Spire Healthcare reports its results for the year ended 31 December 2021

London, UK, 3 March 2022, Spire Healthcare Group plc (LSE: SPI), a leading UK independent hospital group, today announces its preliminary results for the year ended 31 December 2021.

Self-pay driving exceptional private revenue growth; continued support for NHS

Summary Group results for the year ended 31 December 2021

£m	**2021**	2020	**Variance 2021 vs 2020**	2019	Variance 2021 vs 2019
Revenue	**1,106.2**	919.9	20.3%	980.8	12.8%
Adjusted operating profit (Adjusted EBIT)	**81.1**	67.1	20.9%	97.6	(16.9%)
Adjusting items included in operating profit	**5.9**	(213.3)	NM[1]	(3.2)	NM
Operating profit / (loss) (EBIT)	**87.0**	(146.2)	NM	94.4	(7.8%)
(Loss) / profit before taxation	**(1.9)**	(231.0)	NM	9.6	NM
(Loss) / profit after taxation	**(8.9)**	(233.9)	NM	7.2	NM
Basic (loss) / profit per share, pence	**(2.4)**	(58.4)	NM	1.8	NM
Adjusted profit / (loss) per share, pence [2]	**(7.1)**	(5.2)	NM	2.4	NM
EBITDA [3]	**178.2**	161.1	10.6%	189.0	(5.7%)
FCF [4]	**27.4**	34.7	(21.1%)	51.0	(46.3%)
Capital investments	**77.1**	50.8	51.9%	62.5	23.4%
Net bank debt [5]	**224.9**	314.5	28.5%	330.0	31.8%

1. Not meaningful
2. Adjusted profit / (loss) per share is stated after the effects of Adjusting Items
3. EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'EBITDA'
4. FCF (Free Cash Flow) is calculated as EBITDA, less rent and capital expenditure cash flows. Rent cash flows are defined as *Interest on, and Payment of, Lease Liabilities* as disclosed in the consolidated statement of Cash flows. Capital expenditure cash flows are defined as the *Purchase of, and Proceeds on Disposal, of Property, Plant and Equipment* as disclosed in the consolidated statement of Cash flows.
5. Net bank debt is defined as bank borrowings less cash and cash equivalents

Included in our final results are comparatives for both the prior year (2020) and the previous year (2019). This is to allow meaningful comparisons as FY20 was materially affected by the COVID-19 pandemic, specifically from Q2 2020 – Q4 2020. In addition, Q1 2021 was impacted to a lesser degree as the Group remained under a COVID-19 NHS contract. Q2-Q4 2021 reflects a move back towards a pre COVID-19 trading environment. The comparison to two previous periods is only expected to be provided in FY21, and comparatives are against 2020 unless otherwise stated.

Operating and financial highlights

- Revenue over £1bn for first time with strong 20.3% revenue growth (vs FY20) (up 12.8% vs FY19), driven by significant demand for private treatment
- Self-pay revenue climbed 115.3% (vs FY20); PMI revenue growth of 40.3% (vs FY20) recovering close to 2019 level
- EBITDA of £178.2m up 10.6% (vs FY20) (down 5.7% vs FY19)
- Growth delivered despite the challenges of the ongoing uncertainties and pressures of COVID-19; £53m of COVID-related costs in FY21
- Strong self-pay performance with 80.0% revenue growth Q2-Q4 (vs Q2-Q4 19) (vs Q2-Q4 20: up 160.4%). Self-pay now forms 26.4% of revenue (vs 14.7% in FY20 and 18.2% in FY19)
- NHS COVID-19 support continued with Q1 volume-based contract, including nine Spire Healthcare hospitals becoming NHS cancer hubs, with a total of 356,000 NHS patients treated since the start of the pandemic (Q2 20 to end FY 21)
- Infection increases through new variants and the summer "Pingdemic" led to severe challenges around staff and Consultant absences and increased patient cancellation rates
- Net bank debt reduced to £224.9m, reflecting £89m of proceeds before costs from the sale and leaseback of Spire Cheshire Hospital; improvement in the net debt / EBITDA ratio, as per the covenant calculation, to 2.3x (from 3.9x at the end of FY20 and 3.0x at the end of FY19)
- Completed the re-financing of the Group's funding facilities; repaid £100m of debt

Developing our business

- 95% of sites currently rated 'Good' or 'Outstanding' by CQC or equivalent (up from 90% at the end of FY21 and FY20 and 85% at end of FY19)
- Launched first TV advertising campaign during Q2 21, which has helped improve awareness of the Spire brand and drive self-pay growth
- Launched nurse apprenticeship programme with 165 new apprentices (147 in FY20) and grew overseas nurse recruitment programme adding 250 new clinical colleagues (154 in FY20)
- Further progress on efficiency programmes, including the final roll-out of Electronic Pre-operative Assessment in FY21
- £77.1m capex investment in facilities and equipment, including 10 replacement CT and MRI scanners (up 51.9% vs FY20 and up 23.4% vs FY19)
- Good progress on digital rollout including a new pricing system
- Ongoing active management of property portfolio with purchase of Claremont Hospital, sale and leaseback of Cheshire hospital and sale of Sussex hospital
- First independent hospital provider to commit to becoming carbon neutral by 2030; 100% of the Group's electricity now sourced from renewable sources

Looking to the future

- Unprecedented demand for healthcare with 6.1m people nationally awaiting treatment; investments in self-pay expected to continue to deliver growth
- Efficiency programme expected to deliver savings of at least £15m in FY22; offsetting material inflationary pressures, especially in staff costs
- Plan to extend Spire Healthcare's service offer across patients' healthcare needs to include new standalone diagnostic / minor treatment clinics and diabetes long-term condition management
- Further digital transformation initiatives to accelerate operational efficiency and reduce costs

Current trading and outlook

We have delivered record growth in private patient revenues in 2021, and we expect to see continued strong growth in 2022. Trading in January and February was in-line with the Board's expectations and continues the trend of strong revenue growth. We are in particular encouraged by the significantly higher level of private enquiries received during the year to date compared to recent years. We anticipate that the NHS will continue to be an important contributor to revenue while growing modestly. We are targeting our efficiency programme to deliver savings of at least £15m in FY22, helping to offset inflationary and other cost increases.

Whilst COVID-19 self-isolation restrictions have now been lifted in the UK, Spire Healthcare and the healthcare sector will still need to maintain a COVID-secure environment. Accordingly, many COVID-19 costs will continue through 2022. There may be possible upside if COVID-19 prevalence reduces leading to fewer cancellations and staff absences.

Overall in 2022, we expect to see good revenue growth, continued EBITDA growth, and a further increase in ROCE, with an improvement in margins.

Justin Ash, Chief Executive Officer of Spire Healthcare, said:

"The pandemic has driven a fundamental shift in the private healthcare sector, shown by Spire's strong self-pay performance which, despite the cost pressures of COVID-19, has helped to deliver more than 10% EBITDA growth.

"2021 has shown Spire Healthcare to be a strong and adaptable business, which continues to invest in quality and capacity to meet the unprecedented demand for healthcare across the country. Increasing awareness of private healthcare and record waiting lists have led more people to prioritise their health and choose to use independent providers. We remain focused on providing the highest quality of care and patient safety in our hospitals, while increasing returns to shareholders. We look to the future with confidence and optimism."

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About Spire Healthcare

Spire Healthcare is a leading independent hospital group in the United Kingdom, with 40 private hospitals and eight clinics across England, Wales and Scotland.

Working in partnership with around 8,150 experienced Consultants, Spire Healthcare delivered tailored, personalised care to almost 870,000 in-patients and daycase patients in 2021, and is the leading private provider, by volume, of knee and hip operations in the United Kingdom.

The Group's well-located and scalable hospitals have delivered successful and award-winning clinical outcomes, positioning the Group well with patients, Consultants, the NHS, GPs and Private Medical Insurance ("PMI") providers. 95% of Spire Healthcare's hospitals are rated 'Good' or 'Outstanding' by the CQC (or the equivalent in Scotland and Wales).

Spire Healthcare treats patients through a variety of routes including PMI, Self-pay and the NHS, providing the Group with diversified access to the expected growth opportunities in the UK healthcare market, which faces significant supply challenges as a result of NHS budget constraints and increasing demand from a growing population with longer life expectancy.

Cautionary statement

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

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

Analyst and investor meeting

There will be an analyst and investor meeting today at 9am via Zoom webinar. Please register in advance through this link:
https://spirehealthcare.zoom.us/webinar/register/WN_apJmc7jVT_-6s877A1VuKA

The webcast will be available for replay following the presentation through the Company's investor website:
https://investors.spirehealthcare.com/home/

Operating Review

Introduction

2021 was a year which saw high demand for private healthcare, with rising NHS waiting lists in the wake of the COVID-19 pandemic encouraging people to prioritise their health and wellbeing. Spire research shows that there are now up to 15m people open to, and able to afford, private healthcare, up from eight million two years ago, and nine million in Spire's catchment areas, up from five million two years ago.

Against this backdrop, Spire Healthcare continued to provide vital support to private patients and the NHS through its network of 40 hospitals as people and businesses faced enormous ongoing challenges associated with COVID-19.

On 26 May 2021, it was announced that Ramsay Health Care had made a bid to acquire Spire Healthcare. The Spire Healthcare Board and its advisers supported the proposed transaction and it was put forward to shareholders. The Company respects the views of shareholders who did not provide sufficient votes to support the Scheme of Arrangement and the Board remains confident that Spire Healthcare continues to be well positioned for success as a standalone business. This period of uncertainty is now behind the Group and has not impacted the operating performance of the business.

Fulfilling our Purpose in 2021

Spire Healthcare's Purpose – **to make a positive difference to our patients' lives through outstanding personalised care** – lies at the heart of everything we do, from decisions about the strategic direction of the Company to how we greet patients arriving at our hospitals. Our Purpose also underpins our place in society and our relationship with our stakeholders.

During 2021, we focused on improving our relationships with all the Group's stakeholders while engaging more effectively, which contributed to strengthening the role of the independent sector as a key component of the UK healthcare system. Spire measures its Purpose as experienced by our patients and we were pleased that in H2 2021 85% of patients said Spire made a positive difference to their lives (up 2pp vs H2 20), 92% said our care was Outstanding (unchanged from H2 20) and 94% that is was personalised (unchanged from H2 20).

Delivering on our Strategy

Spire has four elements to its strategy. We are committed to being **first choice for private patients**, with private income our primary growth driver, whilst remaining a **key partner to the NHS**. We are committed to **improving revenue, profit and ROCE and good cash generation** and we maintain an **uncompromising focus on quality and patient safety.**

We achieved improvement on all four of these goals in 2021. We delivered record levels of growth in our private business, with revenue from private patients up 14.2%, compared with 2019, pre-pandemic and 61.8% vs 2020. We continued to support the NHS in tackling the pandemic and then helping tackle waiting lists. We maintained our uncompromising focus on quality and patient safety, keeping our hospitals COVID-secure and improving our CQC ratings, and we delivered EBITDA of £178.2m. This was up 10.6% on 2020 though down on pre-pandemic levels in 2019 by £11m, having absorbed £53m of COVID related costs.

Our strategy has proved successful and our results this year provide a strong platform for sustainable growth over the next few years.

Improving Revenue

Spire delivered strong revenue growth in FY21, up 20.3% YOY (vs FY19: up 12.8%), driven by significant demand for private treatment. Total admissions of 250,144 for FY21 were 31,802 or 14.6% higher than FY20 (vs FY19: 11,100 or 4.2% lower). Performance during Q1 21, while under the NHS contract, was broadly in line with management's expectations, with self-pay admissions in non-surge hospitals above Q1 19 levels and higher average revenue per case (ARPC) for private procedures. A return to more normalised trading from Q2 to Q4 saw strong private growth, with our payor mix in Q2-Q4 21 being 23% NHS, 74% private, and self-pay 29% of total revenue.

'First choice for Private patients'

Spire Healthcare delivered a strong private revenue performance in 2021. Private revenue rose 61.8% YOY (vs FY19: up 14.2%) with exceptionally strong growth in self-pay, where revenue climbed 115.3% YOY (vs FY19: up 63.3%). Both self-pay volumes, up 8.7% YOY (vs FY19: up 33.7%), and complexity increased, the latter driving strong average revenue per case ("ARPC"). We benefited from a growing trend of people turning to the independent healthcare sector to avoid the long waiting times for non-urgent treatment under the NHS. Consumer awareness of private healthcare grew and we strengthened recognition of the Spire Healthcare brand through TV and digital advertising. PMI growth was more muted, up 40.3% compared to 2020 (vs FY 19: down 3.7%), with more complex referral pathways likely affecting uptake and a lower conversion from outpatients to treatment than pre-pandemic, though volumes increased throughout the year.

In Q2-Q4 21, our hospitals were fully open to private patients and this was the period when private revenue growth recovered most strongly, up 22.2% versus Q2-Q4 19 (vs Q2-Q4 20: up 95.5%), driven by a record 80.0% growth in self-pay revenues compared to Q2-Q4 19 (vs Q2-Q4 20: up 160.4%), with more complex procedures generating a stronger case mix and carrying a higher ARPC than we had seen previously. PMI recovered more slowly, with Q2-Q4 21 PMI revenue only marginally ahead of the same period in 2019 (vs Q2-Q4 20: up 68.1%).

'A key partner for the NHS'

Since the start of the pandemic (Q2 20 to end FY21), Spire Healthcare has treated 356,000 patients on behalf of the NHS. Overall in 2021, NHS revenue was up 10.1% vs 2019 (down 26.9% vs 2020).

Our partnership with the NHS had two phases in 2021. During Q1, Spire Healthcare operated under a revised NHS contract as we started the year in the midst of a national lockdown. This arrangement provided volume-based revenue (as opposed to the cost-cover contract operating in 2020) but with a minimum income guarantee (MIG). We worked closely with the NHS in England, Scotland and Wales during this period to provide appropriate care for NHS patients. Nine Spire Healthcare hospitals became NHS cancer hubs during Q1 21, a source of great pride for all colleagues.

The Company was successful in its bid to be included on the NHS England (NHSE) Framework for purchasing additional activity from the independent sector, clearly demonstrating the importance of our role in the nation's healthcare. However, as NHS contracting returned to the pre-COVID arrangements (mainly standard acute contract (SAC) or eRS based), NHS volumes were generally low from Q2 to Q4 as waiting lists increased (vs Q2-Q4 19: down 22%), (vs Q2-Q4 20: down 41.5%).

On 10 January 2022, Spire Healthcare entered into a new agreement in principle with NHSE to provide support to the NHS and its patients. This agreement followed a request for support from NHSE and detailed discussions with NHSE and other independent providers, in light of the uncertainties created by the Omicron variant. The agreement, which is due to expire on 31 March 2022, allows Spire Healthcare to continue to treat private patients, whilst supporting the NHS. Spire has been supporting Trusts with urgent requests for care, and activity is likely to exceed the Minimum Income Guarantee, which will not therefore apply to Spire, though it remains below pre-pandemic levels.

Improving EBITDA, ROCE and good cash generation

EBITDA rose by 10.6% to £178.2m compared to FY20 (vs FY19: down 5.7%), largely due to Spire Healthcare's strong revenue growth, particularly through self-pay. Adjusted EBIT of £81.1m for the year was 20.9%, up on FY20, but 16.9% lower than that recorded in FY19.

This return was delivered in spite of the costs and disruption associated with COVID-19. Directly related testing costs reduced EBITDA by £14.3m, as we maintained the strict COVID-secure protocols outlined below. This was compounded by indirect costs for Consultant and colleague absences and late patient cancellations well in excess of historic run rates which, taken with the testing costs, amounted to total COVID-related costs of £53.5m.

As the prevalence of COVID surged at times during the year, the number of cancelled procedures rose, resulting in reduced EBITDA through lost revenue and the costs associated with pre-operative routines (including initial consultation and diagnostics). EBITDA was further impacted by costs associated with staff absence caused by COVID illness and the need to self-isolate. The pressures on the health system drove up agency rates materially, and these remain very high today.

This was most severe in July and August, the time of the 'Pingdemic', and EBITDA was impacted by £8m in those two months alone.

The Group was not impacted by rising energy prices as these costs are hedged until late 2024.

Capital investment in the year was £77.1m, up 51.9% on prior year and 23.4% ahead of FY19, as we focused on further investment in patient care and digital transformation, with extensive investment in imaging, including the replacement of 10 CT and MRI scanners.

