of our colleagues through our annual Inspiring People Awards ceremony, and once again we thanked those people who have reached 21 years with the business at our Long Service lunch.

Developing our leaders

In a network that devolves significant autonomy to each hospital, the role and capability of our leaders is key. The role of Hospital Director is particularly crucial, combining, as it does, the three factors of clinical, people and commercial leadership – delivered together for our patients and the business.

We continue to support the development of our leaders at all levels, but crucially at Hospital Director and the senior leadership team levels. The case study on page 43 looks at the contrasting backgrounds of two of our Hospital Directors.

We also continue to invest in our junior leadership cadre through, for example, our Management Fundamentals programme. The programme teaches new and existing managers how to manage successfully their team in a way that will inspire them to achieve organisation goals. It helps delegates understand the role and responsibilities of a manager, as well as their own approach to working with others and leading a team.

During 2016, 96 managers undertook the Management Fundamentals programme, adding to a growing cohort from previous years.

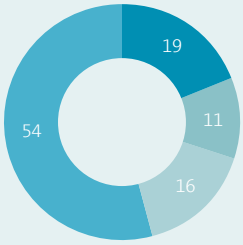
In 2017, we will be reviewing and refreshing all our leadership training programmes to ensure that our leaders are fit for the future and the challenges ahead.

Caroline Roberts
Group Human Resources Director
1 March 2017

Our values

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

2016 Employees including bank staff* (31 December 2016) (%)



- Nursing **2,405**
- Theatre staff **1,366**
- Allied health professionals **2,025**
- Clinical support and admin **6,658**

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

LOOKING AFTER YOU | *Inspiring people*

People awards

In December, a ceremony took place for nominees of the 'Inspiring People' award – a Group-wide accolade given to the most deserving team or member of staff that has shown outstanding commitment and dedication throughout the year.

David Barnes with wife, Alison, and Hospital Director, Dan Rees Jones.

The 2016 winner was David Barnes, Concierge at Spire Bristol Hospital. Offering a gold-standard concierge service to our patients is vital in driving excellence and growing our business, and we know this differentiates us from our competitors. David makes it his mission to bring this to life in every aspect of his job – from meeting and greeting patients to delivering their newspapers and offering them a listening ear. In the most recent patient satisfaction survey, David had over 200 named compliments about the service he delivers.

At the event, Dan Rees Jones, Hospital Director said, "David has a warm, friendly and attentive approach, ensuring that each patient receives a personal Spire Healthcare touch at the start of their stay. He has clearly transformed the admission experience for these patients as exemplified by the comments in our patient satisfaction survey".

LOOKING AFTER YOU | *The people who make it possible*

Long-serving people

Celebrating over 1,870 years of independent healthcare knowledge and experience

A day of celebration was held in late November to recognise the hard work of long-serving members of staff, who between them, have clocked up over 1,870 years of service.

The event, hosted by Spire Healthcare's Executive Team, was held at the Royal Automotive Club in Pall Mall where 89 colleagues from across the hospital network were honoured – a long-standing tradition that we have celebrated for many years.

The long-servers celebrating at the Royal Automotive Club in Pall Mall.

Those recognised included nurses, clinical team leaders, engineering and maintenance managers, and administrative colleagues. All enjoyed a three-course lunch along with personalised gifts to commemorate their 21 years of service.

Peter Corfield, Group Commercial Director, said on the day, "It's my pleasure to celebrate the amazing contribution you have made to Spire Healthcare over the years. Twenty-one years working for one organisation, in its many different guises, is an outstanding milestone, especially in an era of job mobility. Your achievement is what makes Spire such an amazing place to work. Thank you for your dedication and commitment through the years – we really appreciate it."

Looking after our environment

Spire Healthcare realises that we have a 'duty of care' to the environment as well as our patients and we continue to promote a low carbon culture across our hospitals. We continually review how we operate our buildings and infrastructure to improve the carbon efficiencies across our portfolio.

A key focus is to reduce carbon emissions associated with our usage of electricity and natural gas. The way we purchase, monitor, target and report on our buildings' energy consumption is undertaken in partnership with our energy consultants Inenco.

Energy

Targets vs performance

In 2016, we published the five-year energy reduction targets set out in our Carbon and Environmental policy document to reduce CO_2e from electricity and natural gas by 15% per pound of revenue by 2020 from the baseline year of 2015.

We use the intensity metric of carbon emissions per £ revenue which increases in proportion to the growth in our business. The addition of Spire St Anthony's Hospital to our portfolio for example added 6% to our energy consumption overnight. Our values are based on providing excellence in clinical quality and innovation to our patients. As a consequence of continuing to meet these values we will continue to grow, to treat more patients, to provide more treatments and to offer the latest technology.

Legislation

Since becoming a publicly listed company in 2014, Spire Healthcare has now registered for the Government's CRC Energy Efficiency Scheme and will report our carbon emissions to the Environment Agency accordingly.

Our mandatory Energy Savings Opportunity Scheme ('ESOS') audits were completed on schedule and concluded that due to the excellent work already undertaken in improving energy efficiencies across our estate, their recommendations would be unlikely to produce large energy savings. The recommendations will, however, be incorporated into our carbon reduction planning for the future.

Spire Healthcare was invited to participate in the Carbon Disclosure Projects (CPD) again in 2016.

We made our second submission to the CDP this year and we are delighted to say that Spire Healthcare scored a B rating, which is a great score in only our second year and a good improvement on last year's 90D.

Capital investment in low carbon infrastructure

We continue to invest in our engineering infrastructure to improve energy efficiencies. Key projects this year included investment in areas such as lighting, mechanical ventilation, building controls, heating and domestic hot water services.

High Efficiency Lighting – after the success of our lighting replacement projects previously reported, we continue to invest in this area to reduce our carbon footprint and also benefit from the much improved light quality that this technology brings. On the back of the measured energy and aesthetic benefits of our internal upgrade to LED lighting at Spire Leicester and Southampton hospitals, we have invested in excess of £500,000 at our National Distribution Centre and five further Spire hospitals in 2016. We intend to invest heavily again in this area during 2017 to ensure we continue to reduce our electricity consumption. It is planned to replace the internal lighting with LED technology at a further 25 of our hospitals in 2017 together with our central finance office in Reading to ensure we meet our stated energy reduction targets in 2020.

Key projects this year included investments in areas such as lighting, mechanical ventilation, building controls, heating and domestic hot water services.

High Efficiency Heating and Hot Water Services – modular condensing heating and hot water boilers were installed at Spire Parkway Hospital in 2016, which will deliver a reduction in gas consumption at this site in future years.

High Efficiency Ventilation Systems – our theatre ventilation plant ensures rapid air exchange within our theatre suites to protect our patients from infection. By its nature these systems are energy hungry. We have replaced ageing systems at Spire St Anthony's, Portsmouth, Edinburgh and Leeds hospitals in 2016. The new systems now include high efficiency control and heat recovery systems that help deliver this critical air in the most efficient way.

Greenhouse Gas Emissions (GHG)

This section provides the emission data and supporting information required by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Footprint boundary

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

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

Emission sources

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

- fuel combustion: stationary (natural gas; and red diesel for backup generators); mobile (vehicle fuel);
- purchased electricity; and
- fugitive emissions (refrigerants, medical gases).

Methodology and emissions factors

This report was calculated using the methodology set out in Environmental Reporting Guidelines (ref. PB 13944), published by Defra in June 2013.

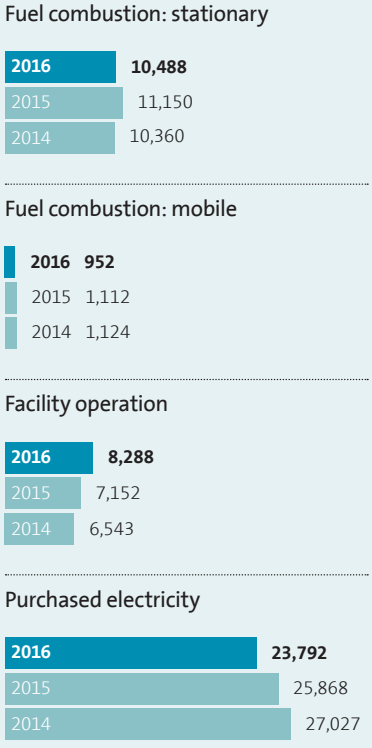
Emissions factors are taken from the Defra/DECC emissions factor update published in 2016.

GHG emissions data

The GHG emissions for Spire Healthcare for the reporting period January – December 2016 were 43,520tCO_2e, tabulated by emissions source below. The 'facility operation' emissions are attributable to the use of medical gases, carbon dioxide and nitrous oxide, (6,189tCO_2e) and leakage of refrigerant gases (2,099tCO_2e). This is 4% lower than the emissions reported for 2015 (45,282 tCO_2e).

For purposes of baselining and ongoing comparison, it is required to express the GHG emissions using a carbon intensity metric. The intensity metric chosen is £m revenue. Spire Healthcare's revenue in 2016 was £926.4 million, giving an intensity of 47.0 tCO_2e per £m revenue, 8% lower than last year.

Total emissions 2016 (tCO_2e)



Risk management and internal control

The Group's risk management and internal control systems are overseen by two committees, with overall responsibility lying with the Board of Directors.

The Audit and Risk Committee, with the assistance of the Clinical Governance and Safety Committee (CGSC), provides the Board with a consolidated review of key risks from all levels of the Group, advice on the Group's overall risk appetite and strategy, and on the effectiveness of the Group's risk management and internal control processes.

The risk management framework is designed to identify, evaluate and mitigate the risks that the Group faces at all levels. The underlying process aims to provide robust management information to enable conscious risk-based decision-making.

In 2016, the Group adopted a detailed risk management methodology in order to ensure that all hospital and business-level risks were being identified and assessed consistently across all of Spire Healthcare. This enabled more effective risk analysis and management reporting to be conducted allowing greater visibility to the two committees overseeing risk – Audit and Risk Committee and CGSC.

The Board recognises that it has limited control over many of the external risks it faces, such as macroeconomic events and the complex regulatory environment. However, it is important to consider the potential impact of such ongoing risks to the business and where possible develop contingency plans to minimise the impact of these external risks.

Risk management

The Board recognises that the Group needs to comply with the UK Corporate Governance Code and with its increasing regulatory expectations for listed companies. The risk management framework was reviewed by the Board and its committees during 2016, and it will continue to evolve and develop as the level of risk maturity increases within the Group.

All significant risks facing the Group are captured within a Risk Register and are assessed in terms of consequence and likelihood. Each such risk is owned by a member of the senior leadership team who works to monitor and mitigate that risk. The Risk Register is reviewed on a regular basis at all levels, and in response to changes in the risk environment (for example following a change in regulations). The principal risks facing the Group are drawn from the Business-wide Risk Register and are linked to the strategy of the Group. Changes from last year are indicated in the Principal risks section on pages 50 to 53.

Clinical risks

During 2016, the CGSC chaired by Dame Janet Husband focused on key clinical risks and trends including the review of notifiable incidents and external regulatory inspections across the Group. A copy of the CGSC report can be found on pages 72 and 73.

Internal controls

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

Standard policies and procedures

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

Assurance over clinical delivery and clinical regulatory compliance risks

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

- the corporate Clinical Services team, which is independent of the hospital operations and is led by the Group Medical Director, oversees a national programme of clinical audits, in addition to conducting on-site clinical reviews of every hospital and non-hospital unit, according to the approach taken at regulatory inspections. These form part of the overall framework for clinical governance and quality, to ensure that clinical risk and clinical regulatory compliance is managed effectively across all registered sites. The results of these activities are regularly reviewed by the corporate Clinical Services team, Operations Directors, Matrons, the Executive Committee and the CGSC;
- comprehensive, non-financial management information on clinical performance, including safety, clinical effectiveness and customer experience, is produced and reviewed quarterly against pre-agreed standards by the corporate Clinical Services team, Operations Directors, Matrons, the Executive Committee and the CGSC. Specific KPI measures drawn from this management information are given on page 38;

- the Group is subject to substantial levels of external inspection and review, both by the range of national healthcare regulators and through invited assurance inspections such as the rolling programme of health and safety inspections carried out by third-party specialists. The outcomes of these activities are reviewed by the Executive Committee and the CGSC; and
- the structures and processes for internal confirmation of clinical regulatory compliance and the level of evidence and assurance required to monitor this on an ongoing basis have been further strengthened and formalised in 2016.

Financial and operational controls

Financial control is established through:

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

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

Internal audit/internal control assurance

The need for an Internal Audit function was reviewed by the Audit and Risk Committee during the year. It is anticipated that the structure of the function will be formalised and the remit of the Internal Audit activities will be further redefined during 2017.

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

The Audit and Risk Committee has decided that the assurance provided by these processes will be supplemented in certain specific areas through the procurement of specific independent reviews undertaken within an Internal Audit framework, the scope of which is set by the Audit and Risk Committee based on a periodic review of the risk register and internal controls.

Continuous learning

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

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

Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the Corporate Governance Code, the Directors assessed the viability of the Group and have adopted a period of three years for the assessment. A three-year period was selected as it corresponds with the Board's strategic planning horizon. Whilst existing bank facilities extend until July 2019, this viability assessment has also considered the ability of the Group to refinance bank facilities at the end of 2018 based on current market-lending multiples.

The assessment conducted considered the Group's revenue, EBITDA, operating profit, cash flows, risk management controls and loan covenants over the three-year period. These metrics were subject to severe downside stress testing and sensitivity analyses over the assessment period, taking account of the Group's current position, the Group's experience of managing adverse conditions in the past and the impact of a number of severe yet plausible scenarios, based on the principal risks set out in the Strategic Report.

These scenarios may be summarised as follows:

- Spire Healthcare is unable to access sufficient numbers of appropriately qualified clinical staff, restricting growth, driving up clinical staff costs and constraining the capacity of new hospital developments (this links with *Availability of key medical staff*);
- a key hospital is subject to temporary suspension of trade, with a permanent adverse impact on revenues, for example, due to failure to meet Care Quality Commission ('CQC') regulatory standards (this links with *Compliance with laws, regulations and other applicable requirements*);
- the Group is subject to temporary suspension of trade, with a temporary adverse impact on revenue, for example, as a result of a successful cyberattack on key business systems (this links with *Cybersecurity*);
- the downside modelling of a number of risks which result in a decline in earnings, including lower NHS tariffs or referral rates or a general economic downturn (this links with *Macroeconomic conditions* and *Government policy*); and
- the business is subject to significant uninsured losses arising from medical malpractice, negligence or similar claims (this links with *Insurance*).

Based on the results of this analysis, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Principal risks

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

Key:

- ↑ Risk increased
- → Risk remained stable
- ↓ Risk decreased

Risk theme	Risk description and impact	Risk change 2016	How we manage the risk
Availability of key medical staff	Growing demand for healthcare, changes to the working requirements and a limited supply of appropriately qualified key medical staff, leads to a shortage of medical staff. Profitable growth, in line with the Group's strategy, requires an expansion of clinical services in hospitals, particularly including more complex surgical procedures and ongoing treatment of higher-risk patients, which could be impacted by a shortage of key medical staff. In order to expand our directory of services at hospital level, in line with our strategy, it is vital to have access to appropriately qualified, clinical staff. The market may see salary rates rise as competition for staff increases and, as a result, the Group's costs may increase and its profits may reduce.	↑	The Board focuses on staff retention, evidenced by high levels of staff satisfaction and, hence, low staff turnover. Management deploy productivity tools and pursue opportunities to reduce clinical nursing time spent on non-clinical activities to optimise the effectiveness of its clinical staff base. We have introduced a new solution for the recruitment of clinical staff, partnering with an external provider. The Group believes consultants are attracted by its advanced facilities, technology and equipment, excellent brand and reputation, the availability of a broad range of treatments, skilled nursing staff and medical support staff, and the efficiency of administrative support. The Group undertakes continuous investment in its equipment, facilities and services to retain high-quality consultants and also provides theatre capacity to new consultants. This is confirmed by high consultant satisfaction levels.
Clinical care	The Group's future growth depends upon its ability to maintain its reputation for high-quality services by meeting its quality goals. Poor clinical outcomes, negative media comment or patient, GP and/or consultant dissatisfaction could reduce the quality ratings, which could lead to a loss of patient referrals and lost earnings.	→	Spire Healthcare continually monitors its clinical standards, policies and procedures through the Board's Clinical Governance and Safety Committee. During 2016, regular management information and associated reporting has been provided to the Executive Committee. Management information is subject to continuous improvement to best leverage underlying clinical data. A number of key performance indicators are used in the assessment of clinical standards and these may be found in the Clinical review. The Group reviews and maintains insurance to mitigate the possibility of a major loss. Adequacy of cover is reviewed annually with the Group's brokers.

Risk theme	Risk description and impact	Risk change 2016	How we manage the risk
Macroeconomic conditions	Approximately 68% of the Group's revenue is dependent on private patients having private medical insurance (PMI), paid by their employer or paid by the individual, or being able to afford its services (Self-pay). In an economic downturn, the number of insured individuals falls with the level of employment and individuals have reduced real income to fund insurance or Self-pay for procedures. This would have an adverse effect on the Group's business, the results of its operations and prospects.	↑	The Board manages this risk by regularly reviewing market conditions and economic indicators to assess whether actions are required. As successfully employed in the recent economic downturn, if the private market contracts, the Group can try to reduce costs and future investment to improve profit and cash flow, and may be able to offer the released capacity to the NHS at its lower tariff, reducing the impact on profit.
Government policy	Change in the medium-term public funding of NHS services provision, and/or the prioritisation of this funding to particular service lines over time (elective healthcare, A&E, community care, etc.), could adversely reduce the flow of NHS patients to Spire Healthcare. Changes in the service level requirements for providers of NHS services, and service level commitments to members of the public served by the NHS, could adversely impact the attractiveness of privately funded treatment. Changes in fiscal policy could increase the burden of welfare resulting in a reduction of NHS-funded options. A fundamental change in the tariff structure (pricing arrangements) associated with the provision of services to the NHS could result in reduced access to patients, reduced tariffs, or reduced prices leading to reduced revenues and/or margins.	→	The Group believes that the private sector has become a fundamental partner of the NHS across the UK. The continued use of private facilities is, in Spire Healthcare's view, the best way to meet the challenges facing the NHS, particularly as there is limited capacity within the NHS to take back work currently undertaken by the private sector. The Group's service levels are confirmed by regular surveys of patients, GPs and consultants, which provide ongoing feedback to ensure NHS requirements (whether as providers or as commitments to its patients) are met. In addition, the Board regularly reviews the competitiveness of its patient offering (both NHS and private patients). The Board continually monitors Government policy, NHS requirements and associated tariff structures to consider the need for cost and/or investment reduction, whether in the short, medium or long term.
Compliance with laws, regulations and other applicable requirements	The Group operates in a highly regulated environment, including complying with the requirements of, for example, the CQC, Monitor and the CMA. Failure to comply with laws, regulations or regulatory standards may expose the Group to patient claims, fines, penalties, damage to reputation, suspension from the treatment of NHS patients, loss of hospital licence and loss of private patients, such that the Group may not be able to operate one or more of its hospitals, causing a significant reduction in profit. The CQC has continued its new inspection regime which assesses and rates hospitals and makes these results publicly available. If a hospital fared badly in one of these inspections, it could result in that hospital being assessed as 'Inadequate' which could have significant regulatory and reputational impacts. As at the end of 2016, no Spire Healthcare hospitals have received an 'Inadequate' rating. In addition, the Group could fail to anticipate legal or regulatory changes leading to a significant financial or reputational impact.	↑	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, the Executive Committee has appropriate visibility to ensure robust decision-making, and the Group has the ability to monitor and react to the changing regulatory framework of a listed company in the healthcare sector. The Group has a significant centralised clinical team which assists hospitals in establishing and maintaining a high level of clinical performance. Emerging legal or regulatory changes are monitored by the Board, the Executive Committee, the Audit and Risk Committee and the Clinical Governance and Safety Committee, in addition to consultations with external advisers and industry briefings.

Risk theme	Risk description and impact	Risk change 2016	How we manage the risk
Competitor challenge	Spire Healthcare operates in a highly competitive market. New or existing competitors may enter the market of one or more of our existing hospitals, or offer new services. The potential impact would be the loss of market share due to a new competitor and reduced profitability and cash flow.	→	The Group maintains a watching brief on new and existing competitor activity and retains the ability to react quickly to changes in-patient and market demand. The Group considers that a partial mitigation of the impact of competitor activity is ensured by providing patients with high-quality care and by maintaining good working relationships with GPs and consultants.
Insurance	Healthcare companies, including Spire Healthcare, are sometimes subject to actions alleging negligence, malpractice and other legal claims that may involve large potential damages and significant defence costs, whether or not the defendant is ultimately found liable. The Group could be subject to litigation for actions by third parties or may be found liable for damages which may not be covered by its insurance policies, if the claims are in excess of cover or claims are not covered by the Group's insurance due to other policy limitations or exclusions or where it has failed to comply with the terms of the policy. The Group's insurance premiums may increase and, if there is a significant deterioration in its claims experience, insurance may not be available on acceptable terms.	→	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 broker.
Cybersecurity	The Group's information technology platform supports, among other things, management control of patient administration, billing and financial information and reporting processes. In common with other corporate organisations, the Group faces the challenges of a continually evolving external cyberthreat landscape, and could become vulnerable to computer viruses, break-ins and similar disruption from unauthorised tampering. The Group's business could be disrupted if its information systems fail or if its databases are breached, destroyed or damaged. This could cause financial and reputational impacts. The level of risk to Spire Healthcare's IT architecture and systems continues to grow as the volume of cybersecurity threats are increasing and becoming more sophisticated.	↑	Spire Healthcare's technical IT teams continually monitor these developments as a business as usual activity. Working with a number of specialist and industry leading technical partners, Spire Healthcare has created multiple layers of business protection through the use of advanced intrusion detection and protection systems, web access firewalls and advanced content filtering to combat denial of service attacks. 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 performed on Spire Healthcare's core IT systems. New IT system developments are subject to rigorous penetration testing prior to release.

Risk theme	Risk description and impact	Risk change 2016	How we manage the risk
Concentration of PMI market	The PMI market is concentrated, with the top four companies (Bupa, AXA, Aviva and VitalityHealth (formerly PruHealth)) having a market share estimated at over 85%. Loss of an existing contractual relationship with any of the key insurers could significantly reduce revenue and profit. Further consolidation of the PMI market could adversely impact Spire Healthcare's relative bargaining power in any ongoing commercial arrangements.	→	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. The Group has looked to ensure that all significant contracts run for a minimum of a year to avoid co-termination of contractual arrangements across its PMI base.
Investment plans and execution	The capital investment programme (which includes IT system developments and the construction of two new hospitals) at any time consists of a number of individually significant projects simultaneously in progress. With any major project there are risks, such as major cost overrun or substantial delay in delivery, which could impact upon the expected returns, the Group's planned profit growth and future cash flow.	↑	The Group conducts a detailed financial and operational appraisal process to evaluate the expected returns on capital during the evaluation phase of the project. Robust project management is employed throughout the project, from the evaluation, to the bid process, agreement of contract terms and conditions, cost forecasting, as well as regular monitoring and management of progress. Regular reporting of all significant projects to the executive sponsor and the Board is provided.
Liquidity and covenant risk	The Group may have insufficient liquid resources to meet its financial liabilities as they fall due, or breach financial covenants linked to its borrowings. Failure to meet its obligations or covenants would have a substantial adverse effect on the Group's reputation and may lead to borrowings becoming repayable earlier than contracted for.	→	The Group actively monitors and manages its liquid asset position, its financial liabilities falling due and the cover against its loan covenants. The Board has considered the risk in detail as part of its assessment of the viability of the Company (see page 49).

The Strategic Report, from pages 1 to 53, was reviewed, approved by the Board and signed on its behalf on 1 March 2017.

Garry Watts
Executive Chairman
1 March 2017

Board of Directors


1


2


3


4


5


6


7


8


9

Board committee membership:
- A Audit and Risk Committee
- C Clinical Governance and Safety Committee
- D Disclosure Committee
- N Nomination Committee
- R Remuneration Committee
- Committee Chair

Management committee membership:
- E Executive Committee
- Committee Chair

1. Garry Watts C D E N

Executive Chairman

Garry Watts joined the Group as Executive Chairman in 2011 before becoming Non-Executive Chairman between Admission and March 2016. He resumed the role of Executive Chairman in March 2016. The Company does not consider Garry to be independent due to his executive role.

