Spire Healthcare reports its results for the six months ended 30 June 2020

London, UK, 17 September 2020, Spire Healthcare Group plc (LSE: SPI), a leading independent hospital group in the UK, today announces its interim results for the six months ended 30 June 2020.

Proud to support the NHS while maintaining strong liquidity, with net debt unchanged from Dec 2019

Summary Group results for the six months ended 30 June 2020

(£ million)	Six months ended 30 June 2020	2019	Variance
Revenue	**401.9**	**491.6**	**(18.2%)**
Adjusted operating profit (Adjusted EBIT)	**14.9**	**51.4**	**(71.0%)**
Adjusting items	(204.7)	(0.4)	NM[1]
Operating profit (EBIT)	**(189.8)**	**51.0**	**NM**
(Loss) / Profit before taxation	(231.3)	9.6	NM
(Loss) / Profit after taxation	(233.1)	7.1	NM
Basic (loss) / earnings per share, pence	**(58.2)**	**1.8**	**NM**
Adjusted (loss) / earnings per share, pence	(7.3)	1.8	NM
EBITDA (2)	61.6	96.8	(36.4%)
Capital investments	19.5	19.7	1.0%
Net bank debt (3)	**(330.6)**	**(362.2)**	**8.7%**

1. Not meaningful
2. EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'EBITDA'.
3 Net bank debt is defined as bank borrowings less cash and cash equivalents

Operating and financial highlights

- Historic agreements to support the NHS during the COVID-19 pandemic with relevant cash costs covered
- 380,000 patients seen in H1 20 (H1 19: 494,000)
- 90% of sites now rated 'Good', 'Outstanding' or equivalent (up from 85% at FY19 and 81% at H1 19)
- Working capital benefit leaves net bank debt unchanged at £330.6m (£330.0m at H2 19 and £362.2m at H1 19)
- Agreement with lenders to amend June 2021 covenant test, and maturity of Senior Loan Facility extended by one year to July 2023
- Dividend suspended on 1 April. Dividend policy will be reviewed when circumstances permit
- £200m write down of goodwill primarily related to historical balances created in 2007 and 2008

Developing our business

- Agreed Heads of Terms to vary the NHS England (NHSE) contract to protect minimum private capacity in all sites, driving positive momentum in admissions and providing firm end date of 31 December 2020 at latest
- Over 120,000 NHS patients seen to date under the COVID-19 contract
- Private demand increasing with monthly relevant enquiries in August above prior year
- Total admissions in August at 95% of prior year, up from 80% in July, with mix skewed to NHS
- Launched virtual consultations and pilot of electronic pre-operative assessments
- Bupa Specialist Centres for breast cancer opened at Spire Bushey and Spire Little Aston on 29 July

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

"The first six months of 2020 has witnessed unprecedented challenges but Spire Healthcare has been able to play a critical role during this time of national public health crisis whilst continuing to invest in its future. We are now well-positioned to continue supporting the NHS in urgently tackling growing waiting lists, while meeting the increasing demand for treatment from private patients.

"I pay tribute to all our Spire Healthcare and NHS colleagues, as well as Consultant partners, who have worked together to deliver the best possible care during the COVID-19 pandemic in meeting the needs of more than 120,000 patients. Challenges remain but I am optimistic about our future prospects with our admissions now close to the levels of last year. On the back of rising private demand and increased efficiency in our patient pathways, I firmly believe Spire Healthcare can look forward to the future with confidence in its mission to bring together the best people, dedicated to delivering the highest quality patient care in the best clinical environment."

Outlook

It is challenging to set future expectations given the current uncertainty with COVID-19. The Group will remain within the NHSE contract for most of 2020 and if current trends continue, the Board expects operating profit in H2 2020 to be at least in-line with H1 2020. December 2020 net bank debt is expected to be in the range of £320m to £360m. There has been a return of private activity since lock down and there is significant national unmet demand for both private and NHS procedures. Subject to any significant change in the COVID environment, the Board anticipates trading returning to 2019 levels in 2021.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

**Note: 120,000 patients seen under COVID-19 contract between 23 March and 30 August*

For further information please contact:

Spire Healthcare **+44 (0)20 7427 9169**
Cora McCallum, Head of Investor Relations

Instinctif Partners **+44 (0)20 7457 2020**
Damian Reece
Guy Scarborough

Registered Office and Head Office:

Spire Healthcare Group plc
3 Dorset Rise
London
EC4Y 8EN

Registered number 09084066

About Spire Healthcare

Spire Healthcare is a leading independent hospital group in the United Kingdom, with 39 private hospitals and 8 clinics across England, Wales and Scotland.

Spire Healthcare delivered tailored, personalised care to approximately 810,000 in-patients and daycase patients in 2019, 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. Spire treats patients through a variety of routes including PMI, Self-pay and the NHS, providing the Group with diversified access to the expected growth opportunities in the UK healthcare market, which faces significant supply challenges as a result of NHS budget constraints and increasing demand from a growing population with longer life expectancy.

Cautionary statement

This preliminary announcement contains certain forward-looking statements relating to the business of Spire Healthcare Group plc (the "Company") and its subsidiaries (collectively, the "Group"), including with respect to the progress, timing and completion of the Group's development, the Group's ability to treat, attract, and retain patients and customers, its ability to engage consultants and GPs and to operate its business and increase referrals, the integration of prior acquisitions, the Group's estimates for future performance and its estimates regarding anticipated operating results, future revenue, capital requirements, shareholder structure and financing. In addition, even if the Group's actual results or development are consistent with the forward-looking statements contained in this preliminary announcement, those results or developments may not be indicative of the Group's results or developments in the future. In some cases, you can identify forward-looking statements by words such as "could," "should," "may," "expects," "aims," "targets," "anticipates," "believes," "intends," "estimates," or similar words. These forward-looking statements are based largely on the Group's current expectations as of the date of this preliminary announcement and are subject to a number of known and unknown risks and uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by these forward-looking statements. In particular, the Group's expectations could be affected by, among other things, uncertainties involved in the integration of acquisitions or new developments, changes in legislation or the regulatory regime governing healthcare in the UK, poor performance by consultants who practice at our facilities, unexpected regulatory actions or suspensions, competition in general, the impact of global economic changes, and the Group's ability to obtain or maintain accreditation or approval for its facilities or service lines. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements made in this 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 11am via Zoom webinar. Please register in advance through this link:
https://spirehealthcare.zoom.us/webinar/register/WN_qi9CBCXqQJWgKxTlw-9elw

Operating Review

Performance

The first half of 2020 has been focused on the Company's response to the COVID-19 pandemic. Spire Healthcare, together with the rest of the independent hospital sector, agreed to support the NHS's efforts to tackle the pandemic. This unprecedented agreement ensured sufficient UK healthcare infrastructure to meet COVID-19 demand and continue time-critical services to vulnerable patients, whilst also maintaining Spire Healthcare's liquidity, protecting the employment of the Group's colleagues and maintaining engagement with Consultants.

COVID-19 response and activity

The COVID-19 pandemic required Spire Healthcare to react quickly and remain adaptable to a frequently changing operating environment, as clinical regulations and policies evolved. These developments necessitated structural changes to managerial engagement, communication and reporting, which led to all 39 Spire hospitals becoming more aligned operationally and working more efficiently as one organisation. This new way of working should ensure a more streamlined decision making and communications process throughout the Group going forwards.

NHS activity

Spire Healthcare is proud of the role it is playing to partner with the NHS and ensure vital healthcare services are maintained. Net revenues from the COVID-19 contracts in England, Scotland and Wales totalled £133.7m in H1 20, leading to total NHS revenue of £200.4m (H1 19: £143.7m). As of 30 August the Company has seen over 120,000 NHS patients under the COVID-19 contract. Over 49,300 NHS patients were admitted for treatment including 18,800 for urgent cancer care. In certain regions the local NHS Trust transferred whole service lines, such as chemotherapy or cystic fibrosis, to the local Spire hospital, and in other areas Spire provided colleagues and equipment such as ventilators to support the provision of care in the local NHS hospital. This collective response to the COVID-19 pandemic has strengthened Spire Healthcare's relationship with the NHS, both at a local and national level, and the Company has received significant positive feedback from Consultants, colleagues and patients.

Colleagues and Consultants

Spire Healthcare worked hard to support its colleagues during the COVID-19 pandemic. The contract with the NHS protected the employment of all clinical colleagues whilst, where appropriate, administrative colleagues were retrained and redeployed to perform a range of vital roles. Some colleagues volunteered to work in the Nightingale hospitals and, whilst a maximum of 39 colleagues were furloughed at any point in time, no one experienced a reduction in salary as Spire Healthcare topped up the Government contribution. We have, in addition, announced an exceptional financial COVID-19 gift to all our colleagues not on a bonus scheme, to thank them for their contribution. This will be paid in December 2020 and will not be funded by the NHS.

As a result of these efforts, and despite the challenging environment, colleagues have reported feeling increasingly engaged and confident in the future of the Group, as evidenced by the results of a colleague survey in July. 80% of all colleagues reported that they were proud to work for Spire Healthcare. For three months at the start of the NHS COVID-19 contract, Garry Watts, Justin Ash and Jitesh Sodha agreed a 20% salary reduction, and an equivalent sum of money will be donated to the NHS Charities Together.

The COVID-19 pandemic significantly impacted the Consultants who have practising privileges at Spire Healthcare, with minimal private activity possible during the peak of the pandemic. Spire Healthcare ensured regular communication with this important stakeholder group and expanded its internal communications team to include a Head of Consultant Communications.

NHS contract variations

On 15 May, NHS England (NHSE) triggered the de-escalation phase of the contract with the independent sector, allowing Spire Healthcare to undertake elective work for both NHSE and private payors, at the discretion of the local Trust. A Heads of Terms for a variation to the NHSE contract, announced on 13 August, guarantees a minimum capacity for private activity in each of the 35 Spire Healthcare hospitals in England. NHSE will continue to cover cash costs, in line with the original contract. In return, Spire Healthcare has committed to a minimum private rebate (a deduction from the NHSE-reimbursed costs commensurate with the amount of private care provided), with additional incentives agreed for exceeding that minimum rebate.