Working capital increased by £11.4m in the period driven by the increase in other payables relating to payments on account from both private and NHS patients. Cash and cash equivalents at 31 December 2021 amounted to £202.6m, up £96.3m from £106.3m at prior year end, with proceeds of £89.0m before costs from the sale and leaseback of Spire Cheshire Hospital. This contributed to a reduction in net debt with the balance at 31 December 2021 being £224.9m, and an improvement in the net debt / EBITDA ratio, as per the covenant calculation, to 2.3x, a significantly enhanced position on FY20 and FY19 levels of 3.9x and 3.0x respectively.

ROCE recovered from 4% in 2020 to 4.9% in 2021 (FY19: 5.1%), we expect to see further improvements as efficiency drives and other initiatives start to impact performance.

Re-financing

At the end of FY21, Spire Healthcare had a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m (together the 'Facilities'), with the Facilities maturing in July 2023. In February 2022, we announced that we had re-financed the Group's bank funding facilities. As part of this process, we took the opportunity to pay down £100m of the Facilities, such that we now have a Senior Loan Facility of £325m and an undrawn RCF of £100m until February 2026 (with an option to extend one year). The new Facilities have a marginally higher cost of funding of an additional 30 basis points or £975k per annum. The covenants are unchanged.

Dividend

As a result of the continued COVID-19 uncertainty, no dividend is proposed for the year ended 31 December 2021. No dividends have been proposed or paid since the start of the pandemic. The Board will review the Company's dividend policy during 2022 taking into account the balance sheet and trading outlook.

Uncompromising focus on quality and patient safety

Patient safety is our highest priority, and our CQC ratings are now amongst the highest across private providers. 95% of our hospitals are now rated 'Good' or 'Outstanding' by the CQC and its equivalents in Scotland and Wales, an improvement from 90% at year end. The situation was90% and 85% at the end of FY20 and FY19 respectively, which represents a step change from Spire Healthcare's 69% overall rating at the end of 2016. Within the overall score of 95%, 92% of the Group's hospitals are rated 'Good' or 'Outstanding' on safety by the CQC and its equivalents, and 95% as well led. These scores are were significantly higher than other providers in our sector. These ratings follow ten inspections by the CQC and equivalent regulators in Scotland and Wales, and all the sites Spire was rated 'Good' overall or equivalent. We were also delighted to acquire the Claremont Private Hospital in Sheffield during 2021, a site rated 'Outstanding' by the CQC.

To ensure we can meet our commitment to patient safety, protect Consultants and colleagues and keep our hospitals at maximum capacity, Spire Healthcare has had to maintain strict COVID-related controls and safety measures throughout 2022. Whilst many of the controls are mandated by Public Health England (PHE), we have taken extra steps to ensure that any impact of the COVID-19 virus on our operations is minimised. As a matter of routine, we test our Consultants and colleagues twice a week and every patient is required to take either a PCR test or a LFT test depending on their vaccination status and other criteria before admission. All Spire Healthcare's patient pathways and infection control procedures are maintained to an extremely high standard and follow national guidance.

During 2021, we embarked on a number of sector-leading initiatives. We were the first independent provider to appoint a medical examiner to review all cases where a patient has died within 31 days of surgery. We did this ahead of the full rollout of medical examiners across the NHS; NHS

England is aiming for all non-coronial deaths to be examined by March 2022. We were the first in the sector to appoint an National Patient Safety Specialist who now links with NHS and sector-wide safety and quality improvement initiatives.

In Q2 21, we launched our Quality Improvement Strategy. This involves the development of a quality improvement culture, underpinned by a quality improvement methodology. Following a colleague consultation survey, 'Improving patient experience' was chosen from a list of 10 quality priorities for the year. This comprises improving the admissions and discharge processes, and ensuring we listen to patient feedback and engagement, including complaints, concerns and compliments. More than 100 colleagues have been trained as quality improvement practitioners to date, and c.50 quality improvement projects are under way.

Independent Inquiry into Ian Paterson

We continued our work to implement the recommendations of the Independent Inquiry into Ian Paterson, which reported in early 2020. Spire Healthcare wrote to all known living patients of Paterson in December 2020 and some, who had not previously been contacted, were invited to discuss their treatment. The review is on-going but has identified that some of these patients were harmed by Paterson, who was suspended by Spire Healthcare in 2011. Spire Healthcare has now set up a second compensation fund to deal with any new claims arising out of treatment by Paterson at the Company's hospitals. The scheme is administered by two law firms, Slater and Gordon UK Limited, and Thompsons Solicitors LLP, who administered the earlier Paterson compensation scheme from 2017.

We have developed our own guidance on how best to carry out reviews, based on our own experiences, since there is no agreed best practice standard currently in place. Our priority is to ensure that we implement standard operating procedures and protocols that mitigate the risk of inappropriate advice and procedures being offered to our patients in the future. We have shared our guidance with the NHS and with the wider independent sector, and we are now jointly leading a project involving regulators, the NHS and government as part of the response to the Paterson inquiry to develop a national toolkit for patient reviews and recalls.

Supporting our Strategy

Spire advanced a number of strategic initiatives in 2021 to underpin and advance our strategy:

Recruitment and Colleague Development Initiatives

As a large independent healthcare provider, Spire Healthcare has a key role to play in serving the healthcare needs of the population. With the current shortage of clinical staff across the healthcare sector, the Group is addressing this issue by recruiting and by retraining colleagues, and providing opportunities for clinical leaders of the future to develop themselves. Labour pressures are widely known to be severe in the UK in general and in healthcare in particular. Spire Healthcare will be exposed to higher wage inflation in 2022. This includes changes due to the national minimum wage and National Insurance for employees and employers, and wage rates in casual staffing and agency in particular continue to rise. Spire has invested heavily in its recruitment, development and retention strategies and has high levels of employee engagement. Despite these pressures, vacancy rates remain stable, helped also by our efficiency initiatives which have consolidated roles in hospitals and in hubs reducing recruitment need. Three initiatives in particular demonstrate Spire's long term planning in building talent pipeline for its business and UK healthcare.

Early in 2021, we launched a major new nurse degree apprenticeship programme in our hospitals in England, in partnership with the University of Sunderland. The nurse degree apprenticeship is open to applicants at all stages of work life, including school leavers, university graduates and people looking to retrain. The programme combines university study and workplace learning, and apprentices obtain a BSc degree at the end. Around 5,000 people applied to the programme, with 165 offers made. 15% of the successful candidates were colleagues already working at Spire Healthcare.

During H1 21, we launched our 'GROW' learning framework which includes our Step Up and Stretch initiative for future leaders across the business. Additionally, in Q3 21, we launched programmes for Operating Department Practitioners and Assistant Practitioners with the University of Derby, supplementing the clinical and non-clinical apprenticeships we already offer.

Despite international travel restrictions that were in place for much of FY21, we continued our overseas nurse recruitment programme. This has proven highly beneficial to Spire Healthcare in terms of adding capacity and as a means of broadening the culture of our colleagues. It has also proved popular with our nurses joining from foreign countries, with many commenting on the positive experience of working in our hospitals. By the end of the year, we had introduced 250 new clinical colleagues (154 in FY20), with over 140 already established in our hospitals.

Efficiency initiatives

A number of efficiency programmes are ongoing to target cost savings designed to drive EBITDA margin and improve the Group's return on capital employed. Key areas of focus include:

- Procurement savings through new contracts with new or existing suppliers; and
- Operational efficiencies through streamlining existing, or introducing new and digital, processes.

Changes to procurement processes and COVID-19 testing protocols delivered savings of £7.1m in FY21, and our efficiency programmes are expected to deliver savings of at least £15m in FY22, increasing in future years. This will be a major contributor to offsetting labour cost pressures and supporting profitable growth.

During the final quarter of 2021, we began to implement the first phase of the Group's revised operating structure whereby the Group would be comprised of two regions. Linked to this, we introduced the concept of a 'hub' where hospitals are grouped together and able to leverage the associated operational benefits. Spire Healthcare now has 14 hubs and this is enabling greater co-ordination between the relevant hospitals with some roles now only existing at a hub level.

We accelerated the delivery of certain digital efficiency programmes designed to improve the patient experience by making it easier to access our services and improve interaction with our colleagues. This included full delivery of ePOA (electronic pre-operative assessment) and a new pricing system. After initially piloting ePOA at three Spire Healthcare sites during 2020, we successfully delivered ePOA across all remaining sites during

FY21. This has resulted in a significant reduction in the use of paper within Spire Healthcare hospitals, provided an improved patient experience, shorter processing time, thereby freeing up nursing time and hospital consulting rooms. The Group's new pricing system allows central oversight and optimisation of self-pay pricing across Spire Healthcare's hospitals, while also making it easier for our Consultants to securely post and amend their own, independently determined, charges. We were also pleased to be granted access to the NHS patient summary care records, which will ease the patient pathway between care in the NHS and at Spire, and is particularly important for our private GP service.

Delivery of private patient care is central to Spire Healthcare's long-term strategy. Our market research shows that the first priority for patients when seeking care is to know what is wrong with them, quickly. It also showed a growing awareness of the role of the private sector in supporting the NHS, leading to our target audience viewing private hospital providers in a more positive light. To maximise our opportunities, we launched Spire Healthcare's first ever concerted brand building campaign this year. We increased our marketing efforts during FY21 in an effort to capture the significant opportunity to increase private activity. As part of this, we launched a TV advertising campaign in Q2, supported by print and digital initiatives. This was followed by a second wave of advertisements in the autumn.

Work continued during 2021 on the design and implementation of a comprehensive electronic patient record as part of our wider Hospital Management System programme. Rather than seek a wholesale system replacement, we have continued to build on our investments in SAP, in our Radiology and Pathology solutions, and in our integrations with the NHS, as we believe a system replacement would be more expensive and higher risk. We have further developments in the pipeline as we extend the digital patient pathway and drive further efficiencies, including digital pathology workflow, digital radiology workflow and automating of patient communications. Work on all of these commenced during the latter part of FY21.

Spire Healthcare's digital strategy is central to the Group's long-term growth. It is designed to make private healthcare easily accessible to patients, from finding out about our services on our website, booking appointments for consultations and procedures, through to virtual consultations and diagnostics. The Group's digital portals for both patients and our partners (Consultants and PMI providers) saw record levels of bookings during FY21. In total, 119,328 bookings were made using our digital portals during the year, up 105.1% on prior year, highlighting a growing demand for our online services.

Portfolio management

With a property portfolio consisting of 40 hospitals, proactive management of the portfolio is an important factor in driving the Group's return on capital as well as ensuring the long-term growth potential and sustainability of the business.

On 31 March 2021, Spire Healthcare reached an agreement with East Sussex Healthcare NHS Trust (ESHT) to shorten the lease on Spire Sussex and to transfer operational control of the hospital back to the Trust. Spire Healthcare received £2m income from the early termination of the lease with all fittings, fixtures, equipment and capex responsibility transferring to the Trust on 31 March 2021. On 31 March 2022 colleagues and any remaining assets will transfer to ESHT. Spire Sussex generated revenue of £8.4m with EBITDA of £0.43m in 2019.

On 30 November 2021, Spire Healthcare completed the acquisition of a c.88% stake in the operating assets of the Claremont Private Hospital in Sheffield. This provides the Group with a high quality hospital in South Yorkshire, an area with a large population where Spire Healthcare previously had no presence, and where the Group anticipates strong demand for self-pay procedures. Spire Healthcare paid £19.1m, funded by cash, to acquire the operating assets. The remaining 12.0% stake is owned by a group of Consultants, most of whom have practising privileges at the hospital.

Towards the end of the year, Spire Healthcare announced the sale and leaseback of Spire Cheshire. Proceeds of the sale amounted to £89m in cash before costs, generating a profit of approximately £23m. Spire Healthcare continues to operate the hospital, leasing the property at an initial rent of £3.8m, with annual rent inflation linked to CPI and capped at 4%.

Our climate, our communities and our people

Doing the right thing is one of Spire Healthcare's six values. Our commitment to our patients, colleagues and Consultants is complemented by a determination to play our part in tackling climate change. In late 2020, the Spire Healthcare Board approved a decarbonisation strategy, designed to achieve net zero carbon emissions by the end of 2030. As such, we were the first independent provider to make a commitment to become carbon neutral by 2030. Approximately £16m of investment over the next 10 years has been budgeted to help achieve this aim. In Q4 21, we switched to source all of our electricity from renewable sources. We anticipate that this change will result in a 40% reduction in our carbon emissions.

A number of other initiatives designed to reduce the Group's overall carbon emissions were progressed during FY21 including replacing gas-powered boilers with more efficient equipment powered by electricity, replacing older lighting with LED lights which are between 50% and 60% more energy efficient, and improving insulation in and around our buildings. We have also installed photo-voltaic solar panels on the roof of Spire Cardiff hospital and chillers in our operating theatres in Spire Parkway hospital in the Midlands, which recycle the heat removed to heat water in the hospital. We are planning to deliver similar initiatives at other Spire Healthcare hospitals during 2022.

Understanding Spire Healthcare's role in society and engaging with the local communities which its hospitals serve are important factors underpinning the Group's ability to grow a sustainable and robust business which will add value over the long term. During 2021, Spire Healthcare colleagues sought ways to contribute to their local communities beyond the care they provide directly or indirectly to patients every day. A number of charity initiatives were involved, with Spire Healthcare colleagues participating both individually and collectively as they have done in previous years.

The wellbeing of our colleagues continues to be a priority and we have remained alert to the need to support our colleagues during the crisis, both operationally and financially. We continued to use digital platforms during FY21 to maintain strong communications between colleagues as well as Let's Talk debates aimed at promoting a strong listening and learning culture. Our recruitment and training of Mental Health First Aiders across all parts of the Group's operations continued in 2021, raising awareness of the specialist support available to colleagues. Additionally, early in the year, we launched a free, dedicated colleague telephone support service which is available 24x7 to provide help and advice from counsellors and information specialists. This supplements our ongoing Employee Assistance programme.

In recognition of the tireless dedication and hard work of colleagues, the Company will make an exceptional financial COVID-19 gift of £100 to all colleagues not on a bonus scheme, to thank them for their contribution during the year. The Company encourages share ownership and operates a HMRC-approved Savings-Related Share Option Plan (Sharesave). A further tranche of share options under Sharesave, which is open to all employees, will be offered during 2022.

As a healthcare company, a focus on environmental, social and governance (ESG) is an inherent part of Spire Healthcare's business, and is firmly embedded in its Purpose. While many ESG/sustainability initiatives are ongoing, work on developing a comprehensive ESG strategy resumed towards the end of the year. We now plan to launch our ESG strategy in H1 22 with appropriate KPIs and targets.

Current international climate

The situation in relation to Ukraine is constantly changing but our view at present is that the impact on our business is likely to be limited. Our business is hedged against the impact of energy volatility. The impact of foreseeable wage increases is factored into our plans. We have not seen any change in our demand profile since the crisis escalated with continued high demand for self-pay and we are able to take on more NHS work. We also have strong contingency and business continuity plans which we have reviewed. We are providing support to colleagues whose families, or themselves, are affected. We will update the market if necessary, as the international situation evolves.

Looking to the future

There remains an unprecedented demand for healthcare across the UK population. The impact of the COVID-19 on people's lives, business and the economy has been enormous and will likely remain for years to come. As NHS waiting lists for elective procedures continue to lengthen, we have seen a growing demand for private treatment in particular, seeking alternative routes for diagnosis and treatment given the pressure on NHS GPs and waiting lists.

Our investment to drive self-pay income which we began several years ago is bearing fruit, as evidenced by the significant rise in self-pay revenue recorded in FY21. We believe the trend involving patients choosing to take advantage of the benefits of private treatment will continue and the Group's strategy to accelerate private patient growth reflects this. Further, the positive relationships formed with all key stakeholders will, we believe, provide a strong foundation for the business in the years ahead. While considerable uncertainty around the COVID-19 pandemic remains, Spire Healthcare will continue to focus on maintaining a COVID-secure environment for our patients, Consultants and colleagues and consequently, COVID-related costs will continue in 2022. Meanwhile, healthcare in the UK faces inflationary pressures, especially on staffing costs, due to a shortage of nurses and the general impact of above inflation rises in the National Living Wage and the new Health and Social Care Levy. Spire believes it is well placed to offset these pressures through its strategic initiatives and in particular by further improvements in testing, strong employee recruitment, retention and development, and progressive efficiency measures. Indeed we believe we now have a platform for margin expansion in 2022 and beyond.