Current external appointments

- chairman of BTG plc
- chairman of Foxtons Group plc
- non-executive director of Coca-Cola European Partners Ltd

Skills and previous experience

A chartered accountant by profession and former partner at KPMG, Garry's extensive business knowledge and leadership on other listed company boards, including SSL International plc and Celltech Group plc, has ensured a seamless transition from private to public for the Company. He has a deep understanding of the healthcare sector, having served as a member of the UK Medicines and Healthcare Products Regulatory Agency Supervisory Board for 17 years. Garry was also previously an executive director of Medeva plc, deputy chairman of Stagecoach Group plc and a non-executive director of Protherics plc.

2. Andrew White

Executive Director

Andrew White joined Spire Healthcare in November 2015 and served as Chief Operating Officer until December 2016. He was appointed an Executive Director in July 2016. Andrew is expected to be appointed the Company's new Chief Executive Officer once he has recovered from a period of sustained medical treatment. He remains engaged with the business in his capacity as a Director whilst temporarily stepping down from all Board and management committees.

Skills and previous experience

Andrew began his working life in the Royal Electrical and Mechanical Engineers and served in Bosnia, Northern Ireland and the first Gulf War. After leaving the army in 1995, Andrew held senior positions at Serco plc and Nomura Principal Finance Group and later Serco Nomura Infrastructure Fund. Andrew became CEO of Serco UK&E Local & Regional Government division in January 2014 where he was responsible for all aspects of Serco's business in the UK and Europe.

Andrew is an ambassador to the National Apprenticeship Service and has been the industry chair of the Defence Suppliers Forum Executive Group. He attended the Advanced Management Program at Harvard Business School in 2013.

3. Simon Gordon D E
Chief Financial Officer

Simon Gordon joined Spire Healthcare as Chief Financial Officer in July 2011 and became an Executive Director of the Company in June 2014.

Skills and previous experience
Simon has a broad range of financial experience and brings invaluable knowledge of both audit and transaction advisory projects for both listed and private companies to the role. He qualified as a chartered accountant with KPMG before spending eight years as group finance director of Virgin Active. During his time at Virgin Active, the business grew from break-even to £150 million EBITDA, operating in five countries. This growth was achieved by a successful combination of organic development and acquisition.

4. John Gildersleeve N R
Deputy Chairman and Senior Independent Director

John Gildersleeve was appointed the Deputy Chairman and Senior Independent Director in June 2014. John has indicated his desire to retire from the Board and will do so by the annual general meeting in 2017.

Current external appointments
- chairman of The British Land Company plc
- deputy chairman of TalkTalk Telecom Group plc

Skills and previous experience
John is an experienced executive with strong operational expertise from a number of listed companies and is a skilled nomination committee chair. He served as an executive director of Tesco PLC and was formerly chairman of Carphone Warehouse Group plc, EMI Group plc and Gallaher Group plc. John was also a non-executive director of Dixons Carphone plc, Lloyds TSB Bank plc, Pick N Pay Stores Limited (South Africa) and Vodafone Group plc.

5. Dame Janet Husband A C N
Independent Non-Executive Director

Dame Janet Husband was appointed an independent Non-Executive Director in June 2014.

Current external appointments
- Emeritus Professor of Radiology at the Institute of Cancer Research
- non-executive director of Royal Marsden NHS Foundation Trust

Skills and previous experience
Having trained in medicine at Guy's Hospital Medical School, Dame Janet's extensive career in healthcare allows her to bring invaluable insight and knowledge of the healthcare industry. She has previously served as a specially appointed commissioner to the Royal Hospital Chelsea, was president of the Royal College of Radiologists, chaired the National Cancer Research Institute in the UK and was a non-executive director of Nuada Medical Group. Dame Janet was appointed as Professor of Diagnostic Radiology at the University of London, Institute of Cancer Research, in addition to more than 30 years as a practising consultant radiologist at the Royal Marsden Hospital.

6. Tony Bourne A C R
Independent Non-Executive Director

Tony Bourne was appointed an independent Non-Executive Director in June 2014.

Current external appointments
- non-executive director of Barchester Healthcare Limited
- non-executive director of Bioquell Plc
- non-executive director of Totally plc

Skills and previous experience
Tony brings considerable knowledge of the healthcare industry to his role, having been chief executive of the British Medical Association for nine years until 2013. Prior to this, he was in investment banking for over 25 years, including as a partner at Hawkpoint and as global head of the equities division and a member of the managing board of Paribas. Tony has also previously served as a non-executive director of Southern Housing Group, and the charity, Scope.

7. Adèle Anderson A R
Independent Non-Executive Director

Adèle Anderson was appointed an independent Non-Executive Director in July 2016.

Current external appointments
- non-executive director and chair of the audit committee of easyJet plc
- non-executive director and chair of the audit committee of intu properties plc
- member of the board of trustees of Save the Children UK
- member of the audit committee of the Wellcome Trust

Skills and previous experience
Adèle has gained extensive financial experience throughout her career and has significant knowledge of audit committees. Until July 2011, she was a partner in KPMG LLP and held a number of senior roles across their business including Chief Financial Officer of KPMG UK, Chief Executive Officer of KPMG's captive insurer and Chief Financial Officer of KPMG Europe.

8. Simon Rowlands
Non-Executive Director

Simon Rowlands was appointed a Non-Executive Director in June 2014, although he served in a similar capacity prior to Admission having been an appointment of Cinven, the Company's former principal shareholder. The Company does not consider Simon to be independent due to the senior position he continues to hold with Cinven Partners.

Current external appointments
- senior adviser to Cinven Partners
- non-executive director of Avio S.P.A. (Italy)
- non-executive director of MD Medical Group Investment plc
- founding partner of Africa Platform Capital

Skills and previous experience
Simon's extensive knowledge of the Company and its markets, combined with his wise counsel over a number of years, were among the reasons he was asked to continue to serve as a member of the Board following Cinven's sale of their shareholding. He was a founding partner of the private equity firm Cinven until 2013, and established and led its healthcare team. Simon founded a new private equity firm in 2016 focused on healthcare and consumer sectors of Sub Sahara Africa. Prior to joining Cinven, he worked with an international consulting firm on multidisciplinary engineering projects in the UK and southern Africa.

9. Danie Meintjes
Non-Executive Director

Danie Meintjes was appointed as a Non-Executive Director in August 2015. The Company does not consider Danie to be independent as he has been appointed to the Board by the Company's principal shareholder, Mediclinic International PLC, under the terms of the relationship agreement with them.

Current external appointments
- chief executive officer of Mediclinic International PLC

Skills and previous experience
Danie joined the Mediclinic International group in 1985, were he has held a number of senior positions. He was appointed as a director of Mediclinic International Limited (South Africa) in 1996 and then became its chief executive officer in April 2010. Danie holds a Bachelor of Personnel Leadership from the University of the Free State (South Africa) and has also attended the Advanced Management Program at Harvard Business School.

Senior leadership team


1


2


3


4


5


6


7

Board committee membership:
D Disclosure Committee

Management committee membership:
E Executive Committee member
Committee Chair

1. Catherine Mason
Chief Operating Officer E

Catherine Mason joined Spire Healthcare in December 2016. Prior to that, she spent the first half of her career in consumer goods, then made the transition to transport, and latterly moved to healthcare.

Following a degree in genetics, Catherine worked in marketing in blue chip companies on brands such as Ribena, Lucozade and Clover. Following an MBA at Henley Management College, she made the progression to transport – initially working for Arriva in a commercial capacity then moving into operational roles in bus and rail.

Catherine was appointed group chief executive of Translink in 2008 where she oversaw public transport in Northern Ireland, and then became managing director of NATS Services in 2014. In 2016, she made the transition to the independent healthcare sector when she was appointed chief executive of Allied Healthcare.

Catherine is a chartered director, a fellow of the Institute of Directors, and a fellow and former vice president of the Chartered Institute of Logistics and Transport.

2. Dr Jean-Jacques de Gorter
Group Medical Director E

Dr Jean-Jacques de Gorter joined Bupa Hospitals as director of clinical services in 2005 before being appointed Spire Healthcare's Group Medical Director. He is responsible for driving the Group's clinical governance and quality strategy. Prior to joining Bupa Hospitals he served as a medical director for NHS Direct.

Jean-Jacques is a non-executive director at the Milton Keynes University Foundation Trust and chairs its Quality Committee. Jean-Jacques graduated with a Bachelor of Medicine and Bachelor of Surgery from Charing Cross and Westminster Medical School, practised in the UK, Australia and New Zealand and subsequently completed his MBA degree at Cranfield School of Management.

3. Peter Corfield
Group Commercial Director E

Peter Corfield joined Spire Healthcare in October 2015 as Group Commercial Director and has responsibility for delivering revenue growth through our three payor groups and identifying new business opportunities.

Prior to joining Spire Healthcare, he held a number of senior executive and board roles within the financial services industry in the UK, most recently as managing director of Ageas Retail Direct. Prior to this, Peter worked for both Zurich Financial Services Group and Royal Bank of Scotland in various roles that covered Europe, Middle East and Japan.

4. Neil McCullough
Business Development Director E

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

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

5. Daniel Toner
General Counsel and Group Company Secretary D E

Daniel Toner joined Bupa Hospitals as head of legal in 2006 before being appointed General Counsel and Group Company Secretary upon Spire Healthcare's formation in 2007 and is a solicitor by profession. He oversees all legal activity at Spire Healthcare, ensures compliance with statutory and regulatory requirements, and that decisions of the Board of Directors are realised. Daniel is also the Company's Whistleblowing Officer and Freedom to Speak Up Guardian.

Daniel is a director of NHS Partners Network, an organisation that represents independent sector organisations that provide NHS services. Previously, he worked for international law firm Freshfields Bruckhaus Deringer, in industry and within the commercial directorate of the Department of Health.

6. Antony Mannion
Director, Strategy and Investor Relations D E

Antony Mannion joined Spire Healthcare as Investor and Public Relations Director in March 2012, having spent seven years at SSL International plc, until its acquisition by Reckitt Benckiser Group plc in 2010, as group legal director and head of acquisitions.

Prior to SSL International plc, Antony worked as a corporate lawyer at Freshfields in London and Paris, then as an investment banker at Citicorp in London and New York, and at Standard Chartered in Singapore. Antony has a wide range of experience in all areas of corporate finance, and has worked on significant acquisition and IPO transactions in both the UK and overseas.

7. Caroline Roberts
Group Human Resources Director

Caroline Roberts joined Spire Healthcare as Group Human Resources Director in September 2015 to develop and implement the Company's HR strategy for growth. In her role, Caroline oversees all aspects of frontline services including employment and welfare, training, education and financial advice.

Caroline has experience in a variety of sectors under public, private and private equity ownership with significant international exposure. She has held a number of senior executive and board roles, most recently as group HR director at Action For Employment Ltd. Prior to this, Caroline worked for The Royal Mint, Terra Firma Capital Investors and British Airways Plc.

Senior Independent Director's governance letter

I would like to take the opportunity to assure shareholders that, despite the leadership changes made during the year, the Board remains committed to applying the highest standards of corporate governance across the Group.

John Gildersleeve
Deputy Chairman and Senior Independent Director

Dear Shareholder,

Executive Chairman

Following Rob Roger's notification that he intended to step down as Chief Executive Officer, the Board unanimously agreed that Garry Watts should resume the role of Executive Chairman. This was not a decision taken lightly but was seen as providing vital continuity at the head of the Company while a successor to Rob was identified. Harnessing Garry's knowledge of the Company and many years of leadership experience has been particularly important over the short term.

This has meant that my role and that of the other Non-Executives has become even more important to ensure enhanced scrutiny and challenge.

Changes to your Board and senior management

The table on page 59 summarises the changes to the Board made during 2016.

I would like to take this opportunity to thank both Robert Lerwill and Rob Roger for their sterling contributions to the Company. Robert expertly chaired our Audit and Risk Committee from Admission before his unanticipated departure from the Board. Rob was with the business for over nine years and in that time saw the business grow significantly under Cinven's ownership and become fully listed in 2014.

We were delighted to welcome Adèle Anderson to the Board in July and recognise the considerable experience she brings.

Changes to your Board

Individual	Event	Date
Garry Watts	Resumed Executive Chairman role on announcement of Rob Roger's intended departure	14 March 2016
John Gildersleeve	Notified Company of intention to step down as Deputy Chairman and Senior Independent Director	18 May 2016
Robert Lerwill	Stepped down as a Non-Executive Director with immediate effect	27 June 2016
Rob Roger	Stepped down as Chief Executive Officer	30 June 2016
Andrew White	Appointed an Executive Director	1 July 2016
Simon Rowlands	Appointment as a Non-Executive Director renewed for a further year	23 July 2016
Adèle Anderson	Appointed an independent Non-Executive Director	28 July 2016

In December, the Board announced the appointment of Catherine Mason as Chief Operating Officer succeeding Andrew White in that position. At the same time it indicated its expectation that Andrew White would become the next Chief Executive Officer once he had recovered from a sustained period of medical treatment. At the time of writing, Andrew continues with his treatment whilst remaining engaged with the business in his capacity as a Director of the Company.

Governance

Arising from the Board changes, the Company did not comply with some aspects of the UK Corporate Governance Code, usually on a very short-term basis during the year. You can read further about these non-compliances and the Board's responses on page 60.

Again, I would like to take this opportunity to assure shareholders that your Board takes the matter of governance extremely seriously and continues to perform well with the Non-Executive Directors all providing extensive challenge to management.

2016 performance evaluation

During the second half of 2016, the Board completed its second formal performance evaluation. The evaluation process was led by the Executive Chairman, with support from the Group Company Secretary, and consisted of a questionnaire that covered areas including strategy, Board and management succession, Board culture, balance and diversity, meetings and processes, investor relations, decision-making, risk management and Board committees. I separately led the review of the Executive Chairman's performance in conjunction with the other Non-Executive Directors.

The principal conclusions were presented and discussed at our meeting in November. It was determined that the Company's Board was operating effectively in an open and transparent manner, providing support and challenge to senior management. A fuller review of the results and our agreed action plan can be found on page 63 as well as an update on the actions identified from our first evaluation. The Board will use the services of an independent third party to facilitate its evaluation in 2017.

Risk management and corporate culture

Our risk culture is centred on risk awareness, openness, continuous improvement and encouraging the right behaviour to ensure an appropriate outcome for both the Company and its customers.

Annual general meeting

Finally, the Board looks forward to meeting as many shareholders as possible at our annual general meeting which will be held at 11.00am on Friday, 26 May 2017 at the offices of J.P. Morgan, 60 Victoria Embankment, London EC4Y 0JP.

John Gildersleeve
Deputy Chairman and Senior Independent Director
1 March 2017

Corporate governance

Compliance with the UK Corporate Governance Code in 2016

The UK Corporate Governance Code provides the standard for corporate governance in the UK. The Financial Conduct Authority requires listed companies to disclose whether they have complied with the provisions of the UK Code throughout the financial year under review.

The Company has complied with the principles (and code provisions) of the UK Corporate Governance Code issued in September 2014 (the 'UK Code'), throughout the year except as shown in the following table.

UK Code provision	How has the Company not complied with the provisions of the UK Code?	The Board's response
A.2.1	From 1 July 2016, the roles of chairman and chief executive have been exercised by Garry Watts.	The Company will look to return to a position where the roles of chairman and chief executive officer are exercised by two individuals as soon as practicable. The Board has announced its intention to appoint Andrew White as Chief Executive Officer on his full recovery from a period of sustained medical treatment.
A.3.1	Garry Watts was not independent on appointment to the Board having previously served as Executive Chairman of the Company prior to IPO.	The Non-Executive Directors have determined that Garry Watts continues to lead the Board effectively.
B.1.2	Between Robert Lerwill's resignation on 27 June 2016 and the appointment of Adèle Anderson as an independent Non-Executive Director on 28 July 2016, less than half of the Board, excluding the Executive Chairman, comprised Non-Executive Directors determined by the Board to be independent.	Robert Lerwill's departure from the Board was unanticipated and regretful. Steps were taken to address the position as soon as practicably possible. The Company fully complied with each of these provisions outside of this short period and continues to do so up to the date of this report. The members of the Audit and Risk Committee and Remuneration Committee did not meet during these short periods.
C.3.1	Between Robert Lerwill's resignation on 27 June 2016 and the appointment of Adèle Anderson as chair of the Audit and Risk Committee on 28 July 2016, the Company's Audit and Risk Committee did not have three members or a member designated as having recent and relevant financial experience.	
D.2.1	Between Robert Lerwill's resignation on 27 June 2016 and the appointment of Adèle Anderson as a member of the Remuneration Committee on 24 August 2016, the Company's Remuneration Committee did not have three members.	
E.2.3	Robert Lerwill, who was chair of the Audit and Risk Committee at the time, was unable to attend the Company's annual general meeting on 19 May 2016 due to illness.	This was unfortunately an unavoidable occurrence. It is intended that the full Board attend the annual general meeting on 26 May 2017 when they will all be available to shareholders.

Director independence

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

As the Executive Chairman acts in an executive capacity he is not considered to be independent. He also did not satisfy the independence criteria on his appointment to the Board. In addition, the Company does not consider the following two Non-Executive Directors to be independent for the reasons given:

- Simon Rowlands continues to hold a senior position with the Company's former principal shareholder, Cinven; and
- Danie Meintjes has been nominated to act as a Non-Executive Director by Mediclinic International PLC, the principal shareholder, whose subsidiary, Mediclinic Jersey Limited (formerly Remgro Jersey Limited), entered into a relationship agreement with the Company in June 2015 (the 'Relationship Agreement'). Under the terms of the Relationship Agreement, when Mediclinic International PLC controls 15% or more of the votes, it will be entitled to appoint one Non-Executive Director to the Board. It controls 29.9% of votes as at 1 March 2017. The Directors believe that the terms of the Relationship Agreement will enable the Group to carry on its business independently of Mediclinic International.

The Board considers that, excluding the Executive Chairman, half of the Board is independent of management and free from any business or other relationship that could affect the exercise of their independent judgement.

Conflicts of interest

Save as set out in the table below, there are no actual or potential conflicts of interest between any duties owed by the Directors or senior management to the Company and their private interests or other duties. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

Director	Conflict
Danie Meintjes	Chief executive officer of Mediclinic International PLC, which controls 29.9% of the voting rights in the Company as at 1 March 2017.

Key roles and responsibilities

Garry Watts
Executive Chairman

The Executive Chairman leads the Board and is responsible for:

- the leadership and overall effectiveness of the Board;
- a clear structure for the operation of the Board and its committees;
- setting the Board agenda in conjunction with the Group Company Secretary and Chief Executive Officer;
- ensuring that the Board receives accurate, relevant and timely information about the Group's affairs; and
- In addition, whilst the Company does not have a Chief Executive Officer, the Executive Chairman, together with the Chief Financial Officer and the Chief Operating Officer, is responsible for:
  - developing the Group's strategic direction for consideration and approval by the Board;
  - day-to-day management of the Group's operations;
  - the application of the Group's policies;
  - the implementation of the agreed strategy; and
  - being accountable to, and reporting to, the Board on the performance of the business.

John Gildersleeve
Deputy Chairman and Senior Independent Director

The Board nominates one of the independent Non-Executive Directors to act as Senior Independent Director. He is responsible for:

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

Daniel Toner
General Counsel and Group Company Secretary

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

- planning the annual cycle of Board and committee meetings and setting the meeting agendas;
- making appropriate information available to the Board in a timely manner;
- ensuring an appropriate level of communication between the Board and its committees;
- ensuring an appropriate level of communication between senior management and the Non-Executive Directors;
- keeping the Board apprised of developments in relevant legislative, regulatory and governance matters; and
- facilitating a new director's induction and assisting with professional development, as required.

Board and Committee structure

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

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

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

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

The Executive Chairman and the Chief Executive Officer

Between 1 January 2016 and 30 June 2016, the Company had set out in writing a division of responsibilities between the Executive Chairman, Senior Independent Director and the Chief Executive Officer.

Since 1 July 2017, the Executive Chairman has performed the role of the Chief Executive Officer.

The Non-Executive Directors

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

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

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

As members of the Nomination Committee, the Non-Executive Directors also play a pivotal role in Board succession planning and the appointment of new Executive Directors.

Your Board in 2016

During the year, the Board met on nine occasions and Director attendance is shown on page 65.

The agenda at scheduled meetings in 2016 covered standing agenda items, including: a review of the Group's performance by the Chief Executive Officer or Chief Operating Officer, the current month's and year to date financial statistics by the Chief Financial Officer and a review of clinical performance. In addition, the Board received a verbal report from committee chairs, where their committee met immediately in advance of the scheduled Board meeting, and the Board regularly received reports on legal and statutory matters.

Also in 2016, the Board focused on major elements of the Group's operations by:

- reviewing, and approving, the Group's three-year Strategic Plan;
- reviewing progress on the two new hospital developments at Manchester and Nottingham; and
- receiving, reviewing and approving other major capital expenditure proposals.

The Board has a formal schedule of matters reserved to it and delegates certain matters to committees. Specific matters reserved for the Board considered during the year to 31 December 2016 included reviewing the Group's performance (monthly and year to date), approving capital expenditure, setting and approving the Group's strategy and annual budget.

The Board's plan for 2017

It is planned that the Board will convene on eight formal scheduled occasions during 2017, as well as holding any necessary ad hoc Board and committee meetings to consider non-routine business.

The Senior Independent Director and the other Non-Executive Directors will meet on their own without the Executive Directors present. In addition, the Non-Executive Directors will also meet without the Executive Chairman present to discuss matters such as the Executive Chairman's performance.

The Board will maintain its focus on the Group's pursuit of its 2017 targets and also review succession planning during the year. Its activities will include:

- review the roles of the Executive Chairman and Executive Directors;
- review and approve the 2016 Annual Report;
- review the proposed final dividend for 2016;
- approve the 2017 Annual Operating Plan;
- consider specific major themes;
- embed the risk management framework; and
- follow a rolling agenda, ensuring proper time for strategic debate.

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

Board evaluation

2016 Action plan update

The 2015 Board evaluation identified three principal areas of focus and associated actions to address them during 2016.

Area of focus	Actions	Progress
1) Risk management	• Address resourcing for the internal risk function. • Continue to develop risk reporting and the risk register to ensure the Board has adequate oversight of risk management and risk appetite.	The Group appointed a Head of Group Risk in November 2015 who has taken a 'bottom up' approach to risk identification across the business. The findings of their review have been reported to the Executive Committee, Audit and Risk Committee and the CGSC, and further updates on embedding risk management will be provided in 2017. The Audit and Risk Committee reviewed the need for an internal audit function in 2016 and agreed that an appropriate structure should be formalised. The Audit and Risk Committee agreed an assurance programme for 2017 at their November meeting. Due to the importance of risk identification and reporting to both the business and Directors this area of focus will be carried forward to next year's Board evaluation action plan.
2) Succession planning	• Increase focus on matching succession and development to the strategic challenges of the business and the next decade of challenge it faces. • Discuss succession planning for Executive Directors at the Nomination Committee.	Succession planning was of particular focus following Rob Roger's decision to leave the business and the Board gave considerable consideration to the position of Chief Executive Officer before agreeing on the appointments it has made.
3) Non-Executive Directors	• Continued familiarisation of the business including developing a co-ordinated hospital visits. • Hold one Board meeting at a hospital in 2016. • Create greater interaction with the executive at all levels in order to further enhance the Board's understanding of the business beyond presentations at Board meetings.	A change of plans meant that it was not possible to arrange a meeting at a hospital during the year but the Board will visit the new Spire Manchester Hospital in July 2017. Those Non-Executive Directors on the CGSC regularly visit hospitals as part of that committee's agreed schedule. Directors have had increased visibility of and interaction with the senior leadership team.

Action plan for 2017

Area of focus	Actions
1) Risk management	• Continue to develop risk reporting, especially clinical, and the risk register to ensure the Board has adequate oversight of risk management and risk appetite. • Develop the relationship and interaction between the Audit and Risk Committee and CGSC. • Discuss and understand the Board's risk appetite.
2) Board composition	• Appoint a strong Senior Independent Director to replace John Gildersleeve when he leaves the Board. • Review the roles of the Executive Chairman and Executive Directors.
3) Strategy	• Provide a mid-year strategy session update to the Board on progress made.

Disclosure Committee

With the implementation of the EU's Market Abuse Regulations in 2016, the Board established a Disclosure Committee to ensure, under delegated authority from the Board, that the Company complies with its disclosure obligations, specifically under the Market Abuse Regulation and related legislation. The Disclosure Committee also manages the Company's share dealing code, ensuring colleague compliance and provides training where required. The members of the Disclosure Committee are disclosed below.

Share Schemes Committee

In addition, the Board delegates certain responsibilities in relation to the administration of the Company's share schemes on an ad hoc basis to the Share Schemes Committee. This committee operates in accordance with the delegation of authority agreed by the Board.

Executive Committee

The Executive Committee meets on a monthly basis. It is supported by the Operating Board and Safety, Quality and Risk Committee who have specific focus on operational and safety matters respectively.