Spire Healthcare has implemented safe patient pathways in each of its hospitals and is confident these will not materially restrict capacity. The Group is committed to offering elective care to as many patients as possible, both NHS and private, and to supporting our Consultant partners to rebuild their practices as quickly as possible. Total admissions across all Spire Healthcare sites are now running at 95% of prior year capacity on a monthly basis.

The Company is now seeing strong demand from private patients. Relevant enquiries have rebounded strongly since late April and are now above the level seen last year. These enquiries are driving a subsequent recovery in outpatient consultations and admissions, albeit with some time lag. For example, in recent trading, private outpatient consultations were down only 5% versus the same period last year with private admissions continue to build and are now only 23% behind the same period last year. Private revenue in July was double that of June, with 20% growth in August (versus July).

The contract between Spire Murrayfield and NHS Scotland will terminate at the end of September. Spire Healthcare is working with the NHS in Wales to agree a variation in the contracts with Spire Yale and Spire Cardiff which will protect a minimum capacity for private activity in line with that agreed in England.

Digital efficiency programmes
The pandemic has provided a platform to accelerate the delivery of certain digital efficiency programmes. In early March, Spire Healthcare secured licences to facilitate virtual patient consultations, with nearly 20,000 consultations taking place in H1 20. A further 16,000 virtual consultations were conducted in July and August. The Group also hosted virtual training and events for General Practitioners enabling Spire Healthcare to reach and engage with the local medical community thereby protecting and developing an important source of patient referrals.

The introduction of electronic pre-operative assessment (ePOA) was prioritised and is now in pilot in three Spire Healthcare sites (Spire Nottingham, Spire Hartswood and Spire Leicester). Full implementation of ePOA across all sites is expected to start by end H2 20, which should significantly reduce the use of paper within Spire Healthcare whilst facilitating a better patient experience and shorter processing time, freeing up nursing time and hospital consulting rooms.

Significant progress has been made on the development of a new pricing system which will allow central control and optimisation of self-pay pricing across the group. This should be delivered in early 2021.

The Company also launched two new platforms to improve the HR function. The first, Florence, is a new Oracle-based people management platform which consolidates four existing HR systems (HR, payroll and two recruitment systems) into one. This development will significantly reduce the paper and administrative burden within HR whilst providing greater control and transparency in payroll.

The second, Ryalto, is an app for Spire Healthcare colleagues, which provides access to news and information about the business, enabling a greater sense of connection to the company, particularly for hospital-based colleagues who are not able to access email whilst at work. This Cloud-based system will also allow managers to book bank and/or temporary workers and will link to the Group's payroll systems.

Revenue and cash position

2020 started well with revenues up 3% in January and February, including 9% growth in self-pay. However admissions and revenues declined from mid-March as the COVID-19 pandemic impacted the country; Consultants, particularly anaesthetists, were diverted to the NHS and shielding resulted in lower colleague availability and fewer patients. With the vast majority of private elective surgery suspended from 1 April, Group revenues declined 18% to £401.9m in H1 20. As a result of the agreements with the NHS in England, Wales and Scotland, which made Spire Healthcare facilities and colleagues available to the NHS, a comparison of revenue by payor or location (inpatient, daycase or outpatient) is not meaningful.

The Group has received relevant cash cost recovery for its services from 30 March, including operating costs, overheads, use of assets, rent and interest less a rebate for any private elective care provided. These contracts, with payments in advance, combined with a tightly controlled capex programme and the suspension of the final dividend (which was announced on 1 April), have resulted in virtually no change in cash and equivalents on the balance sheet (£90.9m in H1 20 versus £90.8m at FY19). Consequently net debt is largely unchanged at £330.6m (£330.0m at end December 2019 and £362.2m at H1 19).

Spire Healthcare currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The maturity date of the Senior Loan Facility has been extended by one year to July 2023. The RCF will remain at £100m until July 2022 and £87m thereafter until July 2023. The Group has 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. In addition to the covenant waivers already announced and agreed for June 2020 and December 2020, a further covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 has been agreed. A new liquidity measure will take effect as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committed facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x if this measure has not already dipped below 4x.

In line with IFRS requirements the Company performs a review of the value of carrying goodwill every reporting period. The current view of the market in the medium and long term remains substantially unchanged from the last review. In assessing the carrying value of the historical goodwill balance, the Group has recognised the effect current financial market conditions have had on the cost of capital which is used to discount future cash flows to their current value; accordingly Spire has taken a one-off non-cash charge in the period to reduce historical goodwill from £517.8m to £317.8m. This historical goodwill relates primarily to the original acquisition of hospitals to create Spire Healthcare in 2007 and 2008 and the impairment charge of £200m has been treated as an Adjusting item.

Patient safety and clinical quality

Six CQC inspection reports were published during H1 20, all rated 'Good' including three upgrades from 'Requires Improvement' for Spire London East, Spire Hartswood and Spire Leeds. Consequently, 90% of Spire Healthcare sites are now rated 'Good', 'Outstanding' or equivalent in Scotland and Wales, up from 85% at FY19.

Following the announcement in 2019 that Bupa UK and Spire Healthcare were partnering to launch two new Bupa Specialist Centres for breast cancer, the Company is pleased to confirm that the first customers have been able to access the service from July, in preparation for a full launch later this year. The services are located at Spire Bushey and Spire Little Aston hospitals and provide Bupa members with market leading speed of access to a comprehensive multi-disciplinary diagnostic clinic, and if required, treatment.

Senior appointments

Spire Healthcare is pleased to announce the appointment of Professor Clifford Shearman (Cliff) as an independent Non-Executive Director with effect from 1 October 2020. He will also join the Clinical Governance and Safety Committee from 1 January 2021.

This appointment will increase the number of Board members with clinical experience to four, strengthening Spire Healthcare's clinical governance and reflecting the Group's commitment to patient safety and clinical quality. Professor Shearman was a consultant vascular surgeon for 26 years and is currently Vice President of the Royal College of Surgeons. Professor Shearman is also non-executive director at the Royal Bournemouth and Christchurch NHS Foundation Trust.

Dr. Catherine Cale will join Spire Healthcare as Group Medical Director on 26 October 2020 following the decision to retire by the current interim Medical Director, Fergus Macpherson. Catherine has served on Boards as Medical Director in three organisations, each in different parts of the health sector, most recently with Hillingdon Hospitals NHS Foundation Trust in London. Catherine worked alongside Professor Tim Briggs as Clinical Ambassador for the Getting It Right First Time (GIRFT) initiative in London until February 2019, and maintains strong links with the programme. Catherine trained in Paediatric Immunology and Infectious Diseases and is a Fellow of the Royal College of Pathology.

To further strengthen the central medical support for hospitals and Consultants, Spire Healthcare is implementing a regional structure with a Medical Director for each of the three geographical business units (North, Central and South), in addition to the existing Assistant Medical Director and Responsible Officer. The investment in this structure is expected to provide increased medical governance and representation throughout the business, reinforcing the Group's commitment to patient safety and clinical quality.

Gillian Fairfield was appointed Group General Counsel on 1 September. Gillian is a senior lawyer with over 20 years of experience in corporate law, regulatory, finance, and governance and has worked with listed companies across a number of sectors. Gillian has also previously worked as a partner in the corporate division of international law firm Herbert Smith Freehills LLP. and has served as non-executive director and committee member of Lonmin plc, a FTSE-listed public company. In 2016, Gillian was named Client Partner of the year at the British Legal Awards.

Outlook

The cancellation of elective procedures during the peak of the COVID-19 pandemic has resulted in significant demand in both the NHS and private sector. The NHS England contract variation will provide a phased transition back to a more balanced business with a definitive end date of 31 December 2020 at latest. Spire Healthcare expects to participate in the tender for NHS waiting list work and expects greater visibility from this payor in 2021 as a result.

It is challenging to set future expectations given the current uncertainty with COVID-19. The Group will remain within the NHSE contract for most of 2020 and if current trends continue, the Board expects operating profit in H2 2020 to be at least in-line with H1 2020. December 2020 net bank debt is expected to be in the range of £320m to £360m.

On a post IFRS 16 basis in 2020, the Board anticipates depreciation and amortisation in the range of £92m to £96m with capex of around £50m and net financing costs in the range of £82m to £87m. The effective corporate tax rate is expected to be negligible for the full year.

There has been a return of private activity since lock down and there is significant national unmet demand for both private and NHS procedures. Subject to any significant change in the COVID environment, the Board anticipates trading returning to 2019 levels in 2021.

Financial review

Selected financial information

(£ million)	Six months to 30 June 2020 Total before Adjusting items	Adjusting items (note 10)	Total	Six months to 30 June 2019 Total before adjusting items	Adjusting items (note 10)	Total
Revenue	**401.9**		**401.9**	491.6		491.6
Cost of sales	**(205.1)**		**(205.1)**	(261.1)		(261.1)
Gross profit	**196.8**		**196.8**	230.5		230.5
Other operating costs	**(182.0)**	**(204.7)**	**(386.7)**	(179.1)	(0.4)	(179.5)
Other income	**0.1**		**0.1**	-		-
Operating profit (EBIT)	**14.9**	**(204.7)**	**(189.8)**	51.4	(0.4)	51.0
Net finance costs	**(41.5)**		**(41.5)**	(41.4)		(41.4)
(Loss) / Profit before taxation	**(26.6)**	**(204.7)**	**(231.3)**	10.0	(0.4)	9.6
Taxation	**(2.6)**	**0.8**	**(1.8)**	(2.6)	0.1	(2.5)
(Loss) / Profit for the period	**(29.2)**	**(203.9)**	**(233.1)**	7.4	(0.3)	7.1
EBITDA (1)			**61.6**			96.8
Basic (loss) / earnings per share, pence			**(58.2)**			1.8
Capital investments			**19.5**			19.7
Net cash from operating activities			**75.6**			87.0
Net bank debt (2)			**(330.6)**			(362.2)

1. EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'EBITDA'. See page 8 for further information.
2 Net bank debt defined as bank borrowings less cash and cash equivalents

Revenue

Group revenues declined 18% to £401.9m (H1 19: £491.6m) due to suspension of most private activity during the NHS COVID-19 contract. NHS revenue of £200.4m includes £133.7m revenue from the COVID-19 contract, net of rebates for private activity. The NHS COVID-19 contract is reimbursed on a cost recovery basis and therefore the detail of revenue by location (inpatient, day case or outpatient) is not available.