As the nature of the demand for healthcare has changed radically in the wake of the pandemic, we will evolve our strategy to reflect the new market dynamics. This will entail greater diversification to provide a broader integrated healthcare offering, while maintaining our core focus on our hospital offering. We will provide further information on the Group's plans for future development at a capital markets day in June.

Financial review

Selected financial information

(£m)	Year ended 31 December 2021 Total before Adjusting items	Adjusting items (note 9)	Total	Year ended 31 December 2020 Total before Adjusting items	Adjusting items (note 9)	Total	Year ended 31 December 2019 Total before Adjusting items	Adjusting items (note 9)	Total
Revenue	1,106.2	–	1,106.2	919.9	–	919.9	980.8	–	980.8
Cost of sales	(615.0)	–	(615.0)	(464.1)	–	(464.1)	(529.4)	–	(529.4)
Gross profit	491.2	–	491.2	455.8	–	455.8	451.4	–	451.4
Other operating costs	(411.2)	(17.4)	(428.6)	(389.1)	(213.3)	(602.4)	(353.8)	(3.2)	(357.0)
Other income	1.1	23.3	24.4	0.4	–	0.4	–	–	–
Operating profit / (loss) (EBIT)	81.1	5.9	87.0	67.1	(213.3)	(146.2)	97.6	(3.2)	94.4
Net finance costs	(88.1)	(0.8)	(88.9)	(85.6)	0.8	(84.8)	(84.8)	–	(84.8)
(Loss) / profit before taxation	(7.0)	5.1	(1.9)	(18.5)	(212.5)	(231.0)	12.8	(3.2)	9.6
Taxation	(20.8)	13.8	(7.0)	(2.2)	(0.7)	(2.9)	(3.0)	0.6	(2.4)
(Loss) / profit for the period	(27.8)	18.9	(8.9)	(20.7)	(213.2)	(233.9)	9.8	(2.6)	7.2
(Loss) / profit for the year attributable to owners of the Parent	(28.6)	18.9	(9.7)	(20.7)	(213.2)	(233.9)	9.8	(2.6)	7.2
Profit for the year attributable to non-controlling interest [4]	0.8	-	0.8	-	-	-	-	-	-
EBITDA [1]	178.2	–	178.2	161.1	–	161.1	189.0	–	189.0
Basic (loss) / earnings per share, pence	(7.1)	4.7	(2.4)	(5.2)	(53.2)	(58.4)	2.4	(0.6)	1.8
FCF [2]			27.4			34.7			51.0
Capital investments			77.1			50.8			62.5
Net cash from operating activities			183.8			159.7			201.7
Net bank debt [3]			224.9			314.5			330.0

1. EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'EBITDA'.
2. FCF (Free Cash Flow) is calculated as EBITDA, less rent and capital expenditure cash flows. Rent cash flows are defined as Interest on, and Payment of, Lease Liabilities. Capital expenditure cash flows are defined as the Purchase, and Proceeds on Disposal, of Property, Plant and Equipment
3. Net bank debt is defined as bank borrowings less cash and cash equivalents
4 (Loss) / profit for the year attributable to non-controlling interest not disclosed in prior years as it was immaterial.

Revenue

Group revenues increased by 20.3% to £1,106.2m versus FY20 of £919.9m (increased by 12.8% versus FY19 of £980.8m). The Group operated under an NHS volume based contract in Q1 2021, with a minimum income guarantee. The increase in revenue during the year is mainly driven by the strong return of private patients from Q2 2021. NHS revenue of £314.5m (2020: £430.0m, 2019: £285.7m) includes £58.1m revenue from the COVID-19 contracts (2020: £362.7m, 2019: £nil), with £47.4m reflecting the "top up" to minimum income guaranteed under the Q1 2021 contract, and £10.7m relating to the FY20 NHS cost recovery contract being recognised in the period following customer agreement to variable consideration and final costings.

The nature of the NHS COVID-19 specific contracts in FY20 and Q1 2021 means that not all of the detail of revenue by location (inpatient, day case or Out-patient) is available. In Q1 2021, where a patient was admitted, this revenue has been recorded within the revenue by location. Amounts relating to the minimum income guarantee over and above admitted patients is reflected in the NHS COVID-19 line. In FY20, admission type was not tracked under the NHS cost recovery contract and therefore all revenue under the contract is reflected in the NHS COVID-19 line.

Revenue by location and payor

(£m)	2021	2020	Variance % (2021-2020)	2019	Variance % (2021-2019)
	Year ended 31 December				
Total revenue	**1,106.2**	919.9	20.3%	980.8	12.8%
Of which:					
Inpatient	**414.2**	188.3	120.0%	370.5	11.8%
Day case	**307.0**	170.3	80.3%	298.9	2.7%
Out-patient	**300.9**	181.9	65.4%	286.9	4.9%
NHS – COVID-19	**58.1**	362.7	(84.0%)	-	NM[1]
Other	**26.0**	16.7	55.7%	24.5	6.1%
Total revenue	**1,106.2**	919.9	20.3%	980.8	12.8%
Of which:					
PMI	**473.7**	337.6	40.3%	491.8	(3.7%)
Self-Pay	**292.0**	135.6	115.3%	178.8	63.3%
Total Private	**765.7**	473.2	61.8%	670.6	14.2%
Total NHS	**314.5**	430.0	(26.9%)	285.7	10.1%
Other	**26.0**	16.7	55.7%	24.5	6.1%
Total revenue	**1,106.2**	919.9	20.3%	980.8	12.8%

1 Not meaningful

Cost of sales and gross profit

Comparisons with prior periods are not straightforward due to the COVID-19 pandemic and subsequent contracts with the NHS. In FY20 revenue was based on a cost recovery basis and in Q1 2021 the Group operated under a volume based contract with a minimum income guarantee. In addition, the different mix of work undertaken during FY21 and FY20 also distorts both the cost profile and its proportion of revenue.

Gross margin for the year is 44.4% compared to 2020 levels of 49.5%, and 2019 levels of 46.0%. Cost of sales increased in the period by £150.9m (£85.6m increase versus 2019), or 32.5% (16.2% versus 2019), to £615.0m (2020: £464.1m, 2019: £529.4m) on revenues that increased by 20.3% (12.8% versus 2019). The increase in costs is due to additional agency and bank staff cost to assist in short notice absences caused by COVID-19 self-isolation requirements of £43.0m. The margin was higher in 2020 as a result of strong private trading, and the impact of the NHS cost recovery contract.

Cost of sales is broken down, and presented as a percentage of relevant revenue, as follows:

	2021		2020		2019	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	£m	% of revenue	£m	% of revenue	£m	% of revenue
Clinical staff	**260.8**	**23.6%**	212.6	23.1%	203.3	20.7%
Direct costs	**263.4**	**23.8%**	192.8	21.0%	223.9	22.8%
Medical fees	**90.8**	**8.2%**	58.7	6.4%	102.2	10.4%
Cost of sales	**615.0**	**55.6%**	464.1	50.5%	529.4	54.0%
Gross profit	**491.2**	**44.4%**	455.8	49.5%	451.4	46.0%

Hospital operating profit margin (gross profit less indirect hospital costs) was 23.5% compared to 26.4% in 2020 and 25.2% in 2019.

Other operating costs

Other operating costs for the year ended 31 December 2021 decreased by £173.8m or 28.9% to £428.6m (2020: £602.4m). The main driver for this decrease relates to the one-off non-cash charge for impairment in the prior year, relating to goodwill as reported in H1 2020, of £200m which was reported as an Adjusting item. Excluding Adjusting Items, other operating costs have increased by £22.1m, or 5.7% to £411.2m (2020: £389.1m) This increase is mainly driven by increased non-clinical staff costs (which includes £1.9m (2020: £1.4m) in respect of the provision for holiday accruals), depreciation and marketing costs offset by the profit on disposal relating to the sale leaseback of the Group's Cheshire Hospital. In 2019, other operating costs were £357.0m, being 20.1% lower than 2021, and excluding adjusting items at 16.2% lower at £353.8m.

Operating margin for the year ended 31 December 2021 is 7.9%, up from a negative 15.9% in 2020 and down from 9.6% in 2019. Excluding Adjusting Items, operating margin is 7.3%, unchanged from 7.3% at 2020 and down from 10.0% in 2019.

EBITDA

EBITDA for the Group has increased by 10.6% in the period from £161.1m to £178.2m for 2021 and decreased by 5.7% from £189.0m in 2019. The increase versus FY20 reflects the reducing limitations placed on the trading operations of the business as a consequence of both the NHS COVID-19 contract and Government policy in response to the pandemic.

Share-based payments

During the period, grants were made to Executive Directors and other employees under the Company's Long Term Incentive Plan. For the year ended 31 December 2021, the charge to the income statement is £2.8m (2020: £1.7m, 2019: £1.0m), or £3.2m inclusive of National Insurance (2020: £1.9m, 2019: £1.1m). In addition, the Group has a Share save scheme which was launched in 2019. Further details are contained in note 27 of the Annual Report and Accounts.

Adjusting items

(£m)	Year ended 31 December 2021	2020	2019
Remediation of regulatory compliance or malpractice costs	**11.4**	12.8	1.9
Costs from asset disposals, impairment and aborted project costs	**4.5**	200.3	-
Business reorganisation and corporate restructuring costs	**1.2**	-	1.1
Hospitals set up and closure costs	**0.3**	0.2	0.3
Income from asset disposals and aborted projects	**(23.3)**	-	(0.1)
Total Adjusting items in operating costs	**(5.9)**	213.3	3.2
Interest payable / (receivable) on Adjusting items	**0.8**	(0.8)	-
Total pre-tax Adjusting items	**(5.1)**	212.5	3.2
Income tax (credit) / charge on Adjusting items	**(13.8)**	0.7	(0.6)
Total post-tax Adjusting items	**(18.9)**	213.2	2.6

Adjusting items comprise those matters where the Directors believe the financial effect should be adjusted for, due to their nature, size or incidence, in order to provide a more accurate comparison of the Group's underlying performance.

The Group has recognised £11.4m (2020: £12.8m) of charges relating to Remediation of Regulatory Compliance or Malpractice Costs.

- During 2020, the judgment was received in favour of the Group in its case against one of its insurers relating to Ian Paterson and the Group was awarded £11.6m, including £0.8m of interest. . This income was recognised as the Group's best estimate at the time was that the possibility of a successful appeal was remote and therefore there was no significant risk of reversal. £10.8m was reported within Remediation of Regulatory Compliance or Malpractice Costs and £0.8m was shown in the above table as Interest Receivable on Adjusting Items. Following this ruling, the Group received an additional £0.4m credit in respect of costs awarded by the Court in FY21.
- In December 2021, the case was heard in the Court of Appeal, following an appeal by the insurer. In January 2022, the judgment was received in favour of the insurer. As a result, the Group is required to repay amounts awarded by the High Court, as well as the Insurers costs. The Group has treated this judgment as an Adjusting post balance sheet event and provided £12.2m for repayment of compensation and costs, and £0.8m in interest payable which was received by the Group previously. The Group will seek leave to appeal which, if granted, would result in the case being heard in the Supreme Court.

The prior year charge of £12.8m reflects the £11.6m awarded in the High Court case referred to above, and the following two items:

- The Group is committed to providing on-going support to Paterson's patients, and following the release of the Paterson Public Inquiry in February 2020, the Group incurred, or provided for, costs of £22.2m during the year.
- The Group reached a settlement with the Competition and Marketing Authority (CMA) as disclosed in the RNS announcement released on 1 July 2020. Professional costs in respect of the CMA investigation were also recognised, bringing the total cost recognised in the period to £1.3m.

During the year, the Group incurred £4.7m of costs relating to Mergers and Acquisition ("M&A") costs, largely relating to the attempted takeover bid by Ramsay Health Care, and the acquisition and integration of Claremont, which the Group acquired in November 2021. In March 2021, the Group agreed to terminate the lease for our Sussex Hospital, with the NHS Trust taking over the running of the hospital from 31 March 2022. As part of this agreement, the Plant, Property and Equipment were sold to the Trust on 31 March 2021, the property lease shortened to a period of one year (reduced from 6 years) and a transitional arrangement was agreed. This has resulted in a £0.4m profit being reflected in Asset disposals, offset by £0.2m of sale costs, which offsets the M&A costs.

In the period, the Group announced a strategic, group wide initiative that impacts the operating model of the Group to allow a more efficient governance and reporting structure. As a result, of this initiative, costs of £0.6m have been incurred, and a further £0.6m has been provided for following internal announcements in the year. The majority of this initiative is expected to complete during 2022.

Hospital set up and closure costs mainly relate to the maintenance of costs of non-operational sites.

In December 2021, the Group agreed the sale and leaseback of its Cheshire Hospital for consideration of £89m. A gain on disposal of £23.5m has been recognised, offset by £0.2m of costs to sell.

In the prior period, the Group booked an impairment charge in respect of goodwill of £200m (see note 13 for more detail) and a £0.3m impairment on an asset held for sale following a change to the property market brought about by the pandemic.

An income tax credit has been recognised relating mainly to the sale and leaseback of Spire Cheshire where a chargeable gain has crystallised, but is offset by movements in deferred tax.

Net finance costs

Net finance costs increased by 4.8% to £88.9m (2020: £84.8m, 2019: £84.8m). Adjusting items of £0.8m costs (2020: £0.8m income, 2019: £nil) relates to the interest repayment on the Court of Appeal judgment in respect of an insurer.

Taxation

The effective tax rate 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:

(£m)	Year ended 31 December 2021	2020	2019
(Loss) / profit before taxation	**(1.9)**	(231.0)	9.6
Tax at the standard rate	**(0.4)**	(43.9)	1.8
Effects of:			
Expenses and income not deductible or taxable	**4.5**	5.6	2.8
Tax adjustment for the Super-deduction allowance	**(2.2)**	-	-
Tax adjustment in respect of sale and leaseback	**(16.0)**	-	-
Impairment charge in respect of goodwill (not tax deductible)	**–**	38.0	-
Adjustments to prior year	**3.5**	(2.4)	(1.5)
Difference in tax rates	**17.7**	5.8	(0.4)
Deferred tax not previously recognised	**(0.1)**	(0.2)	(0.3)
Total tax charge	**7.0**	2.9	2.4

Corporation tax is calculated at 19.0% (2020: 19.0%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year was not meaningful (2020: negative (1.3)%), mainly due to the one-off tax rate impact to deferred tax of £17.7m as a result of the Government announcement to increase the corporation tax rate from 19% to 25% from April 2023, a prior year adjustment of £3.5m, and one-off tax credit movements of £16.0m in respect of the sale and leaseback of a freehold property. The prior year was driven by the effects of revaluing deferred tax assets and liabilities to 19% following the abolishment of the rate reduction to 17% due in April 2020, and the permanent difference relating to the £200m impairment charge.

Profit after taxation

The loss after taxation for the year ended 31 December 2021 was £8.9m (2020: Loss £233.9m and 2019: Profit £7.2m).

Adjusted financial information

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

Non-GAAP financial measures

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

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

EBITDA and Adjusted EBIT

(£m)	Year ended 31 December 2021	2020	2019
Operating (loss) / profit	**87.0**	(146.2)	94.4
Remove effects of:			
Adjusting items before interest and tax(1)	**(5.9)**	213.3	3.2
Adjusted EBIT	**81.1**	67.1	97.6
Depreciation	**97.1**	94.0	91.4
EBITDA	**178.2**	161.1	189.0

1 Adjusting items before tax total £5.1m including the £0.8m interest payable on the Court of Appeal judgement in respect of an insurer which was previously awarded to Spire Healthcare. Interest payable is not included in EBIT or EBITDA.

