Spire Healthcare reports its results for the year ended 31 December 2020

London, UK, 4 March 2021, Spire Healthcare Group plc (LSE: SPI), a leading independent hospital group in the UK, today announces its preliminary results for the year ended 31 December 2020.

Proud to support the NHS while maintaining liquidity. Operational platform optimised for future demand

Summary Group results for the year ended 31 December 2020

	Year ended						Variance	
	2020			2019				
(£m)	**Before Adjusting items**	**Adjusting items**	**After Adjusting items**	Before Adjusting items	Adjusting items	After Adjusting items	Before Adjusting items	After Adjusting items
Revenue	**919.9**	**-**	**919.9**	980.8	-	980.8	**(6.2%)**	**(6.2%)**
Operating (loss) / profit	**67.1**	**(213.3)** [1]	**(146.2)**	97.6	(3.2)	94.4	**(31.3%)**	NM [2]
(Loss) / profit before taxation	(18.5)	(212.5)	(231.0)	12.8	(3.2)	9.6	NM	NM
(Loss) / profit after taxation	(20.7)	(213.2)	(233.9)	9.8	(2.6)	7.2	NM	NM
Basic (loss) / earnings per share, pence	**(5.2)**	**(53.2)**	**(58.4)**	2.4	(0.6)	1.8	**NM**	**NM**
EBITDA [3]	161.1	-	161.1	189.0	-	189.0	(14.8%)	(14.8%)
FCF [4]	34.7	-	34.7	51.0	-	51.0	(32.0%)	(32.0%)
Capital investments	50.8	-	50.8	62.5	-	62.5	(18.7%)	(18.7%)
Net bank debt [5]	**314.5**	**-**	**314.5**	330.0	-	330.0	**4.7%**	**4.7%**

1. Includes a £200m write down of goodwill in H1 20 primarily related to historical balances created in 2007 and 2008
2. Not meaningful
3. EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'EBITDA'
4. FCF (Free Cash Flow) is calculated as EBITDA, less rent and capital expenditure cash flows. Rent cash flows are defined as Interest on, and Payment of, Lease Liabilities. Capital expenditure cash flows are defined as the Purchase, and Proceeds on Disposal, of Property, Plant and Equipment
5. 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
- Over 210,000 NHS patients seen in 2020 under the COVID-19 contracts
- Strong private recovery in Q4, particularly self-pay
- Clinical quality improved further, 90% of sites rated 'Good', 'Outstanding' or equivalent (up from 85% at FY19)
- Working capital management drives improvement in net bank debt to £314.5m (£330.0m at FY 19)
- Agreement with lenders to amend June 2021 covenant test, and maturity of Senior Loan Facility extended by one year to July 2023
- Reduction in revenue and EBITDA due to impact of COVID-19 pandemic

Developing our business

- Thank you payment of £500 to all colleagues not on a bonus scheme for their outstanding contribution during COVID, £7.3m in total
- Agreed new contract with NHSE from 1 January 2021, including support for NHS cancer and time-critical services in areas of COVID pressure
- Accepted onto NHS Framework for elective work from 1 April 2021
- Invested £50.8m in hospital estate and IT infrastructure (versus £62.5m total capital expenditure in 2019)
- Bookings through digital portals at record levels giving Spire Healthcare greater visibility of patient pathway
- 154 nurses recruited from overseas will start in Q1 21, 147 clinical apprentices currently in training
- Comprehensive rollout of electronic pre-operative assessment and new pricing system underway

Looking to the future

- Strong consumer sentiment within our target audience
- Robust private demand to be targeted by wider marketing investment
- NHS activity driven by initiatives to support NHS waiting list reduction
- Significant COVID costs to preserve patient safety but offsetting initiatives underway
- New target and investment to reach net zero carbon emissions by 2030

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

"We're immensely proud that, in this challenging year for everybody, Spire Healthcare's nationwide support for the NHS has made a positive difference to NHS patients' lives. Thanks to the tremendous efforts of colleagues across our hospitals, over 210,000 NHS patients have continued to receive vital, high quality care under extremely demanding conditions. As a business, we focussed on cash management and accelerating digital programmes, and delivered a strong return to elective private care in the second half of 2020.

Looking ahead, the investment we've made in our business and our colleagues means that Spire Healthcare is primed to treat the growing numbers of private and NHS patients needing elective and clinically-urgent care, with our continued focus on outstanding patient care, quality and safety."