Revenue by location and payor

(£ million)	Six months ended 30 June (Unaudited) 2020	2019	Variance %
Total revenue	**401.9**	491.6	(18.2%)
Of which:			
Inpatient	**93.2**	186.8	(50.1%)
Daycase	**86.1**	149.0	(42.2%)
Outpatient	**80.9**	143.5	(43.6%)
NHS – COVID-19	**133.7**	-	Nm
Other	**8.0**	12.3	(35.0%)
Total revenue	**401.9**	491.6	(18.2%)
Of which:			
PMI	**145.8**	247.0	(41.0%)
Self-Pay	**47.7**	88.6	(46.2%)
Total Private	**193.5**	335.6	(42.3%)
Total NHS	**200.4**	143.7	39.5%
Other	**8.0**	12.3	(35.0%)
Total revenue	**401.9**	491.6	(18.2%)

Cost of sales and gross profit

The COVID-19 pandemic and subsequent contract with the NHS, which recognises revenue on a cost recovery basis, in addition to the different mix of work undertaken in H1 20, distorts both the cost profile and its proportion of revenue. Comparisons with prior periods are therefore not meaningful.

Gross margin for the first six months of 2020 is 49.0% compared to 2019 levels of 46.9%. Cost of sales decreased in the period by £56.0 million, or 21.4%, to £205.1 million (2019: £261.1 million) on revenues that decreased by 18.2%. This is due to the reduced private activity during the COVID-19 pandemic, and therefore reduced agency and bank staff requirements.

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

	Six months ended 30 June (Unaudited)			
	2020		2019	
	£m	% of revenue	£m	% of revenue
Clinical staff	**97.1**	24.2%	**98.8**	20.1%
Direct costs	**78.9**	19.6%	**110.7**	22.5%
Medical fees	**29.1**	7.2%	**51.6**	10.5%
Cost of sales	**205.1**	51.0%	**261.1**	53.1%
Gross profit	**196.8**	49.0%	**230.5**	46.9%

Hospital operating profit margin (gross profit less indirect hospital costs) was 23.8% compared to 26.3% in June 2019.

Other operating costs

Other operating costs for the six months ended 30 June 2020 increased by £207.2 million or 115.4% to £386.7 million (H1 2019: £179.5 million), mainly due to a one-off impairment to goodwill of £200m. Excluding Adjusting Items, other operating costs have increased by £2.9 million, or 1.6% to £182.0 million (H1 2019: £179.1 million).

The increase in other operating costs is mainly driven by increased professional fees; staff costs and depreciation, offset by a reduction in marketing spend and travel costs.

Operating margin for the six months ended 30 June 2020 is (47.2%), down from 10.4% in H1 2019. Excluding adjusting items, operating margin is 3.7%, down from 10.5% at H1 2019.

EBITDA

EBITDA for the Group has decreased by 36.4% in the period from £96.8 million to £61.6 million for H1 2020. The decrease is driven by a fall in revenue following restrictions over private activity during the NHS COVID-19 contract, which is partially offset by decreased cost of sales, namely direct costs and medical fees.

Share-based payments

During the period, grants were made to Executive Directors and members of the executive management team under the Company's Long Term Incentive Plan. For the six months ended 30 June 2020, the charge to the income statement is £0.8 million (H1 2019: £0.3 million), or £0.9 million inclusive of National Insurance (H1 2019: £0.4 million).

Adjusting items

	Six months ended 30 June (Unaudited)	
(£ million)	**2020**	2019
Remediation of regulatory compliance or malpractice	**4.6**	-
Hospital set up and closure costs	**0.1**	0.1
Asset disposals, impairment and aborted project costs	**200.0**	0.3
Total costs	**204.7**	0.4
Income tax credit on Adjusting items	**(0.8)**	(0.1)
Total post-tax Adjusting items	**203.9**	0.3

In the period, the Group has settled with the Competition and Marketing Authority (CMA) as disclosed in the RNS announcement released on 1 July 2020. Professional costs in respect of the investigation have also been recognised. The total cost recognised in the period is £1.4m. In addition, following the release of the Paterson Public Inquiry in February 2020, the Group has incurred, and provided for costs of £3.2m in ensuring the recommended actions from the report are fully adhered to. In the prior period, aborted hospitals costs relate to the potential development in Milton Keynes where the decision was taken to not proceed.

Goodwill

At 31 December 2019, the Group reported a goodwill balance of £517.8m. This balance was primarily created following transactions which occurred in 2007 and 2008. It is the Group's policy to assess the carrying value of goodwill at each reporting period end. This assessment is based on the recoverable amount of goodwill with reference to its estimated value-in-use (VIU). The VIU calculation is based on management's forecast of future cash flows. The results of the calculation are highly sensitive to the discount rate applied to the cash flows, as well the long term view of sectoral growth in the outer years.

Except for the current year, where there have been unprecedented challenges, Spire's confidence in its assessment of its hospitals prospects for generating future revenues and net cash flows remains largely unchanged. In assessing the carrying value of the historical goodwill balance, the Group has recognised the effect current financial market conditions have had on the cost of capital which is used to discount future cash flows to current value; accordingly the Group has taken a one-off, non-cash, charge in the period to reduce historical goodwill from £517.8m to £317.8m. This impairment charge of £200m has been treated as an Adjusting Item.

Net finance costs

Net finance costs increased by 0.2% to £41.5 million (H1 2019: £41.4 million) as a result of an incremental increase in lease costs and higher borrowing costs resulting from fees for a minor amendment to the Senior Loan Facility (see notes 16-18 for further detail).

Taxation

The taxation charge for the six months ended 30 June 2020 is £1.8 million (H1 2019: £2.5 million). This consists of a £nil (H1 2019: £1.3 million) charge for corporation tax and a charge of £1.8 million (H1 2019: £1.2 million) for deferred tax. The deferred tax charge includes a one off charge of £6.1m as a result of the deferred tax assets and liabilities being revalued from 17% to 19% following the Government's cancellation of the reduction in the corporation tax which was due to take place on 1 April 2020.

Profit after taxation

The loss after taxation for the six months ended 30 June 2020 was £233.1 million (H1 2019: Profit £7.1 million)

Non-GAAP financial measures

We have provided below 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 encourage 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.

The following information includes references to Adjusted financial information. This has been produced for illustrative purposes and does not represent the Group's actual statutory earnings.

EBITDA

	Six months ended 30 June (Unaudited)	
(£ million)	**2020**	2019
Operating (loss) / profit	**(189.8)**	51.0
Remove effects of:		
Adjusting items	**204.7**	0.4
Depreciation	**46.7**	45.4
EBITDA	**61.6**	96.8
Deduct rental costs	**(34.5)**	(33.1)
EBITDA (pre-IFRS 16)[1]	**27.1**	63.7

[1] EBITDA on a pre-IFRS 16 basis has been provided to aid comparability in the early years of adoption of the new IFRS 16 standard (adopted on 1 January 2019).

Adjusted EBIT

	Six months ended 30 June (Unaudited)	
(£ million)	**2020**	2019
Operating (loss) / profit	**(189.8)**	51.0
Remove effects of:		
Adjusting items	**204.7**	0.4
Adjusted EBIT	**14.9**	51.4

Adjusted profit after tax and adjusted earnings per share

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

(£ million)	Six months ended 30 June (Unaudited) 2020	2019
(Loss) / profit before tax	(231.3)	9.6
Remove effects of:		
Adjusting items	204.7	0.4
Adjusted (loss) / profit before tax	(26.6)	10.0
Taxation[1]	(2.6)	(2.6)
Adjusted (loss) / profit after tax	(29.2)	7.4
Weighted average number of ordinary shares in issue (No.)	400,837,911	400,828,739
Adjusted basic (loss) / earnings per share (pence)	(7.3)	1.8

[1] Reported tax charge for the period adjusted for the tax effect of Adjusting items

Cash flow analysis for the period

(£ million)	Six months ended June (Unaudited) 2020	2019
Opening cash balance	90.8	47.7
Adjusted operating cash flows	73.2	85.3
Adjusting items	(1.2)	(0.1)
Income tax received	3.6	1.8
Operating cash flows	75.6	87.0
Net cash in investing activities	(28.1)	(21.3)
Net cash in financing activities	(47.4)	(55.0)
Closing cash balance	90.9	58.4

Operating cash flows before Adjusting items

The cash inflow from adjusted operating activities was £73.2 million, which constitutes a cash conversion rate from £61.6 million EBITDA of 118.8% (H1 2019: 88.1% conversion of £96.8 million EBITDA). The net cash inflow from movements in working capital in the period was £13.2 million (H1 2019: £11.8 million outflow).

Investing and financing cash flows

Net cash used in investing activities for the period was £28.1 million (H1 2019: £21.3 million). Cash outflow for the purchase of plant, property and equipment in the period totalled £28.1 million (H1 2019: £21.5 million), which included theatre refurbishments in Liverpool, a new MRI in Southampton and a new CT at St Anthony's.

Net cash used in financing activities for the period was £47.4 million (H1 2019: £55.0 million), including lease and bank interest paid of £36.8 million (H1 2019: £35.9 million) and £10.6 million (H1 2019: £9.1 million) of lease principal payments. The prior period also included a dividend paid to shareholders of £10.0 million. The final dividend for 2019 was cancelled and therefore not paid in the current period as a result of the uncertainty caused by the COVID-19 pandemic.

Borrowings

At 30 June 2020, the Group has bank borrowings of £421.5 million (December 2019: £420.8 million, June 2019: £420.6 million), drawn under facilities which was due to mature in July 2022, but will now mature in July 2023 (following the agreement detailed below).

(£ million)	As at 30 June 2020 (Unaudited)	31 December2019 (Audited)
Cash	(90.9)	(90.8)
Bank borrowings	421.5	420.8
Bank borrowings less cash and cash equivalents	330.6	330.0

During the period, the Group agreed a covenant waiver for the assessment periods as at 30 June 2020 and 31 December 2020 as a result of the COVID-19 uncertainty. Since the balance sheet date, the Group has entered into an additional agreement which covers the next covenant test in June 2021, and obtained an extension in maturity of its Senior Loan Facility by one year, such that it matures in July 2023. Further information is provided in the Going Concern section in note 2.