Governance framework in 2016

Garry Watts
Executive Chairman

Key objectives:
- ensure effectiveness of the Board;
- promote high standards of corporate governance;
- ensure clear structure for the operation of the Board and its committees; and
- encourage open communication between all Directors.

The Board of Spire Healthcare Group plc
The Board comprises nine Directors – the Executive Chairman, two Executive Directors and six Non-Executive Directors, four of whom are deemed to be independent for the purposes of the UK Code. Daniel Toner serves the Board as General Counsel and Group Company Secretary.

Key objectives:
- leads the Group;
- oversees the Group's system of risk management and internal controls;
- supports the Executive Committee to formulate and execute the Group's strategy;
- monitors the performance of the Group; and
- sets the Group's values and standards.

Audit and Risk Committee
Adèle Anderson (chair), Tony Bourne, Dame Janet Husband

Key objectives:
- monitors the integrity of financial reporting; and
- assists the Board in its review of the effectiveness of the Group's internal control and risk management systems.

Clinical Governance and Safety Committee
Dame Janet Husband (chair), Tony Bourne, Garry Watts, Andrew White

Key objectives:
- promotes, on behalf of the Board, a culture of high-quality and safe patient care;
- monitors specific non-financial risks and their associated processes, policies and controls:
  (i) clinical and regulatory risks;
  (ii) health and safety; and
  (iii) facilities and plant.

Disclosure Committee
Garry Watts, Simon Gordon, Andrew White, Daniel Toner, Antony Mannion

Key objectives:
- ensures that the Company complies with its disclosure obligations, specifically under the Market Abuse Regulation and related legislation; and
- oversees the Company's Share Dealing Code including employee training.

Nomination Committee
John Gildersleeve (chair), Dame Janet Husband, Garry Watts

Key objectives:
- advises the Board on appointments, retirements and resignations from the Board and its committees; and
- reviews succession planning for the Board.

Remuneration Committee
Tony Bourne (chair), Adèle Anderson, John Gildersleeve

Key objectives:
- determines the appropriate remuneration packages for the Chairman, Executive Directors and Group Company Secretary; and
- recommends and monitors the level and structure for other senior management remuneration.

Executive Committee
The Group also operates an Executive Committee (convened and chaired by the Executive Chairman). The team generally meets monthly as operational activities allow and its members are shown on pages 54 to 57.

Key objectives:
- assists the Executive Chairman in discharging his responsibilities;
- ensures a direct line of authority from any member of staff to the Executive Chairman; and
- assists in making executive decisions affecting the Company.

Board meeting attendance

The attendance of the Directors who served during the year ended 31 December 2016, at meetings of the Board, is shown in the table below. The number of meetings a Director could attend in the year is shown in brackets.

Executive Chairman	
Garry Watts	9(9)
Deputy Chairman and Senior Independent Director	
John Gildersleeve	8(9)
Executive Directors	
Simon Gordon	9(9)
Rob Roger	3(4)
Andrew White[1]	4(5)
Non-Executive Directors	
Adèle Anderson[2]	4(4)
Tony Bourne	9(9)
Dame Janet Husband	9(9)
Robert Lerwill	3(4)
Danie Meintjes	9(9)
Simon Rowlands	9(9)

1 Andrew White was appointed an Executive Director on 1 July 2016.
2 Adèle Anderson was appointed an independent Non-Executive Director on 28 July 2016.

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

Effectiveness

Board composition

The Board seeks to ensure that both it and its committees have the appropriate range of skills, experience, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively; for example, the 2017 Board calendar includes both sessions on clinical and statutory regulations, and hospital visits.

The number of Non-Executive Directors and their range of skills and experience continues to be carefully reviewed. This requirement and the number of Directors, together with the Group's succession plans, will form part of the Nomination Committee activities and the Board's evaluation process in 2017. The Board considers its size and composition to be appropriate for the current requirements of the business.

Committee composition is set out in the relevant committee reports. No one other than committee chairs and members of the committees is entitled to participate in meetings of the Audit and Risk, CGSC, Disclosure, Nomination and Remuneration committees, unless by invitation of the respective committee chair. John Gildersleeve is the Deputy Chairman and Senior Independent Director.

Biographical details of the Directors are set out on pages 54 and 55.

Appointments to the Board

Recommendations for appointments to the Board are made by the Nomination Committee. The Nomination Committee follows a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Further information is set out in the Nomination Committee Report on pages 74 and 75.

Time commitment of the Non-Executive Directors

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

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

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

Induction and training

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

On appointment, Adèle Anderson completed a detailed induction programme that included meeting with other members of the Board and the senior leadership team. She undertook a thorough familiarisation of the business which included a visit to Spire Southampton Hospital. The Company's brokers and legal adviser also met with Adèle to provide insight into the healthcare industry and provide training on directors' statutory duties respectively. Andrew White, on appointment as an Executive Director, also received training on his statutory duties.

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

During the year, all Directors received updates on the implementation and training on the requirements of the EU's Market Abuse Regulation.

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

Information and support

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

Outside the Board papers process, the Executive Directors provide written updates to the Non-Executive Directors on important business issues, including financial and commercial information. In addition, relevant updates on shareholder matters (including analysts' reports) are also provided to the Board.

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

Election of Directors

All the Directors offered themselves for election or re-election at the second annual general meeting in May 2016 and, in future, will be re-elected in accordance with the requirements of the UK Code.

All Directors will stand for election or re-election at the annual general meeting in 2017 except for John Gildersleeve who has indicated that he wishes to retire from the Board before this date. The biographical details of each Director standing for election or re-election is included in the 2017 Notice of Meeting. The Board believes that each of the Directors standing for election is effective and demonstrates commitment to their respective roles. Accordingly, the Board recommends that shareholders approve the resolutions to be proposed at the 2017 annual general meeting relating to the election of the Directors.

The biographical details of all current Directors are set out on pages 54 and 55.

Directors' indemnities

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

Directors' conflicts of interest

The Companies Act 2006 provides that directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's articles of association permit.

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

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

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

Accountability

The Audit and Risk Committee

The Audit and Risk Committee Report is set out on pages 68 to 71 and identifies its members, whose details are set out on page 55.

The report describes the Audit and Risk Committee's work in discharging its responsibilities during the year ended 31 December 2016, and its terms of reference can be found on the Group's website at www.spirehealthcare.com.

Risk management and internal control

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

The Audit and Risk Committee and the Clinical Governance and Safety Committee, whose reports are set out on pages 68 to 71 and pages 72 and 73, respectively, assist the Board in reviewing the effectiveness of the Group's risk management system and internal controls, including financial, clinical, operational and compliance controls.

Executive compensation and risk

Only independent Non-Executive Directors are allowed to serve on both the Audit and Risk Committee and Remuneration Committee. The Non-Executive Directors are therefore able to bring their experience and knowledge of the activities of each committee to bear when considering the critical judgements of the other.

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

Financial and non-financial risk

The Clinical Governance and Safety Committee, with the Audit and Risk Committee, between them aim to ensure that the control and monitoring of both financial and non-financial risks is satisfactory.

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

Relations with shareholders

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

The Group undertakes an ongoing programme of meetings with investors, which is led by the Chief Financial Officer and the Director, Strategy and Investor Relations and they attend a majority of the meetings. During the year, there were in excess of 260 individual meetings, conference presentations, group lunches and telephone briefings with investors.

During the consultation on executive remuneration conducted in February 2017, which you can read about on pages 76 to 91, the chair of the Remuneration Committee met with both major shareholders and voting agencies.

The Executive Chairman, Senior Independent Director and committee chairs remain available for discussion with shareholders on matters under their areas of responsibility, either through contacting the Group Company Secretary or directly at the annual general meeting.

The Company reports its financial results to shareholders twice a year, with the publication of its annual and half yearly financial reports. In conjunction with these announcements, presentations or teleconference calls are held with institutional investors and analysts, and copies of any presentation materials issued are made available through the Company's website at www.spirehealthcare.com.

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

Annual general meeting

Shareholders are encouraged to participate at the Company's annual general meeting, ensuring that there is a high level of accountability and identification with the Group's strategy and goals. A summary of the proxy voting for the 2016 annual general meeting was made available via the London Stock Exchange and on the Company's website as soon as reasonably practicable on the same day as the meeting.

Results of our second annual general meeting held on 19 May 2016 were:

	Summary of resolution	Total votes for %	Total votes against %	Votes withheld
1	2015 Annual Report and Accounts	99.96	0.04	12,059
2	2015 Directors' Remuneration Report	99.02	0.98	26,991,857
3	Final Dividend	100.00	0.00	0
4 to 12	Election or re-election of Directors	Between 97.34 and 99.89	Between 0.11 and 2.66	Maximum 120,000
13	Reappointment of Auditors	100.00	0.00	1,156,173
14	Auditors' remuneration	100.00	0.00	0
15	Political expenditure	99.75	0.25	0
16	Authority to allot shares	94.00	6.00	0
17	Sharesave scheme approval	99.63	0.37	0
18	Disapplication of statutory pre-emption rights*	90.49	9.51	0
19	General meetings to be held on 14 clear days' notice*	98.11	1.89	0

* Special resolution

Audit and Risk Committee Report

Our priority is to deliver an effective governance and risk management framework that allows us to ensure the appropriateness of the Group's financial reporting.

Adèle Anderson
Committee chair

Dear Shareholder,

I would like to begin by thanking Robert Lerwill for his stewardship of the Committee since the Company's Admission in 2014 until the end of June 2016 when he stepped down from the Board. Under his leadership the Committee established solid foundations for maintaining the highest standards of governance and risk management across the Group which I aim to build on.

We have taken the decision to include an extra meeting in our annual schedule to allow more time for deep dive sessions on matters of particular interest to the Committee.

Risk management and internal controls

Internal audit and risk were two areas of particular focus for the Committee during the year and we allocated a significant proportion of each meeting to ensure a robust discussion on both matters.

2016 and 2017 Internal Audit Plans

From the 2016 Internal Audit Plan, the Committee received a detailed presentation from Phil Peplow, Group IT Director, on IT security and also reviewed the results of an independently commissioned Information Assurance Health Check report. In a world where cybersecurity regularly appears in the national headlines, it was extremely important for the Committee to understand the challenges facing the Company and the actions being taken.

Our plan for this year again focuses on areas identified as high risk, in particular where existing regulatory controls and inspections are not considered to be sufficiently comprehensive in terms of providing independent assurance on the effectiveness of internal controls. The specific areas of focus for 2017 include:

- a revenue audit;
- a review of physical asset assessments and maintenance through the buildings maintenance system;
- a review of information governance; and
- an audit of business continuity.

A high-level Internal Audit Plan will continue to be approved by the Committee on an annual basis.

Internal Audit function

Historically, the Group has not considered it necessary to establish an Internal Audit function, in part because of the way hospitals and administration activities are structured. Whilst the Committee acknowledges this as a basis, it agreed during the year that a formal structure for the function should be established in early 2017 and recruitment of a Head of Internal Audit is in progress.

Risk management

This year, the Committee performed a detailed review of the ongoing risk management identification programme which is designed to: clarify roles and responsibilities for risk management and oversight; set out a consistent end-to-end process for managing risk across the business; provide the Board with a clear line of sight over the principal risks; and provide an overview of how the principal risks are being managed. Our review included reports from the Group Head of Risk on the evaluation process as well as a review of changes to significant risks identified at both operating entity and Group levels. This process will complete in 2017 and the Committee will continue to monitor.

An overview of the risk management and internal controls processes are contained on pages 48 to 53. The Committee, with the assistance of the Clinical Governance and Safety Committee ('CGSC') (which focuses on key non-financial risks, including patient and clinical risks), carried out the following:

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

The overall risk management framework, including the Board's appetite for risk and the underlying process for capturing and reporting risk and control data, will continue to be reviewed by the Board and its committees during 2017 to ensure that changes to reflect the new regulatory environment and best practice are incorporated.

Significant issues and material judgements

The Audit and Risk Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The table below summarises the matters where the most material judgements have been made in relation to reporting in 2016:

Matters	Judgement and estimation required	How the Committee gained comfort on the matter
Improper revenue recognition – management manipulation	Pressure to achieve results and secure bonus payments could lead management to manipulate the financial reporting of revenue. This could include the: • manipulation of prices charged, in particular in relation to PMI and NHS revenue; • intentional mis-coding of procedures by hospitals impacting revenue recorded; • misreporting of other income in the year; and • overstatement of deferred revenue at the year end.	Management carry out a detailed review of monthly hospital performance compared to forecast, in particular focusing on the cut-off of revenue reported at the balance sheet date. The Group maintains effective segregation of duties to safeguard the integrity of pricing masterfile data on which billing is dependent. Billing to PMIs is subject to selective independent audit by representatives of the relevant PMI and issues arising are subject to timely review by management as appropriate.
Improper revenue recognition – complexity of PMI and NHS contracts	The complexity of the pricing structures and the high volume of procedures undertaken present a risk in relation to the accuracy of revenue recognition, in particular the use of incorrect codes or prices.	Management routinely reconcile revenues and cash collections as part of monthly cashflow management procedures. Internal audit work (commissioned from a third party) was carried out to test the adequacy of clinical coders, which did not raise any issues of concern. The Committee noted the testing of revenue recognition, which included substantive testing of a sample of transactions back to proof of procedure and price lists. No significant issues were noted by Ernst & Young LLP during the course of their audit.
Inappropriate capitalisation of development costs	Expenditure on internal capital projects is high. As at 31 December 2016, construction is under way on two new hospitals. Additionally, the Group has developed Spire St Anthony's Hospital, and is undertaking other major projects at existing hospitals. There is a risk of inappropriate capitalisation to these projects to enhance reported earnings.	The Committee considered the controls over capital expenditure incorporated within the Group's project management procedures, as implemented by the business development team. The Committee noted that the work carried out by Ernst & Young LLP supported its own independent findings in this area.
Deferred taxation on freehold 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 which is excluded from tax on underlying profit.	The Committee was satisfied that the estimation of the tax charge was reasonable, and that the disclosures in the Annual Report and Accounts were appropriate. The Committee was satisfied that any property valuation assumptions and judgements that underpin the position for taxation purposes were supported by independent expert opinion.
Provisions for patient claims	Such claims are typically complex. Judgement is required in the estimation of the size and incidence of claims, which is usually based on professional advice and historical information on similar claims. The Group recognised total net provisions of £3.6 million at 31 December 2016.	The Committee reviewed management's detailed report on the status of live claims and information concerning the settlement of related claims. It also considered the advice provided by the Group's external legal and insurance advisers.

External audit

The Committee has primary responsibility for the relationship with, and performance of, our external auditor. This includes making the recommendation on their appointment, reappointment and removal of the external auditor, assessing their independence on an ongoing basis and for negotiating the audit fee in conjunction with the Chief Financial Officer.

Auditor appointment

Ernst & Young LLP was appointed as the Company's external auditor in July 2014 on our Admission to the London Stock Exchange, although they have served the business prior to Listing since 2008. Our current audit partner appointed by Ernst & Young LLP is Debbie O'Hanlon who took on the role in 2015. The Committee ensures that the external auditor adheres to The Auditing Practices Board's Ethical Standard 3, which requires the rotation of the audit partner for listed companies every five years. As a result, Debbie O'Hanlon is anticipated to serve until 2020.

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

- reviewing its proposed plan for the 2016 audit;
- discussing the results of its audit, including its views about material accounting issues and key judgements and estimates, and its audit report;
- reviewing the quality of the people and service provided by Ernst & Young LLP; and
- evaluating all of the relationships between the external auditor and the Group, to determine whether these impair, or appear to impair, the auditor's independence.

The Committee recommended, and the Board subsequently agreed, that, for the year ending 31 December 2017, Ernst & Young LLP are reappointed under the current external audit contract and the Directors will be proposing the reappointment of Ernst & Young LLP at the annual general meeting in May 2017.

Audit risk

At the Committee's first meeting of the year, it received from Ernst & Young LLP a detailed plan identifying the scope of their audit for the year, planning materiality and their assessment of key risks. The audit risk identification process is considered a key factor in the overall effectiveness of the external audit process.

These risks were reviewed by the Committee during the reporting of the half year results to ensure the external auditor's areas of audit focus remain appropriate.

Working relationship with the external auditor

During the year, the Committee met with the external auditor without management present to provide additional opportunity for open dialogue and feedback between both parties. Matters typically discussed include the external auditor's assessment of business risks, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management, the independence of their audit and how they have exercised professional scepticism. I also meet with the external lead audit partner ahead of each Committee meeting.

External financial reporting

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

The external auditor provided reports for the half year and year end reporting, including all significant issues, with an assessment of the appropriateness of management's judgements. The Committee considered that management's judgements were cautious, but not overly prudent.

At the request of the Board, the Committee considered whether the Annual Report and Accounts for the year ended 2016 was fair, balanced and understandable, and whether it provided the necessary information for the shareholders to assess the Group's performance, business model and strategy. The Committee took into account its own knowledge of the Group, its strategy and performance in the year, internal verification of the factual content, comprehensive review undertaken at different levels in the Group to ensure consistency and overall balance, and detailed review by senior management and the external auditor. The Committee was satisfied that, taken as a whole, the Annual Report and Accounts for the year ended 2016 is fair, balanced and understandable, and has affirmed that view to the Board.

Recent accounting developments

The Committee received updates from the Chief Financial Officer on the Group's implementation of IFRS 15 *Revenue from contracts with customers*, which will be adopted in the year ending 31 December 2018, focusing on its implication for reported results, the methodology in which the standard would be adopted, and the implication for systems and process. An assessment of the impact of IFRS 16 *Leases* will be considered early in 2017.

Our priorities for 2017

We will continue to prioritise internal audit in 2017 and look forward to the appointment of a Head of Internal Audit and their team. We will monitor their work as they begin to co-ordinate and deliver the internal audit programme we have agreed for the year.

A further focus for the Committee in 2017 will be embedding our agreed closer working relationship with the Clinical Governance and Safety Committee. We will together be reviewing our approach to clinical risk and audit, in order to recommend mitigation of risks identified and provide assurance to the Board.

Principal activities during 2016

The main activities relating to the financial year were as follows:

- agreeing the Committee's rolling agenda for 2016;
- approving the terms of engagement of the external auditor, including its remuneration and reviewing its independence;
- approving the plan for the external audit for 2016;
- discussing and reviewing the Group's accounting policies and critical estimates and judgements;
- assessing going concern and the viability of the Group;
- reviewing and approving the half year results and the Annual Report and Accounts for the year ended 2016;
- reviewing the development of the risk management framework for the Group, including risk appetite and risk evaluation methodology and reviewing the Group risk register; and
- reviewing the systems of internal control, including assessing the requirement for an internal audit function.

Non-audit services and independence

There are certain services termed 'excluded services' that are not permitted to be provided by the external auditor, including where the auditor may be required to audit its own work, would participate in activities that would normally be undertaken by management or is remunerated through a 'success fee' structure.

Ernst & Young LLP provided no non-audit services to the Group during the year ended 31 December 2016 (2015: £71,000 for IT services). Going forward, all non-audit fees will be approved by the Committee.

Viability

The Committee reviewed the process undertaken by management to support and allow the Directors to make the Group's viability statement. The Committee considered and provided input into the determination of which of the Group's principal risks and combinations thereof might have an impact on the Group's liquidity and solvency. The Committee reviewed the results of management's scenario modelling and the stress testing of these models. The viability statement can be found on page 49.

Whistleblowing

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

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

Annual evaluation of the Committee's performance

The second evaluation of the Committee's performance was carried out in 2016 which confirmed that it continued to perform effectively.

Adèle Anderson
Chair, Audit and Risk Committee
1 March 2017

Audit and Risk Committee at a glance

Committee membership and meeting attendance

The Audit and Risk Committee members at the end of 2016 and the number of meetings they each attended during the year were as follows (the maximum number of meetings that the member could have attended is shown in brackets):

Member	Committee member since	Position in Company	Committee meetings attended in 2016
Adèle Anderson (Committee Chair)	July 2016	Independent Non-Executive Director	3 (3)
Dame Janet Husband	July 2014	Independent Non-Executive Director	4 (4)
Tony Bourne	July 2014	Independent Non-Executive Director	4 (4)

Committee members biographies are shown on pages 54 and 55. Robert Lerwill chaired the Committee until 27 June 2016 when he stepped down as an independent Non-Executive Director.

The Audit and Risk Committee must have at least three members, all of whom must be independent Non-Executive Directors. If members are unable to attend a meeting, they have the opportunity beforehand to discuss any agenda items with the Chair of the Committee.

The Committee invites the external auditor and the Chief Financial Officer to attend each meeting with other members of the management team attending as and when invited. Representatives of the Group's external auditor have a private session with the Committee or Chair of the Committee whenever required.

The Group Company Secretary, or their appointed nominee, acts as secretary to the Committee.

Recent and relevant financial experience

At least one member of the Committee must have been determined to have recent and relevant financial experience and Adèle Anderson has been identified by the Board as meeting this requirement. Her extensive current and previous experience which included being a partner in KPMG until July 2011 and holding roles including chief financial officer of KPMG UK, chief executive officer of KPMG's captive insurer and chief financial officer of KPMG Europe. Adèle Anderson also currently chairs the audit committees of both easyJet plc and intu properties plc.

Role and responsibilities

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

These include:

- receiving and reviewing the Annual Report and Accounts of the Group and half yearly financial statements and any public financial announcements, and advising the Board on whether the Annual Report and Accounts is fair, balanced and understandable;
- receiving and reviewing reports from the external auditor, monitoring its effectiveness and independence, and approving its appointment and terms of engagement;
- agreeing the annual internal audit programme, including the use of internal resource or external consultants to undertake the programme, and reviewing the results;
- monitoring the effectiveness of the risk management system;
- reviewing the effectiveness of the Group's system of internal controls and assessing and advising the Board on the internal financial, operational and compliance controls; and
- overseeing the Group's procedures for detecting fraud and relating to whistleblowing.

The Committee's terms of reference can be found at www.spirehealthcare.com

Clinical Governance and Safety Committee Report

During 2016, we continued to develop a robust and effective clinical governance framework, aiming to ensure that our hospitals and clinics consistently deliver the highest quality healthcare for all our patients.

Professor Dame Janet Husband
Committee chair

Dear Shareholder,

On behalf of the Clinical Governance and Safety Committee (the 'Committee' or 'CGSC'), I am pleased to present our report for the year ended 31 December 2016 and to outline our plans for the coming year. This is my second report on the Committee's oversight of the Company's clinical services, promotion of best practice and clinical governance.

The paramount importance of consistently delivering care of the highest quality to our patients is recognised across the business and I would like to acknowledge the support the Committee has received from the Board and senior leadership team as well as individual hospitals and their front-line clinical staff.

Our work is based on a Quality Governance Framework which brings together the results of clinical reviews, the clinical scorecard and a number of key performance indicators to give us, and the Board, assurance on the quality of services provided across all our hospitals. It enables benchmarking of clinical services between individual hospitals and, over time, provides indicators of trends in hospital quality.

During the year under review this framework has developed well, giving us robust information and good indications of progress.

Regulatory inspections

The Committee reviews the outcomes of inspection reports from the Care Quality Commission ('CQC'), covering our hospitals in England, and from Healthcare Inspectorate Wales (HIW) and Healthcare Improvement Scotland (HIS).

Our Quality Governance Framework mirrors the CQC's five domains of well-led, caring, responsive, effective and safe. At the time of writing, all Spire hospitals have received their first new format CQC inspections. Details of the results of those inspections published to date are given in the Clinical review on pages 36 to 39 of the Strategic Report. While the CQC reports have identified a number of areas for improvement, overall they reflect well on the quality of our care.

Looking back over the programme of CQC visits, there is no doubt that as an organisation, we have benefited from the scrutiny that they provide. The work undertaken by the clinical team throughout our group, involving clinical reviews and preparation for CQC visits, has helped us to identify areas for improvement and has brought teams together, improving the culture within our hospitals as our staff have worked towards a common goal.

During 2017, the Committee will continue to review progress in responding to regulatory recommendations.

2016 activities

During 2016, the CGSC met on six occasions, five of which were at a Spire Healthcare hospital and one at the Company's London head office. Hospitals visited included Spire St Anthony's, Spire Washington, Spire Parkway, Spire Cardiff and Spire Hull and East Riding hospitals.

The hospital visits give the Committee valuable time to hear from local hospital teams on their plans for future development of clinical services and investment as well as to learn about the challenges they face in the ever changing healthcare landscape.

We have also gained greater insights by meeting consultants and members of staff on an individual and informal basis. As a result we have been able to undertake deeper dives, pursuing areas of concern and gaining assurance that issues are dealt with in an appropriate and timely manner.

During our programme of work the Committee also reviewed the clinical matters on the Company's Whistleblowing Register and the investigation reports into whistleblowing concerns raised during the year.