Adjusted profit after tax and adjusted earnings per share

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

	Year ended 31 December		
(£m)	**2021**	2020	2019
(Loss) / profit before tax	**(1.9)**	(231.0)	9.6
Adjustments for:			
Adjusting Items – operating (income) / costs	**(5.9)**	213.3	3.2
Adjusting items - interest payable / (receivable)	**0.8**	(0.8)	-
Adjusted (loss) / profit before tax	**(7.0)**	(18.5)	12.8
Taxation[1]	**(20.8)**	(2.2)	(3.0)
Adjusted (loss) / profit after tax	**(27.8)**	(20.7)	9.8
(Loss) / profit for the year attributable to owners of the parent	**(28.6)**	(20.7)	9.8
Profit for the year attributable to non-controlling interests[2]	**0.8**	-	-
Weighted average number of ordinary shares in issue (No.)	**400,848,264**	400,835,795	400,828,739
Adjusted (loss) / earnings per share (pence) attributable to the parent	**(7.1)**	(5.2)	2.4

1. Reported tax charge for the period adjusted for the tax effect of Adjusting Items
2. (Loss) / profit for the year attributable to non-controlling interests not disclosed in prior year as it was immaterial.

Return on capital employed

Return on capital employed ('ROCE') is the ratio of the Group's Adjusted EBIT to total assets less cash, capital investments and current liabilities. The calculation of return on capital employed is shown below:

	Year ended 31 December		
(£m)	**2021**	2020	2019
Adjusted EBIT	**81.1**	67.1	97.6
Total Assets	**2,237.4**	2,104.8	2,287.2
Less: Cash and cash equivalents	**(202.6)**	(106.3)	(90.8)
Less: Capital investments	**(77.1)**	(50.8)	(62.5)
Less: Current Liabilities	**(302.1)**	(253.9)	(207.5)
Capital Employed	**1,655.6**	1,693.8	1,926.4
Return on capital employed %	**4.9%**	4.0%	5.1%

Cash flow analysis for the period

	Year ended 31 December		
(£m)	**2021**	2020	2019
Opening Cash balance	**106.3**	90.8	47.7
Operating cash flows before Adjusting Items and income tax paid	**189.0**	158.9	205.5
Net cash flow from Adjusting Items (included in operating cash flows)	**(5.2)**	(2.8)	(2.7)
Income tax received / (paid)	**-**	3.6	(1.1)
Operating cash flows after operating Adjusting Items and income tax	**183.8**	159.7	201.7
Net cash flow from Adjusting Items (included in investing cash flows)	**35.2**	-	-
Net cash in investing activities	**(68.8)**	(46.3)	(48.6)
Cash outflow for acquisition of subsidiary	**(14.7)**	-	-
Investing cash flows after investing Adjusting Items	**(48.3)**	(46.3)	(48.6)
Net cash flow from Adjusting Items (included in financing cash flows)	**55.5**	-	-
Net cash in financing activities	**(94.7)**	(97.9)	(110.0)
Financing cash flows after financing Adjusting Items	**(39.2)**	(97.9)	(110.0)
Closing cash balance	**202.6**	106.3	90.8

Operating cash flows before Adjusting items

The cash inflow from operating activities before tax and Adjusting items was £189.0m (2020: £158.9m, 2019: £205.5), which constitutes a cash conversion rate from £178.2m EBITDA of 106% (2020: 99% conversion of £161.1m EBITDA, 2019: 109% conversion of £189.0m EBITDA). The net cash inflow from movements in working capital in the period was £11.4m (2020: £3.9m outflow, 2019: £17.9m inflow). The movement is largely driven by the increase in other payables relating to payments on account from both private and NHS patients.

Investing and financing cash flows

Net cash outflow in investing activities for the period was £48.3m (2020: £46.3m, 2019:£48.6m). There was a cash inflow for the sale and leaseback of Spire Cheshire hospital for proceeds, less costs, of £88.9m of which £33.4m is reflected in investing, and £55.5m reflecting the retained value of the freehold via the leaseback is reflected in investing cash flows. A cash inflow for proceeds, less costs, relating to the transfer of Sussex of £1.8m is reflected in financing cash flows. These were offset by the cash outflow for the acquisition of Claremont hospital of £14.7m net of cash acquired and the purchase of plant, property and equipment in the period totalled £69.3m (2020: £46.6m, 2019:£60.6m), which included replacement MRI or CT scanners and associated works. The total capital investment in the year in respect of additions of plant, property and equipment amounted to £77.1m (2020: £50.8m, 2019: £62.5m).

Net cash used in financing activities for the period was £39.2m (2020: £97.9m, 2019:110.0m) after the inflow from the sale and leaseback of Cheshire set out above, and including interest paid and other financing costs of £80.0m (2020: £84.5m, 2019: £75.5m), and £14.7m (2020: £13.4m, 2019: £19.3m) of lease liability payments. No dividend has been paid to shareholders (2020: nil, 2019: £15.2m).

Borrowings

At 31 December 2021, the Group has bank borrowings (inclusive of IFRS 9 adjustments) of £427.5m (2020: £420.8m, 2019: £420.8m), drawn under facilities which mature in July 2023.

	Year ended 31 December		
(£m)	**2021**	2020	2019
Cash	**202.6**	106.3	90.8
Bank borrowings	**427.5**	420.8	420.8
Bank borrowings less cash and cash equivalents	**224.9**	314.5	330.0

As disclosed in the 2020 year-end financial results, the Group had reached agreement with its lenders to provide the necessary financial flexibility to continue to support the NHS for a longer period than was initially envisaged, this included a covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 and a new liquidity measure as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committed facilities, to remain above £50m, and allowed a net debt / EBITDA ratio up to 6x if it didn't fall below 4x during the year. The new liquidity measure fell away in June 2021 as the maximum net debt / EBITDA ratio reduced below 4x. As at 31 December 2021 this measure stood at 2.3x, and the new liquidity measure referred to above fell away from 30 June 2021.

The net debt for covenant purposes in respect of the Senior Facility was £222.4m (FY20: £318.7m) and comprises the senior facility of £425.0m, less cash and cash equivalents. The EBITDA for covenant purposes comprises pre-IFRS 16 EBITDA of £106.0 (FY20: £90.7m) less annual rental of a finance lease pre-IFRS 16 of £9.1m (FY20: £8.8m).

As announced by the Group on 25 February 2022, the Group entered into an agreement on 24 February 2022 to refinance this debt. As part of this exercise, and in recognition of the fact that the Group had substantial cash reserves at 31 December 2021, the Group repaid £100m of the Senior Loan Facility. As a consequence, the revised Senior Loan Facility was set at £325m and the Group continued to have access to an undrawn RCF of £100m. This new arrangement has a maturity of 4 years, with the Group having the option to extend by another year. The financial covenants relating to this new agreement are unchanged.

Interest cover is 4.5x (2020: 4.0x, 2019: 4.8x).

As at 31 December 2021 lease liabilities were £837.8m (2020: £749.5m, 2019:£745.3m).

Dividend

No dividend is proposed for the year ended 31 December 2021.

Related party transactions

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

Principal Risks

The Principal Risks fall under the following categories:

Clinical & Patient Safety
1. Patient Safety & Clinical Quality

People
2. Workforce

Environment
3. Climate Change

Financial
4. PMI market dynamics
5. Macroeconomic
6. Competitor Challenge
7. Insurance & Indemnity
8. Liquidity & Covenants

Geopolitical
9. Government and NHS Policy
10. Supply Chain Disruption

Technology
11. Information Governance & Security

Social
12. COVID-19 pandemic
13. Brand Reputation

Governance
14. Compliance and Regulation
15. Transformation

Risk	Risk Mitigation
1. Patient Safety and Clinical Quality	We maintain the following controls to mitigate against a failure of patient safety and clinical quality: – A reporting culture of openness and shared learning from Ward-to-Board, with a Freedom to Speak Up Guardian ("FTSUG") at each site. – Incident / red flag staffing reporting via a database with central oversight. – Continually monitoring clinical standards, reporting progress via the Board's Clinical Governance and Safety Committee ('CGSC'). – Integrated quality reporting based on a Quality Assurance Framework with a standard set of KPIs. – Development of a Board Assurance Framework to assess risks against clinical and medical strategic objectives. – A schedule of robust and regular hospital audits including the Patient Safety and Quality Reviews, with an action plan for improvement that is monitored. – Standard Operating Procedure for Patient Notification Exercises that includes learning and continuous improvement methodologies. – Colleague induction, clinical competencies requirements and mandated training. – Reporting on clinical outcomes with workforce and Consultants including the Chairs of hospital Medical Advisory Committees with a view to driving up safety and performance.
2. Workforce	We seek to retain staff through: – A common purpose and a positive workplace culture. – Maintaining competitive pay and benefits. – Responding to key staff metrics e.g. staff turnover, rookie staff levels, and levels of positive engagement from staff surveys. – Continuous investment in its equipment, facilities and services to retain high-quality clinicians. We seek to recruit staff through: – A centralised recruitment processes. – An overseas recruitment capability to secure skilled healthcare workers from outside the EU where necessary. – Offering apprenticeship programmes. We manage immediate staff shortages through the use of agency and bank workers.

3. Climate Change	Flood risk mitigation includes a continued periodic review of our estate in relation to existing and predicted flood risk zones. Extreme ambient temperature risk mitigation includes an informed investment plan for upgrade of failing and vulnerable plant. Design of the replacement and upgrade would account for the predicted increase in ambient temperature profiles expected within the lifespan of the plant. Further mitigation measures include extreme weather warning protocol and Business Continuity Plans to provide emergency loan HVAC (heating, ventilation and air-conditioning systems) plant. Energy price risk mitigation includes energy efficiency measures to reduce consumption and the Group's Energy Hedging strategy that has seen all our current energy requirements secured until October 2024. Net zero targets form part of the remuneration of the Executive Directors.
4. PMI Market Dynamics	We work hard to maintain good relationships and a joint product/patient health offering with the PMI companies, which, in the opinion of the Board, assists the healthcare sector as a whole in delivering high-quality patient care. We ensure we have long-term contracts in place with our PMI partners to avoid co-termination of contractual arrangements. We believe continuing to invest in its well-placed portfolio of hospitals provides a natural fit to the local requirements of all the PMI providers long term. We continue to invest in efficiency programmes to ensure that it can offer the best combination of high-quality patient care at competitive prices.
5. Macroeconomics	The evidence available to us indicates that the COVID-19 pandemic has left high levels of pent up demand for our services. The ability for patients to access private care does not appear to be constrained financially at this time. We understand that private medical insurance policy renewals and sales remain stable, and we have seen strong growth in 2021 that is expected to continue while waiting lists remain at record levels. In response to macro inflationary pressure we will continue to benefit from the inflation mechanisms built into the PMI contracts and will benefit from our ability to change self-pay pricing quickly via our new pricing engine. In addition, the Group will continue to respond to changing economic circumstances by optimising our private and NHS funded work ensuring the Group is not over reliant on one income source, supported by an efficient cost base.
6. Competitor Challenge	We maintain a watching brief on new and existing competitor activity and we retain the ability to react quickly to changes in patient and market demand. We consider that a partial mitigation of the impact of competitor activity is ensured by providing patients with high-quality clinical care and by maintaining good working relationships with GPs and Consultants. We continue to invest in the brand and deliver an effective acquisition capability both direct and via our partners in order to protect our market position. We have also strengthened our pricing and tendering capabilities. Despite the COVID-19 pandemic, we have maintained our investment in the estate and clinical equipment to differentiate our proposition, and will continue to do so. We monitor the market for opportunities, should they arise, to acquire or open facilities in specific geographies creating incremental volume.

7. Insurance & Indemnity	We review and maintain insurance to mitigate the possibility of a major loss. Adequacy of cover is reviewed annually with our brokers with coverage being maintained or increased depending on that advice. Personal injury claims relating to patients, third parties and employees are covered by insurance once predetermined deductible levels have been reached. We engage in Consultant information events relating to indemnity, and have developed a bespoke affinity insurance product, MedicaInsure, to provide Consultants with a high-quality, regulated alternative to discretionary cover. We have made robust representations to HM Government and the Paterson Inquiry with regard to the need to end discretionary indemnity and to regulate the medical defence organisations. We are also engaging with medical defence organisations to explore how alternative insurance products could reduce the risk associated with historic models.
8. Liquidity and Covenants	Our management of cash and capital expenditure is focused on maintaining or improving our liquid asset position, meeting our financial liabilities falling due, and maintaining the cover against our loan covenants. At the onset of the COVID-19 pandemic, we were able to engage positively with our banking group with the result that we benefited from covenant waivers in 2020 and for June 2021. As at December 2021, the banking group enforced the covenant tests under its current loan agreements. We complied with the covenants. In February 2022, we successfully refinanced our existing Senior Facilities that were scheduled to mature in July 2023, with a new four-year facility (which includes the option to extend by an additional year) that will mature in 2026. We retain access to an unutilised £100 million revolving credit facility should our current cash position materially deteriorate. We have a solid asset base with the ability to leverage promptly in a short timescale, if required. This was demonstrated with the sale and leaseback of the Spire Cheshire Hospital in December 2021 that has allowed us to reduce Net Bank Debt. The Board has considered the risk in detail as part of its assessment of the viability of the Group.
9. Government & NHS Policy	Historically, we derived 70% of revenues from PMI and self-pay patients that provided a natural 'hedge' against exposure to Government and NHS policy. Post pandemic, the Group is seeing strong private revenues that are expected to continue medium term. The Group has successfully secured accreditation on the NHS Frameworks in England, Scotland and Wales ensuring access to tender for future contracts. Through the COVID-19 pandemic, we have deepened our relationships with the HM Government via the Department of Health and Social Care and NHS England. Meanwhile hospitals have also strengthened their relationships with the local NHS commissioners. Working effectively with the new ICS in each our markets will be a primary objective for hospital management teams. HM Government has announced: – £5.4 billion for the NHS to tackle waiting lists in the period September 2021 - March 2022. – The Health & Social Care levy that will generate c. £12 billion/annum.
10. Supply Chain Disruption	We maintain a centralised supply chain with a national distribution centre (NDC) and our own vehicle and driver fleet. Medical consumables, medicines and prostheses are held at the NDC with an average of eight weeks' supply. In 2021, we had to respond to a number of product shortages and global recalls, and we have seen some minor shortfalls in order fulfilment. In all cases, our centralised procurement function, with the support of the Clinical team, has been able to find alternative supplies to maintain hospitals' activities. Fresh food is supplied through a national food distributor who has its own delivery fleet and directly employs its HGV drivers. Order fulfilment has remained in the high 90th percentile. Because of our Brexit planning, we have contingency menu plans in case of fresh food shortages. NHS Supply Chain manages any national shortages in critical medicines. We receive allocations based on our activity.

11. Information Governance & Security	We have a governance structure, with Board oversight, that monitors the risk and mitigations for information governance. To support the governance structure we have a range of policies and practices covering information governance. The Information Security environment is subject to regular Internal Audit. All staff have to complete annual mandatory training on information governance and data protection. Our IT team have a cyber security strategy for continuous improvement based on industry standards. In 2021, as part of that strategy Spire Healthcare undertook significant capital investment to increase cyber security protection. We work with a number of industry leading technical partners to provide: – multiple layers of business protection through the use of advanced detection and protection systems, – Regular third-party penetration testing on new and existing IT systems.
12. COVID-19 Pandemic	To maximise the utilisation of the hospitals, we have: – Maintained the Infection Prevention Control measures to reduce the risk of cross contamination amongst staff at Spire Healthcare facilities. – Made the patient pathways as efficient as possible, particularly for pre-operative assessment and testing patients for COVID-19. – Maintained capacity within the contractual arrangements with the NHS for PMI and self-pay patients. – Negotiated national contracts with the NHS to support them to provide capacity for treating the backlog of elective procedures. – Maintained close links with the consultant community and supported them rebuild their private patient activities. – Encouraged all its employees to have both the COVID-19 and flu national vaccination programmes.
13. Brand Reputation	Our primary mitigations against damage to our brand reputation is through the good management of our principal risks, in particular: – Patient safety and clinical quality; – Cyber security and data protection; and, – Compliance and regulation. In addition, we continue to invest in the awareness and health of the brand through national advertising, public relations and centrally coordinated social media. We also continue to build our reputation amongst analysts and public commentators.
14. Compliance & Regulation	We have a Ward-to-Board system of governance that ensures compliance with law and regulation and provides the pathways to add different elements of compliance, should regulation or laws change and thus the need arise. Key components that support the Ward-to-Board governance structure for compliance and regulation include: – A dedicated legal team that, with external counsel, monitors legal and regulatory developments and advises Spire Healthcare thereon. – Regular, role specific, mandatory training for all staff (both clinical and non-clinical) across a range of the most important legal and regulatory compliance areas, e.g. data protection, health & safety laws and safeguarding. – Centralised clinical and non-clinical internal audit teams that carry out site audits and assists hospitals in establishing and maintaining a high level of internal control. – A range of policies, processes and toolkits guiding our hospitals in how to meet the required clinical regulatory standards which are regularly reviewed and updated.
15. Transformation	All transformation projects have an individual Executive Committee sponsor who is accountable to their colleagues for successful project delivery. We utilise external project management experts to advise on best-practice change portfolio management and to lead strategic projects when required. All the major change initiatives have professional programme managers or directors following a standard set of programme management disciplines monitored by a central Business Programme Office. The Executive Committee's sub-committee on Transformation regularly reviews the progress of change programmes. Change programmes that have a material impact on hospital operations engage with the hospital directors to ensure their input and feedback is incorporated into the planning stage before deployment

Directors' responsibilities statement

Viability

Assessment of prospects

In accordance with the 2018 UK Corporate Governance Code, the Directors assessed the viability of the Group and have maintained a period of three years for their assessment. Although longer periods are used when making significant strategic decisions, three years has been used as it is considered the longest period of time over which suitable certainty for key assumptions in the current climate can be made. The assessment conducted considered the Group's current financial position and forecasted revenue, EBITDA, cash flows, risk management controls and loan covenants over the three-year period (which is consistent with the approach for prior years).