The Group has an undrawn revolving loan facility, which is limited to £100.0 million until July 2022 and thereafter reduces to a limit of £87m until maturity in July 2023.

As at 30 June 2020, lease liabilities were £740.3 million (December 2019: £745.3m). Refer to note 17 for more detail.

Dividend

As a result of the COVID-19 uncertainty and agreement with Lenders for a covenant waiver, the Board will not be proposing an interim dividend.

Related party transactions

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

Risk Management and Internal Control

Material Change to the Group's risk profile from the COVID-19 pandemic

The risk profile of the Group changed significantly with the onset of the COVID-19 pandemic and has continued to change throughout the period March 2020 to date. As disclosed in the 2019 Annual Report and Accounts, the Group's hospitals could be subject to requisition by HM Government in a national crisis. In the circumstances, as announced by the Group on 21 March 2020, the Group, with other private healthcare providers, agreed to provide all of its facilities and staff to be at the disposal of the NHSE in return for the NHSE covering the cash costs of the Group. This represented a completely new business model and method of operation for the Group.

In order to manage many new and immediate risks, e.g. securing supplies of protective personal equipment, from early March 2020, the Board and Executive Committee set up a crisis management command structure with Gold, Silver and Bronze Commands at national, regional and local level. The crisis command structure initially met seven days a week. As the pandemic progressed and the Group passed from immediate crisis response to embedding news ways of operating, the crisis command reduced its meetings steadily from daily to twice a week. The Group returned to a "business as usual" command structure, but utilising some of the efficiencies it learnt from the crisis, from the 7 September 2020.

The Clinical Governance and Safety Committee, a Board Sub-Committee, changed its meeting schedule from quarterly to monthly, and the Safety, Quality and Risk Committee, comprising Executive Committee members continued to meet monthly.

The level of risk reporting increased in line with the increased governance oversight. The Clinical Governance & Safety Committee and the Safety, Quality and Risk Committee received updated risk reports at each meeting setting out the material corporate risks that the Group needed to manage, and how the Executive Committee was managing them. As the situation changed at pace, there were material changes to the risk profile of the Group at almost every meeting.

The Executive Committee and the Board, taking into consideration the rapidly changing risk profile, have reviewed the Principal Risks of the Group. The profile has changed, although as the Group has now begun to undertake private healthcare work again, all of the Principal Risks reported in the 2019 Annual Report and Accounts remain relevant to the Group. The principal risks updated in this report, and included in the 2019 Annual Report and Accounts remain in place until the year end 2020 as required by the DTR requirements.

Material Changes to the Group's Principal Risks reported in the 2019 Annual Report and Accounts

COVID-19 – a new Principal Risk

The Board considers that the COVID-19 virus represents an on-going material risk to the Group. A second wave of infections in the autumn or winter of 2020-2021 could affect the Group's ability to continue its private healthcare activities if elective procedures are largely unable to continue as occurred from March 2020 – May 2020, or patient confidence falls. This could have a material impact on the Group's profitability and cash generation. Foreseeable scenarios from a second wave of COVID-19 infections have been modelled as part of the going concern and viability testing, see the Directors' responsibility statement.

The material mitigation against a second wave of COVID-19 infections is the NHSE contract. As set out in the Group's announcement on 13 August 2020, NHSE and independent hospital providers agreed terms for the variation of the NHSE Contract. The variation will allow Spire Healthcare to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists, whilst increasing private activity in its 35 English hospitals. The NHSE Contract, and subsequent variation, is expected to remain in place until at least the end of October 2020 but will have a definitive expiry date at the end of December 2020 at latest.

The most significant variation is to guarantee that a certain minimum capacity in each hospital will be made available for privately funded patients (PMI and self-pay). NHSE will continue to cover cash costs, in line with the original contract. In return, Spire Healthcare, along with other private providers, will commit to a minimum private rebate (a deduction from the NHSE reimbursed costs commensurate with the amount of private care provided), with additional incentives agreed for the private providers for exceeding that minimum rebate subject to delivering NHSE activity.

Private activity has been building steadily since the de-escalation phase of the NHSE Contract was triggered on 15 May 2020. Spire Healthcare has implemented safe patient pathways in each of its hospitals, compliant with current guidance, and is confident these will not materially restrict capacity. The Group is committed to offering elective care to as many patients as possible, both NHS and private, and to supporting our Consultant partners to rebuild their practices as quickly as possible.

Spire Healthcare is aware that the NHSE has issued termination notices to a certain number of other independent providers' sites, predominantly in Central London, with these sites exiting the NHSE Contract on 8 September 2020. All of Spire Healthcare's sites in England remain in the NHSE Contract with total admissions currently running at c.95% of the Group's prior year activity on a monthly basis.

The cancellation of elective procedures during the peak of the COVID-19 pandemic has resulted in significant pent-up demand in both the NHS and private sector. The NHS England contract variation provides a phased transition back to business as usual with a definitive end date of 31 December 2020 at latest. Spire Healthcare expects to participate in the tender for NHS waiting list work and expects greater visibility from this payor in 2021 as a result.

UK-EU trade negotiations – change in imminence

As reported in the 2019 Interim Financial Statements, the Group faced uncertainty if HM Government was unable to agree a Withdrawal Agreement and Transition period with the EU. As HM Government did agree a Withdrawal Agreement and Transition Period, there has been no impact to date to the Group's supply chain due to leaving the EU. The Transition Period will end on 31 December 2020. HM Government is currently negotiating a future trading agreement with the EU. If HM Government is unable to conclude a trade agreement with the EU then the Group may face disruption to its supply chain from 1 January 2021. The Executive Committee has re-established its planning committee for this eventuality and is putting in place similar mitigations as it had in both October 2019 and January 2020, but adjusted for changes in its operations because of the COVID-19 pandemic. The key areas of our business that we expect would be impacted remain supply chain, employees and increased costs, as follows:

Supply Chain

The Group buys directly from UK suppliers, but around 80% of the goods that we use to operate our hospitals come into the UK, from or via the EU.

Our supply chain currently operates on short ordering times and low inventories. Irrespective of whether there is a long term UK-EU trade deal in place or not, it is reasonable to expect that that the UK and/or the EU will require some additional checks on EU imports into the UK. If there are border checks that cause delays or shortages due to other supply chain factors, then our supply chain may be disrupted.

Employees
Each Spire Healthcare employee is a highly valued member of our organisation. While fewer than 6% of our employees are EU citizens, we are encouraging them to stay in the UK and are supporting them to register with the EU Settlement Scheme. However, the new single immigration system that will apply from 1 January 2021 may reduce the number of candidates able to work in the UK. We will continue to recruit the highest calibre of candidates from the EU and elsewhere, in line with our current recruitment processes.

Increased costs

If there is not a long term UK-EU trade deal in place, or if a long-term UK-EU trade deal is not a free trade deal, it is reasonable to anticipate that EU imports will be subject to customs charges and tariffs and/or quotas.

Mitigation

We will continue to work closely with our key suppliers during 2020 and keep our detailed contingency planning updated to mitigate the impact to our business following 31 December 2020.

We believe we are taking all reasonable steps to ensure that disruption to our patients and other stakeholders is kept to a minimum. However, given the uncertainties around the content of and impact from any long term UK-EU trade deal, we cannot rule out disruption to the business after 31 December 2020 as there may be some circumstances outside of our reasonable control.

Macroeconomic Risk – change in inherent risk level

Historically, approximately 70% of the Group's revenue has been dependent on private patients having PMI, paid by their employer or paid by the individual, or being able to afford its services (Self-pay).

In an economic downturn, the numbers of insured individual's falls with the level of employment and individuals have reduced real income to fund insurance or Self-pay for procedures. This would have an adverse effect on the Group's business, the results of its operations and prospects.

With the UK economy moving into recession and the imminent ending of HM Government's furlough scheme, this risk increases in likelihood. However, it is not a certainty that there will be a material impact on the potential customer base of the Group, who tend to be older and in economic sectors not as affected by HM Government's restrictions on socialising. The Board is monitoring activity levels closely. Enquiries for Spire Healthcare services from private patients are exceeding levels seen historically, although there is inevitably a level of backlog from the cessation of elective procedures in the spring of 2020. In addition, NHSE has published its intent to procure capacity in 2021 from the private sector to tackle its waiting lists. It is the Board's intention to participate in that procurement process.

Cyber Security – change in inherent risk level

As widely reported in the media, the Board is aware through regular communication with HM Government agencies that the threat level from malicious actors to healthcare organisations increased with the COVID-19 Pandemic. The Audit & Risk Committee had additional reports from the Chief Information Officer and Internal Audit during this period of the Pandemic on the resilience of the cyber security controls in the Group. The Board, through the Audit & Risk Committee, will continue to monitor the resilience of the Group's cyber security controls.

The Principal Risks fall under the following categories:

Financial	Geopolitical	Technology	Social	Governance
Insurance & indemnity Risk	Government & NHS Policy Risk	Cyber Security Risk	Workforce Risk	High quality patient care Risk
Macroeconomic Risk	UK-EU Trade Negotiations Risk		Brand Reputation Risk	Compliance & Regulation Risk
PMI market dynamics Risk			COVID-19 pandemic risk	
Competitor Challenge Risk				
Liquidity & Covenants Risk				

Emerging risks

The Executive Committee had considered longer term potential risks emerging prior to the COVID-19 pandemic. The planned Board consideration of emerging risks has had to be postponed because of the COVID-19 pandemic, this will be addressed by the Executive Committee and Board in the last quarter of 2020.

Directors' responsibility statement

Going Concern

As detailed in the Financial Review at 30 June 2020, the Group has cash of £90.9m and access to a further £100m through a committed and undrawn credit facility.

Given the economic uncertainty arising from the COVID-19 pandemic, during April 2020 the Group announced that it had cancelled its final dividend for the financial year ended 31 December 2019. In addition to this, the Group also took the decision to defer certain capital investment which was planned in 2020, in order to strengthen its liquidity position. The Group has not had to undertake any further action in regard of maintaining its liquidity.