The Committee continued its programme of themed reviews which this year included presentations on:

- patient involvement in service development;
- clinical training and recruitment;
- clinical claims rates and management; and
- quality assurance of services, particularly in Radiology and Pathology.

Hospital visits

I have also continued my own programme of informal personal visits to our hospitals. I have now visited every one of our hospitals and both of our state-of-the-art specialist cancer centres – the latter, of course, being my area of particular professional interest.

During my visits I have enjoyed meeting groups of frontline staff to gain understanding of the culture within their hospitals, the challenges and pressures they face in their roles, and their motivations in working for Spire Healthcare. I have been strongly impressed with the sense of family, particularly within our smaller hospital teams. I have met many colleagues who have worked for Spire for many years. But I have also detected some concern over pressure of work, staff shortages and the difficulty in recruiting suitably skilled staff, particularly in areas such as theatres and critical care. These concerns are linked to national issues, but I am pleased to say that the Company is developing a human resources strategy to address the challenge.

Committee meetings in 2017

After our end of year evaluation of Committee format, agendas and performance, we have decided to continue the successful plan of holding some of our meetings at hospitals. These will continue to be scheduled to take place ahead of Board meetings, so that there is a timely flow of information on clinical governance matters to the other Board Directors. We believe that this 'Ward to Board' approach to clinical governance creates genuine value for both the Board as well as to our hospital managers and their staff.

Clinical Governance and Safety Committee at a glance

Committee membership

The Clinical Governance and Safety Committee must have at least two members, one of whom must be an independent Non-Executive Director. The Board appoints the Chair of the Committee who must be an independent Non-Executive Director.

Member	Committee member since	Position in Company	Committee meetings attended in 2016
Dame Janet Husband (Committee Chair)	July 2014	Independent Non-Executive Director	6 (6)
Tony Bourne	July 2014	Independent Non-Executive Director	6 (6)
Garry Watts	July 2014	Executive Chairman	5 (6)
Andrew White	July 2016	Executive Director	2 (3)

The maximum number of meetings that the member could have attended during 2016 is shown in brackets. Committee members' biographies are shown on pages 54 and 55. Rob Roger was also a member of the Committee until 30 June 2016.

The Group Company Secretary, or their appointed nominee, acts as secretary to the Committee.

Role and responsibilities

These include:

- promoting a culture of high quality and safe patient care and experience;
- reviewing the Group Medical Director's Clinical Assurance Report and the quarterly review of serious adverse events;
- monitoring patient health and safety matters;
- reviewing patient information governance matters;
- reviewing the clinical matters on the Whistleblowing Register; and
- promoting continuous clinical improvements.

The Committee's terms of reference can be found at www.spirehealthcare.com

We will also continue our planned themed review programme in 2017, with areas of focus to include chemotherapy, pharmacy, Specialist Cancer Care Centres as well as a review of the quality data due to be published by the Private Healthcare Information Network (PHIN) from April 2017.

Developing our work

The Committee's approach and areas of focus continue to develop, linked to our annual evaluation of performance. For example, as part of our clinical governance programme the Group Medical Director has been instrumental in reviewing our approach to serious adverse events ('SAEs'), to improve the reporting of SAEs, and the process of root cause analysis and developing a more standardised approach to the reporting of such incidents across the Group.

In the coming year, a major focus will be linking more closely with the Audit and Risk Committee and its new chair, Adèle Anderson. Together we will review our approach to clinical risk and audit, reviewing arrangements in order to improve understanding and making recommendations to mitigate any risks identified and to provide robust assurance to the Board. Furthermore we will be feeding into and monitoring the progress of the development of a robust clinical risk register, linking individual hospital risk registers with the overall corporate risk register.

I look forward to reporting further progress in our continued development of robust and effective clinical governance across all Spire Healthcare's hospitals during 2017.

Professor Dame Janet Husband DBE FMedSci, FRCP, FRCR
Chair, Clinical Governance and Safety Committee
1 March 2017

Nomination Committee Report

The Committee continues to play a vital role in ensuring the right individuals are appointed to lead the Company.

John Gildersleeve
Committee chair

Dear Shareholder,

The Nomination Committee (the 'Committee') continues to play a vital role in ensuring that the right individuals are appointed to lead the Company and I am extremely pleased with the recommendations that have been made to the Board and senior management.

Before I address the Committee's role in these appointments, I'd like to acknowledge some changes to the Committee's membership. Robert Lerwill regretfully had to step down as an independent Non-Executive Director in June and I'd like to thank him for his involvement at our meetings. Rob Roger also stepped down from the Committee at the end of June when he left the Company. The Board decided to appoint Garry Watts as a member of the Committee from July 2016 and, although Garry is not classified as an independent director, the Committee has always, and continues, to meet the requirement under its terms of reference to have a majority of independent members.

Director and senior management changes

I was able to report to you last year on the role of the Committee in the management changes that were agreed following Rob Roger's decision to leave the Board, with Garry Watts resuming his role as Executive Chairman from 14 March 2016 and Andrew White becoming an Executive Director from 1 July 2016. The Committee closely monitored the transition from the announcement through to Rob's departure on 30 June 2016.

Although the Company announced Andrew White's period of sustained medical treatment, the Committee has been impressed with his leadership of the Company and enthusiasm for the role. As a Committee we were in unanimous agreement that Andrew should become the Company's new Chief Executive Officer on his full recovery.

In May, I informed the Executive Chairman of my own intention to stand down as Deputy Chairman and Senior Independent Director. It was initially anticipated that this would happen by the end of 2016 but I will now remain in role until no later than our 2017 annual general meeting. The Executive Chairman has led the search for a new Senior Independent Director with the assistance of Heidrick & Struggles, a senior executive search firm.

Following Robert Lerwill's unanticipated departure, the Executive Chairman and the Committee moved quickly to appoint a new independent Non-Executive Director with recent and relevant financial experience who was capable of chairing the Company's Audit and Risk Committee. A number of candidates were put forward by Heidrick & Struggles but the Committee unanimously agreed on Adèle Anderson. Adèle's knowledge of FTSE boards and experience of chairing audit committees has meant she has speedily proved an excellent addition to the Board.

The Committee reviewed and endorsed the appointment of Catherine Mason as the Company's new Chief Operating Officer following the recommendation of the Executive Chairman. Members of the Committee took the opportunity to meet with Catherine prior to her appointment and were impressed with her extensive operational experience and recognised that she would make an important addition to the senior leadership team.

2016 activities

As a Committee our priorities during the year have been to:

- review and recommend the Director and senior management changes to the Board;
- evaluate the balance of skills, knowledge and experience on the Board and its diversity, including gender;
- undertake a performance review;
- review the independence of each Non-Executive Director, and the balance of skills, knowledge, experience and diversity on the Board prior to recommending Directors' re-election at the annual general meeting; and
- review and update the Committee's terms of reference.

Committee evaluation

The Committee completed its second annual performance evaluation as part of the overall Board evaluation process and the findings were discussed and reviewed at a meeting in November. The Committee was considered to be operating effectively in fulfilling its duties throughout 2016.

Diversity and inclusion

As a Committee we acknowledge the importance of diversity, including gender, both on the Board and throughout the organisation. We pride ourselves on our inclusive nature as a company.

Our aim is for the Board to consist of individuals with diverse experience who can add real value to Board debates, thereby supporting the achievement of our strategic objectives. This includes diversity of industry skills, knowledge and experience in addition to gender and ethnicity. We noted with interest the publication of the Hampton-Alexander review on gender leadership in FTSE companies, and are always mindful of the recommendations in the appointments we make. However, our overriding intent in any new appointment must always be to select on merit, in fulfilment of our role of ensuring the continued success of the Company.

Re-election of Directors

The Committee met in early 2017 and reviewed the continuation in office, and potential reappointment, of all members of the Board. Following this review, the Committee recommended to the Board that all Directors should be reappointed, and hence all Directors, except for me, will seek election or re-election at the annual general meeting.

John Gildersleeve
Chair, Nomination Committee
1 March 2017

Nomination Committee at a glance

Committee membership and meeting attendance

The Nomination Committee members at the end of 2016 and the number of meetings they each attended during the year were as follows (the maximum number of meetings that the member could have attended is shown in brackets):

Member	Committee member since	Position in Company	Committee meetings attended in 2016
John Gildersleeve (Committee Chair)	July 2014	Deputy Chairman and Senior Independent Director	4 (4)
Dame Janet Husband	July 2014	Independent Non-Executive Director	4 (4)
Garry Watts	July 2016	Executive Chairman	2 (3)

Committee members' biographies are shown on pages 54 and 55. Both Robert Lerwill and Rob Roger also served as members of the Nomination Committee until 27 June 2016 and 30 June 2016 respectively when both resigned as Directors of the Company.

The Nomination Committee did not meet the requirements of its own terms of reference to have at least three members between the resignation of Rob Roger in June and the appointment of Garry Watts a month later. The Committee did not meet during this short period. The majority of Committee members were independent Non-Executive Directors at all times during the year, in line with the provisions of the UK Corporate Governance Code. The Board appoints the Chair of the Committee, who must be either the Chairman of the Board or an independent Non-Executive Director.

The Group Company Secretary, or their appointed nominee, acts as secretary to the Committee.

Role and responsibilities

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

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

Process for Board appointments

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

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

The Committee's terms of reference can be found at www.spirehealthcare.com

Directors' Remuneration Report

At Spire Healthcare, we aim to operate a remuneration structure that is both simple and transparent, which will deliver value to shareholders in the medium to long term.

Tony Bourne
Committee chair

Dear Shareholder,

The remuneration structure operated at Spire Healthcare is intended to be simple and transparent. The Directors' Remuneration Policy obtained strong support from shareholders at the 2015 annual general meeting, and the Committee intends to continue operating under this policy in 2017. For the coming year, the Committee is not proposing to make any amendments to the Remuneration Policy including any changes to the quantum of opportunities proposed.

Overall, the Committee remains satisfied that the current and proposed combination of bonus and long-term incentive provides a simple structure which appropriately reflects the Group's strategic priorities, our core values and ultimately shareholders' interests.

Remuneration decisions in respect of 2016

Although financial results for the year were reasonable, factors including market headwinds, the continued investment in our two new hospitals and the performance of Spire St Anthony's Hospital impacted our overall performance.

This has meant that the EBITDA achieved was below the threshold that was set by the Committee at the start of the year and consequently no bonus payment will be made to senior management in respect of the 2016 financial year. Although this is disappointing, it does once again demonstrate the robust approach to target setting as well as the Committee's commitment to aligning pay with performance.

The performance period for the share awards granted in 2014 under the Company's Long Term Incentive Plan ('LTIP') ended on 31 December 2016. As a result of the significant increase in its share price since Admission, the Company's total shareholder return ('TSR') performance was well within the upper-quartile of the comparator group. In due course, this award will vest at 50% of the maximum level. Further details are set out in the main body of the Remuneration Report.

Remuneration decisions for 2017

As noted above no changes to the Remuneration Policy are proposed for 2017. The incentive structure will continue to comprise an annual bonus, which is partially deferred, and an LTIP award which measures performance over three years.

Prior to the grant of LTIP awards in 2017, the Committee reviewed the performance measures applicable to future awards. The Committee concluded that it was important for the LTIP to focus on metrics which provide a link to the Group's strategic priorities and are aligned to value created for shareholders.

Consistent with awards granted in prior years, the Committee has determined that the majority of the 2017 LTIP award (70%) will continue to be based on stretching EPS and relative total shareholder return (TSR) targets. These measures provide alignment with the shareholder experience and remain core indicators of our long-term performance.

For 2017 LTIP grants, the EPS and relative TSR targets will be complemented with a new element based on metrics linked to Operational Excellence. Given the highly regulated and quality-sensitive nature of the healthcare sector, the clinical quality of our operations and the experience of our

patients are vital to our long-term prospects. These factors are key differentiators between providers in the market, and drive not only how Spire Healthcare performs over the period, but also how the Company is positioned for growth in future years. The Committee has therefore determined that this should be reflected in the LTIP for 2017.

Operational Excellence, will be based upon two sector-specific performance metrics:

- Regulatory ratings – this is a measure of clinical excellence based on a robust external inspection regime. As results are publicly available they are able directly to influence how customers make informed choices between providers; and
- Net Promoter Score – this is a measure of the patient experience. Sustained performance in this area supports future referrals.

In respect of both our existing estate and all future hospitals, targeting Operational Excellence will provide a clear long-term measure of how the Group sustains and improves the underlying quality of our operations.

Overall, the Committee is of the view that the addition of the Operational Excellence element provides a more balanced approach to long-term performance assessment which will be strongly aligned in the medium and long term with shareholders' interests.

As part of the review process, the Committee engaged with major shareholders regarding the proposed approach, and feedback received regarding the addition of the Operational Excellence measures was positive.

Further details of the targets are set out in the Annual Report on Remuneration.

Shareholder communication and the annual general meeting

The Directors' Remuneration Policy is due for renewal at the 2018 annual general meeting, as part of the standard three-year review process. Over the coming year, the Committee therefore plans to undertake an in-depth review of arrangements to ensure they continue to support the objectives of the business and remain in the best interests of the shareholders over the medium to long term.

Over the past year there has clearly been considerable debate regarding the structure of senior executive pay in the listed environment. The Committee has also noted evolving investor views on matters such as alternative incentive models and design features such as post-vesting holding periods. As part of the forthcoming review the Committee will be mindful of these developments in market and best practice. The Committee intends to engage with major shareholders regarding any proposals in good time, prior to the annual general meeting in 2018.

I am committed to ensuring an open dialogue with our shareholders. If you have any questions about the content of this year's Directors' Remuneration Report please contact me via companysecretary@spirehealthcare.com.

The Committee recommends the 2016 Directors' Remuneration Report to you for approval and we look forward to your continued support at our annual general meeting in May 2017.

Tony Bourne
Chair, Remuneration Committee
1 March 2017

Remuneration Committee at a glance

2016 highlights

The Committee began the process to review the performance metrics associated with future LTIP awards.

No changes have been made to the Company's Remuneration Policy during the year.

Committee membership and meeting attendance

The Remuneration Committee members at the end of 2016 and the number of Committee meetings they each attended during the year are as follows (the maximum number of meetings that the member could have attended is shown in brackets):

Member	Committee member since	Position in Company	Committee meetings attended in 2016
Tony Bourne (Committee Chair)	July 2014	Independent Non-Executive Director	4 (4)
John Gildersleeve	July 2014	Deputy Chairman and Senior Independent Director	3 (4)
Adèle Anderson	August 2016	Independent Non-Executive Director	2 (2)

Committee members' biographies are shown on pages 54 and 55. Robert Lerwill also served as a member of the Remuneration Committee until 27 June 2016.

The Remuneration Committee must have at least three members, all of whom must be independent Non-Executive Directors, and the Board appoints the Committee's Chair. If a member is unable to attend a meeting, they have the opportunity beforehand to discuss any agenda items with the Committee's Chair.

The Group Company Secretary, or their appointed nominee, acts as secretary to the Committee.

Role and responsibilities

The Remuneration Committee has delegated authority from the Board to determine the framework and total remuneration arrangements of the Executive Directors and, in consultation with the Executive Chairman, senior management. It also oversees the Group's share-based incentive arrangements. In practice, the Committee agrees the:

- policy for cash remuneration, executive share plans, service contracts and termination arrangements;
- reward packages of Executive Directors;
- termination arrangements for Executive Directors;
- recommendations to the Board concerning any new executive share plans or changes to existing schemes which require shareholders' approval; and
- basis on which awards are granted and their amount to Executive Directors and senior management under the LTIP.

The Committee's terms of reference can be found at www.spirehealthcare.com

Remuneration Policy Report

The Company's Remuneration Policy was approved by shareholders at the annual general meeting held on 21 May 2015 and remains unchanged. An extract from this report has been reproduced below for ease of reference. For clarity the content has been updated, where relevant, to include details of how the Remuneration Policy will be implemented in 2017. The Remuneration Policy as approved by shareholders is set out in the 2014 Annual Report and is available on our website.

Remuneration Policy table

Fixed remuneration

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary	• To provide fixed remuneration that is appropriate for the role and to secure and retain the talent required by the Group.	• The Committee takes into account a number of factors when setting salaries, including: – scope and responsibility of the role; – the skills and experience of the individual; – salary levels for similar roles within appropriate comparators; – overall structure of the remuneration package; and – pay and conditions elsewhere in the Group. • Salaries are normally reviewed annually, with any increase usually taking effect in January.	• While there is no defined maximum opportunity, salary increases normally take into account increases for full-time employees across the Group. • The Committee retains discretion to make higher increases in certain circumstances, for example, following an increase in the scope and/or responsibility of the role, or a significant change in market practice or the development of the individual in the role. • The Executive Directors' salaries from 1 April 2017 are: – Andrew White: £365,000 – Simon Gordon: £373,013	• None
Benefits	• Fixed element of remuneration providing market competitive benefits to both support retention and recruit people of the necessary calibre.	• A range of role-appropriate benefits may be provided to Executive Directors, including such items as private medical insurance (for the Executive Director and their family), permanent health assurance, participation in an income protection scheme, life assurance, an annual health assessment (for the Executive Director and their spouse) and a car allowance. • Additional one-off benefits may also be provided where the Committee considers this appropriate (e.g. on relocation). • Executive Directors are also eligible to participate in any all-employee share plans operated by the Company from time-to-time on the same basis as other eligible colleagues. • The Committee keeps the benefits package offered to existing and new Executive Directors under review.	• Whilst no maximum limit exists, individual benefit arrangements take into account a number of factors, including market practice for comparable roles within appropriate pay comparators. • Participation in any HMRC-approved all-employee share plan is subject to the maximum permitted by the relevant tax legislation.	• None
Retirement benefits	• Fixed element of remuneration to assist with retirement planning. • Retirement benefits are provided to both support retention and recruit people of the necessary calibre.	• Executive Directors can opt to join the Company's defined contribution scheme, receive a contribution into a personal pension scheme, take a cash supplement or any combination of the three. • The employer defined contribution level, the contribution into a personal pension scheme and/or cash supplement are kept under review by the Committee. • The retirement benefits are not included in calculating bonus and long-term incentive quantum.	• The maximum level of retirement benefits is 25% of base salary, and the current provision for the Executive Directors is 18% of base salary. • They are set by taking into account a number of factors, including market practice for comparable roles at appropriate pay comparators. • For new Executive Directors, the nature and value of any retirement benefits provided will be, in the Committee's view, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Group.	• None

Variable remuneration

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	• To incentivise and reward the achievement of annual financial, operational and individual objectives that are key to the delivery of the Group's strategy.	• Objectives are set annually to ensure that they remain targeted and focused on the delivery of strategic goals. • The Committee sets targets that require appropriate levels of performance, taking into account internal and external expectations of performance. • As soon as practicable after the year end, the Committee meets to review performance against objectives and determines payout levels. The Committee may adjust payments to ensure they are reflective of overall performance. • A portion of any bonus (as determined by the Committee) is normally deferred into an award of shares under the Deferred Bonus Plan ('DBP'). Currently one-third of any bonus is deferred for a period of three years (although the Committee may vary this approach). • DBP awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the Plan rules. This deferred bonus element is not normally subject to any further performance conditions, although it is subject to continued employment. • Further details of the malus and clawback provisions applicable are set out on page 80.	• Maximum award opportunity for Executive Directors is 150% of base salary for each financial year, a portion of which is normally deferred into an award of shares under the DBP (currently one-third).	• Awards are based on a combination of financial, operational and individual goals measured over one financial year. • At least 50% of the award will be assessed against the Group's financial metrics. The remainder of the award will be based on performance against strategic objectives and/or individual objectives. Details of the performance measures for 2016 and 2017 are set out in the Annual Report on Remuneration. • A sliding scale between 0% and 100% of the maximum award pays out for achievement between the minimum and maximum performance thresholds. • For annual bonuses in respect of 2017, the targets will be based on EBITDA and a balanced scorecard of strategic metrics. • The details of measures, targets and weightings may be varied by the Committee year-on-year based on the Group's strategic priorities.
Long Term Incentive Plan (LTIP)	• To incentivise and reward the delivery of long-term strategic objectives. • To align the interests of the Executive Directors with those of shareholders. • To assist recruitment and retention of Executive Directors.	• Awards granted under the LTIP vest subject to achievement of performance conditions measured over a period of at least three years, unless the Committee determines otherwise. • Awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the Plan rules. • Further details of the malus and clawback provisions applicable are set out on page 80.	• The maximum award opportunity (at grant) for Executive Directors in respect of a financial year is 200% of base salary.	• Vesting of awards will be dependent on a range of financial, operational or share price measures, as set by the Committee, which are aligned with the long-term strategic objectives of the Group and shareholder value creation. • Not less than 30% of an award will be based on share price measures. The remainder will be based on either financial and/or operational measures. • At the threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance. • For awards granted in 2017, vesting will be based on EPS (35%), relative TSR (35%) and Operational Excellence (30%) targets. • The details of measures, targets and weightings may be varied by the Committee prior to grant based on the Group's strategic objectives.

Notes to the policy table performance measures and targets

Annual bonus

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

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

Long Term Incentive Plan

The Committee believes it is important that the performance conditions applying to LTIP awards support the long-term ambitions of the Group and the creation of shareholder value. The Committee continues to consider that EPS and relative TSR metrics remain appropriate measures of long-term performance. In addition, 2017 awards will include Operational Excellence metrics to provide qualitative measures which are strategically important given the highly regulated and quality sensitive nature of the healthcare sector.

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

Recovery provisions (malus and clawback)

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

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

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

Legacy arrangements

Directors' Share Bonus Plan Awards were granted to Rob Roger, Simon Gordon and Garry Watts (in recognition of his performance as Executive Chairman prior to Admission) to reflect their contribution to the Company prior to Admission. The final tranche of these awards vested during 2016. There are no further outstanding awards under this plan.

Recruitment policy

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

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

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

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

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

Executive Director service contracts and payments for loss of office

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

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

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

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

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

Plan	Leaver reasons where awards may continue to vest	Vesting arrangements
Deferred Bonus Plan (DBP) and LTIP	• Death • Injury, ill health or disability • Retirement • The transfer of the individual's employing company or business out of the Group • Any other scenario in which the Committee determines good leaver treatment is justified	• LTIP awards will vest to the extent determined by the Committee, which, unless the Committee determines otherwise, will be calculated on the basis of the achievement of any performance conditions at the relevant vesting date and, unless the Committee determines otherwise, the period of time that has elapsed between grant and cessation of employment/directorship. • The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment. • DBP awards will normally vest in full on the original vesting date, although the Committee has the flexibility to determine that awards can vest earlier. • DBP and LTIP awards will continue to be subject to the malus provisions outlined on page 80 until the vesting of the awards. LTIP awards granted from 2015 onwards are subject to a clawback provision, as described above.
	• Any other reason	• Awards lapse in full.
Directors' Share Bonus Plan (Legacy arrangements granted prior to Admission)	• Any circumstance other than dismissal for cause	• These awards were made in recognition of services provided to the Company prior to Admission and, as such, are not subject to continued employment (except in the case of dismissal for cause). • Awards vested on the first and second anniversary of Admission to the extent that the share price performance targets were met.
	• Dismissal for cause	• Awards lapse in full.

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

Chairman and Non-Executive Directors

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

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

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

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

Approach to setting remuneration for Non-Executive Directors	Opportunity
• Fees are set at appropriate levels to ensure Non-Executive Directors are paid to reflect the individual responsibility taken, as well as the skills and experience of the individual. Fees are reviewed periodically. • When setting fee levels, consideration is given to a number of factors, including responsibilities and market positioning. • Where appropriate, benefits to the role may be provided. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be paid by the Group or reimbursed to Non-Executive Directors.	• The total fees paid to Non-Executive Directors will remain within the limit stated in the Articles of Association of the Company. • Individual fees reflect responsibility and time commitment, as well as the skills and experience of the individual. Additional fees may be paid for further responsibilities, such as chairmanship of committees. • Any benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided to comparable roles. Expenses reasonably incurred in the performance of the role may be reimbursed or paid for directly by the Group, as appropriate, including any tax due on the benefits. Non-Executive Directors will also be covered by the Group's indemnity insurance. • The fees as at 31 December 2016 were: – Deputy Chairman and Senior Independent Director: £140,000; – Non-Executive Director basic: £50,000; and – Committee chairmanship: £10,000. With effect from 1 April 2017, the fees will be increased as follows: – independent Non-Executive Director basic: £55,000; and – Chair of the Clinical Governance and Safety Committee: £15,000. These are the first increases in Non-Executive Director fees since Admission in 2014.

Further details of remuneration arrangements for the Executive Chairman are set out in the Annual Report on Remuneration.