Assessment of viability

Further detail on both Macroeconomic related risk and COVID-19 is provided in the Risk management and internal control section in the Strategic Report.

Other specific scenarios covered by our testing were as follows:

- a key hospital is subject to permanent or temporary suspension of trade, for example, due to a major fire or regulatory matter;
- the Group is subject to temporary suspension of trade, with a temporary adverse impact on revenue, for example, as a result of a successful cyber-attack on key business systems;
- the downside modelling of a number of risks which result in a decline in earnings, including the loss of a contractual relationship with a key insurer;
- significant change in Government policy resulting in Consultants going on payroll;
- short term disruption to trade at a sub-set of hospitals owing to an extreme weather event; and
- the business is subject to significant uninsured losses arising from medical malpractice, negligence or similar claims.

This review included the following key assumptions:

- no change in capital structure given the Group has since the 2021 year end refinanced its existing senior finance facility and revolving credit facility; and
- the Government will not make significant change to its existing policy towards utilising private provision of healthcare services to supplement the NHS.

The Group has also assessed, as part of its reverse stress testing, what degree of downturn in trading it could sustain before it no longer forecasts a positive cash balance. This stress testing was based on flexing revenue downwards with a consistent percentage decline in variable costs, whilst maintaining the forecast of fixed costs. The testing did not allow for the benefit of any action that could be taken by management to preserve cash. This testing suggested that there would have to be at least a 35% fall in annual revenue before the Group no longer forecast a positive cash balance. We do not believe that such a reduction of income revenue is a plausible consequence of the Group's identified principal risks.

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.

Going Concern (see note 2. Basis of Preparation for more detail)

As at 31 December 2021 the Group had cash of £202.6m, a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility of £100m. These facilities were due to mature in July 2023. As announced by the Group on 25 February 2022, the Group entered into an agreement on 24 February 2022 to refinance this debt. As part of this exercise, and in recognition of the fact that the Group had substantial cash reserves at 31 December 2021, the Group repaid £100m of the Senior Loan Facility. As a consequence, the revised Senior Loan Facility was set at £325m and the Group continued to have access to an undrawn RCF of £100m. This new arrangement has a maturity of 4 years, with the Group having the option to extend by another year. The financial covenants relating to this new agreement are unchanged.

Given the economic uncertainty arising from the COVID-19 pandemic, the Group has maintained its position of not paying a dividend. The Group has not had to undertake any further action in regard of maintaining its liquidity.

The Group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions. Further information on these is provided in the section on Viability. Based on the current assessment of the likelihood of these risks arising by 31 March 2023, together with their assessment of the planned mitigating actions being successful, the Directors have concluded it is appropriate to prepare the accounts on a going concern basis. In arriving at their conclusion, the Directors have also noted the results of testing for a specific combination of these risks. This testing entailed modelling for the potential impact to the Group if, although considered highly remote, the 3 risks which individually give rise to the largest adverse financial impact were to take place in combination.

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

- The preliminary financial statements, which have been prepared in accordance with UK- adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- The preliminary announcement includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Justin Ash	**Sir Ian Cheshire**
Chief Executive Officer	Chairman

2 March 2022

Consolidated income statement

For the year ended 31 December 2021

(£m)	Note	2021 Total before Adjusting items	2021 Adjusting items (note 9)	2021 Total	2020 Total before Adjusting items	2020 Adjusting items (note 9)	2020 Total
Revenue	5	**1,106.2**	**–**	**1,106.2**	919.9	–	919.9
Cost of sales		**(615.0)**	**–**	**(615.0)**	(464.1)	–	(464.1)
Gross profit		**491.2**	**–**	**491.2**	455.8	–	455.8
Other operating costs		**(411.2)**	**(17.4)**	**(428.6)**	(389.1)	(213.3)	(602.4)
Other income	6	**1.1**	**23.3**	**24.4**	0.4	–	0.4
Operating profit / (loss) (EBIT)	7	**81.1**	**5.9**	**87.0**	67.1	(213.3)	(146.2)
Finance income	8	**–**	**–**	**–**	0.1	0.8	0.9
Finance cost	8	**(88.1)**	**(0.8)**	**(88.9)**	(85.7)	–	(85.7)
(Loss) / profit before taxation		**(7.0)**	**5.1**	**(1.9)**	(18.5)	(212.5)	(231.0)
Taxation	10	**(20.8)**	**13.8**	**(7.0)**	(2.2)	(0.7)	(2.9)
(Loss) / profit for the year		**(27.8)**	**18.9**	**(8.9)**	(20.7)	(213.2)	(233.9)
(Loss) / profit for the year attributable to owners of the Parent		**(28.6)**	**18.9**	**(9.7)**	(20.7)	(213.2)	(233.9)
(Loss) / profit for the year attributable to non-controlling interest[1]		**0.8**	**–**	**0.8**	–	–	–
(Loss) / earnings per share (in pence per share)							
– **basic**	11	**(7.1)**	**4.7**	**(2.4)**	(5.2)	(53.2)	(58.4)
– **diluted**	11	**(7.1)**	**4.7**	**(2.4)**	(5.2)	(53.2)	(58.4)

1(Loss) / profit for the year attributable to non-controlling interest was not disclosed in prior year as it was immaterial.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

(£m)	2021	2020
Loss for the year	**(8.9)**	(233.9)
Items that may be reclassified to profit or loss in subsequent periods		
Net profit / (loss) on cash flow hedges (net of taxation)	**2.7**	(1.1)
Other comprehensive profit / (loss) for the year	**2.7**	(1.1)
Total comprehensive loss for the year, net of tax	**(6.2)**	(235.0)
Attributable to:		
Equity holders of the parent	**(7.0)**	(235.0)
Non-controlling interests[1]	**0.8**	-
	(6.2)	(235.0)

1 (Loss) / profit for the year attributable to non-controlling interest was not disclosed in prior year as it was immaterial.

Consolidated statement of changes in equity

For the year ended 31 December 2021

(£m)	Note	Share Capital (note 16)	Share premium	Capital reserves (note 16)	EBT share reserves (note 16)	Hedging Reserve (note 16)	Retained earnings	Total Equity	Non-Controlling Interest	Total
As at 1 January 2020		4.0	826.9	376.1	(0.8)	(2.1)	(264.2)	939.9	–	939.9
Loss for the year		–	–	–	–	–	(233.9)	(233.9)	–	(233.9)
Other comprehensive loss for the year		–	–	–	–	(1.1)	–	(1.1)	–	(1.1)
Total comprehensive loss		–	–	–	–	(1.1)	(233.9)	(235.0)	–	(235.0)
Share-based payments	20	–	–	–	–	–	1.7	1.7	–	1.7
As at 1 January 2021		**4.0**	**826.9**	**376.1**	**(0.8)**	**(3.2)**	**(496.4)**	**706.6**	**–**	**706.6**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(9.7)**	**(9.7)**	**0.8**	**(8.9)**
Other comprehensive profit for the year		**–**	**–**	**–**	**–**	**2.7**	**–**	**2.7**	**–**	**2.7**
Total comprehensive profit / (loss)		**–**	**–**	**–**	**–**	**2.7**	**(9.7)**	**(7.0)**	**0.8**	**(6.2)**
Non-controlling interests adjustment[1]		**–**	**–**	**–**	**–**		**6.1**	**6.1**	**(6.1)**	**–**
Share-based payments	20	**–**	**–**	**–**	**–**		**2.8**	**2.8**	**–**	**2.8**
Deferred tax adjustment on share-based payments reserve		**–**	**–**	**–**	**–**	**–**	**3.0**	**3.0**	**–**	**3.0**
Acquisition of a subsidiary		**–**	**–**	**–**	**–**	**–**	**(1.9)**	**(1.9)**	**0.5**	**(1.4)**
Balance at 31 December 2021		**4.0**	**826.9**	**376.1**	**(0.8)**	**(0.5)**	**(496.1)**	**709.6**	**(4.8)**	**704.8**

1 (Loss) / profit for the year attributable to non-controlling interest was not disclosed in prior year as it was immaterial.

Consolidated balance sheet

For the year ended 31 December 2021

(£m)	Note	2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment	12	**1,553.5**	1,535.3
Intangible assets	13	**334.8**	317.8
Financial assets		**2.3**	1.6
		1,890.6	1,854.7
Current assets			
Inventories		**40.2**	37.6
Trade and other receivables	14	**99.2**	101.4
Cash and cash equivalents		**202.6**	106.3
		342.0	245.3
Non-current assets held for sale	15	**4.8**	4.8
		346.8	250.1
Total assets		**2,237.4**	2,104.8
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**4.0**	4.0
Share premium		**826.9**	826.9
Capital reserves	16	**376.1**	376.1
EBT share reserves		**(0.8)**	(0.8)
Hedging reserve	16	**(0.5)**	(3.2)
Retained earnings		**(496.1)**	(496.4)
Equity attributable to owners of the Parent		**709.6**	706.6
Non-controlling interests[1]		**(4.8)**	-
Total equity		**704.8**	706.6
Non-current liabilities			
Bank Borrowings	17	**421.8**	418.6
Lease liabilities	17	**751.0**	670.3
Derivatives	17	**–**	1.5
Deferred tax liabilities		**57.7**	53.9
		1,230.5	1,144.3
Current liabilities			
Bank Borrowings		**5.7**	2.2
Lease liabilities	17	**86.8**	79.2
Derivatives	17	**0.7**	2.5
Financial liabilities		**1.9**	-
Provisions	18	**44.8**	33.0
Trade and other payables	19	**159.1**	136.9
Income tax payable		**3.1**	0.1
		302.1	253.9
Total liabilities		**1,532.6**	1,398.2
Total equity and liabilities		**2,237.4**	2,104.8

1 (Loss) / profit for the year attributable to non-controlling interest not disclosed in prior year as it was immaterial.

These Consolidated financial statements and the accompanying notes were approved for issue by the Board on 2 March 2022 and signed on its behalf by:

Justin Ash
Chief Executive Officer

Sir Ian Cheshire
Chairman

Consolidated statement of cash flows

For the year ended 31 December 2021

(£m)	Note	2021	2020
Cash flows from operating activities			
Loss before taxation		(1.9)	(231.0)
Adjustments to reconcile profit before tax to net cash flows:			
Impairment of goodwill (Adjusting items)	13	–	200.0
Impairment of assets held for sale (Adjusting items)	15	–	0.3
Gain on disposal under Sale and leaseback (Adjusting items)		(23.5)	–
Adjusting items – other		11.1	9.4
Depreciation of PPE & ROU assets	12	97.1	94.0
Gain on disposal of lease	7	(0.2)	–
Finance income	8	–	(0.1)
Finance costs	8	88.1	85.7
Other income	6	(1.1)	–
Share-based payments	21	2.8	1.7
Movements in working capital:			
(Increase)/Decrease in trade and other receivables		1.7	(15.5)
(Increase) in inventories		(1.9)	(5.6)
Increase in trade and other payables		14.3	18.5
Decrease in provisions		(2.7)	(1.3)
Cash generated from operations		183.8	156.1
Tax received		–	3.6
Net cash flows from operating activities		183.8	159.7
Cash flows from investing activities			
Interest received		–	0.1
Income from financial asset		0.4	0.2
Acquisition of a subsidiary, net of cash acquired		(14.7)	–
Proceeds from asset sold under Sale and leaseback, net of costs (Adjusting items)		33.4	–
Proceeds of asset under sale of operating unit, net of costs (Adjusting items)		1.8	–
Purchase of property plant and equipment		(69.3)	(46.6)
Proceeds on disposal of property plant and equipment		0.1	–
Net cash used in investing activities		(48.3)	(46.3)
Cash flows from financing activities			
Interest paid and other financing costs		(13.2)	(18.1)
Interest on lease liabilities		(66.8)	(66.4)
Payment of lease liabilities		(14.7)	(13.4)
Proceeds from asset sold under Sale and leaseback (retained value) (Adjusting items)		55.5	–
Net cash used in financing activities		(39.2)	(97.9)
Net increase in cash and cash equivalents		96.3	15.5
Cash and cash equivalents at 1 January		106.3	90.8
Cash and cash equivalents at 31 December		202.6	106.3
Adjusting Items (note 9)			
Adjusting items paid included in the cash flow		85.5	(2.8)
Total pre-tax adjusting items		5.1	(212.5)

Notes to the preliminary announcement

1. General information

Spire Healthcare Group plc (the 'Company') and its subsidiaries (collectively, the 'Group') owns and operates private hospitals and clinics in the UK and provides a range of private healthcare services.

The financial statements for the year ended 31 December 2021 were authorised for issue by the Board of Directors of the Company on 2 March 2022.

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

2. Basis of preparation

The preliminary financial information for the year ended 31 December 2021 included in this report was approved by the Board on 2 March 2022. The financial information set out here does not constitute the Company's statutory accounts for the year ended 31 December 2021, but is derived from those accounts. Statutory accounts for 2021 will be delivered following the Company's annual general meeting. The auditor has reported on those accounts; their report was unqualified, and did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

Going concern

As at 31 December 2021 the Group had cash of £202.6m, a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility of £100m. These facilities were due to mature in July 2023. As announced by the Group on 25 February 2022, the Group entered into an agreement on 24 February 2022 to refinance this debt. As part of this exercise, and in recognition of the fact that the Group had substantial cash reserves at 31 December 2021, the Group repaid £100m of the Senior Loan Facility. As a consequence, the revised Senior Loan Facility was set at £325m and the Group continued to have access to an undrawn RCF of £100m. This new arrangement has a maturity of 4 years, with the Group having the option to extend by another year. The financial covenants relating to this new agreement are unchanged.

Given the economic uncertainty arising from the COVID-19 pandemic, the Group has maintained its position of not paying a dividend. The Group has not had to undertake any further action in regard of maintaining its liquidity.

The Group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions. Further information on these is provided in the section on Viability. Based on the current assessment of the likelihood of these risks arising by 31 March 2023, together with their assessment of the planned mitigating actions being successful, the Directors have concluded it is appropriate to prepare the accounts on a going concern basis. In arriving at their conclusion, the Directors have also noted the results of testing for a specific combination of these risks. This testing entailed modelling for the potential impact to the Group if, although considered highly remote, the 3 risks which individually give rise to the largest adverse financial impact were to take place in combination.

3. Accounting policies

In preparing this preliminary announcement, the same accounting policies, methods of computation and presentation have been applied as set out in the Group's Annual Report and Accounts for the year ended 31 December 2021, a copy of this report will shortly be available on the Company's website at www.spirehealthcare.com.

Changes in accounting policy - New standards, interpretations and amendments applied

The following amendments to existing standards were effective for the Group from 1 January 2021. These amendments had no impact on the consolidated financial statements of the Group. As the Group was renegotiating its principle loans from which the interest determination is based on, there have been no changes to contracts impacted by LIBOR until the facilities are in place. All LIBOR linked contracts will be updated by 31 January 2022. The contracts with significant exposures relate to loans, leases and swaps.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2	Effective date* - 1 January 2021

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations that are consistent with the endorsement process for use in the EU.