Under the terms of the existing Senior Loan Facility, which was due to mature in July 2022, the Group must adhere to certain banking covenants which are linked to its liquidity and trading performance. As was announced in March and April 2020:

- The Group agreed to support the NHS during the COVID-19 pandemic, which resulted in certain cash costs being covered; and
- Its lenders agreed to waive the covenant testing required under the Company's Senior Facility Agreement for the two forthcoming scheduled test periods on 30 June and 31 December 2020.

The Group confirmed in a further update in August 2020 that it had agreed Heads of Terms for the variation of the NHSE Contract. The variation will allow Spire Healthcare to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists, whilst increasing private activity in its 35 English hospitals. The NHSE Contract, and subsequent variation, is expected to remain in place until at least the end of October 2020 but will have a definitive expiry date of the end of December 2020 at latest. The agreements with the NHSE provide Spire Healthcare with liquidity and a greater degree of certainty as the Group is paid weekly in advance.

The Group has 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. In addition to the covenant waivers already announced and agreed for June 2020 and December 2020, since the balance sheet date, a further covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 has been agreed. A new liquidity measure will take effect as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committed facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x if this measure has not already reduced below 4x. Spire Healthcare currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The maturity date of the Senior Loan Facility has also been extended by one year to July 2023. The RCF will remain at £100m until July 2022 and £87m thereafter until July 2023.

Notwithstanding the above, given the economic uncertainty of the COVID-19 pandemic, the Group has modelled for a number of scenarios in its assessment of going concern, covering both the risk of a National or extensive Regional lockdowns in late 2020 and early 2021.

Under the most severe COVID-19 scenario that has been modelled for, it is plausible that a breach of the revised banking covenants could occur at 31 December 2021 without management's mitigating actions, which include but are not limited to increasing liquidity through the introduction of constraints over capital management or the sale and leaseback of a property owned by the Group

Further detail on COVID-19 is provided in the Risk management and internal control section.

Other specific scenarios covered by our testing were as follows:

- The downside modelling of a number of risks which result in a decline in earnings arising from issues connected with the UK/ EU trade negotiations, a general economic downturn or competitor action;
- 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 regulatory action or a successful cyber-attack on key business systems; 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 extended its existing Senior Finance Facility and revolving credit facility to mature in July 2023.
- The government will not change its existing policy towards utilising private provision of healthcare services to supplement the NHS.

The Group has undertaken extensive activity to identify plausible risks which may arise and the available mitigating actions. Further information on the plausible risks is provided in the Risk management and internal control section. It is not possible for the Directors' assessment to cover every potential eventuality. However, based on the current assessment of the likelihood of these risks arising, 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.

Directors' responsibility statement *continued*

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

- The preliminary financial information, which has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company on a consolidated and individual basis; and

- The preliminary announcement includes a fair summary of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks that it faces, as required by:

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the six months of the current financial year and their impact on the condensed consolidated interim financial information and a description of the principal risks for the remaining six months of the year; and

- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially impacted the financial position or performance of the Group during the period and any material changes in the related party transactions described in the Group's Annual Report and Accounts for the year ended 31 December 2019.

By order of the Board

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

16 September 2020

Independent review report to the members of Spire Healthcare Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity, Consolidated interim balance sheet, Consolidated interim statement of cash flows and related notes 1 to 22. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

16 September 2020

Condensed financial statements

Consolidated interim income statement

For the six months ended 30 June 2020

		Six months ended 30 June (Unaudited)					
		2020			2019		
(£ million)	Note	**Total before adjusting items**	**Adjusting items (note 10)**	**Total**	Total before adjusting items	Adjusting items (note 10)	Total
Revenue	6	**401.9**	**–**	**401.9**	491.6	–	491.6
Cost of sales		**(205.1)**	**–**	**(205.1)**	(261.1)	–	(261.1)
Gross profit		**196.8**	**–**	**196.8**	230.5	–	230.5
Other operating costs		**(182.0)**	**(204.7)**	**(386.7)**	(179.1)	(0.4)	(179.5)
Other income	8	**0.1**	**–**	**0.1**	–	–	–
Operating profit		**14.9**	**(204.7)**	**(189.8)**	51.4	(0.4)	51.0
Net finance costs	9	**(41.5)**	**–**	**(41.5)**	(41.4)	–	(41.4)
(Loss) / profit before taxation		**(26.6)**	**(204.7)**	**(231.3)**	10.0	(0.4)	9.6
Taxation	11	**(2.6)**	**0.8**	**(1.8)**	(2.6)	0.1	(2.5)
(Loss) / profit for the year		**(29.2)**	**(203.9)**	**(233.1)**	7.4	(0.3)	7.1
(Loss) / profit for the year attributable to owners of the Parent		**(29.2)**	**(203.9)**	**(233.1)**	7.4	(0.3)	7.1
(Loss) / Earnings per share (in pence per share)							
– **basic**	13	**(7.3)**	**(50.9)**	**(58.2)**	1.8	–	1.8
– **diluted**	13	**(7.3)**	**(50.9)**	**(58.2)**	1.8	(0.1)	1.7

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2020

(£ million)	Six months to 30 June (Unaudited) 2020	2019
(Loss) / profit for the period	**(233.1)**	7.1
Items that may be reclassified to profit or loss in subsequent periods		
Loss on cash flow hedges	**(2.3)**	(2.3)
Taxation on cash flow hedges	**0.5**	0.4
Other comprehensive (loss) / income for the period	**(1.8)**	(1.9)
Total comprehensive (loss) / income for the period attributable to owners of the Parent	**(234.9)**	5.2

Consolidated interim statement of changes in equity

For the six months ended 30 June 2020

(£ million)	Notes	Share capital	Share premium	Capital reserves	EBT share reserves	Hedging reserve	Retained earnings	Total equity
As at 1 January 2019 (as reported at H1 2019)		**4.0**	**826.9**	**376.1**	**(0.8)**	**(0.5)**	**(251.6)**	**954.1**
Amended IFRS 16 transition adjustment[1]		–	–	–	–	–	(10.9)	(10.9)
Prior year restatement for deferred tax[1]		–	–	–	–	–	5.3	5.3
As at 1 January 2019 (as reported in ARA 2019)		**4.0**	**826.9**	**376.1**	**(0.8)**	**(0.5)**	**(257.2)**	**948.5**
Profit for the period		–	–	–	–	–	7.1	7.1
Other comprehensive loss for the period		–	–	–	–	(1.9)	–	(1.9)
Total comprehensive income		–	–	–	–	(1.9)	7.1	5.2
Dividend paid	12	–	–	–	–	–	(10.0)	(10.0)
Share-based payments (net of tax)	20	–	–	–	–	–	0.2	0.2
As at 30 June 2019		**4.0**	**826.9**	**376.1**	**(0.8)**	**(2.4)**	**(259.9)**	**943.9**
As at 1 January 2020		**4.0**	**826.9**	**376.1**	**(0.8)**	**(2.1)**	**(264.2)**	**939.9**
Loss for the period		**–**	**–**	**–**	**–**	**–**	**(233.1)**	**(233.1)**
Other comprehensive loss for the period		**–**	**–**	**–**	**–**	**(1.8)**	**–**	**(1.8)**
Total comprehensive loss		**–**	**–**	**–**	**–**	**(1.8)**	**(233.1)**	**(234.9)**
Share based payments (net of tax)	20	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**
Balance at 30 June 2020		**4.0**	**826.9**	**376.1**	**(0.8)**	**(3.9)**	**(496.5)**	**705.8**

[1] The restatements reflect the adjustments which were made between H119 and FY19. These adjustments bring the opening position in line with those disclosed in the Annual report and accounts (ARA) for the year ended 31 December 2019.

Consolidated interim balance sheet

(£ million)	Notes	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited) (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	14	**1,537.6**	1,563.4
Intangible assets	15	**317.8**	517.8
Financial asset		**1.5**	1.5
		1,856.9	2,082.7
Current assets			
Inventories		**34.4**	32.0
Trade and other receivables		**30.6**	73.0
Income tax receivable		**–**	3.6
Cash and cash equivalents		**90.9**	90.8
		155.9	199.4
Non-current assets held for sale	5	**5.1**	5.1
		161.0	204.5
Total assets		**2,017.9**	2,287.2
EQUITY AND LIABILITIES			
Equity			
Share capital		**4.0**	4.0
Share premium		**826.9**	826.9
Capital reserves		**376.1**	376.1
EBT share reserves		**(0.8)**	(0.8)
Hedging reserve		**(3.9)**	(2.1)
Retained earnings		**(496.5)**	(264.2)
Equity attributable to owners of the Parent		**705.8**	939.9
Total equity		**705.8**	939.9
Non-current liabilities			
Bank borrowings	16	**419.9**	419.1
Lease liability	17	**662.7**	667.8*
Derivatives	18	**2.6**	1.5
Deferred tax liability		**53.2**	51.4
		1,138.4	1,139.8
Current liabilities			
Provisions	19	**15.2**	13.1
Bank borrowings	16	**1.6**	1.7
Lease liability	17	**77.6**	77.5*
Derivatives	18	**2.2**	1.0
Trade and other payables		**77.1**	114.2
		173.7	207.5
Total liabilities		**1,312.1**	1,347.3
Total equity and liabilities		**2,017.9**	2,287.2

* For details of the prior period restatement, see note 2 Basis of Preparation.

Consolidated interim statement of cash flows

For the six months ended 30 June 2020

(£ million)	Notes	Six months ended 30 June (Unaudited) 2020	2019
Cash flows from operating activities			
(Loss) / profit before taxation		**(231.3)**	9.6
Adjustments for:			
Depreciation	7	**46.7**	45.5
Adjusting items, including impairment		**201.2**	0.3
Share-based payments	20	**0.8**	0.3
Fair value movement on financial assets		**(0.1)**	–
(Profit) / Loss on disposal of property, plant and equipment	7	**–**	(0.1)
Finance costs	9	**41.5**	41.4
		58.8	97.0
Movements in working capital:			
Decrease/(Increase) in trade and other receivables		**42.4**	(10.5)
(Increase) in inventories		**(2.4)**	(2.3)
(Decrease)/Increase in trade and other payables		**(28.9)**	1.9
(Increase/(decrease) in provisions		**2.1**	(0.9)
Cash generated from operations		**72.0**	85.2
Income tax received		**3.6**	1.8
Net cash from operating activities		**75.6**	87.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(28.1)**	(21.5)
Proceeds of disposal of property, plant and equipment		**–**	0.2
Net cash used in investing activities		**(28.1)**	(21.3)
Cash flows from financing activities			
Bank interest paid		**(7.8)**	(7.5)
Lease interest paid		**(29.0)**	(28.5)
Payment of lease principal		**(10.6)**	(9.1)
Dividend paid to equity holders of the Parent	12	**–**	(10.0)
Net cash used in financing activities		**(47.4)**	(55.0)
Net increase in cash and cash equivalents		**0.1**	10.7
Cash and cash equivalents at beginning of period		**90.8**	47.7
Cash and cash equivalents at end of period		**90.9**	58.4
Adjusting items (note 10)			
Adjusting items included in the cash flow		**(3.5)**	(0.1)
Total Adjusting items		**(204.7)**	(0.4)

Notes to the preliminary announcement

1. General information

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

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

The condensed consolidated interim financial information for the six months ended 30 June 2020 was approved by the Board on 16 September 2020.