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

Chairman and Non-Executive Directors' letters of appointment

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

The key terms of the appointments are set out in the table below. This is the policy for current and any new Non-Executive Directors.

Provision	Policy
Period	• In line with the UK Corporate Governance Code, the Chairman and all independent Non-Executive Directors are subject to annual re-election by shareholders at each annual general meeting. • After the initial three-year term, the Chairman and the Non-Executive Directors are typically expected to serve a further three-year term.
Termination	• The appointment of the Chairman is terminable by either the Group or the Director by giving 12 months' notice. • The appointment of the Deputy Chairman is terminable by either the Group or the Director by giving three months' notice. • The appointment of any independent Non-Executive Directors is terminable by either the Group or the Director by giving two months' notice. • The Non-Executive Director nominated by Mediclinic International PLC pursuant to the terms of the relationship agreement is terminable without notice.

Further detailed provisions

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

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

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

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

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

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

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

Remuneration arrangements throughout the Company

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

Differences in Remuneration Policy for all employees

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

Consideration of shareholder views

The structure of remuneration for Board members was first presented to shareholders in the Prospectus prior to Admission. It is next intended to present the Remuneration Policy to shareholders for approval at the annual general meeting in 2018 unless any alterations are required before then.

The Committee is always mindful of shareholders' views when evaluating and setting future remuneration strategy, and intends to appropriately consult prior to any significant proposed changes to the Remuneration Policy.

Annual Report on Remuneration

Single total figure of remuneration – Executive Directors (audited)

The following table sets out the total remuneration for the Executive Directors for the year ended 31 December 2016. This comprises the total remuneration received over the full year from 1 January 2016 to 31 December 2016.

	Andrew White[1]		Simon Gordon		Rob Roger[2]	
(£000)	**2016**	2015	**2016**	2015	**2016**	2015
Salary	**182.5**	–	**363.1**	350.0	**262.5**	525.0
Benefits	**6.4**	–	**16.8**	16.6	**10.7**	21.5
Retirement benefits	**31.1**	–	**62.5**	63.0	**47.3**	94.5
Annual bonus (including deferred element)	**–**	–	**–**	–	**–**	–
Long-term incentives[3]	**–**	–	**459.5**	–	**–**	–
Sub-total	**220.0**		**901.9**	429.6	**320.5**	641.0
Legacy arrangement – Directors' Share Bonus Plan Award[4]	**–**	–	**200.0**	248.1	**–**	454.8
Total	**220.0**	–	**1,101.9**	677.7	**320.5**	1,095.8

1 Andrew White was appointed an Executive Director on 1 July 2016 on a salary of £365,000 per annum.
2 Rob Roger stepped down as Chief Executive Officer and left the Company on 30 June 2016.
3 The 2014 LTIP award is due to vest during 2017. For the purpose of the single figure table, the value of shares forecast to vest (including dividend equivalents) have been valued based on the average share price over the final quarter of 2016 of £3.634.
4 In accordance with the requirements of the disclosure regulations, the value of the Directors' Share Bonus Plan Award vesting in 2016 is calculated based on the share price at the date of vesting of £3.196 after part of the performance criteria for the second tranche of this award was met, inclusive of accrued dividends. Further details on the exercise of awards under the Directors' Share Bonus Plan can be found on page 86.

Additional notes to the table

Salary

Simon Gordon's salary was increased from £350,000 to £367,500 per annum on 1 April 2016. Andrew White's salary on appointment as an Executive Director on 1 July 2016 was £365,000 per annum.

Benefits

The benefits consist of private medical insurance (for the Executive Directors and their families), life assurance, income protection cover and a car allowance.

Retirement benefits

The amount set out in the table represents the Group contribution to the Executive Directors' retirement planning at a rate of 18% of base salary. Simon Gordon is a member of the Spire Healthcare Pension Plan. Amounts above the HMRC annual allowance are paid as taxable cash supplements.

Annual bonus

For the 2016 financial year, the maximum bonus opportunity for Andrew White and Simon Gordon was 150% of base salary. The annual bonus targets were set at the beginning of the financial year, with 70% of the award being assessed against EBITDA and 30% assessed against a balanced scorecard based on strategic targets including productivity, customer, quality and staff measures. The threshold EBITDA target for 2016 was set at £164.0 million and no bonus would be payable if this threshold was not achieved.

Although the Company's performance remained reasonable during the year, a number of internal and external factors impacted the business, meaning that it did not achieve the minimum EBITDA threshold of £164.0 million. Although both Executive Directors largely met their individual objectives under the balanced scorecard, the Committee determined that no bonus will be paid in respect of 2016.

Departure terms for Rob Roger

As announced in March 2016, Rob Roger stepped down from the Board on 30 June 2016 after more than nine years with the business.

On departure, Rob Roger did not receive any cash termination payment or payment in lieu of notice. His outstanding LTIP awards lapsed on departure. He did not receive a bonus in respect of the time working during 2016. The Committee determined that he would retain his outstanding award over 18,057 shares under the Deferred Bonus Plan which is due to vest in 2018, as this relates to performance in 2014. Awards under the Directors' Share Bonus Plan were treated in accordance with the plan rules and vested in line with other participants and further details are shown on page 86.

Deferred Bonus Plan (DBP)

Under the DBP, one-third of the Executive Directors' annual bonus is deferred for three years. No award was made under the DBP in 2016. The following award over shares was granted under the DBP in 2015 and relates to the 2014 bonus which was disclosed in the 2014 Annual Report and Accounts:

	Type of award	Date of award	Shares awarded	Shares exercisable
Simon Gordon	Conditional Share Award (in the form of nil-cost options)	1 June 2015	10,922	1 June 2018 to 1 June 2025

The share price used to determine the number of deferred shares subject to award was £3.606, the mid-market closing share price on 29 May 2015.

Awards are deferred for a period of three years and are conditional on continued employment. There are no further performance conditions attaching to these shares although they remain subject to a malus provision.

Long Term Incentive Plan (LTIP)

The performance period for awards granted in 2014 ended on 31 December 2016. This award was based on targets linked to EPS and relative TSR performance.

Half of the award was based on TSR performance measured against the constituents of the FTSE 250 (excluding investment trusts). Threshold vesting (25% of the element) required median performance, with outperformance of the upper quartile required for full vesting. Over the period to 31 December 2016, the Company delivered a total shareholder return of +76%. This was well within the upper quartile of the comparator group, and therefore this element of the award is due to vest in full.

The remaining half of the award was based on EPS targets. The 2016 EPS was below the threshold of 20.6 pence, and therefore this element of the award will lapse.

This award will vest during 2017. For the purpose of the single figure table, the value of shares forecast to vest (including accrued dividends) is based on the average share price over the final quarter of 2016.

Awards under the LTIP were granted on 30 March 2016. These awards were granted in the form of nil-cost options over Spire Healthcare Group plc shares, with the number of shares that may vest conditional on performance over the three-year period to 31 December 2018. The maximum award granted to Executive Directors (except for the Executive Chairman who does not receive an award under the terms of his remuneration package) was equivalent to 200% of base salary.

The Committee determined that awards under this plan should be linked to the value created for shareholders over the period, and as a consequence that the awards should continue to be equally weighted as to EPS and relative TSR performance targets. Further details of the performance conditions applying to the 2016 awards are set out below.

EPS – 50% of award

Vesting of this element is based on the adjusted EPS outcome for the 2018 financial year.

2018 EPS	Percentage of the element vesting
Less than 20.0 pence	0%
20.0 pence	25%
21.5 pence	50%
23.3 pence or more	100%

Straight-line vesting operates between these points.

Relative TSR – 50% of award

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

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

Straight-line vesting operates between these points. Based on relative TSR performance from 1 January 2016 to 31 December 2018.

The following table provides details of all outstanding awards, as at 31 December 2016, made to Executive Directors under the LTIP:

	Type of award	Date of grant	Number of shares	Share price	Face value at grant[1]	End of performance period
Simon Gordon	Conditional Share Award (in the form of nil-cost options)	30 September 2014[2]	248,226	£2.823	£700,000	31 December 2016
		1 April 2015	193,905	£3.610	£700,000	31 December 2017
		30 March 2016	197,628	£3.542	£700,000	31 December 2018
Andrew White		30 March 2016	194,805	£3.542	£690,000	31 December 2018

1 The share price used to determine the number of shares under each award is based on the average of the mid-market quotation at close of business over the last five dealing days prior to the date of grant. The face values at grant are equivalent to 200% of base salary. All awards are subject to EPS and relative TSR performance conditions.
2 As noted above, following the year end 50% of this award is expected to vest during 2017, and the remaining portion will lapse.

Legacy arrangement relating to the period prior to Admission – Directors' Share Bonus Plan Awards

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

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

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

As the awards were made in respect of the period prior to Admission, they are not subject to continued employment, except in the case of dismissal for cause, however they were subject to the malus provisions detailed in the Remuneration Policy.

These awards were originally granted on 4 July 2014 and no further awards will be made under this arrangement.

First tranche

The 90-day average share price on the first anniversary of Admission was £3.438 and, as a result, the first tranche of the award (up to 50% of the overall award) vested between the minimum and maximum level in 2015. The balance of the award under the first tranche lapsed.

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

	Type of award	Minimum exercisable award No. of shares	Maximum exercisable award No. of shares	Shares vested	Shares lapsed	Shares exercised[1]
Simon Gordon	Conditional Share Award (in the form of nil-cost options)	133,900	208,900	200,455	8,445	200,455
Rob Roger		245,500	383,000	367,517	15,483	367,517
Garry Watts (in respect of his role as Executive Chairman prior to IPO)		156,250	243,700	233,853	9,847	233,853

1 Simon Gordon, Rob Roger and Garry Watts exercised the first tranche of their awards on 1 April 2016 and sold 94,546, 173,340 and 117,266 respectively to cover income tax and national insurance liabilities, at an average share price of 360.0288 pence.

Second tranche

The 90-day average share price on the second anniversary of Admission was £3.3475 and, as a result, the second tranche of the award (up to 50% of the overall award) vested between the minimum and maximum level during 2016. The balance of the award under the second tranche lapsed.

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

	Type of award	Minimum exercisable award No. of shares	Maximum exercisable award No. of shares	Shares vested	Shares lapsed	Shares exercised[1]
Simon Gordon	Conditional Share Award (in the form of nil-cost options)	133,900	208,900	195,427	13,473	195,427
Rob Roger		245,500	383,000	358,300	24,700	358,300
Garry Watts (in respect of his role as Executive Chairman prior to IPO)		156,250	243,700	227,991	15,709	227,991

1 Rob Roger exercised the second tranche of their awards on 19 August 2016 and sold 168,674 to cover income tax and national insurance liabilities, at an average share price of 343.98 pence. Simon Gordon and Garry Watts exercised the second tranche of their awards on 30 August 2016 and sold 92,174 and 107,533 respectively to cover income tax and national insurance liabilities, at an average share price of 350.4 pence.

Single total figure of remuneration – Non-Executive Directors (audited)

The following table sets out the total remuneration for the Non-Executive Directors for the year ended 31 December 2016.

			Total remuneration	
(£000s)	Fees	Benefits	**2016**	2015
Adèle Anderson[1]	25.6	–	**25.6**	–
Tony Bourne	60.0	–	**60.0**	60.0
John Gildersleeve	150.0	–	**150.0**	150.0
Dame Janet Husband	60.0	–	**60.0**	60.0
Robert Lerwill	30.0	–	**30.0**	60.0
Danie Meintjes[2]	50.0	–	**50.0**	18.2
Simon Rowlands	50.0	–	**50.0**	22.0
Total	425.6	–	**425.6**	370.2

1 Adèle Anderson was appointed a Non-Executive Director and chair of the Company's Audit and Risk Committee on 28 August 2016.
2 As a Non-Executive Director nominated by the principal shareholder, Danie Meintjes's fees are paid to a subsidiary company within the Mediclinic International PLC group.

Notes to the table

Benefits

Reasonable expenses incurred by any Non-Executive Director will be reimbursed by the Company but they have no other contractual entitlement to benefits.

Single total figure of remuneration – Chairman (audited)

	Garry Watts[1] (as Executive Chairman)	Garry Watts[1] (as Non-Executive Chairman)	Garry Watts[1] (as Non-Executive Chairman)
(£000)	**2016**	**2016**	2015
Salary/fees	**479.0**	**51.8**	257.0
Benefits	**2.4**	**0.5**	1.2
Retirement benefits	**–**	**–**	–
Annual bonus	**–**	**–**	–
Long-term incentives	**–**	**–**	–
Sub-total	**481.4**	**52.3**	258.2
Legacy arrangement – Directors' Share Bonus Plan Award[2]	**233.2**	**–**	289.2
Total	**714.6**	**52.3**	547.5

1 Garry Watts resumed his previous role of Executive Chairman on 14 March 2016 on a salary of £600,000 per annum. Between 1 January 2016 and 13 March 2016 he acted in the capacity of Non-Executive Chairman on a salary of £257,000 per annum.
2 In accordance with the requirements of the disclosure regulations, the value of the Directors' Share Bonus Plan Award for 2016 is calculated based on the share price at the date of vesting of £3.196 after part of the performance criteria for the second tranche of this award was met, inclusive of accrued dividend equivalents.

Notes to the table

Benefits

Garry Watts has a contractual entitlement to benefits, which include: private medical insurance for himself and his family; life cover for himself only; annual health assessment for himself and his spouse; and office facilities to enable him to perform his duties as Executive Chairman. Reasonable expenses incurred will be reimbursed by the Company.

Chairman

On Admission, Garry Watts was appointed as Non-Executive Chairman and, in line with corporate governance guidelines, in that role he did not participate in any future incentive plans.

On 14 March 2016, Garry Watts resumed the role of Executive Chairman, following Rob Roger's notification to leave the Company. Garry Watts receives an annual salary of £600,000 for this role, but does not receive any pension allowance or LTIP awards.

Although Garry Watts was eligible for a bonus in respect of his executive role, no bonus will be paid for 2016, in line with other Executive Directors.

Details of the Directors' Share Bonus Plan Awards, relating to performance prior to Admission, are set out on page 86.

Implementation for 2017

The following table summarises how remuneration arrangements will be operated for 2017. Shareholders will note that, for the third year, the maximum opportunity under the incentive plans will also remain unchanged.

Salary and benefits

- Following the year end, the Committee reviewed the base salaries as part of the annual salary review process.
- Andrew White's salary will remain unchanged for 2017. The Committee has determined that, with effect from 1 April 2017, Simon Gordon's salary will be increased by 1.5%.

	2017 salary	2016 salary
Andrew White	£365,000	£365,000
Simon Gordon	£373,013[1]	£367,500

- No changes to benefits for 2017 – benefits include private medical insurance, permanent health assurance, income protection, life assurance, an annual health assessment and car allowance. Company contributions to the Executive Directors' retirement benefits remain at 18% of salary.

1 Effective from 1 April 2017.

Annual bonus

The maximum opportunity for Executive Directors (excluding the Executive Chairman) will remain at 150% of salary.

- The performance targets in respect of the 2017 bonus will be based as to 70% on EBITDA, and 30% on a balanced scorecard of strategic targets linked to productivity, customer, quality and staff measures. The detail of targets for the coming year is commercially sensitive; however, the Committee will look to provide disclosure regarding targets and bonus outcomes in next year's report.
- One-third of any bonus earned will be deferred into shares for three years.

LTIP

- Conditional award over shares will be made in 2017 equivalent to 200% of base salary in the form of nil-cost options.
- Performance will be measured over the period from 1 January 2017 to 31 December 2019. As noted in the Committee Chairman's letter, the 2017 award will include an element based on Operational Excellence.

		25% vests	100% vests
TSR v FTSE 250 (excluding investment trusts) (35%)		Median[1]	Upper quartile

	0% vests	25% vests	50% vests	100% vests
Adjusted EPS – outcome for 2019 (35%)	18.5p[1]	20.5p	21.8p	23.2p
Operational Excellence:				
• Regulatory Rating (15%)[2]	n/a	85% achieve 'Good' or above[1]	90% achieve 'Good' or above	100% achieve 'Good' or above
• Net Promotor Score (15%)	82[1]	83	84	85

1 There is no vesting for performance below these levels.
2 Vesting for this element would be scaled back (including to nil) if any site is rated as 'Inadequate'.
3 There is straight line vesting between the points shown.
4 The Committee may adjust targets or outcomes in certain circumstances (e.g. for changes to accounting standards or material acquisitions). In line with good practice, the Committee also retains the ability to exercise discretion so that the overall vesting level remains appropriate (e.g to reflect underlying performance).

Shareholding guideline

- Executive Directors (excluding the Executive Chairman) are expected to build up and maintain, over a period of five years, a shareholding equivalent to twice their respective base salaries.
- As at the date of this report, Simon Gordon's shareholding exceeds the guideline. Andrew White has until 30 June 2021 in order to reach his shareholding requirement.

Non-Executive Directors

- The current fees payable to the Non-Executive Directors are shown in the following table.

Role	Fee per annum
Deputy Chairman and Senior Independent Director	£140,000
Basic fee for other Non-Executive Directors	£50,000
Additional fee for chairing a Board committee	£10,000

In early 2017, the Board of Directors reviewed and agreed that, with effect from 1 April 2017, the fees will be increased as follows:

- independent Non-Executive Director basic: £55,000; and
- Chair of the Clinical Governance and Safety Committee: £15,000.

These are the first increases in Non-Executive Director fees since Admission in 2014.

Executive Chairman

As announced in March 2016, Garry Watts resumed the role of Executive Chairman on 14 March 2016 following Rob Roger's notification that he intended to leave the Company.

While in the role of Executive Chairman, Garry Watts receives a fee per annum of £600,000 and a cash bonus of up to 150% of salary which will primarily be based on EBITDA performance. He will not receive any pension allowance or LTIP awards for this role.

Role	Fee per annum
Executive Chairman	£600,000

Statement of directors' shareholding and share interests (audited)

The table below sets out the Directors' shareholdings in the Company. As noted above, Executive Directors are expected to build up and maintain a holding equivalent to twice their base salary. There is no requirement for Non-Executive Directors to hold shares in the Company.

	Shareholding		Guidelines
	As at 31 December 2016	As at 31 December 2015	Proportion of shareholding guideline achieved[1]
Executive Chairman			
Garry Watts	**503,577**	266,532	
Executive Directors			
Simon Gordon	**471,758**	262,596	216%
Rob Roger[2]	**712,393**	518,216	n/a
Andrew White[3]	**–**	n/a	0%
Non-Executive Directors			
Adèle Anderson[4]	**–**	n/a	
Tony Bourne	**11,904**	11,904	
John Gildersleeve	**125,761**	4,761	
Dame Janet Husband	**10,231**	10,231	
Robert Lerwill[5]	**23,809**	23,809	
Danie Meintjes	**–**	–	
Simon Rowlands	**214,516**	214,516	

1 Calculated based upon the closing share price on 31 December 2016 of 337.7 pence.
2 Rob Roger stepped down from the Board on 30 June 2016 and his share interests are shown as at this date.
3 Andrew White was appointed as an Executive Director on 1 July 2016 and he did not hold any shares as at this date.
4 Adèle Anderson was appointed as a Non-Executive Director on 28 July 2016 and she did not hold any shares as at this date.
5 Robert Lerwill stepped down from the Board on 30 June 2016 and his share interests are shown as at this date.

There have been no changes to Directors' shareholdings between 31 December 2016 and the date of this report.

The table below sets out the Directors' interests in shares of the Company which remain unvested or have vested but are unexercised as at 31 December 2016. Unvested awards are structured as nil-cost options.

	Shares		
	Unvested and subject to performance conditions[1]	Unvested and not subject to performance conditions[2]	Vested and not subject to performance conditions
Executive Chairman			
Garry Watts	–	–	–
Executive Directors			
Simon Gordon	639,759	10,922	–
Rob Roger[3]	–	18,057	–
Andrew White	194,805	–	–
Non-Executive Directors			
Adèle Anderson	–	–	–
Tony Bourne	–	–	–
Dame Janet Husband	–	–	–
John Gildersleeve	–	–	–
Robert Lerwill	–	–	–
Danie Meintjes	–	–	–
Simon Rowlands	–	–	–

1 Consists of awards granted under the LTIP.
2 Consists of shares held through the Deferred Bonus Plan awarded on 1 June 2015 in respect of the bonus paid for the 2014 financial year.
3 Rob Roger stepped down from the Board on 30 June 2016 and his interests are shown as at this date.

Letters of appointment

Non-Executive Director	Date of appointment	Notice period	Date of expiry
Adèle Anderson	28 July 2016	2 months	No later than 30 June 2019
Tony Bourne	24 June 2014	2 months	26 May 2017
John Gildersleeve	24 June 2014	3 months	23 July 2017
Dame Janet Husband	24 June 2014	2 months	26 May 2017
Danie Meintjes[1]	20 August 2015	Not applicable	20 August 2018
Simon Rowlands[2]	24 June 2014	2 months	23 July 2017

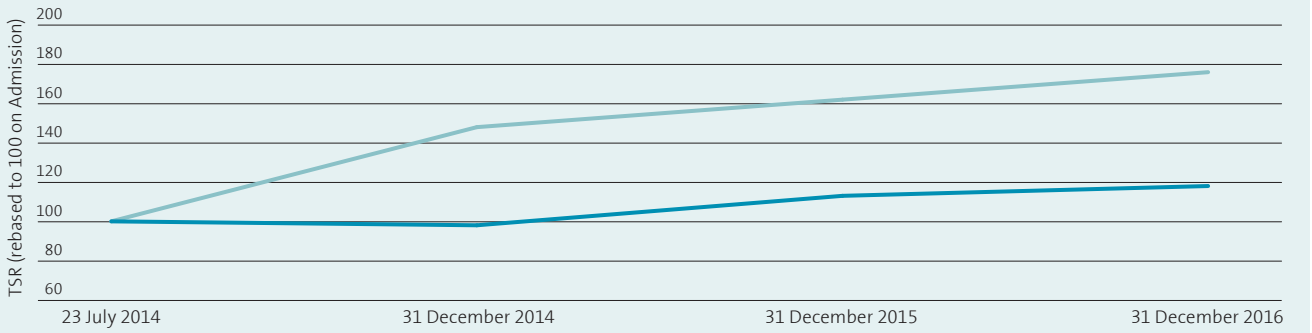
1 Pursuant to the relationship agreement dated 22 June 2015 between the Company and Remgro Jersey Limited, under which Remgro Jersey Limited is entitled to nominate for appointment to the Board one Non-Executive Director, Danie Meintjes was appointed to the Board on 20 August 2015. Danie Meintjes is considered to be a non-independent Non-Executive Director.
2 Simon Rowlands appointment was renewed for a further one-year period and a letter of appointment dated 23 July 2016 was issued to him. Due to the senior position Simon Rowlands continues to hold with Cinven Partners he is considered to be a non-independent Non-Executive Director.

Service contracts

Andrew White and Simon Gordon, who will both put themselves up for re-election at the annual general meeting to be held on 26 May 2017, are employed under ongoing service contracts with the Group. These contracts do not have a fixed term of appointment. Copies of their service contracts are available to shareholders at the registered office for inspection.

Performance graph

The graph below illustrates Spire Healthcare Group plc's TSR performance against the FTSE 250 (excluding investment trusts) since Admission on 23 July 2014.



The table below shows the total remuneration paid to the previous Chief Executive Officer from Admission to the end of 2016. The table also shows details of remuneration relating to the Executive Chairman role for 2016.

	2016	2015	2014
Chief Executive's single figure remuneration (£000s)	**320.5**[1]	1,095.8	6,223.1
Executive Chairman's single figure remuneration (£000s)	**714.6**[2]	–	–
Annual bonus payout (% of maximum)	**0%**	0%	34%
LTIP vesting (% of maximum)	**n/a**	n/a	n/a

1 Rob Roger stepped down from the Board on 30 June 2016. The figure shows remuneration for the part-year served as Chief Executive Officer.
2 Garry Watts served as Non-Executive Chairman from 1 January 2016 to 13 March 2016 and as Executive Chairman from 14 March 2016 onwards. The figure shown is based on Garry Watts' remuneration in his capacity as Executive Chairman.

Annual change in remuneration

The table below shows the percentage change in remuneration (based on salary, fees, benefits and annual bonus) between 2015 and 2016.

	Chief Executive Officer/Executive Chairman % change[1]	Other employees % change
Base salary	n/a	2%
Benefits	n/a	0.3%
Annual bonus	0%	0%

1 As noted above, Rob Roger stepped down from the Board on 30 June 2016 and Garry Watts resumed the role of Executive Chairman on 14 March 2016. Consequently, full year comparable data is not available. Rob Roger and Garry Watts did not receive any increase to benefits arrangements for 2016.