Changes in accounting policy - New standards, interpretations and amendments in issue, but not yet effective

As at date of approval of the Group financial statements, the following new and amended standards, interpretations and amendments in issue are applicable to the Group but not yet effective and thus, have not been applied by the Group:

	Effective date*
Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022
IFRS 9 Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities	1 January 2022
Amendments to IAS 1 – Classification of liabilities as Current or Non-Current	1 January 2023
Amendments to IAS 8 – Definition of accounting estimates	1 January 2023
Amendments to IAS 12- Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

* 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 issued by the IASB as endorsed by the UK, the application of new standards and interpretations will result in an effective date subject to that agreed by the UK Endorsement process.

The Directors do not expect the adoption of these standards, interpretations and amendments to have a material impact on the Consolidated or Company financial statements in the period of initial application.

4. Critical accounting judgements and estimates

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

In preparing this preliminary announcement, the significant judgements and estimates made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2021, unless set out below.

Leases

In the period, the Group undertook a sale and leaseback. The Group has determined the sale criteria has been met. There is no option to purchase, and any option to extend would be completed at fair value at the point of exercise of such option.

Financial liability on business combination

The Group acquired a majority holding in Claremont Hospital LLP on 30 November 2021. The LLP Agreement allows the minority interests to hold a vote on change in majority ownership which enacts the right to sell their minority interest at a fair value price. Should the minority interests vote result in a majority in favour of sale, the majority holder, Spire Healthcare, would be obligated to purchase the minority in full at the fair value set out by the Agreement. On acquisition of the majority shareholding, the Group agreed to extend this option to 31 March 2022, with a further extension to 30 September 2022 on agreement by all parties.

The Group has recognised a financial liability in respect of this option on the basis that the Group does not have control of the outcome. The Group has recognised a non-controlling interest on acquisition which reflects the minority interest as it stands and the vote has not yet taken place. Equity has been adjusted accordingly. Should the Group acquire the minority interest, the amount in equity will be reversed and the Goodwill recognised on acquisition would be increased. However, should the vote not result in a majority, the financial liability will be reversed, and equity adjusted accordingly.

The value of the financial liability has been based on the agreed formula to determine the value of each holding as set out in the Agreement. Due to the expiry of the option being less than one year, the potential cash outflow has not been discounted.

Assets held for sale

The Group recognised two assets held for sale. These assets have been recognised as held for sale for more than 12 months. However, the assets remain classified as held for sale, rather than reverting to Plant, Property and Equipment as they continue to meet the criteria for recognition. There has been a number of delays in the sale completion of these assets. The Group's management remain committed to sale of both assets, and is proceeding with the sale process with a buyer, with other parties also interested in acquiring these assets. Whilst progress has been slowed by challenges, including COVID-19, the Group expects to complete on these sales in due course.

5. Segmental reporting

In determining the Group's operating segment, management has primarily considered the financial information in internal reports that are reviewed and used by the executive management team and Board of Directors (who together are the chief operating decision maker of Spire Healthcare) 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.

The nature of the NHS COVID-19 specific contracts in FY20 and Q1 2021 means that not all of the detail of revenue by location (inpatient, day case or Out-patient) is available. In Q1 2021, where a patient was admitted, this revenue has been recorded within the revenue by location. Amounts relating to the minimum income guarantee over and above admitted patients is reflected in the NHS COVID-19 line. In FY20, admission type was not tracked under the NHS cost recovery contract and therefore all revenue under the contract is reflected in the NHS COVID-19 line.

Revenue by location (inpatient, day case or Out-patient) and wider customer (payor) group is shown below:

(£m)	2021	2020
Inpatient	414.2	188.3
Day case	307.0	170.3
Out-patient	300.9	181.9
NHS – COVID-19	58.1	362.7
Other	26.0	16.7
Total revenue	1,106.2	919.9
Insured	473.7	337.6
NHS	314.5	430.0
Self-pay	292.0	135.6
Other [1]	26.0	16.7
Total	1,106.2	919.9

1 Other revenue 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).

5. Segmental reporting continued

Group revenues increased 20.3% to £1,106.2m (2020: £919.9m). The Group operated under an NHS contract in Q1 2021, with a minimum income guarantee. The increase in revenue during the year is mainly driven by the strong return of private patients from Q2 2021. NHS revenue of £314.5m includes £58.1m (2020: £430.0 and £362.7 respectively) revenue from the COVID-19 contracts, with £47.4m reflecting the "top up" to minimum income guaranteed under the Q1 2021 contract, and £10.7m relating to the FY20 NHS cost recovery contract being recognised in the period following customer agreement to variable consideration and final costings.

6. Other income

(£m)	2021	2020
Fair value movement on financial asset	1.1	0.4
Profit on disposal relating to sale and leaseback, net of costs (Adjusting Item) (see note 9)	23.3	–
Total	24.4	0.4

The fair value movement in respect of the financial asset which was recognised to reflect the on-going profit share arrangement with Genesis Care which arose as part of the sale of the Bristol Cancer Centre sold in 2019. All of the fair value movement is unrealised.

7. Operating profit / (loss)

Arrived at after charging / (crediting):

(£m)	2021	2020
Depreciation of property, plant and equipment (see note 12)	67.4	66.0
Depreciation of right of use assets (see note 12)	29.7	28.0
Acquisition-related transaction costs – Claremont Hospital (Adjusting Item) (see note 9)	1.5	–
Lease payments made in respect of low value and short leases	12.3	11.1
Income awarded from a judgment related to Ian Paterson offset by related costs in the period [1] (see note 19)	–	11.4
Provision following a court judgment related to Ian Paterson (Adjusting Item) (see note 9)	12.2	–
Impairment on assets held for sale (see note 15)	–	0.3
Impairment charge in respect of goodwill (see note 13)	–	200.0
Movement on the provision for expected credit losses of trade receivables	(1.2)	1.6
Profit on disposal relating to sale and leaseback (Adjusting Item) (see note 9)	(23.5)	–
Profit on disposal relating to a lease modification at Spire Sussex (Adjusting Item) (see note 9)	(0.4)	–
Profit on the early termination of a lease	(0.2)	–
Staff restructuring costs (Adjusting item) (see notes 9)	1.2	2.3
Staff costs (net of Government Job Retention Scheme grant and staff restructuring costs) (see note 9)	396.4	349.1
Repayment of Government Job Retention Scheme grant	–	0.2

1 In the prior year, the income awarded from a judgment totalled £11.6m, including £0.8m of interest receivable not included in operating profit. This was offset by £22.2m of Ian Paterson related costs.

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

Inventory recognised as an expense in the current year is disclosed in note 17 of the Annual Report and Accounts.

8. Finance income and costs

(£m)	2021	2020
Finance income		
Interest on the High Court judgment (included in Adjusting items)	–	(0.8)
Interest income on bank deposits	–	(0.1)
Total finance income	–	(0.9)
Finance cost		
Interest on bank facilities	18.8	17.5
Amortisation of fee arising on facilities extensions (1)	1.0	0.9
Interest on the Court of Appeal judgment repayable (included in Adjusting items)	0.8	–
IFRS 9 release / (gain) arising on facilities extension (1)	0.1	(0.3)
Interest on obligations under leases	68.2	67.6
Total finance costs	88.9	85.7
Total net finance costs	88.9	84.8

1. £3.3m that was recorded at the date of the 2018 extension and £0.3m recorded at the date of the 2020 extension. These are being amortised. See note 17 for more detail.

Notes to the preliminary announcement continued

9. Adjusting items

(£m)	2021	2020
Remediation of regulatory compliance or malpractice costs	**11.4**	12.8
Costs from asset disposals, impairment and aborted project costs	**4.5**	200.3
Business reorganisation and corporate restructuring costs	**1.2**	–
Hospital set up and closure costs	**0.3**	0.2
Asset disposals, impairment and aborted project costs	**(23.3)**	–
Total Adjusting items in operating costs	**(5.9)**	213.3
Interest receivable on Adjusting items	**0.8**	(0.8)
Total Adjusting items before tax	**(5.1)**	212.5
Income tax charge / (credit) on Adjusting items	**(13.8)**	0.7
Total post-tax Adjusting items	**(18.9)**	213.2

Adjusting items comprise those matters where the Directors believe the financial effect should be adjusted for, due to their nature, size or incidence, in order to provide a more accurate comparison of the Group's underlying performance.

The Group has recognised £11.4m (2020: £12.8m) of charges relating to Remediation of Regulatory Compliance or Malpractice Costs.

- During 2020, the judgment was received in favour of the Group in its case against one of its insurers relating to Ian Paterson and the Group was awarded £11.6m, including £0.8m of interest. This income was recognised as the Group's best estimate at the time was that the possibility of a successful appeal was remote and therefore there was no significant risk of reversal. £10.8m was reported within Remediation of Regulatory Compliance or Malpractice Costs and £0.8m was shown in the above table as Interest Receivable on Adjusting Items. Following this ruling, the Group received an additional £0.4m credit in respect of costs awarded by the Court in FY21.
- In December 2021, the case was heard in the Court of Appeal, following an appeal by the insurer. In January 2022, the judgment was received in favour of the insurer. As a result, the Group is required to repay amounts awarded by the High Court, as well as the Insurers costs. The Group has treated this judgment as an Adjusting post balance sheet event and provided £12.2m for repayment of compensation and costs, and £0.8m in interest payable which was received by the Group previously. The Group will seek leave to appeal which, if granted, would result in the case being heard in the Supreme Court.

The prior year charge of £12.8m reflects the £11.6m awarded in the High Court case referred to above, and the following two items:

- The Group is committed to providing on-going support to Paterson's patients, and following the release of the Paterson Public Inquiry in February 2020, the Group incurred, or provided for, costs of £22.2m during the year.
- The Group reached a settlement with the Competition and Marketing Authority (CMA) as disclosed in the RNS announcement released on 1 July 2020. Professional costs in respect of the CMA investigation were also recognised, bringing the total cost recognised in the period to £1.3m.

During the year, the Group incurred £4.7m of costs relating to Mergers and Acquisition ("M&A") costs, largely relating to the attempted takeover bid by Ramsay Health Care, and the acquisition and integration of Claremont, which the Group acquired in November 2021. In March 2021, the Group agreed to terminate the lease for our Sussex Hospital, with the NHS Trust taking over the running of the hospital from 31 March 2022. As part of this agreement, the Plant, Property and Equipment were sold to the Trust on 31 March 2021, the property lease shortened to a period of one year (reduced from 6 years) and a transitional arrangement was agreed. This has resulted in a £0.4m profit being reflected in Asset disposals, offset by £0.2m of sale costs, which offsets the M&A costs.

In the period, the Group announced a strategic, group wide initiative that impacts the operating model of the Group to allow a more efficient governance and reporting structure. As a result, of this initiative, costs of £0.6m have been incurred, and a further £0.6m has been provided for following internal announcements in the year. The majority of this initiative is expected to complete during 2022.

Hospital set up and closure costs mainly relate to the maintenance of costs of non-operational sites.

In December 2021, the Group agreed the sale and leaseback of its Cheshire Hospital for consideration of £89m. A gain on disposal of £23.5m has been recognised, offset by £0.2m of costs to sell.

In the prior period, the Group booked an impairment charge in respect of goodwill of £200m (see note 13 for more detail) and a £0.3m impairment on an asset held for sale following a change to the property market brought about by the pandemic.

An income tax credit has been recognised relating mainly to the sale and leaseback of Spire Cheshire where a chargeable gain has crystallised, but is offset by movements in deferred tax.

Notes to the preliminary announcement continued

10. Taxation

(£m)	2021	2020
Current tax		
UK corporation tax expense	**0.8**	0.1
Total current tax charge	**0.8**	0.1
Deferred tax		
Origination and reversal of temporary differences	**(15.0)**	(0.6)
Effect of change in tax rate	**17.7**	5.8
Adjustments in respect of prior years	**3.5**	(2.4)
Total deferred tax charge	**6.2**	2.8
Total tax charge	**7.0**	2.9

In addition to the above, a charge of £0.6m has been recognised in Other Comprehensive income (2020: £0.3m credit) and £3.0m credit through Equity.

Corporation tax is calculated at 19.0% (2020: 19.0%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year was not meaningful (2020: (1.3)%), mainly due to the one-off tax rate impact to deferred tax of £17.7m as a result of the Government announcement to increase the corporation tax rate from 19% to 25% from April 2023, a prior year adjustment of £3.5m, and one-off tax credit movements of £16.0m in respect of the sale and leaseback of a freehold property. The prior year was driven by the effects of revaluing deferred tax assets and liabilities to 19% following the abolishment of the rate reduction to 17% due in April 2020, and the permanent difference relating to the £200m impairment charge. Without these items, the effective tax rate is (5.7)% (2020: 9.4%).

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:

(£m)	2021	2020
Loss before taxation	**(1.9)**	(231.0)
Tax at the standard rate	**(0.4)**	(43.9)
Effects of:		
Expenses and income not deductible or taxable	**4.5**	5.6
Tax adjustment for the Super-deduction allowance	**(2.2)**	-
Tax adjustment in respect of sale and leaseback	**(16.0)**	-
Impairment charge in respect of goodwill (not tax deductible)	**-**	38.0
Adjustments to prior year	**3.5**	(2.4)
Difference in tax rates	**17.7**	5.8
Deferred tax not previously recognised	**(0.1)**	(0.2)
Total tax charge	**7.0**	2.9

Expenses and income not deductible or taxable relate mostly to depreciation on non-qualifying fixed assets, disallowable entertaining and legal and professional fees.

The charge above in the prior year was driven mainly by the revaluation of deferred tax assets and liabilities to 19% from 17% as a result of the substantive enactment in March 2020 of the Government's decision to cancel the reduction to 17% from 1 April 2020, as well as the tax effect of the goodwill impairment. The current year charge driven by £17.7m reflects the substantive enactment of the increased corporation tax rate from 19% to 25% from 1 April 2023, offset by the tax effect of the sale and leaseback.

The Group does not hold any uncertain tax positions under IFRIC 23 at the year-end (2020: none).

11. Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2021	2020
Loss for the year attributable to ordinary equity holders of the Parent (£m)	**(9.7)**	(233.9)
Weighted average number of ordinary shares for basic EPS (No.)	**401,087,547**	401,081,391
Adjustment for weighted average number of shares held in EBT	**(239,283)**	(245,596)
Weighted average number of ordinary shares in issue (No.)	**400,848,264**	400,835,795
Basic earnings per share (in pence per share)	**(2.4)**	(58.4)

11. Earnings per share (EPS) continued

For dilutive EPS, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares arising from share options. Refer to the Remuneration Committee Report in the Annual Report and Accounts for the terms and conditions of instruments generating potential ordinary shares that affect the measurement of diluted EPS.

	2021	2020
Loss for the year attributable to ordinary equity holders of the Parent (£m)	(9.7)	(233.9)
Weighted average number of ordinary shares in issue (No.)	400,848,264	400,835,795
Adjustment for weighted average number of contingently issuable shares	-	-
Diluted weighted average number of ordinary shares in issue (No.)	400,848,264	400,835,795
Diluted earnings per share (in pence per share)	(2.4)	(58.4)

As the weighted average number for contingently issuable shares would be anti-dilutive, they are excluded from the above. However, 8,891,739 shares are potentially dilutive in the future.

The Directors believe that EPS excluding Adjusting items ("Adjusted EPS") better reflects the underlying performance of the business and assists in providing a clearer view of the performance of the Group.

Reconciliation of profit after taxation to profit after taxation excluding Adjusting items ("Adjusted profit"):

	2021	2020
Loss for the year attributable to owners of the Parent (£m)	(9.7)	(233.9)
Adjusting items (see note 9)	(18.9)	213.2
Adjusted loss (£m)	(28.6)	(20.7)
Weighted average number of Ordinary Shares in issue	400,848,264	400,835,795
Weighted average number of dilutive Ordinary Shares	400,848,264	400,835,795
Adjusted basic earnings per share (in pence per share)	(7.1)	(5.2)
Adjusted diluted earnings per share (in pence per share)	(7.1)	(5.2)

As the weighted average number for contingently issuable shares would be anti-dilutive, they are excluded from the above. However, 8,891,739 (2020: 9,372,916) shares are potentially dilutive in the future.