2. Basis of preparation

The condensed consolidated interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting, as adopted by the EU. They do not include all the information required for full annual financial statements and should be read in conjunction with information contained in the Group's Annual Report and Accounts for the year ended 31 December 2019. The condensed consolidated interim financial information has been reviewed, not audited.

The financial information contained in these interim statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Financial information for the year ended 31 December 2019 has been extracted from the statutory accounts which were approved by the Board of Directors on 04 March 2020 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Going concern

The Group is financed by a bank loan facility which was due to mature in July 2022, but has been extended by one year. As at 30 June 2020, the Group has cash of £90.9m and access to a further £100.0m through a committed and undrawn credit facility.

Given the economic uncertainty arising from the COVID-19 pandemic, the Directors have taken a number of actions during the period to June 2020, including cancelling the final dividend for the year ended 31 December 2019 and to defer certain capital investment which was planned during 2020, in order to strengthen its liquidity position. In addition, as announced in April, the lenders of the Senior Loan facility have agreed to waive the covenant testing required under the agreement for the next two scheduled test periods on 30 June and 31 December 2020.

In March, the Group agreed to support the NHS during the COVID-19 pandemic, which resulted in certain cash costs being covered, and have also confirmed Heads of Terms for a further variation to the NHS England contract in August to allow the Group to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists whilst increasing private activity at 35 English hospitals. The varied contract is expected to remain in place until at least 31 October 2020, with a definitive expiry date at the end of December 2020 at latest.

The agreements with the NHSE provide Spire Healthcare with liquidity and a greater degree of certainty as the Group is paid weekly in advance, with the ability to return to normal trading over time.

The Group has 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. In addition to the covenant waivers already announced and agreed for June 2020 and December 2020, a further covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 has been agreed. A new liquidity measure will take effect as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committed facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x if this measure has not already reduced below 4x. Spire Healthcare currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The maturity date of the Senior Loan Facility has also been extended by one year to July 2023. The RCF will remain at £100m until July 2022 and £87m thereafter until July 2023.

Notwithstanding the above actions, given the economic uncertainty of the COVID-19 pandemic, the Group has considered its forecasts and projections, including modelling for various scenarios, covering both the risk of a national or extensive regional lockdown in late 2020 and early 2021.

As a result of this current assessment and modelling, the Directors are confident that the Group has sufficient headroom to stay within the new covenants, with the mitigations available, even in its severe but plausible downside scenarios (with more detail available in the Risk Management and Internal Control Section). Therefore, the Directors have concluded it is appropriate to prepare the accounts on a going concern basis.

Prior period adjustment

A historical lease was categorised as non-current lease liability in error in the balance sheet for the year ended 31 December 2019, and therefore £9.5m has been reclassified to current lease liability in the prior period. The prior period balance sheet has therefore been restated.

3. Accounting policies

In preparing the condensed consolidated financial information, the same accounting policies, methods of computation and presentation have been applied as set out in the Group's Annual Report and Accounts for the year ended 31 December 2019. The accounting policies are consistent with those of the previous financial year and corresponding interim period with the exception of the additional policies as set out below.

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

Revenue recognition – Update for NHS contract:

The consideration is considered variable for the NHS COVID-19 contract and is therefore recognised as the services are transferred to the customer over the life of the contract. Where revenue is billed in advance and not related to the period, the revenue is not recognized, but held on the balance sheet until the recognition is certain. During the peak surge period of the contract, Spire needed to be ready to provide any capacity that was required by the NHS and therefore the NHS received substantially all the economic benefit of the Spire sites, and as such, an embedded operating lease is assessed to have existed during this period. An amount of consideration for this period is therefore attributable to this lease.

3. Accounting policies *continued*

Government Grants

Where the Group receives a government grant, the income is recognised against the expense for which the grant is received in the income statement. Government grants include the Government Job Retention Scheme (for furloughed staff), and the income is recognised against the staff expense.

New standards, interpretations and amendments applied

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective, nor are they expected to have a material impact on the Group.

The following amendments to existing standards were effective for the Group from 1 January 2020. These have not have had a material impact on the Group.

- IAS 1 – Amendment to materiality
- IFRS 9 – phase one of the IBOR report

4. Significant judgements and estimates

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

The significant judgements and estimates used in the application of the Group's accounting policies are the same as those described in the Group's Annual Report and Accounts for the year ended 31 December 2019, with the exception of those disclosed below.

Judgements

Revenue recognition – NHS contract

The NHS contract is based on a reimbursement of certain cash costs. The transaction price is therefore deemed to be variable consideration and recognised over time. In addition, as the contract results in the use of the Spire hospital portfolio, the Group have reviewed if an embedded operating lease also applies as a result of the right to substantial economic benefits, and the ability to apply restrictions on Spire's ability to carry out private work at any point during the contract.

The contract had an initial term followed by a rolling weekly period. The consideration is dependent on the cost levels of Spire, and therefore is assessed on a monthly basis. The contract includes three phases (surge, peak and de-escalation). During the peak phase, which lasted for one month, Spire needed to be ready to provide any capacity that the NHS required. On the basis that the hospital activity was restricted by the NHS, in terms of what private work could take place only during the period to ensure that capacity was retained for the NHS should it be required, the economic benefit of the Spire hospitals was primarily to the NHS and therefore the revenue is treated as arising from an embedded operating lease as well as arising from non-lease components relating to the provision of healthcare services. The recognition profile of revenue does not change, purely the technical categorisation of revenue from contracts with a customer (IFRS 15) and lease income (IFRS 16) for the peak period of one month. Refer to note 6 for more information.

Estimates

Impairment of intangible assets

The Group has made a loss in the period and therefore reflects a trigger for impairment review. The Group has undertaken a review of impairment, with detailed forecasting and scenario planning given the current economic uncertainty. Key sensitivities include the time taken to return to pre-COVID trading levels and the risk of local or national lockdowns. More detail is included in note 15.

Property impairment

The Group has made a loss in the period and therefore reflects a trigger for impairment review. The Group has undertaken an impairment review, comparing the value-in-use of the property with its carrying value in the accounts. The value-in-use calculation has utilised the detailed forecasting at Group level to reflect the current economic uncertainty. The key sensitivities include the time taken to return to pre-COVID trading levels and the risk of local or national lockdowns. More detail is included in note 14.

Expected Credit Losses

The Group has not changed the methodology in respect of the Expected Credit Loss (ECL) calculations. The Group's customer profile includes large organisations that have stable credit ratings, and the payment profiles have remained stable for historic debts. The exception to this reflects Patient Debt where economic circumstances can have a significant impact. Overall debt which is over a year past due has increased, but settlements for the private insurers and the NHS remain stable. Individual self-pay patients has had the greatest movement, with debt overdue by 90 days or more increasing by £0.9m during the period, and given the current economic uncertainty, remains the highest risk for the Group. The ECL as at June 2020 is £4.6m (December 2019: £3.7m).

5. Non-current assets held for sale

Two properties remain as held for sale in the current period.

(£ million)	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Spire St Saviours property	**4.0**	4.0
East Midlands Cancer Centre property (Bostocks Lane)	**1.1**	1.1
Total assets held for sale	**5.1**	5.1

6. Segmental reporting

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

All revenue is attributable to, and all non-current assets are located in, the United Kingdom. Revenue by wider customer (payor) group is shown below:

	Six months ended 30 June (Unaudited)	
(£ million)	**2020**	2019
Insured	**145.8**	247.0
NHS	**200.4**	143.7
Self-pay	**47.7**	88.6
Other	**8.0**	12.3
Total revenue	**401.9**	491.6

Group revenues declined 18% to £401.9m (H1 19: £491.6m) due to the suspension of most private activity during the NHS COVID-19 contract. NHS revenue of £200.4m includes £133.7m revenue from the COVID-19 contract, net of rebates for private activity, of which £10.8m relates to income relating to an embedded operating lease for the use of Spire Hospitals as a result of a technical aspect of IFRS 15 and IFRS 16 as set out in note 4.

7. Operating profit

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

	Six months ended 30 June (Unaudited)	
(£ million)	**2020**	2019
Depreciation of property, plant and equipment	**33.1**	33.1
Depreciation of right of use assets	**13.6**	12.4
Impairment charge in respect of goodwill	**200.0**	–
Lease payments made in respect of low value and short leases	**4.7**	5.3
(Profit) on disposal of property, plant and equipment	**–**	(0.1)
Staff costs	**176.7**	173.6

8. Other income

	Six months ended 30 June (Unaudited)	
(£ million)	**2020**	2019
Fair value movement on financial asset	**0.1**	–

Other income reflects the fair value movement in respect of the financial asset. The financial asset relates to the profit share arrangement with GenesisCare for the Bristol Cancer Centre sold in 2019.