Relative importance of spend on pay

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

(£million)	**2016**	2015	% change
Total remuneration	**268.0**	253.0	5.93
Distributions to shareholders	**14.8**	12.4	19.35

Advice provided to the Remuneration Committee

During the course of the year, Deloitte LLP provided external advice to the Committee and its total fees were £19,500 (2015: £33,850). Deloitte LLP has voluntarily signed up to the Remuneration Consultants' Code of Conduct in relation to executive remuneration consulting during the year. The Committee is comfortable that the Deloitte LLP engagement partner and team that provides remuneration advice to the Committee do not have connections with the Company that may impair their independence. During the year, Deloitte LLP also provided unrelated tax and consultancy services to the Group.

The Executive Chairman, Chief Financial Officer, Group Human Resources Director and Simon Rowlands attended Committee meetings by invitation in order to provide the Committee with additional context. No individual participates in decisions regarding their own remuneration.

Statement of voting at 2016 annual general meeting

The following table sets out the voting in respect of the resolution to approve the Company's 2015 Directors' Remuneration Report, put to shareholders at the Company's annual general meeting held on 19 May 2016:

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Approve the 2015 Directors' Remuneration Report	305,605,620	99.02%	3,031,430	0.98%	26,991,857

The Directors were pleased with the response received from shareholders to the resolution proposed. This report on Directors' remuneration will be put to an advisory vote at the annual general meeting on 26 May 2017. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provisions of the Large and Medium-sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013 and was approved at a meeting of the Directors held on 1 March 2017.

The Company's Remuneration Policy was approved at its annual general meeting in 2015 and received 99.56% of the vote in favour from shareholders. It is next intended to present the Remuneration Policy to shareholders for approval at the annual general meeting in 2018 unless any alterations are required before then.

Details of all resolutions passed at the annual general meeting held on 19 May 2016 can be found on page 67.

Share prices

The market price of a Spire Healthcare Group plc ordinary share at 31 December 2016 was 337.7 pence and the range during the year was 300.1 pence to 400.0 pence.

Tony Bourne
Chair, Remuneration Committee
1 March 2017

Directors' Report

The Directors submit their Annual Report together with the audited financial statements of Spire Healthcare Group plc (the 'Company') together with its subsidiaries (the 'Group') for the year ended 31 December 2016.

Certain disclosure requirements for inclusion in this Directors' Report have been incorporated by way of cross reference to the Strategic Report on pages 1 to 53 and the Directors' Remuneration Report on pages 76 to 91, and should be read in conjunction with this report. The following, included in the Strategic Report, also form part of this report:

- greenhouse gas emissions, which can be found under Corporate social responsibility on pages 46 and 47;
- employees, which can be found under Group Human Resources Director's review – Our people on pages 42 to 45;
- the Corporate governance statement, set out on pages 60 to 63; and
- Our strategy set out on pages 14 and 15.

A description of the Group's exposure and management of risks is provided in the Strategic Report on pages 48 to 53.

Information regarding the Company's charitable donations can be found under Group Human Resources Director's review – Our people on pages 42 to 45.

Registered office

The Company's registered office and principal place of business is 3 Dorset Rise, London EC4Y 8EN.

Annual general meeting

The annual general meeting of Spire Healthcare Group plc will be held at the offices of J.P. Morgan at 60 Victoria Embankment, London EC4Y 0JP on Friday, 26 May 2017 at 11.00am.

At the meeting, resolutions will be proposed to declare a final dividend, to receive the Annual Report and Financial Statements, approve the Directors' Remuneration Report, elect or re-elect all of the Directors and to reappoint Ernst & Young LLP as auditor. Shareholders will also be asked to authorise the Directors to hold general meetings at 14 clear days' notice (where this flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole). Further items of business to be proposed at the annual general meeting are described throughout this Directors' Report.

Dividends

The Directors recommend the payment of a final dividend in respect of the year ended 31 December 2016 of 2.5 pence (2015: 2.4 pence) per ordinary share making a proposed total dividend for the year of 3.8 pence per share (2015: 3.7 pence). Subject to shareholders approving the recommendation at the annual general meeting, the final dividend will be paid on 27 June 2017 to shareholders on the register as at 2 June 2017.

The Company paid an interim dividend in respect of the year ended 31 December 2016 of 1.3 pence per share on 13 December 2016.

Board of Directors

The following changes were made to the Board of Directors during the year;

- Robert Lerwill stepped down from the Board on 27 June 2016;
- Rob Roger stepped down as Chief Executive Officer and left the Board on 30 June 2016;
- Andrew White was appointed an Executive Director on 1 July 2016; and
- Adèle Anderson was appointed an independent Non-Executive Director on 28 July 2016.

The UK Corporate Governance Code provides for all Directors of FTSE companies to stand for election or re-election by shareholders every year. Accordingly, all members of the Board, with the exception of Adèle Anderson and Andrew White, who will stand for election for the first time, will retire and seek re-election at this year's annual general meeting. Full biographical details of all of the Directors can be found on pages 54 and 55.

Further information on the contractual arrangements of the Executive Directors is given on page 81. The Non-Executive Directors do not have service agreements.

Powers of the Directors

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

Appointment and removal of Directors

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

Director's indemnities

See page 66 in the Corporate governance section.

Amendment of articles of association

The Company may only make amendments to the Articles of Association of the Company by way of special resolution of the shareholders, in accordance with the Companies Act 2006.

Employees

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

We launched the 'Spire Healthcare discussion channel', a new communication channel established to provide colleagues, on a regular basis, with audio updates from our leadership team – covering topics which are pertinent to our business; from our strategic direction to operational and people highlights. When appropriate, consultations with employee and union representatives take place.

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

Further information on our employees can be found under Group Human Resources Director's review – Our people on pages 42 to 45.

Political donations and expenditure

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

A resolution will therefore be proposed at the annual general meeting seeking shareholder approval for the Directors to be given authority to make donations and incur expenditure which might otherwise be caught by the terms of the Companies Act 2006. The authority sought will be limited to a maximum amount of £100,000.

Share capital

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

Equiniti Trust (Jersey) Limited, as trustee of the Company's Employee Benefit Trust, holds 670,559 ordinary shares of 1 pence each (2015: 1,692,242). Further details can be found in note 25 on page 126.

The rights attaching to the shares are set out in the Articles of Association. There are no restrictions on the transfer of ordinary shares in the capital of the Company other than those which may be imposed by law from time-to-time. There are no special control rights in relation to the Company's shares and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. In accordance with the Disclosure and Transparency Rules, certain employees are required to seek approval prior to dealing in the Company's shares. The Company's entire issued ordinary share capital is listed on the premium segment of the Official List of the Financial Conduct Authority and to unconditional trading on the London Stock Exchange plc's main market for listed securities.

Further information relating to the Company's issued share capital can be found in note 25 to the Company's financial statements on page 126.

The Company has made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge. Details of the shares purchased by the Company's Employee Benefit Trust are shown in note 25 on page 126.

Allot shares and pre-emption rights

Shareholders will be asked to renew both the general authority of the Directors to issue shares and to authorise the Directors to issue shares without applying the statutory pre-emption rights. In this regard, the Company will continue to adhere to the provisions in the Pre-emption Group's Statement of Principles.

Further details on these matters can be found in the 2017 Notice of annual general meeting.

Voting rights

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

Restrictions on voting

Unless the Directors otherwise determine, a shareholder shall not be entitled to vote either personally or by proxy:

- if any call or other sum presently payable to the Company in respect of that share remains unpaid; or
- having been duly served with a notice to provide the Company with information under Section 793 of the Companies Act 2006, and has failed to do so within 14 days, for so long as the default continues.

Directors' interests in shares

The beneficial interests of the Directors' and their families in the shares of the Company are detailed on page 89.

During the year, no Director had any material interest in any contract of significance to the Group's business.

Material interests in shares

As of 1 March 2017, the Company has been notified by the following investors of their interests in 3% or more of the Company's issued share capital. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5:

Shareholder	Current %
Mediclinic International PLC	29.90
Woodford Investment Management LLP	14.00
BlackRock, Inc	6.38
The Capital Group Companies, Inc	4.83
GIC Private Limited	3.04

Significant agreements

The following agreements are considered to be significant in terms of their potential impact on the business of the Group as a whole and could alter or terminate on a change of control of the Group:

- the Group's bank facility agreement contains provisions entitling the counterparties to exercise termination or other rights in the event of a change of control;
- there are a number of contracts which allow the counterparties to alter or terminate those arrangements in the event of a change of control of the Company. These arrangements are commercially sensitive and confidential and their disclosure could be seriously prejudicial to the Group; and
- the Company's share incentive plans contain provisions relating to a change of control and full details of these plans are provided in the Directors' Remuneration Report on pages 76 to 91. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of performance conditions, if applicable, at that time.

The relationship agreement entered into with Mediclinic Jersey Limited (formerly called Remgro Jersey Limited), a subsidiary of Mediclinic International PLC, in June 2015 is deemed a material agreement between the Company and its principal shareholder. The agreement does not include a change of control provision but does terminate upon the earlier of the Company's ordinary shares ceasing to be listed and traded on the London Stock Exchange's main market for listed securities and the principal shareholder's ceasing to be entitled, in aggregate, to exercise or to control the exercise of 15% or more of the votes to be cast on all or substantially all matters of a general meeting of the Company.

Information required	Location in Annual Report 2016
Amount of interest capitalised	Note 10 on page 116
Long-term incentive schemes	Directors' Remuneration Report pages 76 to 91
Equity securities allotted for cash	Note 25 on page 126
Parent and subsidiary undertakings	Note 17 on page 120
Subsisting significant agreements	Page 94
Controlling shareholder relationships	Pages 67 and 94

Compensation for loss of office

There are no agreements between the Group and its Directors or employees providing for compensation for loss of office or employment that occurs as a result of a change of control.

Disclosures required under listing rule 9.8.4R

The above table is included to meet the requirements of Listing Rule section 9.8.4R. The information required to be disclosed by that section, where applicable to the Company, can be located in the Annual Report 2016 at the references set out above.

Events after the reporting period

There have been no material events affecting the Group or Company since 31 December 2016.

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 these financial statements.

Disclosure of information to auditor

Having made enquiries of fellow Directors and of the Company's auditor, each of the Directors confirms that:

- to the best of their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Reappointment of auditor

Resolutions for the reappointment of Ernst & Young LLP as the auditor of the Company and to authorise the Directors to determine its remuneration will be proposed at the annual general meeting. Ernst & Young LLP has expressed its willingness to be reappointed.

The Directors' Report has been approved by the Board and is signed on its behalf by:

Daniel Toner
General Counsel and Group Company Secretary
1 March 2017

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts for the year ended 31 December 2016, including the Consolidated financial statements and the Parent Company financial statements, Directors' Report, including the Directors' Remuneration Report and the Strategic Report in accordance with applicable law and regulations. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with IFRS, as adopted by the EU.

Company law requires the Directors to prepare such financial statements for each financial year. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company on a consolidated and individual basis, and of the profit or loss of the Company on a consolidated basis for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state that the Group's and Company's financial statements have complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is not appropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose, with reasonable accuracy at any time, the Company's financial position and enable them to ensure compliance with the Companies Act 2006. They are also responsible for safeguarding the Company's assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed on pages 54 and 55, confirms that:

- to the best of their knowledge, the Consolidated financial statements and the Parent Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts for the year ended 31 December 2016, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board.

Garry Watts
Executive Chairman
1 March 2017

Simon Gordon
Chief Financial Officer
1 March 2017

Independent Auditor's Report

To the members of Spire Healthcare Group plc

Our opinion on the financial statements

In our opinion:

- Spire Healthcare Group plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Spire Healthcare Group plc's financial statements comprise:

	Group	Parent Company
Balance sheet as at 31 December 2016	✓	✓
Income statement for the year then ended	✓	
Statement of comprehensive income for the year then ended	✓	
Statement of changes in equity for the year then ended	✓	✓
Statement of cash flows for the year then ended	✓	✓
Related notes to the financial statements	✓	✓

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risks of material misstatement	1. Manipulation of revenue, both intentional and through error, by changes to the pricing master file 2. Manipulation of accrued patient revenue 3. Inappropriate capitalisation of development costs of new hospitals
Audit scope	• We performed an audit of the complete financial information of four Group companies and audit procedures on specific balances for a further 19 Group companies. • The Group companies for which we performed full or specific audit procedures accounted for 100% of revenue and 100% of total assets.
Materiality	• Overall Group materiality of £4.1 million which represents 5% of profit before tax adjusted for certain non-recurring exceptional items.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

1. Manipulation of revenue, both intentional and through error, by changes to the pricing master file

Refer to the Audit and Risk Committee Report on pages 68 to 71.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
2016 NHS revenue: £293 million (2015: £262 million) 2016 PMI revenue: £429 million (2015: £435 million) Inappropriate revenue recognition by way of management manipulation, both intentional and through error, of the pricing master file resulting in inaccurate patient invoicing, primarily in respect of PMI and NHS revenue. We considered that the pressure to achieve forecast results or targets increases the risk of financial reporting manipulation by management. Additionally, the high volume of pricing by procedure, all individually agreed with PMI providers and the NHS, leads to a higher likelihood of incorrect inputs to the pricing master file through error. In the prior year, we only considered that this risk could result in material misstatement of PMI revenue. We have extended this to include NHS revenue this year due to the complexity of NHS pricing and the high volume of procedures.	We performed routine procedures to test revenue recognised throughout the year. These included analytical review of revenue disaggregated by month and hospital, and cut off testing. In order to specifically address this fraud risk, we then performed the following procedures: • we understood and evaluated the controls that have been designed and implemented to prevent or detect misstatements due to fraud or error associated with changes to the pricing master file. We adopted a fully substantive approach to addressing this fraud risk, and as such did not test or rely on the controls identified; • we have agreed the prices used in a sample of revenue transactions to the relevant contracts or agreed price list. Our sample covered both PMI and NHS patients, as well as a range of procedures, services and products (e.g. drugs); • we investigated whether there had been pricing disputes with insurers or the NHS during the year through discussions with legal counsel, review of minutes and verifying this to correspondence, where available. Additionally we searched journal descriptions for key words that might indicate the existence of pricing disputes; and • we obtained a summary of aged receivables and verified that the ageing was appropriate by testing a sample across the different ageing categories. We searched for any large or unusually long outstanding receivables that were outside expected credit terms that might have indicated pricing disagreements.	We did not identify material errors in the pricing master file, nor evidence of management manipulation of revenue through this means. Furthermore, we did not identify any indicators of pricing disputes with insurers or the NHS. Based on our audit procedures performed, we concluded that revenue for the year is appropriately recognised and free from material misstatement.

2. Manipulation of accrued patient revenue

Refer to the Audit and Risk Committee Report on pages 68 to 71.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
2016 accrued patient revenue: £11 million (2015: £12 million) Accrued patient revenue could be manipulated at hospital level leading to inappropriate revenue recognition at year end. Accrued revenue at year end is recorded in part by the Hospital Support Centre (HSC) and in part by local hospitals, the latter relying on local hospital managements' judgement. We considered that the pressure to achieve local hospital results increases the risk of financial reporting manipulation by local hospital management.	We performed the following procedures in order to specifically address this fraud risk: • we understood and evaluated the controls that have been designed and implemented to prevent or detect misstatements due to fraud associated with the recognition of accrued patient revenue. We adopted a fully substantive approach to addressing this fraud risk, and as such did not test or rely on the controls identified; • we evaluated the accrued patient revenue data, stratifying it into two sub-populations according to their risk profiles; accrued patient revenue recorded by the HSC in line with unbilled WIP report (revenue value £5 million), and accrued patient revenue recorded by local hospitals where judgement has been applied (£6 million); • as HSC management relies on an unbilled WIP report generated from their general ledger IT system to book accrued patient revenue, we utilised our IT specialists to assess how the customised report has been generated and whether it captured the required information; • for a sample across both sub-populations of accrued patient revenue, we obtained patient procedure notes to verify occurrence and completeness of the revenue and that the procedure had been completed before year end. Additionally, for the items selected from the amounts recorded by local hospitals, we obtained an understanding of the judgement made by the local hospital when calculating the amount of patient revenue to be accrued. We traced these transactions to invoices issued after year end. Where invoices have not been issued, we investigated whether it represented an indication of improper revenue recognition; • we checked the unbilled WIP report for any unusual items, such as aged transactions. We assessed the items excluded from accrued patient revenue to determine appropriateness of exclusion and completeness of accrued patient revenue; and • we validated that manual journal entries to accrued revenue had been made by appropriate staff.	All items of accrued patient revenue in our sample were recognised in the correct period, and the judgements made by local hospital management were appropriate and supported by invoices issued after year end. We did not identify any material unusual items on the unbilled WIP report, and our testing of manual journal entries found that these had been posted by appropriate staff. From the audit procedures we performed, we did not identify any issues regarding improper recognition of accrued patient revenue and hence conclude that it is appropriately recognised and free from material misstatement.

3. Inappropriate capitalisation of development costs of new hospitals

Refer to the Audit and Risk Committee Report on pages 68 to 71.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
2016 new hospital development costs capitalised: £92 million (2015: £37 million) The Group has incurred substantial costs through the major development project at St Anthony's Hospital and the construction of new hospitals in Manchester and Nottingham. Large hospital construction projects are not the primary activity of the Group and therefore the nature and scale of these projects may give rise to increased opportunity for management to manipulate the Group's profits. Given management's bonus structure and analysts' expectations on the Group's performance, we consider the risk of inappropriate capitalisation to these significant development projects to be susceptible to management override.	• We understood and evaluated the controls that have been designed and implemented to prevent or detect misstatements due to fraud associated with the capitalisation of development expenditure. We adopted a fully substantive approach to addressing this fraud risk, and as such did not test or rely on the controls identified. • We compared the actual expenditure to the approved budgets for the three projects, and identified that there were no significant variances. • We tested a sample of capital additions to property, plant and equipment. We obtained the invoice to verify the existence and valuation of each item, and also obtained evidence that the expenditure had been authorised by an appropriate individual. We verified the expenditure was capital in nature by reading the descriptions and details on the invoices and supporting documentation. We obtained evidence certified by third-party surveyors to support the value of work completed by the main contractors for each of the three development projects as at year end. • Our sample included both low and high value items. We were particularly focused on accrued expenses and 'internal' costs such as staff costs for Spire Healthcare employees, where these were included in our sample, as we considered there was higher risk of manipulation in these areas. Where staff costs had been capitalised, we verified that the costs were directly attributable to the relevant project.	Our audit procedures found no instances of expenditure which had been inappropriately capitalised.

In the prior year, our auditor's report also included further risks of material misstatements in relation to improper revenue recognition:

Risk identified in 2015	Why we do not consider this an area of significant risk in 2016
Inaccurate coding at the hospital level across a number of hospitals where incentivisation and direction to miscode could result in a material revenue misstatement.	Based on prior years' audit experience, on reassessment, we do not consider that there is a high likelihood of a material misstatement occurring at an individual hospital level.
Material overstatement of other income, specifically revenue earned through the specific NHS campaigns where the reporting of results achieved could be manipulated.	We do not consider that any items within other income in 2016 could be manipulated such that this would result in a material misstatement because of the small contribution of other income to total Group revenue.
The complexity of PMI and NHS contracts could result in mis-billing, either through inaccurate coding, or using an inappropriate price list.	We continue to consider that there is a significant risk of material misstatement arising from inaccuracies in the pricing master file (through fraud or otherwise), and our audit procedures have addressed this risk as explained above. We no longer consider there is a high enough likelihood that inaccurate coding would result in a material misstatement to warrant identifying this as a separate significant risk.

As noted above, this year we have extended the risk we have identified in relation to the manipulation of revenue, both intentional and through error, by changes to the pricing master file to cover NHS as well as PMI revenue.

Our prior year auditor's report also included details of a one-off impairment charge recorded against the leasehold improvements and equipment held at the old Spire Manchester Hospital site which was closed in December 2016. In August 2016, the Group completed a transaction to obtain the freehold of the closing hospital site in exchange for the freehold of the Spire Murrayfield Hospital Wirral site (the 'Asset Swap Transaction'). As part of the transaction, the impairment charge was partially reversed, and we no longer consider this to be an area of significant risk or audit focus.

The scope of our audit

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

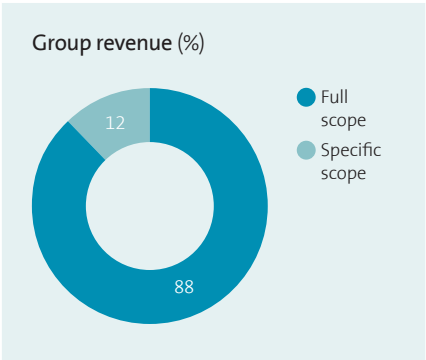
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identified the subsidiaries which represent the principal business units within the Group. The Group continues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

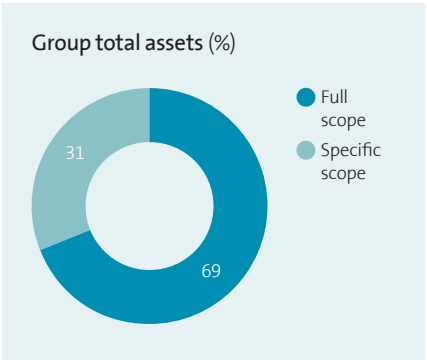
We performed an audit of the complete financial information of four (2015: four) entities ('full scope components') which were selected based on their size or risk characteristics. For a further 19 (2015: 16) entities ('specific scope components'), we performed audit procedures on specific accounts within that entity that we considered had the potential for the greatest impact on the significant accounts in the Group financial statements either because of the size of these accounts or their risk profile.

The entities for which we performed audit procedures accounted for 100% (2015: 100%) of the Group's revenue and 100% (2015: 99%) of the Group's total assets. For the current year, the full scope components contributed 88% (2015: 97%) of the Group's revenue and 69% (2015: 62%) of the Group's total assets. The specific scope components contributed 12% (2015: 3%) of the Group's revenue and 31% (2015: 37%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but has contributed to the coverage of significant accounts tested for the Group. It is not possible to present the split between full and specific scope components on a profit before tax basis in a meaningful way as intra-group profits earned in certain specific scope components results in the aggregate of profit before tax at the component level being marginally in excess of 100% of Group profit before tax.

For the remaining 16 non-dormant entities we performed other procedures, including analytical review and testing of the clerical accuracy of the consolidation to respond to any potential risks of material misstatement of the Group financial statements.

The charts below illustrate the coverage obtained from the work performed.



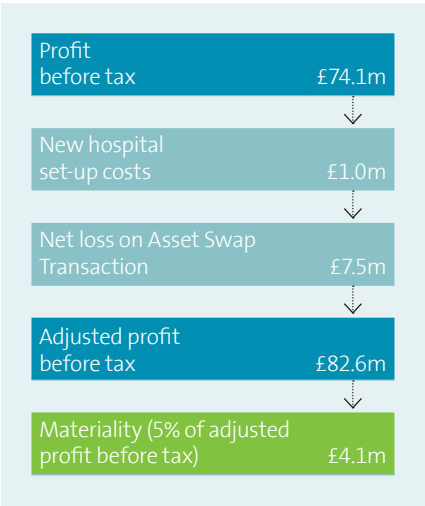


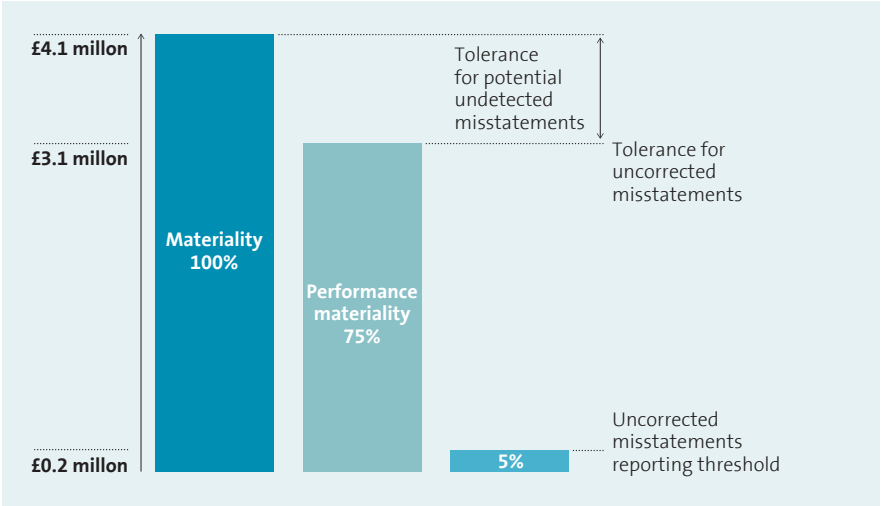
The audit of the entities within the Group is undertaken by one audit team which is led by the senior statutory auditor.