12. Property, plant and equipment

(£m)	Freehold property	Leasehold improvements	Equipment	Assets in the course of construction	Right of use	Total
Cost:						
At 1 January 2020	866.6	140.4	445.1	17.4	748.8	2,218.3
Reallocation between categories[1]	3.6	1.9	(5.5)	–	–	–
Additions	7.7	7.8	26.7	8.6	–	50.8
Additions to ROU assets	–	–	–	–	0.4	0.4
Adjustments to existing assets (e.g. indexation)	–	–	–	–	14.7	14.7
Disposals	(7.4)	(0.9)	(20.9)	–	–	(29.2)
Transfers	–	14.8	2.0	(16.8)	–	–
At 1 January 2021	870.5	164.0	447.4	9.2	763.9	2,255.0
Additions	11.4	11.9	47.6	6.2	–	77.1
Acquisition of a subsidiary (Note 22)	–	0.1	4.7	–	25.5	30.3
Additions to ROU assets	–	–	–	–	32.6	32.6
Adjustments to existing assets (e.g. indexation)	–	–	–	–	9.7	9.7
Disposals	(35.9)	(1.7)	(20.9)	–	(5.8)	(64.3)
Transfers	(0.7)	3.4	1.8	(4.5)	–	–
At 31 December 2021	845.3	177.7	480.6	10.9	825.9	2,340.4

12. Property, plant and equipment continued

Accumulated depreciation and impairment:						
At 1 January 2020	166.3	38.7	280.7	–	169.2	654.9
Reallocation between categories[1]	1.2	0.8	(2.0)	–	–	–
Charge for year	17.6	8.0	40.4	–	28.0	94.0
Disposals	(7.4)	(0.9)	(20.9)	–	–	(29.2)
Transfers	2.6	0.3	(2.9)	–	–	–
At 1 January 2021	**180.3**	**46.9**	**295.3**	**–**	**197.2**	**719.7**
Charge for the year	**17.9**	**8.4**	**41.1**	**–**	**29.7**	**97.1**
Acquisition of a subsidiary (Note 22)	**–**	**–**	**4.1**	**–**	**–**	**4.1**
Disposals	**(9.2)**	**(0.9)**	**(19.7)**	**–**	**(4.2)**	**(34.0)**
At 31 December 2021	**189.0**	**54.4**	**320.8**	**–**	**222.7**	**786.9**
Net book value:						
At 31 December 2021	**656.3**	**123.3**	**159.8**	**10.9**	**603.2**	**1,553.5**
At 31 December 2020	690.2	117.1	152.1	9.2	566.7	1,535.3

1 Management identified a number of assets which should be reclassified from Equipment to Leasehold improvements and Freehold property to better reflect the life of the assets. These have been reflected in the reclassification line in the note above. There is no overall impact to the carrying value of plant, property and equipment

No assets are subject to restrictions on title or pledged as security for liabilities. There were no borrowing costs capitalised during the year ended 31 December 2021 (2020: Nil).

In December 2021, the Group completed a sale and leaseback on its Cheshire freehold. The freehold was sold for £89.0m, prior to costs and taxation. The sale allowed greater liquidity and flexibility in light of ongoing COVID-19 challenges, but also assisted in the refinancing as announced in February 2022. The lease is a 25 year term, with an annual starting rent of £3.75m and annual inflationary increases with a floor and cap applied. A right of use asset of £16.6m has been recognised in the period, and associated lease liability of £55.6m.

Impairment testing

The Directors consider property and property right of use assets for indicators of impairment at least annually, or when there is an indicator of impairment. As equipment and leasehold improvements do not generate independent cash flows, they are considered alongside the property as a single cash-generating unit ("CGU"). When making the assessment, the value-in-use of the property is compared with its carrying value in the accounts. The value-in-use was calculated in line with the Group's forecast and sensitivities reflected in the Intangible impairment review. Where headroom is significant, no further work is undertaken. Where headroom is minimal, the property is reviewed in more detail, reviewing the factors driving underperformance. No impairment charge was taken in the period.

The value-in-use calculations require the Group to estimate cash flows expected to arise in the future, taking into account market conditions. In some cases, the cash flow forecasts reflect significant improvement in hospital performance as management respond to local market challenges or short-term operational challenges. The present value of these cash flows is determined using an appropriate discount rate and market conditions covering the five-year period to December 2026. The Group has used a discount rate reflecting the Group's cost of capital of 8.5% (2020 year end: 9.4%), adjusted for the effects of IFRS 16. A long-term growth rate of 2% has been applied to cash flows beyond 2026.

Management identified a number of key assumptions relevant to the property impairment calculations, being EBITDA growth, which is impacted by an interaction of a number of elements and assumptions regarding revenue, cost inflation, capex maintenance spend, discount rates and terminal growth rates. In addition, Management consider the potential financial impact from short term climate change scenarios, and costs of initiatives planned by the Group to manage the longer term climate impacts. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market conditions. Management undertook sensitivity analysis and determined that should the discount rate increase by 200 basis points (bp), or the growth rate reduce to 1. 50%, with all other assumptions remaining equal, sufficient headroom would remain. Due to the headroom for most CGUs, short term disruptions, such as those set out in the Viability section, would not result in significant impairment risk across the portfolio, and has been reflected in the sensitivity for the growth rate. Should a significant event cause a permanent or temporary suspension on trading, for example, due to a major fire or regulatory matter, the CGU would be reviewed on a case by case basis to assess the impact of such an event should it arise.

Notes to the preliminary announcement continued

13. Intangible assets

(£m)	Goodwill
Cost or valuation:	
At 1 January 2020 and 31 December 2020	**518.8**
Acquisition of a subsidiary	**17.0**
At 31 December 2021	**535.8**
Impairment:	
At 1 January 2020	**1.0**
Impairment charged during 2020	**200.0**
At 31 December 2020 and 31 December 2021	**201.0**
Carrying amount:	
At 31 December 2021	**334.8**
At 31 December 2020	**317.8**
At 1 January 2020	517.8

Acquisition during the year

On 30 November 2021, the Group acquired 100% of the voting shares of Claremont Hospital Holdings Limited (which in turn owns 88.0% of the shares of Claremont Hospital LLP), a non-listed company based in England which owns and operates the Claremont Private Hospital in Sheffield, for £16.9m generating goodwill of £17.0m. The Group acquired the Claremont Private Hospital as it is an excellent location for Spire Healthcare and is already rated as Outstanding by the CQC (see Note 22 for detail).

Impairment testing

The Directors treat the business as a single cash-generating unit for the purposes of testing goodwill for impairment, prior to the acquisition of Claremont. 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 period to December 2026.

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 rate. In addition, Management consider the potential financial impact from short term climate change scenarios, and costs of initiatives planned by the Group to manage the longer term climate impacts. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends.

The Group has used a discount rate reflecting the Group's cost of capital of 8.5% (2020: 9.4%), adjusted for the effects of IFRS 16. A long-term growth rate of 2.0% has been applied to cash flows beyond 2026.

In assessing the carrying value of the historical goodwill balance during the prior year, the Group recognised the effect that financial market conditions had on the cost of capital which it used to discount future cash flows to current value; accordingly it took an impairment charge in the period to reduce historical goodwill from £517.8m to £317.8m. The impairment charge of £200m was treated as an Adjusting item.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. For example, an increase of 200 basis points (bp) in the pre-tax discount rate, with all other assumptions held constant would result in the elimination of headroom. Reducing the terminal growth rate to 1.50% in the period beyond 2026, with all other assumptions held constant, would not result in an impairment charge.

14. Trade and other receivables

(£m)	2021	2020
Amounts falling due within one year:		
Trade receivables	**54.7**	35.4
Unbilled receivables	**12.3**	35.0
Prepayments	**18.4**	18.3
Other receivables	**17.9**	18.0
	103.3	106.7
Allowance for expected credit losses	**(4.1)**	(5.3)
Total current trade and other receivables	**99.2**	101.4

Unbilled receivables reflects work in progress where a patient had treatment, or was receiving treatment, at the end of the period and the invoice had not yet been raised. Unbilled receivables during the prior year included one-off accrued income of £30m due from NHS England following the contract variation which took effect from 1 July 2020. This amount was settled in H1 2021.

Notes to the preliminary announcement continued

14. Trade and other receivables continued

Other receivables includes a £2.2m receivable from the vendor of Claremont Hospital, which was acquired by the Group during the year, and is the difference between the original estimated purchase price of £19.1m and the final agreed purchase price of £16.9m (see Note 22); £7.9m paid into the new Paterson Fund, which is being held by solicitors on account until payments start to be made, with any amount not paid out being returned to Spire; as well as the £7.4m insurance reimbursement right (2020: £5.0m). The amounts paid to the new Paterson fund do not reflect an investment in a financial asset, but merely a right to reimbursement should the fund not be utilised in full.

In the prior year, as well as the £5.0m insurance reimbursement right, other receivables included the £11.6m receivable following the RSA judgment, cash received in January 2021 (see note 9 for more detail).

Trade receivables comprise amounts due from private medical insurers, the NHS, self-pay patients, Consultants and other third parties who use the Group's facilities. Invoices to customers fall due within 60 days of the date of issue.

The Company was successful in its bid to be included on the NHSE Framework for purchasing additional activity from the independent sector, which commenced in April 2021. Inclusion on the Framework is at an agreed price for activity, based on the NHS tariff, but carries no guaranteed volumes. For contracts under the Framework that include an estimated contract value, billing is in advance for the expected volume, with a quarterly true-up for actual volumes undertaken. This has generated an increase in payments on account in the current year, as volumes under the Framework have generally been lower than anticipated. For contracts under the Framework without an estimated contract value, billing is in arrears based on actual volumes only.

The ageing of trade receivables is shown below and shows amounts that are past due at the reporting date (excluding payments on account). A provision for expected credit losses has been recognised at the reporting date through consideration of the ageing profile of the Group's trade receivables and the perceived credit quality of its customers reflecting net debt due. The carrying amount of trade receivables, net of expected credit losses, is considered to be an approximation to its fair value.

The loss allowance as at 31 December 2021 for trade receivables was determined as follows:

	Current	0-30 days	31-90 days	91-364 days	1-2 years	Total
Expected loss rate	**0.7%**	**2.2%**	**5.1%**	**19.5%**	**23.6%**	**5.5%**
Gross debt (£m)	**27.1**	**22.9**	**13.7**	**7.7**	**5.5**	**76.9**
Less payments on account (£m)						**(22.2)**
Carrying amount of trade receivables (£m)						**54.7**
Loss allowance (£m)	**0.2**	**0.5**	**0.7**	**1.5**	**1.2**	**4.1**

The loss allowance as at 31 December 2020 for trade receivables was determined as follows:

	Current	0-30 days	31-90 days	91-364 days	1-2 years	Total
Expected loss rate	1.9%	14.7%	33.3%	45.5%	21.9%	12.2%
Gross debt (£m)	26.5	3.4	2.7	4.4	6.4	43.4
Less payments on account (£m)						(8.0)
Carrying amount of trade receivables (£m)						35.4
Loss allowance (£m)	0.5	0.5	0.9	2.0	1.4	5.3

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

14. Trade and other receivables continued

Trade receivables after expected credit losses comprise the following wider customer/payor groups:

(£m)	2021	2020
Private medical insurers	27.4	21.5
NHS	9.2	1.0
Patient debt	8.9	3.4
Other	5.1	4.2
	50.6	30.1

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

(£m)	2021	2020
At 1 January	5.3	3.7
Provided in the year	–	1.9
Utilised during the year	(0.2)	(0.3)
Released during the year	(1.0)	–
At 31 December	4.1	5.3

The Group applies the IFRS 9 simplified approach to measuring Expected Credit Losses (ECLs) for trade receivables. Under this standard, lifetime ECL provisions are recognised for trade receivables using a matrix of rates dependant on age thresholds and customer types. The ECL rates are determined with reference to historical performance of each payor age group during the last two years.

To develop the ECL matrix, trade receivables were grouped according to shared characteristics (payor/payor type) and the days past due. As the majority of the Group's debt is receivable from large, well-funded insurance companies, the National Health Service or from a large number of individuals, the Group has concluded that historical debt performance of the portfolio during the last two reporting periods provides a reasonable approximation of the future expected loss rates for each payor age category with the exception this year for the impact of COVID-19 on patient debt. The ECL matrix is refreshed at each reporting date. Trade receivables are not modified after initial recognition. Payments on account are excluded from the calculation. No collateral is held in respect of trade receivables. Expected credit losses are calculated on a collective basis and are not allocated to individual financial assets.

The Group has not changed the methodology in respect of the Expected Credit Loss (ECL) calculations due to the COVID-19 pandemic. The Group's customer profile includes large organisations that have stable credit ratings, and the payment profiles have remained stable for historical debts. The exception to this reflects Patient Debt where economic circumstances can have a significant impact and given the current economic uncertainty from COVID-19, remains the highest risk for the Group. Therefore management have reviewed this Group in isolation and provided for additional coverage based on the impact of the economic uncertainty by increasing the expected loss rate during the prior year, some of which has been released during the current year.

15. Non-current assets held for sale

As at December 2021, the Group's management remain committed to sell one property, Spire St Saviours Hospital, which closed in 2015. The property is still highly probable to be sold, and expected to be sold within twelve months. The timescales have been delayed as a result of the pandemic and a change in buyer during the period, but there is no change in assessment and the sale process continues. It therefore remains classified as held for sale and is presented separately in the consolidated balance sheet. No impairment has been charged during the year (2020: £0.3m) to reduce the carrying value to the proceeds now expected from the sale.

In addition, the Group's management have committed to sell a parcel of land at Bostocks Lane. Negotiations are complete and the buyer has submitted a planning application to the authorities. The sale is considered highly probable and the assessment has not changed. It therefore remains as classified as held for sale.

(£m)	2021	2020
Spire St Saviours Hospital property (note 9)	3.7	3.7
Bostocks Lane (East Midlands Cancer Centre)	1.1	1.1
	4.8	4.8

Notes to the preliminary announcement continued

16. Share capital and reserves

	2021	2020
Authorised shares		
Ordinary share of £0.01 each	401,104,036	401,081,391
	401,104,036	401,081,391

Issued and fully paid	£0.01 ordinary shares	
	Shares	£'000
At 31 December 2021	401,104,036	4,011
At 31 December 2020	401,081,391	4,010

Capital reserves
This reserve represents the loans of £376.1m 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 2021, the EBT purchased no shares (2020: nil shares acquired).

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 2021, 239,283 shares (2020: 239,283) were held by the EBT in relation to the Directors' Share Bonus award and Long-Term Incentive Plan.

(number of shares)	2021	2020
At 1 January	239,283	252,652
Exercised – 2017 LTIP	–	(13,369)
At 31 December	239,283	239,283

Hedging reserve

The balance of £0.8m at 31 December 2021 (2020: £3.2m) reflects the £2.5m (2020: £1.4m) recycled in the period, the fair value credit of £0.8m (2020: £2.9m charge) and the £0.6m tax charge on the profit (2020: £0.4m tax credit on the loss) to give a net movement of a decrease of £2.4m during the year (2020: an increase of £1.1m) on a hedged transaction. See note 17 for further information.

17. Borrowings

The Group has borrowings in two forms, bank borrowings and lease liabilities as disclosed on the Consolidated balance sheet. Total borrowings at 31 December 2021 were £1,265.3m (2020: £1,170.3m). More detail in respect of these two forms of borrowings are set out below.

Bank borrowings

The bank loans are secured on fixed and floating charges over both the present and future assets by a share pledge over the shareholdings of material subsidiaries of the Group. 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, £425.0m term loan and a five-year £100.0m Revolving Credit Facility (RCF). The loan is non-amortising and carries interest at a margin of 2.25% over LIBOR (2020: 2.25% over LIBOR).

In July 2018, the Group extended the maturity of its bank loan facility for a further 3 years from July 2019 to July 2022, with a further extension in September 2020 from July 2022 to July 2023. The RCF was due to remain at £100.0m until July 2022 when it would then reduce to £87.0m until July 2023. A modification gain of £3.3m and £0.3m respectively was recorded at the date of each extension, which in turn decreased the carrying value of the loan held.

The Group entered into an agreement on 24 February 2022 to refinance this debt. Details of this refinance can be found in Note 24 – Events after the Reporting Period. There is no impact to the current year as a result of this refinancing agreement.

(£m)	2021	2020
Amount due for settlement within 12 months	5.7	2.2
Amount due for settlement after 12 months	421.8	418.6
Total bank borrowings	427.5	420.8

Notes to the preliminary announcement continued

17. 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.