Outlook for 2021

Trading in January and February was in-line with the Board's expectations although with a different mix of work due to the impact of COVID-19 and lockdown. Underlying trends remain positive with private enquiries above prior year, a waiting list of private surgery and significant national unmet demand for both NHS and private diagnostics and procedures. Notwithstanding the various costs and uncertainty relating to the evolution of the COVID pandemic, Spire Healthcare is in a strong position to meet the increased demand when COVID-19 abates, therefore the Board remains cautiously optimistic that trading will return to 2019 levels in 2021.

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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 almost 750,000 in-patients and day case patients in 2020, 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 Healthcare treats patients through a variety of routes including PMI, Self-pay and the NHS, providing the Group with diversified access to the expected growth opportunities in the UK healthcare market, which faces significant supply challenges as a result of NHS budget constraints and increasing demand from a growing population with longer life expectancy.

Cautionary statement

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

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

Analyst and investor meeting

There will be an analyst and investor meeting today at 9am via Zoom webinar. Please register in advance through this link:

https://spirehealthcare.zoom.us/webinar/register/WN_7U0TYMn5RvCKmMnQrcMmZg

The webcast will be available for replay following the presentation through the Company's investor website:

https://investors.spirehealthcare.com/home/

Operating Review

Overview

2020 was a year in which Spire Healthcare played a key role in supporting the NHS and grew as an organisation. Led from the centre, our 39 separate hospitals operated cohesively as one Spire Healthcare, whilst maximising the power of local relationships, and learning from each other as the pandemic worked its way across the country. During the year we focussed on improving our relationships with all stakeholders and strengthening the independent sector's role as an essential part of the UK's healthcare infrastructure. We proactively engaged with our PMI partners, implemented closer engagement with Consultants and, worked tirelessly to safeguard the health and wellbeing of our colleagues.

The COVID-19 pandemic has encouraged people to reprioritise health and wellbeing. The use of the independent sector to support the NHS has also raised consumer awareness of private healthcare and recognition of the Spire Healthcare brand has strengthened due to recent positive media coverage.

We continued to develop our response to the COVID-19 pandemic and accelerated the development of several projects which now place the Company in a stronger position as we anticipate a transition back to more normal business over the course of 2021.

Performance

2020 started well with particularly strong growth in self-pay, however admissions and revenues declined as the COVID-19 pandemic impacted the country. With the vast majority of private elective surgery suspended from 1 April, and all capacity made available to the NHS, H1 20 revenues declined 18% to £401.9m (versus H1 19: £491.6m). However, in the second half of the year Spire Healthcare was able to undertake elective work for both the NHS and private payors, and a subsequent variation to the NHSE contract, announced on 13 August, enabled Spire Healthcare to protect a minimum capacity for private activity, subject to NHS requirements. Consequently H2 20 revenues increased 5.9% to £518.0m (versus H2 19: £489.2m), although this was impacted by the structure of the NHS COVID contracts. Q4 saw exceptionally strong growth in self-pay revenue with priority given to more clinically-urgent complex cases, which carry a greater average revenue per case.

The Group received relevant cash cost recovery for its services from the NHS from 30 March to 31 December 2020, 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), resulted in an increase in cash and equivalents on the balance sheet to £106.3m (versus £90.8m at FY19). Consequently net bank debt improved to £314.5m (£330.0m at end December 2019).

We continued to invest in the future of our business, spending £50.8m on upgrades to hospital facilities and an acceleration of certain digital efficiency programmes to benefit patients and colleagues. These investments included the replacement of 700 beds during the year, representing c.50% of the total portfolio, four new scanners (two MRI and two CT), a theatre suite refurbishment at Spire Liverpool and a new multi-storey car park at Spire Bristol.

Current status of NHS England contract

On 1 January 2021, Spire Healthcare entered into a new contract with NHS England (NHSE). This contract is volume based, rather than the previous cost-based contract, and was designed to facilitate a smooth transition back to Spire Healthcare's usual mix of business as the pandemic eases; providing elective surgery to reduce the NHS waiting lists whilst increasing private activity. The emergence of a new, highly contagious variant of COVID in early 2021 has placed greater strain on the NHS than in the first wave and has required different independent sector support from that envisaged under the new contract.

In early January 2021 NHSE triggered the surge clause for a number of hospitals, a provision to make all of Spire Healthcare's resources available to the NHS in the event of a rise in local COVID infection rates. 13 of the Group's hospitals went into surge in early 2021, mainly in the South East, but the majority of these surge clauses have now been lifted. Spire Healthcare has worked closely with NHSE to provide appropriate care for NHS patients, and we are proud that nine Spire Healthcare hospitals are currently acting as NHS cancer hubs. Elsewhere, activity, such as urgent cardiac care, have been transferred to be managed by the local Spire Healthcare hospital and the cystic fibrosis service managed by Spire Manchester has been extended to the end of March. Despite this, performance in Q1 has been broadly in-line with expectations with self-pay admissions in non-surge hospitals above prior year levels and higher average revenue per case for private procedures.