There have not been any significant changes to the scope of our audit from the prior year.

Our application of materiality

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





Materiality

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

We determined materiality for the Group to be £4.1 million (2015: £3.7 million), which is 5% of adjusted profit before tax (2015: 5% of profit before tax). We have adjusted profit before tax for certain non-recurring exceptional items in order to calculate materiality on a basis which reflects the underlying performance of the Group. We believe this provides us with the most applicable measurement basis for the users of the financial statements. Adjustment was made for costs incurred in 2016 in relation to the opening of two new hospitals in 2017 (£1.0 million), and the net loss on the Asset Swap Transaction (£7.5 million). Last year Group materiality was based on an unadjusted profit before tax.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2015: 75%) of our planning materiality, namely £3.1 million (2015: £2.8 million). We have set performance materiality at this percentage due to our assessment of the overall control environment and the history of no or very few audit adjustments.

Audit work on subsidiaries for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative size and risk of the entity in relation to the Group as a whole and our assessment of the risk of misstatement arising in that entity. In the current year, the range of performance materiality allocated to subsidiary entities was £0.5 million to £2.8 million (2015: £0.6 million to £2.8 million).

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.2 million (2015: £0.2 million), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 95, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- based on the work undertaken in the course of the audit:
  - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

ISA (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit and Risk Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the Directors' statement in relation to going concern, set out on page 94, and longer-term viability, set out on page 49; and • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISA (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
1 March 2017

Notes applicable where this report is published electronically:

1 The maintenance and integrity of the Spire Healthcare Group plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2016

(£ million)	Notes	2016 Total before exceptional and other items	2016 Exceptional and other items (note 8)	2016 Total	2015 Total before exceptional and other items	2015 Exceptional and other items (note 8)	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	9	**0.2**	**–**	**0.2**	0.3	–	0.3
Finance costs	10	**(20.0)**	**–**	**(20.0)**	(21.4)	–	(21.4)
Profit before taxation		**88.4**	**(15.2)**	**73.2**	89.3	(15.7)	73.6
Taxation	12	**(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**	14	**19.2**	**(5.8)**	**13.4**	18.3	(3.3)	15.0
– **diluted**	14	**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		–	–	–	–	0.7	0.7
Deferred tax on share-based payments		–	–	–	–	(0.1)	(0.1)
Purchase of shares held in the Employee Benefit Trust ('EBT')	25	–	–	–	(5.6)	–	(5.6)
Dividend paid	13	–	–	–	–	(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		**–**	**–**	**–**	**–**	**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	25	**–**	**–**	**–**	**(1.8)**	**–**	**(1.8)**
Utilisation of EBT shares for Directors' Share Bonus Award		**–**	**–**	**–**	**5.2**	**(5.2)**	**–**
Dividend paid	13	**–**	**–**	**–**	**–**	**(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	15	**517.8**	519.1
Property, plant and equipment	16	**991.5**	895.5
		1,509.3	1,414.6
Current assets			
Inventories	18	**28.1**	29.0
Trade and other receivables	19	**119.1**	134.7
Cash and cash equivalents	20	**67.9**	78.9
		215.1	242.6
Total assets		**1,724.4**	1,657.2
EQUITY AND LIABILITIES			
Equity			
Share capital	25	**4.0**	4.0
Share premium		**826.9**	826.9
Capital reserves	25	**376.1**	376.1
EBT share reserves	25	**(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	21	**495.7**	493.5
Deferred tax liability	23	**71.2**	53.6
		566.9	547.1
Current liabilities			
Provisions	22	**16.7**	15.6
Borrowings	21	**4.5**	4.9
Trade and other payables	24	**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

These Consolidated financial statements and the accompanying notes were approved for issue by the Board of Directors on 1 March 2017 and were signed on its behalf by:

Garry Watts
Executive Chairman

Simon Gordon
Chief Financial Officer

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, 15	**1.3**	–
Share-based payments	26	**0.4**	0.7
Loss on disposal of property, plant and equipment	5	**10.8**	0.8
Interest income	9	**(0.2)**	(0.3)
Finance costs	10	**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)
Repayments 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	20	**67.9**	78.9
Exceptional costs			
Exceptional costs paid included in the cash flow		**(5.9)**	(4.5)
Total exceptional costs	8	**(15.2)**	(15.7)

Notes to the financial statements

1. General information

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

The financial statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors of the Company on 1 March 2017.

The Company is a public limited company, which is listed on the London Stock Exchange, incorporated, registered and domiciled in England (registered number: 9084066). The address of its registered office is 3 Dorset Rise, London, EC4Y 8EN.

2. Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and on an historical cost basis.

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 these financial statements.

3. Accounting policies

Significant accounting policies applied

The principal accounting policies adopted are described below and were consistently applied for all periods presented.

Revenue recognition

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

Interest income

Interest is recognised on an effective interest rate basis.

Cost of sales

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

Other operating costs

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

Operating profit

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

Operating profit is adjusted to exclude exceptional and other items to calculate the Key Performance Indicator 'Operating profit before exceptional items', which is utilised in measuring performance before the impact of non-recurring exceptional items in the income statement.

Exceptional items

Exceptional items are those items which, by virtue of their size or incidence, either individually or in aggregate, need to be disclosed separately to allow a full understanding of the underlying performance of the Group. Items which may be considered exceptional in nature include significant write-downs of goodwill and other assets, restructuring costs, impairments, hospital closures and set-up costs and business acquisition costs.

Notes to the financial statements *continued*

3. Accounting policies *continued*

Consolidation

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

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

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

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

Business combinations and goodwill

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

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

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

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

Property, plant and equipment

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

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

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

The expected useful lives and residual values of property, plant and equipment are reviewed annually and revised as appropriate. The review of the asset lives and residual values of properties takes into consideration the plans of the business and levels of expenditure incurred on an ongoing basis to maintain the properties in a fit and proper state for their ongoing use as hospitals.

Inventories

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

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

3. Accounting policies *continued*

Borrowing costs

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

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

Pensions

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

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

Other employee benefits

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

Share-based payments

The Group operates a number of equity-settled share-based payment schemes under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Where the share awards have non-market related performance criteria, the Group has used the Black Scholes valuation model to establish the relevant fair values. Where the share awards have total shareholder return ('TSR') market-related performance criteria, the Group has used the Monte Carlo simulation valuation model to establish the relevant fair values (see note 26). The resulting fair values are recognised in the income statement over the vesting period of the options.

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

The social security contributions payable in connection with the grant of the share options is considered to be an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Provisions

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

Leases

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

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

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

Sale and leaseback of properties

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

Notes to the financial statements *continued*

3. Accounting policies *continued*

Taxation including deferred taxation

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

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

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- goodwill not deductible for tax purposes;
- the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- investments in subsidiary companies where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium. Where the employee benefit trust purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders in both the Company and the Consolidated balance sheet until the shares are cancelled or reissued.

Dividend distribution

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

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

3. Accounting policies *continued*

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
Clarification 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.

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 a preliminary 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. The following accounting policies have been identified as involving particularly complex judgements or subjective estimates:

Judgements

- Deferred tax
  Deferred tax assets are recognised for unutilised trading losses and capital losses. Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation rates and taxation rates.
- Leases
  In the determination of the classification of a number of leases over hospital properties as operating leases, assumptions have been made about the discount rate applied to the annual rent payable over the remainder of the lease term compared against their respective fair values and of the useful economic life of the hospitals. Further information about commitments under these leases is given in note 27.
- Exceptional items
  Judgements are required as to whether items that are material in size, unusual or infrequent in nature should be disclosed as exceptional. Deciding which items meet this definition requires the Group to exercise its judgement. Details of these items categorised as exceptional are outlined in note 8.

Notes to the financial statements *continued*

4. Significant judgements and estimates *continued*

Estimates

- 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 12 and 23).

- Estimation of useful lives and residual values

  Property, plant and equipment are depreciated over their useful lives, taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. The estimated useful lives of property, plant and equipment are set out in note 3.

- Goodwill

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

  The assumptions considered to be most critical in reviewing goodwill for impairment are contained in note 15.

- Share-based payments

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

  The assumptions considered to be most critical in estimating share-based payments are contained in note 26.

- Provisions for patient claims

  In the measurement of such provisions where the recognition criteria are met, the typical complexity of claims – for example, in respect of their outcome and the extent of damages (if any) assessed on the Group – requires management to use estimation. Such estimates are typically based on professional advice on expected outcomes and historic information on similar claims.

  In some cases, judgement is also required, for example, as to whether the criteria for recognising provisions are met and whether a reliable estimate of the outcomes can be made.

  Further details of claims and the amounts provided are given in note 22.

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 (see note 7)	**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

7. Staff costs

Employees

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

(No.)	2016	2015
Clinical	**6,128**	6,041
Non-clinical	**4,848**	4,784
	10,976	10,825

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

(No.)	2016	2015
Clinical	**4,245**	4,125
Non-clinical	**3,810**	3,719
	8,055	7,844

The aggregate payroll costs of these persons were as follows:

(£ million)	2016	2015
Wages and salaries	**230.4**	218.0
Social security costs	**20.4**	18.6
Other pension costs	**17.2**	16.4
	268.0	253.0

Included in wages and salaries and social security costs for year ended 31 December 2016 are exceptional items of £3.4 million (2015: £2.6 million) and £0.3 million (2015: £nil), respectively. Refer to note 8 for further details.

Other pension costs are in respect of the defined contribution scheme; unpaid contributions at 31 December 2016 were £1.6 million (2015: £1.6 million).

Notes to the financial statements *continued*

8. Exceptional items

(£ million)	2016	2015
Business reorganisation	**4.8**	3.1
Write-off of intangible assets	**1.3**	–
Hospital 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. Hospital set-up costs refer to pre-opening costs for the new Spire Manchester and Spire 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 (see note7).

9. Interest income

(£ million)	2016	2015
Interest income on bank deposits	**0.2**	0.3

10. 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%).

11. Auditor's remuneration

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

(£ million)	2016	2015
Amounts receivable by auditor and its associates in respect of:		
Audit of the Company's and Group's financial statements	**0.3**	0.3
Audit of the Company's subsidiaries	**0.1**	0.2
Other assurance services	**–**	–
	0.4	0.5

12. 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
Effect 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%).

The effective tax assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

(£ million)	2016	2015
Profit before taxation	**73.2**	73.6
Tax at the standard rate of 20% (FY2015: 20.25%)	**14.6**	14.9
Effects of:		
Expenses not deductible for tax purposes	**2.7**	3.4
Deferred tax credit on property assets	**–**	(0.7)
Non-taxable profit on disposal of property, plant and equipment	**–**	(0.1)
Disposal of subsidiary company	**0.8**	–
Write-off of intangible assets	**0.3**	–
Difference in tax rates	**(5.2)**	(5.8)
Reassessment of property timing differences (note 4)	**8.4**	–
Adjustments to prior years	**(2.0)**	1.9
Total tax expense	**19.6**	13.6

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

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

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.

Notes to the financial statements *continued*

13. Dividend

(£ 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
Total	**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.

14. Earnings per share

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

15. 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 2016 and 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.

Impairment testing

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

In order to estimate the value-in-use, management has used trading projections covering the three-year period to December 2019, which were extended to cover the five-year period to December 2021.

15. Intangible assets *continued*

Management identified a number of key assumptions relevant to the value-in-use calculations, being revenue growth, which is impacted by an interaction of a number of elements of the operating model, including pricing trends, volume growth and the mix and complexity of discharges, assumptions regarding cost inflation and discount rates. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends. Revenue growth is projected to be in line with past experience and expectations of future performance, averaging 4.1% for the five-year period (2015: 5.9%). Cost assumptions are consistent with the Group's historical track record, after taking account of headline inflation at 1.0% (2015: 2.7%).

A long-term growth rate of 2.25% (2015: 2.25%) has been applied to cash flows beyond 2020, which is based on historic growth rates achieved by the sector, which have typically exceeded retail price index ('RPI'). Pre-tax discount rates were based on the capital asset pricing model, utilising a sector-specific Beta in arriving at the equity premium and cost of debt based on current bank lending rates. A specific pre-tax discount rate was calculated to reflect the profile of cash flows inherent to the cash-generating unit and this was 9.0% (2015: 9.0%).

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. For example, an increase of 3.0% in the pre-tax discount rate to 12.0%, with all other assumptions held constant, did not identify any impairments. Similarly, zero growth in the period beyond 2021, with all other assumptions held constant or combined with a 1.0% increase in the pre-tax discount rate, did not identify any impairment.

As at the balance sheet date, it is not considered to be reasonably possible that circumstances will change, such that the key assumptions made in assessing the recoverable amount relating to each of the acquisitions will be revised to the point where the goodwill is considered impaired.

16. 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

Notes to the financial statements *continued*

16. Property, plant and equipment *continued*

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 8.

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) is the freehold of the previous Spire Manchester Hospital which 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.

17. Subsidiary undertakings

As at 31 December 2016, these Consolidated financial statements of the Group comprise the Company and the following companies, most of which are incorporated in, and whose operations are conducted in, the United Kingdom.

17. Subsidiary undertakings *continued*

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

* Direct shareholding of the Company.
† Ownership interest is 50.1%.
^ Incorporated in the British Virgin Islands (BVI) and registered at Harneys Corporate and Trust Services Limited, Craigmuir Chambers, Road Town, Tortola, VG1110, BVI.
# incorporated in Luxembourg and registered at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.

Notes to the financial statements *continued*

18. Inventories

(£ million)	2016	2015
Prostheses, drugs, medical and other consumables	**28.1**	29.0

Cost of sales for the year ended 31 December 2016 includes inventories recognised as an expense amounting to £177.3 million (2015: £164.3 million).

19. 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

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

(£ million)	2016	2015
At 1 January	**5.7**	5.9
Provided in the year	**4.6**	5.0
Utilised during the year	**(5.3)**	(5.2)
At 31 December	**5.0**	5.7

20. Cash and cash equivalents

(£ million)	2016	2015
Cash at bank	**53.9**	42.8
Short-term investments	**14.0**	36.1
	67.9	78.9

Short-term investments are money market deposits.

21. 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

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%.

Notes to the financial statements *continued*

21. Borrowings *continued*

Terms and debt repayment schedule

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

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

(£ million)	Maturity	Margin over LIBOR	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).

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

(£ million)	2016	2015
Borrowings at start of year		
Bank loans	**423.1**	422.2
Obligations under finance leases	**75.3**	76.6
	498.4	498.8
Cash at bank	**(42.8)**	(65.4)
Short-term investments	**(36.1)**	(9.1)
Net debt at 1 January	**419.5**	424.3
Net decrease/(increase) in cash and cash equivalents	**11.0**	(4.4)
Loans movement	**1.0**	0.9
Movement in obligations under finance leases	**0.8**	(1.3)
	12.8	(4.8)
Net debt at 31 December	**432.3**	419.5

22. 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.

22. Provisions *continued*

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.

23. Deferred taxation

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

(£ million)	Property, plant and equipment	Losses and other	Total
At 1 January 2015	**91.7**	**(43.9)**	**47.8**
Recognised in profit or loss	(6.1)	17.6	11.5
Change in tax rates	(7.8)	2.0	(5.8)
Recognised in equity	–	0.1	0.1
At 1 January 2016	**77.8**	**(24.2)**	**53.6**
Recognised in profit or loss	**0.3**	**13.6**	**13.9**
Change in tax rates	**(5.1)**	**(0.1)**	**(5.2)**
Reassessment of property timing differences (note 4)	**8.4**	**–**	**8.4**
Disposal of subsidiary company	**–**	**0.2**	**0.2**
Recognised in equity	**–**	**0.3**	**0.3**
At 31 December 2016	**81.4**	**(10.2)**	**71.2**
Disclosed within liabilities	**81.4**	**(10.2)**	**71.2**

Deferred tax on property, plant and equipment has arisen on differences between the carrying value of the relevant assets and the tax base. Of the amounts included in losses and other, £8.5 million (2015: £23.0 million) relate to losses. The losses relate entirely to non-trade losses. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted, or substantively enacted, at the balance sheet date. The Finance Bill 2016, which includes a further reduction in the UK corporate tax rate from 18.0% to 17.0% on 1 April 2020, has been enacted and so deferred tax assets and liabilities have been calculated at this rate unless the timing difference is expected to reverse sooner than 1 April 2020 in which case the applicable rate of 18.00% to 20.0% has been used.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities.

The Group has unrecognised deferred tax assets as at 31 December 2016 as follows:

(£ million)	**2016**	2015
Trading losses	**0.9**	1.9
Capital losses	**0.1**	0.3
Tax basis for future capital disposals	**17.9**	10.7
	18.9	12.9

These amounts are the expected tax value of the gross timing difference at the enacted long-term tax rate of 17% (2016: 18%). A deferred tax asset has not been recognised in respect of these amounts due to uncertainties as to the timing of future profits that the trading losses could be offset against and whether capital gains will arise against which the capital losses and tax basis for capital disposals could be utilised.

Notes to the financial statements *continued*

24. 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
	100.3	90.3

25. Share capital and reserves

Share capital of Spire Healthcare Group plc

	£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 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.

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 (refer to Note 26). 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.

26. 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	
(£ million)	Charge £m	Number of options (thousands)	Charge £m	Number of options (thousands)
Long Term Incentive Plan	**0.4**	**950**	0.7	944
Deferred Bonus Plan	**–**	**–**	–	29
	0.4	**950**	0.7	973

26. Share-based payments *continued*

A summary of the main features of the scheme is shown below:

Directors' share bonus award

At the time of the IPO on 23 July 2014, the Company granted nil cost share options to Executive Directors to reflect their contribution prior to Admission. The maximum number of shares underlying the awards total 1,671,200. Each award 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.

Executive nil cost share options awarded at the time of the IPO were exercised as follows:

Tranche one 801,825 in April 2016 at an average price of £3.31.
Tranche two 781,718 in August 2016 at an average price of £3.26.

Simon Gordon, Rob Roger and Garry Watts exercised the first tranche of their awards on 1 April 2016 and sold 94,546, 173,340 and 117,266 respectively to cover income tax and national insurance liabilities, at an average share price of 360.0288 pence. They each retained the balance of their shares.

Rob Roger exercised the second tranche of his awards on 19 August 2016 and sold 168,674 to cover income tax and national insurance liabilities, at an average share price of 343.98 pence. He retained the balance of his shares. Simon Gordon and Garry Watts exercised the second tranche of their awards on 30 August 2016 and sold 92,174 and 107,533 respectively to cover income tax and national insurance liabilities, at an average share price of 350.4 pence. They each retained the balance of their shares. For further details, see the Directors' Remuneration Report, on pages 76 to 91.

Long term incentive plan

The Long Term Incentive Plan ('LTIP') is open to Executive Directors and designated senior managers, and awards are made at the discretion of the Remuneration Committee. Awards are subject to market and non-market performance criteria.

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

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

Deferred bonus plan

The Deferred Bonus Plan is a discretionary executive share bonus plan under which the Remuneration Committee determines that a proportion of a participant's annual bonus will be deferred. The market value of the shares granted to any employee will be equal to one-third of the total annual bonus that would otherwise have been payable to the individual. The awards will be granted on the day after the announcement of the Group's annual results. The awards will normally vest over a three-year period.

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

	2016				2015			
	Directors' Share Bonus Award* (thousands)	**LTIP (TSR condition) (thousands)**	**LTIP (EPS condition) (thousands)**	**Deferred Bonus Plan (thousands)**	Directors' Share Bonus Award* (thousands)	LTIP (TSR condition) (thousands)	LTIP (EPS condition) (thousands)	Deferred Bonus Plan (thousands)
At 1 January	**1,638**	**1,003**	**1,003**	**29**	1,671	531	531	–
Granted	**–**	**475**	**475**	**–**	–	472	472	29
Exercised	**(1,584)**	**–**	**–**	**–**	–	–	–	–
Surrendered	**–**	**(486)**	**(486)**	**–**	–	–	–	–
Cancelled	**(54)**	**–**	**–**	**–**	(33)	–	–	–
At 31 December	**–**	**992**	**992**	**29**	1,638	1,003	1,003	29
Exercisable at 31 December	**–**	**286**	**286**	**–**	802*	–	–	–
Weighted average contractual life	**–**	**1.9 years**	**1.9 years**	**1.4 years**	0.6 years	1.6 years	1.6 years	2.4 years

* The Directors' Share Bonus 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 dates. 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. For further details, see the Directors' Remuneration Report, on pages 76 to 91.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2016 was 1.9 years (2015: 1.3 years).

Notes to the financial statements *continued*

26. Share-based payments *continued*

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

Grant – vest	Expiry date	Exercise price (£)	Share options (thousands) 2016	2015
Directors' Share Bonus Award*				
23/07/2014 – immediately upon grant	23/07/2024	n/a	–	1,638
LTIP grants				
30/09/2014 – 31/12/2016	30/09/2024	–	572	1,062
01/04/2015 – March 2018	01/04/2025	–	547	944
30/03/2016 – March 2019	30/03/2026	–	865	–
Deferred Bonus Plan				
01/06/2015 – 01/06/2018	01/06/2025	–	29	29

* The Directors' Share Bonus 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 dates. 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. For further details, see the Directors' Remuneration Report, on pages 76 to 91.

The following information is relevant to the determination of the fair value of the awards granted for the years ended 31 December 2016 and 2015, respectively, under the schemes:

2016	LTIP (TSR condition)	LTIP (EPS condition)	Deferred Bonus Plan
Option pricing model	Monte Carlo	Fair value at grant date	n/a
Weighted average share price at grant date (£)	3.60	3.60	n/a
Exercise price (£)	Nil	Nil	n/a
Weighted average contractual life	3.0 years	3.0 years	n/a
Expected dividend yield	n/a	n/a	n/a
Risk-free interest rate	0.6%	n/a	n/a
Volatility	37%	n/a	n/a

2015	LTIP (TSR condition)	LTIP (EPS condition)	Deferred Bonus Plan
Option pricing model	Monte Carlo	Fair value at grant date	n/a
Weighted average share price at grant date (£)	3.61	3.61	n/a
Exercise price (£)	Nil	Nil	Nil
Weighted average contractual life	3.0 years	3.0 years	3.0 years
Expected dividend yield	n/a	n/a	n/a
Risk-free interest rate	0.7%	n/a	n/a
Volatility	33%	n/a	n/a

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

27. Commitments

(a) 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:

(£ million)	2016 Land and buildings	2016 Other	2015 Land and buildings	2015 Other
Not later than one year	63.1	1.1	62.9	0.9
Later 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

27. Commitments *continued*

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.

(b) Consignment stock

At 31 December 2016, the Group held consignment stock on sale or return of £22.1 million (2015: £20.9 million). The Group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

(c) Capital expenditure commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the balance sheet date. They include the full cost of goods and services to be provided under the contracts through to completion. The Group has rights within its contracts to terminate at short notice and, therefore, cancellation payments are minimal.

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

(£ million)	2016	2015
Contracted but not provided for	**63.8**	39.4

28. 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; and
- see note 22 for details of a contingent liability in respect of Medical Malpractice.

29. Capital management

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

The Board closely manages trading capital, defined as net assets plus net debt. The Group's net assets at 31 December 2016 were £1,035.3 million (2015: £997.6 million) and net debt, calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents, amounted to £432.3 million (2015: £419.5 million).

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

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

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

(£ million)	2016	2015
Committed undrawn revolving credit facility	**100.0**	100.0
Cash and cash equivalents	**67.9**	78.9

Notes to the financial statements *continued*

30. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

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

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

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

Credit risk

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

- Trade and other receivables

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

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

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

Note 19 shows the ageing and customer profiles of trade receivables outstanding at the year end.

- Investments

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

Liquidity risk

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

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

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

- £100.0 million of revolving credit facility, which was fully undrawn as at 31 December 2016 (2015: £100.0 million).

30. Financial risk management *continued*

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

At 31 December 2016

(£ million)	Carrying amount	Contractual cash flows	1 year or less	1–2 years	More than 2 years
Non-derivative financial liabilities					
Secured bank facility	**424.1**	**456.0**	**10.9**	**11.3**	**433.8**
Obligations under finance leases	**76.1**	**270.4**	**8.5**	**8.5**	**253.4**
Trade and other payables	**55.9**	**55.9**	**55.9**	**–**	**–**
As at 31 December 2016	**556.1**	**782.3**	**75.3**	**19.8**	**687.2**

At 31 December 2015

(£ million)	Carrying amount	Contractual cash flows	1 year or less	1–2 years	More than 2 years
Non-derivative financial liabilities					
Secured bank facility	423.1	479.3	12.1	14.0	453.2
Obligations under finance leases	75.3	278.7	8.3	8.5	261.9
Trade and other payables	50.5	50.5	50.5	–	–
As at 31 December 2015	548.9	808.5	70.9	22.5	715.1

Bases of valuation

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

The carrying value of the other financial instruments, being finance leases and debt, is approximately equal to their fair value based on a review of current terms against market and expected short-term settlements, except for floating rate debt, which is after the deduction of £2.9 million (2015: £4.0 million) of issue costs.