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

(£m)	Maturity	Margin over LIBOR	2021	2020
Senior finance facility(1)	July 2023	2.25%	**428.2**	422.6

1 the difference between the carrying amount of the facility and the value of the debt repayment schedule relates to the fees on the loan extensions, which are amortised in accordance with IFRS 9

The Group also has access to a further £100m through a committed and undrawn revolving credit facility to July 2022, which, prior to the refinancing, would have reduced as detailed above. However, as a result of the refinancing, the facility will remain at £100m until July 2026.

Changes in bank borrowings arising from financing activities

(£m)	1 January	Cash flows	Non cash changes(1)	Loan modification(2)	31 December
2021					
Bank loans	**420.8**	**(13.2)**	**18.8**	**1.1**	**427.5**
Total	**420.8**	**(13.2)**	**18.8**	**1.1**	**427.5**

1 Non-cash changes reflect interest charged on the loan
2 the loan modification relates to fees incurred on the loan extension, which are amortised in accordance with IFRS 9

(£m)	1 January	Cash flows	Non cash changes	Loan modification	31 December
2020					
Bank loans	420.8	(18.1)	17.5	0.6	420.8
Total	420.8	(18.1)	17.5	0.6	420.8

Lease liabilities

Obligations under finance leases

The Group has finance in respect of hospital properties, vehicles, office and medical equipment. The leases are secured on fixed and floating charges over both the present and future assets of material subsidiaries in the Group. Leases, with a present value liability of £837.8m (2020: £749.5m), expire in various years to 2046 and carry incremental borrowing rates in the range 3.1-14.6% (2020: 4.5-12.9%). Rent in respect of hospital property leases are reviewed annually with reference to RPI, subject to assorted floors and caps. The discount rate used are calculated on a lease by lease basis, and are based on estimates of incremental borrowing rates. A movement in the incremental borrowing rate of 1% would result in an 8% movement in lease liability.

Changes in lease liabilities arising from financing activities

(£m)	1 January	Cash flows	Non cash changes	Additions[1]	Disposals	31 December
2021						
Lease liabilities	**749.5**	**(26.0)**	**67.7**	**48.4**	**(1.8)**	**837.8**
Total	**749.5**	**(26.0)**	**67.7**	**48.4**	**(1.8)**	**837.8**

1 Additions include both new lease entered into, indexation of existing leases, sale and leaseback transactions and acquisitions of subsidiaries.

(£m)	1 January	Cash flows	Non cash changes	Additions	Disposals	31 December
2020						
Lease liabilities	745.3	(79.8)	68.9	15.1	–	749.5
Total	745.3	(79.8)	68.9	15.1	–	749.5

In the year, the Group recognised charges of £12.3m (2020: £11.1m) of lease expenses relating to short term and low value leases for which the exemption under IFRS 16 has been taken. Cash outflows in respect of these are materially in line with the expense recognised, resulting in a total cash outflow of £38.3m (2020: £90.9m). There has been one (2020: none) sale and leaseback transaction in this period, of the Cheshire Hospital for consideration of £89m. A gain on disposal of £23.5m has been recognised, offset by £0.2m of costs to sell, recorded in Adjusting Items. In addition, the lease in respect of Sussex was modified to reduce the term from 6 years to 12 months following the agreement for the transfer of the business to the NHS Trust in March 2022; and the previous lease at Dorset Rise was disposed of and a new lease, for more space at Dorset Rise, was entered into. Claremont hospital was acquired during the year, which included the addition of a £25.6m new lease (see Note 22).

17. Borrowings continued

Some leases receive RPI increases on an annual basis which affects both the cash flow and interest charged on those leases. Except for this increase, cash flows and charges are expected to remain in line with current year. The cash flows above do not reflect any termination or extension options. There are no significant restrictions or covenants which impact the cash flows in respect of these leases.

See the Right Of Use (ROU) section of note 12 for more detail on depreciation of the Right of Use (ROU) assets and note 8 for more detail on the interest expense relating to leases.

Derivatives

The following derivatives were in place at 31 December:

	Interest rate	Maturity date	Notional amount	Carrying value Liability
31 December 2021 (£m)				
Interest rate swaps	1.2168%	July 2022	213.0	(0.7)
31 December 2020 (£m)				
Interest rate swaps	1.2168%	July 2022	213.0	(4.0)

(£m)	2021	2020
Amount due for settlement within 12 months	**0.7**	2.5
Amount due for settlement after 12 months	**–**	1.5
Total derivatives	**0.7**	4.0

The movement in respect of the derivative reflects £2.5m (2020: £1.4m) recycled in the period and a £0.8m (credit) (2020: £2.9m (charge)) change in fair value. All movements are reflected within other comprehensive income.

18. Provisions

(£m)	Medical malpractice	Business restructuring and other	Total
At 1 January 2021	**29.9**	**3.1**	**33.0**
Increase in existing provisions	**21.3**	**2.0**	**23.3**
Recognition of provision on acquisition of a business (Under IFRS 3) (see Note 22)	**–**	**1.5**	**1.5**
Provisions utilised	**(9.1)**	**(2.5)**	**(11.6)**
Provisions released	**(0.1)**	**(1.3)**	**(1.4)**
At 31 December 2021	**42.0**	**2.8**	**44.8**

Medical malpractice relates to estimated liabilities arising from claims for damages in respect of services previously supplied to patients. Amounts are shown gross of insured liabilities. Only when the reimbursement right from insurance recoveries is virtually certain is a separate asset recognised, as such insurance recoveries of £7.4m (2020: £5.0m) are recognised in other receivables.

Following the completion of criminal proceedings against Ian Paterson, a Consultant who previously had practising privileges at Spire Healthcare, in 2018, management agreed settlement of all known civil claimants (and other co-defendants). Spire Healthcare continues to provide on-going support to Paterson's patients, and following the publication of the Public Inquiry report issued on 4 February 2020, continues to hold a provision for its current estimate of the future anticipated costs. It is possible that, as further information becomes available, an adjustment to this provision will be required, but at this time, it reflects management's best estimate of the obligation.

In FY20, the Group was awarded c. £11.6m in compensation and interest from one of its Insurers by the High Court. The Group recognised the income and did not provide for the risk of repayment in FY20. The possibility of a successful appeal was remote, and therefore there was no significant risk of reversal. The Insurer was, however, granted an appeal and the case was heard in the Court of Appeal in December 2021. The Court of Appeal issued their judgment in January 2021, and found in favour of the Insurer. As a result, the Group is required to repay the amounts awarded in 2020 to the Insurer. Whilst the judgment was not known at the year-end, the judgment is considered an adjusting post balance sheet event, and the Group has therefore provided for £13m in the FY21 period, which reflects management's best estimate of the amount to be repaid. The Group will seek leave to appeal. Any appeal, if granted, would result in the case being heard by the Supreme Court.

The provision in relation to the Ian Paterson costs has been determined before account is taken of any potential further recoveries from insurers.

Business restructuring and other primarily includes staff restructuring costs and other non-medical claims, of which £2.0m has been provided, £2.5m settled and £1.3m released during the period. In addition, on acquisition of Claremont Hospital on 30 November 2021, and in line with IFRS 3, £1.5m has been provided to reflect management's best estimate for the potential costs of certain legacy matters which the Group identified during its due diligence activities, increasing the amount of Goodwill recognised on acquisition (refer to note 22). These matters continue to be reviewed and will be adjusted as required as the risks are assessed in full and, in accordance with IFRS 3, should any adjustment be required to this provision within one year of acquisition, the Goodwill recognised will be adjusted. Provisions as at 31 December 2021 are materially considered to be current and expected to be utilised at any time within the next twelve months.

Notes to the preliminary announcement continued

19. Trade and other payables

(£m)	2021	2020
Trade payables	**51.7**	58.0
Accrued expenses	**52.6**	48.3
Social security and other taxes	**8.3**	9.8
Other payables	**46.5**	20.8
Trade and other payables	**159.1**	136.9

£2.9m of trade and other payables have been added on the acquisition of the Claremont Hospital during the year (see Note 22).

Accrued expenses includes general operating expenses incurred, but where an invoice was yet to be received at the year end, as well as holiday pay accrued due to staff deferring leave to maintain operations throughout the COVID-19 pandemic, and bonuses accrued during the year and paid during the following year.

Other payables include an accrual for pensions and payments on account. Revenue is not recognised in respect of payments on account until the performance obligation has been met. At year end the balance of payments on account was £9.9m (2020: £7.5m), and other credit balances reclassed from trade debtors, largely relating to NHS credits, were £25.8m (2020: £10.3m).

20. 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 in respect of LTIPs and SAYE recognised in the income statement was £2.8m in the year ended 31 December 2021 (2020: £1.7m). Employer's National Insurance is being accrued, where applicable, at the rate of 14.3%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total National Insurance charge for the year was £0.4m (2020: £0.2m).

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

	2021		2020	
	Charge £m	**Number of options (thousands)**	Charge £m	Number of options (thousands)
Long Term Incentive Plan	**2.5**	**11,449**	1.6	10,193
Deferred Share Bonus Plan	**–**	**383**	–	244
Save As You Earn (SAYE)	**0.3**	**3,114**	0.1	3,222
	2.8	**14,946**	1.7	13,659

A summary of the main features of the scheme is shown below:

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.

On 6 April 2020, the Company granted a total of 5,638,223 options to the Executive directors and other senior management. The options will vest based on earnings per share ('EPS') (20%) targets for the financial year ending 31 December 2022, relative total shareholder return ('TSR') (40%) targets on performance over the three year period to 31 December 2022 and operational excellence ('OE') (40%) targets based on employee engagement targets and regulatory ratings for the current portfolio of hospitals, subject to continued employment. Upon vesting, the options will remain exercisable until 1 April 2030.

On 18 March 2021, the Company granted a total of 3,595,102 options to the Executive directors and other senior management. The options will vest based on return on capital employed ('ROCE') (35%) targets for the financial year ending 31 December 2023, relative total shareholder return ('TSR') (35%) targets on performance over the three year period to 31 December 2023 and operational excellence ('OE') (30%) targets based on employee engagement targets and regulatory ratings for the current portfolio of hospitals, subject to continued employment. Upon vesting, the options will remain exercisable until March 2031. The Executive Directors are subject to a 2 year holding period, whilst other senior management are not.

Deferred Share Bonus Plan
The Deferred Share Bonus Plan is a discretionary executive share bonus plan under which the Remuneration Committee determines that a proportion of a participant's annual bonus will be deferred. The market value of the shares granted to any employee will be equal to one-third of the total annual bonus that would otherwise have been payable to the individual. The awards will be granted on the day after the announcement of the Group's annual results. The awards will normally vest over a three-year period.

20. Share-based payments continued

On 6 April 2020, the Company granted a total of 243,973 options to Executive directors, with a vesting date of 6 April 2023. The options will vest based on a target EBITDA net debt leverage ratio for the year ending 31 December 2020, and subject to continued employment.

On 18 March 2021, the Company granted a total of 138,888 options to Executive directors, with a vesting date of 18 March 2024. The options will vest based on a target EBITDA net debt leverage ratio for the year ending 31 December 2021, and subject to continued employment.

Save As You Earn
The Save As You Earn ("SAYE") is open to all Spire Healthcare employees. Awards are subject to non-market performance criteria. Vesting will be dependent on continued employment for a period of 3 years from grant. The requirement to save is a non-vesting condition.

On 3 May 2019, the Company launched the SAYE scheme. The Company has not launched any new SAYE schemes in the period. There are no performance conditions in respect of the scheme and the vesting date is 1 June 2022. Upon vesting, the options will remain exercisable for 6 months. The IFRS 2 charge has been calculated using an adjusted Black Scholes model with judgements including leavers of the scheme (employees who may cease to save) and dividend yields.

21. Commitments

Consignment stock

At 31 December 2021, the Group held consignment stock on sale or return of £23.5m (2020: £22.8m). The Group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

Capital commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the consolidated 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:

(£m)	2021	2020
Contracted but not provided for	29.1	20.9

22. Business combinations and acquisition of non-controlling interests

Acquisitions in 2021

Acquisition of Claremont Hospital Holdings Limited and Claremont Hospital LLP (together "Claremont Hospital")

On 30 November 2021, the Group acquired 100% of the voting shares of Claremont Hospital Holdings Limited (which in turn owns 88.0% of the shares of Claremont Hospital LLP), a non-listed company based in England which operates the Claremont Private Hospital in Sheffield, for £16.9m. The Group acquired the Claremont Private Hospital as it is an excellent location for Spire Healthcare and is already rated as Outstanding by the CQC.

From the date of acquisition, Claremont Hospital contributed £1.7m of revenue and £nil to profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been £22.3m and profit before tax from continuing operations for the Group would have been £2.0m.

The Group paid an initial amount of £19.1m prior to agreement of the completion accounts. Based on the revised completion statement, the Group has recognised a receivable of £2.2m to reflect the revised value of £16.9m to be settled.

Goodwill has been recognised to reflect the synergies which the Group believes are available from integrating the hospital with the wider Group, as well as its reputation and Outstanding CQC rating which reflect intangibles that cannot be separately quantified. This goodwill is not deductible for tax purposes.

The non-controlling interest reflects the valuation of the net assets which are applicable to the minority shareholders, adjusting for any amounts which are solely in respect of the majority shareholder. The same method was applied for determining the value of the business as a whole, and the value applied to the majority share acquired by the Group. The Group has elected to measure the non-controlling interests in the acquiree at net assets.

22. Business combinations and acquisition of non-controlling interests continued

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Claremont Hospital as at the date of acquisition were:

(£m)	Fair value recognised on acquisition
Assets	
Right of use (Note 12)	25.5
Plant, property and equipment (Note 12)	0.7
Trade and other receivables (Note 14)	1.5
Inventories	0.7
Cash	4.4
	32.8
Liabilities	
Lease liability (Note 17)	(25.6)
Payables (Note 19)	(2.9)
	(28.5)
Total identifiable net assets at fair value before adjustments	**4.3**
Provision recognised (Note 18)	(1.5)
Corporation tax liability	(2.4)
Total identifiable net assets at fair value after adjustments	**0.4**
Non-controlling interest measured at fair value (12.0%)	(0.5)
Goodwill arising on acquisition (Note 13)	17.0
Purchase consideration transferred	**16.9**
Financial liability recognised through equity	(1.9)

The amounts recognised, including the provision, are subject to adjustment in line with IFRS 3 for up to a 12 months from acquisition, with goodwill being adjusted accordingly.

The fair value of the trade receivables amounts to £1.5m. The gross amount of trade receivables is £1.5m and it is expected that the full contractual amounts can be collected.

The Group measured the acquired lease liability using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liability.

Purchase consideration transferred

(£m)	Cash flow on acquisition
Net cash acquired with the subsidiary	4.4
Cash paid	19.1
Net cash flow on acquisition	14.7

Transaction costs of £1.5m were expensed and are included within Adjusting Items. Following the receipt of the completion accounts at the beginning of 2022, the final purchase price has been agreed at £16.9m and a receivable of £2.2m has been booked.

23. Contingent liabilities

The Group had the following guarantees at 31 December 2021:

- the bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5m (2020: £1.5m) 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

Notes to the preliminary announcement continued

24. Events after the reporting period

On 14 January 2022, the Court of Appeal published its judgment regarding the Group's case against its insurer relating to Ian Paterson. The ruling of this appeal found in favour of the insurer, and as a result, the Group was required to repay the amounts awarded to it in the initial High Court ruling received in December 2020. This judgment has been treated an adjusting event, and therefore £13.0m has been recognised as a provision in the FY21 financial statements. The Group will seek leave to appeal which, if granted, would result in the case being heard by the Supreme Court.

As announced by the Group on 25 February 2022, the Group entered into an agreement on 24 February 2022 to refinance this debt. As part of this exercise, and in recognition of the fact that the Group had substantial cash reserves at 31 December 2021, the Group repaid £100m of the Senior Loan Facility. As a consequence, the revised Senior Loan Facility was set at £325.0m and the Group continued to have access to an undrawn RCF of £100.0m. This new arrangement has a maturity of 4 years, with the Group having the option to extend by another year. The financial covenants relating to this new agreement are unchanged.

There have been no other events to disclose after the reporting date.

Shareholders' information

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

Financial Calendar
2022 Annual General Meeting (London) 11 May 2022
Announcement of 2022 half year results September 2022