9. Finance costs

	Six months ended 30 June (Unaudited)	
(£ million)	**2020**	2019
Finance income:		
Interest income on bank facilities	**(0.1)**	–
Finance costs:		
Interest on bank facilities	**8.5**	8.9
Interest on obligations under leases	**33.1**	32.5
Total net finance costs	**41.5**	41.4

10. Adjusting items

(£ million)	Six months ended 30 June (Unaudited) 2020	2019
Remediation of regulatory compliance or malpractice	**4.6**	–
Hospitals set up and closure costs	**0.1**	0.1
Asset disposals, impairment and aborted project costs	**200.0**	0.3
Total Adjusting items	**204.7**	0.4
Income tax credit on Adjusting items	**(0.8)**	(0.1)
Total post-tax Adjusting items	**203.9**	0.3

In the period, the Group has 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 investigation have also been recognised, bringing the total cost recognised in the period to £1.4m. In addition, following the release of the Paterson Public Inquiry in February 2020, the Group has incurred, and provided for costs of £3.2m in ensuring the recommended actions from the report are fully adhered to.

In the period, the Group has booked an impairment charge in respect of Goodwill of £200m. For more details, refer to note 15. In the prior period, aborted hospitals costs related to the potential development in Milton Keynes where the decision was taken to not proceed.

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

11. Taxation

(£ million)	Six months ended 30 June (Unaudited) 2020	2019
Current tax:		
UK Corporation tax charge	**–**	1.3
Total current tax charge	**–**	1.3
Deferred tax:		
Origination and reversal of temporary differences	**(2.8)**	1.2
Impact of Adjusting items	**(0.8)**	
Adjustments to prior periods	**(0.7)**	–
Impact of rate change adjustment	**6.1**	–
Total deferred tax charge	**1.8**	1.2
Total tax charge	**1.8**	2.5

The tax charge for the period has been calculated using an estimate of the effective annual rate of tax for the full year. This has been applied to the pre-tax profits for the six months ended 30 June 2020. The Group has separately calculated the tax rates applicable in respect of Adjusting items for the period as well as the tax rate change as a result of the substantive enactment in Mach 2020 of the Government's decision to cancel the reduction to 17% from 1 April 2020. The UK corporation tax rate therefore continues to be the existing 19% rate and the rate change therefore reflects the reassessment of deferred tax assets and liabilities to 19% from 17%.

12. Dividends

(£ million)	Six months ended 30 June (Unaudited) 2020	2019
Amounts recognised as distributions to equity holders in the period:		
– final dividend for the year ended 31 December 2018 of 2.5 pence per share	**–**	10.0
	–	10.0

The final dividend for the year ended 31 December 2019, initially proposed by Directors in March 2020, was withdrawn on 1 April prior to consideration by shareholders at the AGM in May 2020 as a result of the COVID-19 uncertainty. An interim dividend is not proposed for the year ending 31 December 2020.

13. Earnings Per Share (EPS)

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

	Six months ended 30 June (Unaudited)	
	2020	2019
(Loss) / profit for the period attributable to owners of the Parent (£ million)	**(233.1)**	7.1
Weighted average number of ordinary shares	**401,081,391**	401,081,391
Adjustment for weighted average number of shares held in the Employee Benefit Trust (EBT)	**(243,480)**	(252,652)
Weighted average number of ordinary shares in issue (No.)	**400,837,911**	400,828,739
Basic (loss) / earnings per share (in pence per share)	**(58.2)**	1.8

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

	Six months ended 30 June (Unaudited)	
	2020	2019
(Loss) / profit for the period attributable to owners of the Parent (£ million)	**(233.1)**	7.1
Weighted average number of ordinary shares in issue	**400,837,911**	400,828,739
Adjustment for weighted average number of contingently issuable shares	**–**	7,404,052
Diluted weighted average number of ordinary shares in issue (No.)	**400,837,911**	408,232,791
Diluted (loss) / earnings per share (in pence per share)	**(58.2)**	1.7

As the weighted average number for contingently issuable shares would be anti-dilutive, they are excluded from the above. However, 12,149,614 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 to Profit excluding Adjusting items ("Adjusted profit"):

	Six months ended 30 June (Unaudited)	
	2020	2019
(Loss) / profit for the period attributable to owners of the Parent (£ million)	**(233.1)**	7.1
Adjusting items (net of taxation) (see note 10)	**203.9**	0.3
Adjusted (loss) / profit after tax (£ million)	**(29.2)**	7.4
Weighted average number of Ordinary Shares in issue	**400,837,911**	400,828,739
Weighted average number of dilutive Ordinary Shares	**400,837,911**	408,232,791
Adjusted basic earnings per share (in pence per share)	**(7.3)**	1.8
Adjusted diluted earnings per share (in pence per share)	**(7.3)**	1.8

As the weighted average number for contingently issuable shares would be anti-dilutive, they are excluded from the above. However, 12,149,614 shares are potentially dilutive in the future.

14. Property, plant and equipment

(£ million)	Freehold property	Leasehold improvements	Equipment	Assets in the course of construction	Sub-total	Right of use asset	Total
Net book value at 1 January 2020	700.3	101.7	164.4	17.4	**983.8**	579.6	**1,563.4**
Additions	4.9	4.4	7.9	2.3	**19.5**	0.4	**19.9**
Indexation Adjustments Right of Use assets	–	–	–	–	**–**	1.0	**1.0**
Disposals and transfers	(0.6)	12.4	4.5	(16.4)	**(0.1)**	0.1	**–**
Depreciation	(8.8)	(3.7)	(20.6)	–	**(33.1)**	(13.6)	**(46.7)**
Net book value at 30 June 2020	**695.8**	**114.8**	**156.2**	**3.3**	**970.1**	**567.5**	**1,537.6**

14. Property, plant and equipment *continued*

Right of use assets are included in the following fixed assets categories:

(£ million)	Leasehold Property	Equipment & motor vehicles	Total
Net book value at 1 January 2020	578.4	1.2	579.6
Additions	0.2	0.2	0.4
Indexation adjustments	1.0	–	1.0
Disposals and transfers	–	0.1	0.1
Depreciation	(13.4)	(0.2)	(13.6)
Net book value at 30 June 2020	**566.2**	**1.3**	**567.5**

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. Due to the current COVID-19 position, and economic uncertainty, management took a prudent approach to review all properties for impairment. This is achieved by comparing the value-in-use of the property 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 was significant, no further work was undertaken. Where headroom was minimal, the property was reviewed in more detail, comparing the latest hospital specific forecast as well as considering previous growth trends to assess if an impairment was required. No impairment charge was taken.

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 and a half-year period to December 2025.

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. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market conditions. Management undertook sensitivity and determined that should the discount rate increase by 25 basis points (bp) with all other assumptions remaining equal, sufficient headroom would remain.

15. Intangible asset

(£ million)	Total
Cost or valuation:	
At 1 January 2019 and 31 December 2019	518.8
Impairment:	
At 1 January 2019 and 31 December 2019	1.0
Impairment	200.0
Total Impairment at 30 June 2020	201.0
Carrying amount:	
At 30 June 2020	**317.8**
At 31 December 2019	517.8

Impairment testing

The Directors treat the business as a single cash-generating unit for the purposes of testing goodwill for impairment. The recoverable amount of goodwill is calculated by reference to its estimated value-in-use. In order to estimate the value-in-use, management has used trading projections covering the period to December 2025.

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. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends.

A specific pre-tax discount rate was calculated to reflect the profile of cash flows inherent to the cash-generating unit and this was 9.3% (2019 year end: 8.6%) A long-term growth rate of 2% has been applied to cash flows beyond 2025.

15. Intangible asset *continued*

Except for the current year, where there have been unprecedented challenges, the Group's forecast of future revenues and net cash flows remains largely unchanged. In assessing the carrying value of the historical goodwill balance, the Group has recognised the effect current financial market conditions have had on the cost of capital which we use to discount future cash flows to current value; accordingly it has taken a one-off, non-cash, charge in the period to reduce historical goodwill from £517.8m to £317.8m. This impairment charge of £200m has been 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 100 basis points (bp) in the pre-tax discount rate to 10.3%, with all other assumptions held constant, would result in a further impairment of approximately c. £160m. Similarly, reducing the terminal growth rate by 1% in the period beyond 2025, with all other assumptions held constant, would also result in an additional impairment of approximately c. £230m.

16. Bank Borrowings

The bank loans are secured on fixed and floating charges over both the present and future assets of material subsidiaries of the Group. During up to and after the balance sheet date the Group obtained the agreement of its lenders to make certain amendments to its existing bank borrowing arrangements, refer to note 2 Basis of preparation for more information.

(£ million)	As at **30 June 2020 (Unaudited)**	 31 December 2019 (Audited)
Amount due for settlement within 12 months	**1.6**	1.7
Amount due for settlement after 12 months	**419.9**	419.1
Total bank borrowings	**421.5**	420.8

Terms and debt repayment schedule

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

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

(£ million)	Maturity	Margin over LIBOR	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Senior finance facility[1]	July 2022	2.25%	**423.4**	423.2
Revolving credit facility (undrawn committed facility)	July 2022		**100.0**	100.0

1 the difference between the carrying amount of the facility and the value of the debt repayment schedule is a modification fee on the loan extension and is deferred and amortised in accordance with IFRS 9 loan modification accounting.

Changes in bank borrowings arising from financing activities

(£ million)

	1 January	Cash flows	Non-cash changes	Loan modification	30 June
2020					
Bank loans	**420.8**	**(7.8)**	**8.0**	**0.5**	**421.5**
Total	**420.8**	**(7.8)**	**8.0**	**0.5**	**421.5**

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

(£ million)

	1 January	Cash flows	Non-cash changes	Loan modification	30 June
2019					
Bank loans	**420.4**	**(8.8)**	**8.5**	**0.5**	**420.6**
Total	**420.4**	**(8.8)**	**8.5**	**0.5**	**420.6**

17. Lease liability

Obligations under finance leases

The Group has finance arrangements in place 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 £740.3 million (2019: £721.2 million), expire in various years to 2042 and carry a blended implicit interest rate of 9.0% (2019: 9.0%). Rent in respect of hospital property leases are reviewed annually with reference to RPI, subject to assorted floors and caps. The discount rate used is calculated on a lease-by-lease basis, and based on estimates of incremental borrowing rates.