As at 31 December 2016, the Group did not hold any financial instruments measured at fair value (2015: nil).

Market risk

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

Interest rate risk

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

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

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

	Variable	Total	Undrawn facility
31 December 2016 (£ million)	**425.0**	**425.0**	**100.0**
Effective interest rate (%)	**2.40%**	**2.40%**	
31 December 2015 (£ million)	425.0	425.0	100.0
Effective interest rate (%)	2.58%	2.58%	

Notes to the financial statements *continued*

30. Financial risk management *continued*

Sensitivity analysis

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

	Profit or loss		Equity	
(£ million)	**25 bp increase**	**25 bp decrease**	**25 bp increase**	**25 bp decrease**
At 31 December 2016				
Variable rate instruments	**(0.3)**	**0.3**	**(0.3)**	**0.3**
Sensitivity (net)	**(0.3)**	**0.3**	**(0.3)**	**0.3**

	Profit or loss		Equity	
(£ million)	25 bp increase	25 bp decrease	25 bp increase	25 bp decrease
At 31 December 2015				
Variable rate instruments	(0.3)	0.3	(0.3)	0.3
Sensitivity (net)	(0.3)	0.3	(0.3)	0.3

31. Related party transactions

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include the Board and Executive Committee, as identified on pages 54 to 57.

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

(£ million)	**2016**	2015
Short-term employee benefits	**3.2**	2.6
Retirement benefits	**0.4**	0.4
Share-based payments	**0.3**	0.7
Total	**3.9**	3.7

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 76 to 91.

There were no transactions with related parties external to the Group in the year to 31 December 2016 (2015: nil).

32. 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.

Company balance sheet

As at 31 December 2016
(Registered number: 9084066)

(£ million)	Notes	2016	2015
ASSETS			
Non-current assets			
Investments	C9	**831.1**	830.7
		831.1	830.7
Current assets			
Other receivables	C7	**80.8**	44.5
Income tax receivable		**1.1**	0.2
Cash and cash equivalents	C6	**12.1**	20.7
		94.0	65.4
Total assets		**925.1**	896.1
EQUITY AND LIABILITIES			
Equity			
Share capital	25	**4.0**	4.0
Share premium		**826.9**	826.9
EBT share reserves	25	**(2.2)**	(5.6)
Retained earnings		**93.9**	68.8
Total equity		**922.6**	894.1
Current liabilities			
Trade and other payables	C8	**2.5**	2.0
Total liabilities		**2.5**	2.0
Total equity and liabilities		**925.1**	896.1

The profit attributable to the Company for the year ended 31 December 2016 was £44.7 million (2015: £41.6 million).

The financial statements on pages 133 to 139 were approved by the Board of Directors on 1 March 2017 and signed on its behalf by:

Garry Watts
Executive Chairman

Simon Gordon
Chief Financial Officer

Company statements of changes in equity

For the year ended 31 December 2016

(£ million)	Share capital	Share premium	EBT share reserves	Retained earnings	Total
At 1 January 2015	4.0	826.9	–	38.9	869.8
Profit for the year	–	–	–	41.6	41.6
Other comprehensive income for the year	–	–	–	–	–
Purchase of shares held in the EBT	–	–	(5.6)	–	(5.6)
Share-based payment	–	–	–	0.7	0.7
Dividend paid	–	–	–	(12.4)	(12.4)
As at 1 January 2016	**4.0**	**826.9**	**(5.6)**	**68.8**	**894.1**
Profit for the year	**–**	**–**	**–**	**44.7**	**44.7**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**
Purchase of shares held in the EBT	**–**	**–**	**(1.8)**	**–**	**(1.8)**
Share-based payment	**–**	**–**	**–**	**0.4**	**0.4**
Utilisation of EBT shares for Directors' Share Bonus Award	**–**	**–**	**5.2**	**(5.2)**	**–**
Dividend paid	**–**	**–**	**–**	**(14.8)**	**(14.8)**
As at 31 December 2016	**4.0**	**826.9**	**(2.2)**	**93.9**	**922.6**

Company statements of cash flows

For the year ended 31 December 2016

(£ million)	2016	2015
Cash flows from operating activities		
Loss before taxation (excluding dividend received)	**(0.1)**	(0.9)
Adjustments for:		
Interest income	**(1.3)**	(0.3)
Finance costs	**–**	0.2
	(1.4)	(1.0)
Movements in working capital:		
Increase in trade and other receivables	**(36.3)**	(36.7)
Increase/(decrease) in trade and other payables	**0.5**	(3.5)
Income tax received	**0.3**	–
Net cash used in operating activities	**(36.9)**	(41.2)
Cash flows from investing activities		
Interest received	**1.3**	0.1
Dividend received	**43.6**	42.3
Net cash used in investing activities	**44.9**	42.4
Cash flows from financing activities		
Payment of share issue costs relating to 2014 IPO	**–**	(1.1)
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 generated from financing activities	**(16.6)**	(19.1)
Net decrease in cash and cash equivalents	**(8.6)**	(17.9)
Cash and cash equivalents at beginning of year	**20.7**	38.6
Cash and cash equivalents at end of year	**12.1**	20.7

Notes to the Parent Company financial statements

This section contains the notes to the Company financial statements. The issued share capital and EBT share reserves are consistent with the Spire Healthcare Group plc Group financial statements. Refer to note 25 of the Group financial statements.

C1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and on an historical basis.

See note 1 for general information about the Company.

The financial statements have been prepared on a going concern basis as the Directors believe there are no material uncertainties that lead to significant doubt that the Company can continue as a going concern in the foreseeable future.

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

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

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

C2. Significant accounting policies in this section

Investment in subsidiaries

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment, the carrying value of the investment is compared to its recoverable amount, being its value-in-use. The value-in-use is calculated using the same assumptions as noted for the testing of goodwill impairment in note 15 to the Group financial statements.

Share-based payments

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

C3. Key estimates and assumptions in this section

Impairment testing of investments in subsidiaries

The Company's investments in subsidiaries have been tested for impairment by comparison against the underlying value of the subsidiaries' assets based on value-in-use calculated using the same assumptions as noted for the testing of goodwill impairment in note 15 of the Group financial statements.

C4. Staff costs and Directors' remuneration

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

C5. Auditor's remuneration

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

(£'000)	2016	2015
Amounts receivable by auditor and its associates in respect of:		
Audit of the Company's annual financial statements	**10.0**	10.0
Other assurance services	**–**	–
	10.0	10.0

C6. Cash and cash equivalents

(£ million)	2016	2015
Cash at bank	**0.2**	0.2
Short-term investments	**11.9**	20.5
	12.1	20.7

C7. Other receivables

(£ million)	2016	2015
Amounts owed by subsidiary undertakings	**80.8**	44.5
	80.8	44.5

The amounts owed by subsidiary undertakings bear interest at LIBOR plus 2.00% (2015: LIBOR plus 2.00%). The amounts are unsecured and repayable on demand.

C8. Trade and other payables

(£ million)	2016	2015
Amounts owed to subsidiary undertakings	**2.3**	1.9
Accruals	**0.2**	0.1
	2.5	2.0

The amounts owed to subsidiary undertakings bear interest at LIBOR plus 2.00% (2015: LIBOR plus 2.00%). The amounts are unsecured and repayable on demand.

C9. Investment in subsidiaries

(£ million)	Subsidiary undertakings	Total
Net book value		
At 1 January 2015	830.0	830.0
Additions – IFRS 2 costs	0.7	0.7
At 1 January 2016	**830.7**	**830.7**
Additions – IFRS 2 costs	**0.4**	**0.4**
At 31 December 2016	**831.1**	**831.1**

Details of the Company's subsidiaries at the balance sheet date are in note 17.

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

C10. Capital management and financial instruments

The capital structure of the Company comprises issued capital, reserves and retained earnings as disclosed in the Parent Company statement of changes in equity totalling £922.6 million (2015: £894.1 million) as at 31 December 2016, and cash amounted to £12.1 million (2015: £20.7 million).

Credit risk

As at 31 December 2016, the Company had amounts owed by subsidiary undertakings of £80.8 million (2015: £44.5 million). The Company's maximum exposure to credit risk from these amounts is £80.8 million (2015: £44.5 million).

Liquidity risk

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

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

Notes to the Parent Company financial statements *continued*

C10. Capital management and financial instruments *continued*

(£ million)	2016	2015
Financial assets: Carrying amount and fair value		
Loans and receivables		
Cash and cash equivalents	**12.1**	20.7
Amounts owed by subsidiary undertakings	**80.8**	44.5
	92.9	65.2

All of the above financial assets are current and unimpaired.

(£ million)	2016	2015
Financial liabilities: Carrying amount and fair value		
Amortised cost		
Amounts owed to subsidiary undertakings	**2.3**	1.9
	2.3	1.9

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

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

Market risk

Interest rate risk and sensitivity analysis

As at 31 December 2016 the Company had short-term borrowings of £2.3 million (2015: £1.9 million) owed to subsidiary undertakings, which are repayable on demand and bear interest at LIBOR plus 2.00% (2015: LIBOR plus 2.00%). Interest on these borrowings in the year amounted to nil (2015: £0.2 million) and the Directors do not perceive that servicing this debt poses any significant risk to the Company given its size in relation to the Company's net assets.

IFRS 7 *Financial Instruments: Disclosures* required a market risk sensitivity analysis illustrating the fair values of the Company's financial instruments and the impact on the Company's income statement and shareholders' equity of reasonably possible changes in selected market risks. The Company has no financial assets or liabilities that expose it to market risk, other than the amounts owed by/to subsidiary undertakings of £80.8 million (2015: £44.5 million) and £2.3 million (2015: £1.9 million) respectively. The Directors do not believe that a change of 25 basis points in the LIBOR interest rates will have a material impact on the Company's income statement or shareholders' equity.

C11. Contingent liabilities

Lease arrangements with a consortium of investors

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

As a result of the sale, the Group has long-term institutional lease arrangements (up to December 2042, subject to renewal or extension), with the landlord for each of the 12 properties. The leases include key terms such as annual rental covenants and minimum levels of capital expenditure invested by the Group. The capital expenditure covenants measured on an average basis over each five-year period during the term of the leases, require the Group to incur, in total, £5.0 million of maintenance capital expenditure and £3.0 million of additional capital expenditure on the portfolio of 12 hospitals each year, such being subject to indexation in line with RPI. If the minimum rent cover ratio is not met, the Group is required to enter into an asset performance recovery plan in order to comply with the covenants, but no default would be deemed to have occurred. The Company is a party to this guarantee. As at 31 December 2016, the Group complied with the required covenants.

Lease agreements entered into by Classic Hospitals Limited

Under lease agreements entered into on 26 January 2010 by Classic Hospitals Limited, a subsidiary undertaking of the Company, the Company has undertaken to guarantee the payment of rentals over the lease term to August 2040, and to ensure that the other covenants in the lease are observed. The initial rentals payable under the leases in 2010 were £6.3 million per annum, which will be subject to an increase in future years. As part of these arrangements, the assets of the Company are subject to a fixed and floating charge in the event of a default. As at 31 December 2016, there was no breach in the required covenants.

C12. Related party transactions

The Company's subsidiaries are listed in note 17 to the Group financial statements. The following table provides the Company's balances that are outstanding with subsidiary companies at the balance sheet date:

(£ million)	2016	2015
Amounts owed from subsidiary undertakings	**80.8**	44.5
Amounts owed to subsidiary undertakings	**(2.3)**	(1.9)
	78.5	42.6

The amounts outstanding are unsecured and repayable on demand.

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

(£ million)	2016	2015
Amounts invoiced to subsidiaries	**36.3**	36.7
Amounts invoiced by subsidiaries	**(0.4)**	–
Dividend received from subsidiaries	**43.6**	42.3

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

Directors' remuneration

The remuneration of the Non-Executive Directors of the Company is set out below. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 76 to 91.

(£ million)	2016	2015
Short term employee benefits*	**0.5**	0.6
Pension contributions	**–**	–
Share-based payments*	**–**	–
Total	**0.5**	0.6

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

Directors' interests in share-based payment schemes

Refer to note 26 to the Group financial statements for further details of the share options held by the Chairman and Executive Directors.

Other transactions

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

C13. Events after the reporting period

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.

Additional shareholder information

Spire Healthcare website

Shareholders are encouraged to visit our website at www.spirehealthcare.com which has a wealth of information about the Company and the services it offers. There is a section designed specifically for investors at www.investors.spirehealthcare.com where shareholder and media information can be accessed. This year's Annual Report and Notice of annual general meeting, together with prior year documents, can also be viewed there along with information on dividends paid, our share price and how to avoid shareholder fraud.

Registered office and Group head office

Spire Healthcare Group plc
3 Dorset Rise
London EC4Y 8EN
Tel +44 (0)20 7427 9000
Fax +44 (0)20 7427 9001
Registered in England and Wales No. 09084066

Shareholder enquiries

All shareholder enquiries regarding your shares should be addressed to the Company's share registrar at the address on page 141, or as follows:

Equiniti Limited
Tel (UK only) 0371 384 2030*
Tel (non-UK) +44 (0)121 415 7047

For the hard of hearing, Equiniti Limited offers a special Textel service that can be accessed by dialling 0371 384 2255* (or +44 (0)121 415 7028 from outside the UK).

* Lines are open from 8.30am to 5.30pm, Monday to Friday, UK time.

Managing your shares

Please contact our registrar, Equiniti Limited, to manage your shareholding if you wish to:

- register for electronic communications;
- transfer your shares;
- change your registered name or address;
- register a lost share certificate and obtain a replacement;
- consolidate your shareholdings;
- manage your dividend payments; and
- notify the death of a shareholder.

When contacting Equiniti Limited or registering online, you should have your shareholder reference number at hand. This can be found on your share certificate or latest dividend tax voucher. You can manage your shareholding online by registering for Shareview at www.shareview.co.uk. This website has a 'frequently asked questions' section which addresses the most common shareholder problems.

All other shareholder enquiries not related to the share register should be addressed to the Group Company Secretary at the registered office or emailed to companysecretary@spirehealthcare.com.

Electronic shareholder communications

Registering for online communications gives shareholders more control of their shareholding. The registration process is via our registrar's secure website at www.shareview.co.uk. Once registered you will be able to:

- elect how we communicate with you;
- amend your details;
- amend the way you receive dividends; and
- buy or sell shares online.

This does not mean shareholders can no longer receive paper copies of documents if they so wish. We are able to offer a range of services and tailor communication to meet your needs.

Share dealing services

UK resident shareholders can sell shares on the internet or by phone using Equiniti Limited's Shareview Dealing facility by either logging onto www.shareview.co.uk/dealing or by calling 0345 603 7037 between 8.00am and 4.30pm on any business day (excluding bank holidays).

In order to gain access to this service, the shareholder reference number is required, which can be found at the top of the Company's share certificates.

Sharegift

It may be that you have a small number of shares which would cost you more to sell than they are worth. It is possible to donate these to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. More information on this service can be obtained from www.sharegift.org or by calling +44 (0)207 930 3737.

Dividend allowance

The Government announced that from 6 April 2016 the Dividend Tax Credit has been replaced by a tax-free Dividend Allowance. This is in the form of a 0% tax rate on the first £5,000 of dividend income per year.

UK residents will pay tax on any dividends received over the £5,000 allowance (reducing to £2,000 from April 2018) at the following rates:

- 7.5% on dividend income within the basic rate (20%) band;
- 32.5% on dividend income within the higher rate (40%) band; and
- 38.1% on dividend income within the additional rate (45%) band.

Dividends paid on shares held within pensions and Individual Savings Accounts (ISAs) continue to be tax free. Further information is available from HMRC at www.gov.uk/government/publications/dividend-allowance-factsheet.

Important: You will be required to retain details of any dividend payments you receive and complete Tax Returns where required. For further advice please contact a tax or financial adviser, who in the UK must be authorised by the Financial Conduct Authority.

Overseas dividend payment service

Equiniti Limited provides a dividend payment service to over 30 countries that automatically converts payments into the local currency by an arrangement with Citibank Europe PLC. Further details, including an application form and terms and conditions of the service, are available on www.shareview.co.uk or from Equiniti Limited by calling +44 (0)121 415 7047 or writing to them at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (please quote Overseas Payment Service with the Company name and your shareholder reference number).

'Boiler room' scams

From time-to-time, in common with other listed companies, shareholders may receive unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, using persuasive and high-pressure tactics to lure investors into scams in what often turn out to be worthless, non-existent or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. Further information on how to avoid share fraud or to report a scam can be found on our website at www.spirehealthcare.com.

Financial calendar

2017 annual general meeting (London)	26 May 2017
Ex-dividend date for 2016 final dividend	1 June 2017
Record date for 2016 final dividend	2 June 2017
Payment date of 2016 final dividend	27 June 2017
Announcement of 2017 half year results	September 2017

Analysis of ordinary shareholders
As at 31 December 2016

	Private		Institutional and other		Total	
Investor type	**2016**	2015	**2016**	2015	**2016**	2015
Number of holders	**69**	49	**461**	446	**530**	495
Percentage of holders	**13.02%**	9.90%	**86.98%**	90.10%	**100%**	100%
Percentage of shares held	**0.50%**	0.29%	**99.50%**	99.71%	**100%**	100%

	1–1,000		1,001–50,000		50,001–500,000		500,001+	
Shareholdings	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Number of holders	**79**	75	**261**	251	**117**	103	**73**	66
Percentage of holders	**14.91%**	15.15%	**49.25%**	50.71%	**22.08%**	28.81%	**13.76%**	13.33%
Percentage of shares held	**0.01%**	0.01%	**0.73%**	0.68%	**5.37%**	4.94%	**93.89%**	94.37%

Corporate advisers

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

Brokers
Bank of America Merrill Lynch
2 King Edward Street
London EC1A 1HQ

J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Legal advisers
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Remuneration consultants
Deloitte LLP
2 New Street Square
London EC4A 3BZ

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Glossary

The following definitions apply throughout the Annual Report 2016, unless the context requires otherwise:

Act	The Companies Act 2006, as amended
Acute care	active but short-term treatment for a severe injury or episode of illness
Adjusted EBITDA	represents the Group's operating profit, adjusted to add back depreciation and exceptional operating items
Admission	the admission of the Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities
Articles	the Articles of Association of the Company
Board	the Board of Directors of the Company
c.difficile	Clostridium difficile
CAGR	compound annual growth rate
Cardiac catheterisation	insertion of a catheter into a chamber or vessel of the heart
Cardiology	speciality which encompasses the treatment of patients with cardiovascular disease
CCG	Clinical Commissioning Group
CGSC	Clinical Governance and Safety Committee
Cinven	Cinven Partners LLP
Cinven Funds	Fourth Cinven Fund (No.1) Limited Partnership, Fourth Cinven Fund (No.2) Limited Partnership, Fourth Cinven Fund (No.3 VCOC) Limited Partnership, Fourth Cinven Fund (No.4) Limited Partnership, Fourth Cinven Fund FCPR, Fourth Cinven Fund (UBTI) Limited Partnership, Fourth Cinven Fund Co-Investment Partnership and Fourth Cinven (MACIF) Limited Partnership
City Code	the City Code on Takeovers and Mergers
CMA	the UK Competition and Markets Authority
CNST	the Clinical Negligence Scheme for trusts administered by the NHS Litigation Authority
Company	Spire Healthcare Group plc
CQC	Care Quality Commission
CO_2e	carbon dioxide equivalent
CQUIN	commissioning for quality and innovation payment which is earned for meeting quality targets on NHS work
CRC Energy Efficiency Scheme	The CRC (Carbon Reduction Commitment) Scheme aims to incentivise energy efficiency and cut emissions in large energy users in the UK's public and private sectors.
CREST	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear UK and Ireland Limited is the operator
CRM	customer relationship management system/software
CT	computerised tomography
DBP	Deferred Bonus Plan
Directors	the Executive Directors and Non-Executive Directors
EBITDA	Operating profit, adjusted to add back depreciation, profit and loss arising from the disposal of fixed assets and exceptional items
Adjusted EBITDA	2014 EBITDA Adjusted to conform the property rental base and PLC operating costs base
EfW	Energy from Waste
EPS	earnings per share
ESOS	Energy Saving Opportunity Scheme
EU	the European Union
Executive Directors	the executive directors of the Company
EY	Ernst & Young LLP, the Company's external auditor
FCA	the Financial Conduct Authority
GDP	gross domestic product
GHG	greenhouse gas
GP	General Practitioner
Group	Spire Healthcare Group plc and its subsidiaries
HCA Holdings, Inc.	Hospital Corporation of America
HD	Hospital Director
Health & Safety Act	The Health & Safety at Work etc Act 1974
HMRC	HM Revenue & Customs
IFRS	International Financial Reporting Standards, as adopted by the EU
IPO	initial public offering of Shares to certain institutional and other investors
ISO 14001	environmental management system
ISO 18001	health and safety management system
ITU	Intensive Therapy Unit
JAG accreditation	The Joint Advisory Group on Gastrointestinal Endoscopy (JAG) accreditation is the formal recognition that an endoscopy service has demonstrated that it has the competence to deliver against the measures in the Endoscopy Global Rating Scale standards.
KPI	key performance indicator
Lifescan	a former Spire Healthcare service, offering advanced healthcare CT scans, health checks and blood tests
LinAc	linear accelerator enabling intensity modulated and image guided radiotherapy treatment
Listing Rules	the listing rules of the FCA made under section 74(4) of the Financial Services and Markets Act 2000
LTIP	Long Term Incentive Plan

MAC	Medical Advisory Committee
Monitor	an executive non-departmental public body of the Department of Health that acts as the sector regulator for health services in England
MRgFUS	Magnetic Resonance guided Focused Ultrasound treatment
MRI	magnetic resonance imaging
MRSA	Methicillin-resistant Staphylococcus aureus
MSSA	Methicillin-sensitive Staphylococcus aureus
NDC	Spire Healthcare's national distribution centre in Droitwich
NHS	the National Health Services in England, Scotland, Wales and Northern Ireland, collectively
NI	National Insurance
NICE	the National Institute for Health and Care Excellence
Non-Executive Directors	the non-executive directors of the Company
Official List	the record of whether a company's shares are officially listed, maintained by the FCA (the UKLA Official List)
Oncology	speciality which encompasses the treatment of people with cancer
Perform	formerly part of Spire Healthcare, specialised in sports medicine, rehabilitation and human performance
PHIN	Private Healthcare Information Network
PILON	payment in lieu of notice
PIP Claims	the claims relating to the supply of alleged faulty PIP breast implants
PMI	private medical insurance/insurer
PPE	property, plant and equipment
PPU	Private Patient Unit
PRisM	Property and Risk Management system
Prospectus	the final prospectus of the Company approved by the FCA as a prospectus prepared in accordance with the Prospectus Rules made under section 73A of the FSMA
Public Health England	the executive agency, whose purpose is to protect and improve the nation's health and wellbeing, and reduce wealth inequalities
Registrar	Equiniti Limited
Registration Regulations	the Care Quality Commission (Registration) Regulations 2009
Regulated Activities Regulations	the Health and Social Care Act 2008 (Regulated Activities) Regulations 2010
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
RNOH	Royal National Orthopaedic Hospital
ROCE	return on capital employed
RQIA	the independent health and social care regulator for Northern Ireland is the Regulation and Quality Improvement Authority
NHS Standard Contract	standard acute contract issued by NHS England
SAP	global software developer/software
Self-pay	when a procedure or treatment provided is funded by the patient directly
Shareholders	the holders of Shares in the capital of the Company
Shares	the ordinary shares of 1 pence each in the Company, having the rights set out in the Articles
tCO_2e	tonnes of equivalent carbon dioxide
TSR	total shareholder return
UK	the United Kingdom of Great Britain and Northern Ireland
UK Code	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time-to-time

Important information: forward-looking statements

These materials contain 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 presentation, 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 presentation and are subject to a number of known and unknown risks and uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by these forward-looking statements. In particular, the 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 during this presentation will in fact be realised and no representation or warranty is given as to the completeness or accuracy of the forward-looking statements contained in these materials.

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

Designed and produced by
CONRAN DESIGN GROUP

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO 14001.

This document is printed on Satimat Green, a paper containing 75% post consumer recycled fibre and 25% virgin fibre sourced from well-managed, responsible, FSC® certified forests and Oxygen, a paper containing 100% de-inked pulp recycled fibre approved by the Forest Stewardship Council®.

Spire Healthcare Group plc
3 Dorset Rise
London
EC4Y 8EN

spirehealthcare.com