17. Lease liability *continued*

Changes in lease liabilities arising from financing activities

(£ million)	1 January	Cash flows	Non-cash changes	Additions	30 June
2020					
Lease liabilities	**745.3**	**(39.6)**	**33.1**	**1.5**	**740.3**
Total	**745.3**	**(39.6)**	**33.1**	**1.5**	**740.3**

(£ million)	1 January	Cash flows	Non-cash changes	Additions	30 June
2019					
Lease liabilities	**726.1**	**(33.1)**	**27.9**	**0.3**	**721.2**
Total	**726.1**	**(33.1)**	**27.9**	**0.3**	**721.2**

In the period, the Group recognised charges of £4.7 million (2019: £5.3 million) 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 for all leases of £44.3 million (2019: £38.4 million). The Group has not made any variable lease payments in the year. The Group is not a lessor for any leases to external parties. There have been no (2019: no) sale and leaseback transactions in this period.

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 the current period.

18. Derivatives

The Group has a derivative contract in respect of an interest rate swap in place:

	As at	
(£ million)	**30 June 2020 (Unaudited)**	31 December 2019 (Audited)
Amount due for settlement within 12 months	**2.2**	1.0
Amount due for settlement after 12 months	**2.6**	1.5
Total derivatives	**4.8**	2.5

In the current period, no amounts have been recycled to the Income Statement.

19. Provisions

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

(£ million)	Medical malpractice	Business restructuring and other	Total
At 1 January 2020	**10.2**	**2.9**	**13.1**
Increase in existing provisions	**3.4**	**1.3**	**4.7**
Provisions utilised	**(0.6)**	**(0.7)**	**(1.3)**
Provisions released	**(0.7)**	**(0.6)**	**(1.3)**
At 30 June 2020	**12.3**	**2.9**	**15.2**

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. Any such insurance recoveries of £4.9 million (2019: £7.3 million) are recognised in other receivables.

Following the completion of the criminal proceedings against Ian Paterson, a consultant who previously had practicing privileges at Spire Healthcare, management agreed settlement with all current and known civil claimants (and the other co-defendants) and have made a provision for the expected remaining costs. This provision remains subject to on-going review following the publication of the Public Inquiry report on Paterson issued on 4 February 2020, as the Group continues to assess the potential impact of the recommendations. 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 costs.

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

As at 30 June 2020 the remaining Business Restructuring and Other provisions primarily includes staff restructuring costs. The Group has settled with the Competition and Marketing Authority (CMA) as disclosed in the RNS announcement released on 1 July 2020, and this amount was settled in August 2020.

Provisions as at 30 June 2020 are materially considered to be current and expected to be utilised at any time within the next twelve months.

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 recognised in the income statement was £0.8 million in the six months ended 30 June 2020 (2019: £0.3 million). Employer's National Insurance is also 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 period was £0.1 million (2019: £0.1 million).

A summary of the main features of the schemes are shown below:

Long Term Incentive Plan
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.

Deferred Share Bonus Award
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.

Sharesave scheme
On 3 May 2019, the Company launched a Sharesave scheme. The Company has not launched any new Sharesave 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 and dividend yields.

21. Financial risk management and impairment of financial assets

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

Note 29 in the Annual Report and Accounts 2019 sets out the Group's policies and processes for measuring and managing risk. These have not changed significantly during the period to 30 June 2020.

Credit risk and impairment
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk from trade receivables is considered to be low because of the nature of its customers and policies in place to prevent credit risk occurring. Most revenues arise from insured patients' business and the NHS. Insured revenues give rise to trade receivables which are mainly due from large insurance institutions, which have high credit worthiness. The remainder of revenues arise from individual self-pay patients and consultants. During the period, receivables have decreased due to restrictions over private activity during the NHS COVID-19 contract. In addition, revenue from the NHS contract is received weekly in advance. Overall debt which is over a year past due has increased, but settlements for the private insurers and the NHS remain stable. Individual self-pay patients has had the greatest movement, with debt overdue by 90 days or more increasing by £0.9m during the period, and given the current economic uncertainty, remains the highest risk for the Group. The ECL as at June 2020 is £4.6m (December 2019: £3.7m).

The Group establishes an allowance for impairment that represents its expected credit loss in respect of trade and other receivables. This allowance is composed of specific losses that relate to individual exposures and also an expected credit loss component established using rates reflecting historic information for payor groups, and forward looking information. Given the growth in the past due debt, the Group has considered the provision required, specifically for self-pay patients and enhanced the provision accordingly.

Investments

The Group limits its exposure to credit risk by only investing in short-term money market deposits with large financial institutions, which must be rated at least Investment Grade by key rating agencies.

21. Financial risk management and impairment of financial assets *continued*

Interest rate risk

Interest rates on variable rate loans are determined by LIBOR fixings on a quarterly basis. Interest is settled on all loans in line with agreements and is settled at least annually.

	Variable	Total	Undrawn facility
30 June 2020 (£ million)	**425.0**	**425.0**	**100.0**
Effective interest rate (%)	**3.18%**	**3.18%**	
31 December 2019 (£ million)	425.0	425.0	100.0
Effective interest rate (%)	3.26%	3.26%	

The following derivative contracts were in place at 30 June 2020 (December 2019: £2.5m liability):

(£ million)	Interest rate	Maturity date	Notional Amount	Carrying value Asset / (Liability)
Interest rate swap	**1.2168%**	**July 2022**	**213.0**	**(4.8)**

The fair value of the above instrument is considered the same as its carrying value. In line with disclosures in note 29 of the 2019 Annual report and accounts, the above instrument uses level 2 of the fair value hierarchy to measure the fair value of the instrument. The variable rate consideration received by the Group is 0.6419% as at 30 June 2020, being lower than the hedged rate, resulting in some exposure on the hedged amount.

Sensitivity analysis

A change in 25 basis points in interest rates at the reporting date would have increased/(decreased) equity and reported results by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss		Equity	
(£ million)	25bp increase	25bp decrease	25bp increase	25bp decrease
30 June 2020				
Variable rate instruments	**(0.5)**	**0.5**	**(0.5)**	**0.5**
31 December 2019				
Variable rate instruments	(0.5)	0.5	(0.5)	0.5

Liquidity risk

The following are contractual maturities, as at the balance sheet date, of financial liabilities, including interest payments and excluding the impact of netting arrangements:

30 June 2020			Maturity analysis		
(£ million)	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	More than 2 years
Trade and other payables	**71.2**	**71.2**	**71.2**	**–**	**–**
Bank borrowings	**421.5**	**449.6**	**11.5**	**10.6**	**427.5**
Lease liabilities	**740.3**	**1,739.3**	**77.6**	**77.4**	**1,584.3**
	1,233.0	**2,260.1**	**160.3**	**88.0**	**2,011.8**
Derivative interest rate swap	**4.8**	**5.1**	**2.0**	**2.5**	**0.6**
Total	**4.8**	**5.1**	**2.0**	**2.5**	**0.6**

31 December 2019			Maturity analysis		
(£ million)	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	More than 2 years
Trade and other payables	106.2	106.2	106.2	–	–
Bank borrowings	420.8	464.1	14.6	14.0	435.5
Lease liabilities	745.3	1,775.8	77.5	77.5	1,620.8
	1,272.3	2,346.1	198.3	91.5	2,056.3
Derivative interest rate swap	2.5	3.3	1.1	1.3	0.9
Total	2.5	3.3	1.1	1.3	0.9

21. Financial risk management and impairment of financial assets *continued*

Capital management

At the balance sheet date, the Group's committed undrawn facilities, and cash and cash equivalents were as follows:

(£ million)	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Committed undrawn revolving credit facility	**100.0**	100.0
Cash and cash equivalents	**90.9**	90.8

Capital commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the balance sheet date. They include the full costs 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 balance sheet date were £9.8 million (December 2019: £16.7 million).

Bases of valuation

As of 30 June 2020, except for the interest rate swap and the financial asset, the Group did not hold financial instruments that are included in level 1, 2 or 3 of the hierarchy.

Management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The carrying value of debt is approximately equal to its fair value. During the period, there were no transfers between the levels in the fair value hierarchy.

A derivative is a financial instrument whose value is based on one or more underlying variables. The Group uses derivative financial instruments to hedge its exposure to interest rate risk. Derivatives are not held for speculative reasons. Fair values are obtained from market observable pricing information including interest rate yield curves and have been calculated as follows; fair value of interest rate swaps is determined as the present value of the estimated future cash flows based on observable yield curves.

The financial asset reflects a profit share arrangement with a partner. There are no market observable prices for the valuation. Management therefore assesses forward looking information and appropriate discount rates and risk factors to determine the fair value. Sensitivities are also taken into account when reviewing the fair value.

As at 30 June 2020, the Group held the following financial instruments measured at fair value. There has been no change in the hierarchy categories during the period.

Instruments measured at fair value (£ million)	Value as at 30 June 2020	Value as at 31 December 2019	Maturity analysis as at 30 June 2020: Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss					
Profit share arrangement	**1.5**	**1.5**	**–**	**–**	**1.5**
Financial liabilities at fair value through profit or loss					
Interest rate swaps	**(4.8)**	**(2.5)**	**–**	**(4.8)**	**–**
Financial liabilities at fair value using hedge accounting					
Interest rate swaps	(4.8)	(2.5)	–	(4.8)	–

In the period, Spire received a profit share in respect of the financial asset of £0.1m. In addition a fair value movement was recognised in the income statement, and remains unrealised. The movement on the financial liability related wholly to fair value movements, and is unrealised.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.
- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and
- Level 3: techniques which use the inputs which have a significant effect on the recorded fair value that are not based on observable market data.

22. Events after the reporting period

On 13 August 2020, the Group announced a Heads of Terms to vary the NHS England contract. This will allow Spire to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists, whilst increasing private activity as its 35 English Hospitals. This contract is expected to remain in place until at least the end of October 2020, but will have a definite expiry date at the end of December 2020 at latest. Further information can be found in the RNS released on 13 August.

The contract between Spire Murrayfield and NHS Scotland will terminate at the end of September. Spire Healthcare is working with the NHS in Wales to agree a variation in the contracts with Spire Yale and Spire Cardiff which will protect a minimum capacity for private activity.

Following the announcement to support the NHS for a longer period than was initially envisaged, The Group has obtained agreement from its lenders that covenant testing in June 2021 will be limited to certain liquidity measures (such that cash plus cash equivalents, i.e. including headroom under undrawn committed facilities should not fall below £50m) whilst net debt to EBITDA and interest cover ratio covenant tests will be waived. In addition to this, the maturity date of the Senior Loan Facility has also been extended by one year to July 2023.