Unlike the first wave, when there was a national curtailment of elective surgery, certain time-critical private activity has continued during this period, even in surge sites, with out-patients and diagnostic services largely unaffected. This means that Spire Healthcare has established a waiting list of private work which is expected to be delivered over the remainder of the year.

Relevant enquiries remain above prior year levels, with double digit growth in self-pay revenues in Q4 20 and January 2021, providing reassurance that private activity will rebound strongly when the pandemic abates. Whilst PMI revenue improved in Q4 20 versus Q3 20, the recovery is stronger in self-pay. There is some evidence to suggest that private customers are choosing self-pay because they feel it is easier and quicker to access care, and partly, we believe, due to the need for insured patients to gain a referral from their GP to access treatment, at a time when GP appointments are restricted due to COVID measures.

Spire Healthcare was successful in its bid to be included on the NHSE Framework for purchasing additional activity from the independent sector, which is expected to commence in April 2021. Inclusion on the Framework is at an agreed price for activity, based on NHS tariff, but carries no guaranteed volumes. Activity will be determined by local Commissioners' (CCGs and trusts) requirements, therefore the relationships that have formed between Spire Healthcare's hospital directors and their local NHS counterparts during the pandemic will be critical to ensure Spire Healthcare receives an appropriate share of the work available. We anticipate that commissioning through the NHS Framework will build over the year. The NHS has a priority to treat those with greatest clinical need and who have been waiting the longest. We therefore anticipate a more acute mix of work in Q2 with a return to a more normal mix later in the year.

Cash position

Spire Healthcare currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. As announced at the interim results on 17 September, 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 also reached agreement with its lenders to provide the necessary financial flexibility to continue to support the NHS with a waiver of the net debt / EBITDA ratio and interest cover test for June 2021. A new liquidity measure replaced these tests and 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 at any month end from June to November 2021. At 31 December 2020 the net debt / EBITDA ratio was 3.9x.

As disclosed in the interim results, in-line with IFRS requirements, the Company performs a review of the carrying value of goodwill every reporting period. The current view of the market in the medium and long term remains substantially unchanged from the last review. In H1 20, when assessing the carrying value of the historical goodwill balance, the Group recognised the effect of prevailing financial market conditions on the cost of capital which is used to discount future cash flows to their current value; accordingly Spire Healthcare took a 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.

Strategic initiatives

Spire Healthcare's Purpose, to make a positive difference to our patient's lives through outstanding personalised care, forms the bedrock on which we base all strategic decisions. We are pleased that during H2 20, when we started collecting data, 83% of patients agreed that Spire Healthcare had made a positive difference to their lives, 92% agreed our teams had offered outstanding care and 94% agreed that their care was personalised. We will continue to track these measures of our Purpose, and strive to improve the result in the years ahead. Despite the pressures of the pandemic, we used 2020 as an opportunity to enhance our capability to deliver our Purpose.

The Group moved quickly to ensure treatment pathways were COVID-secure, protecting patients and colleagues alike. Critically the 'green' pathways allowed a return to admissions at 95% of prior year levels by the end of the summer; a significant achievement given the inevitable restrictions of social distancing, infection control and use of PPE, and a welcome route to treatment for many patients.

The associated costs of COVID compliance amounted to £32m in 2020. We believe we will be able to lower these during 2021, through reducing the cost of COVID testing, pricing adjustments, and the easing of some restrictions later in the year. COVID security will nonetheless remain a key part of hospital care for months or years to come and costs may increase if testing guidance or protocols change.

The pandemic has provided a platform to accelerate the delivery of certain digital efficiency programmes, which either improve the patient experience by making it easier to access our services, or improve the interaction with our colleagues.

In early March 2020, Spire Healthcare secured licences to facilitate virtual patient consultations, with 59,300 consultations taking place in FY 20 (20,000 in H1 20). The Group also hosted many successful virtual training and continuing professional development events for General Practitioners enabling Spire Healthcare to maintain engagement with the local medical community, and thereby protecting and developing an important source of patient referrals. The use of virtual consultations has been well received by patients and has freed-up valuable out-patient capacity in Spire Healthcare hospitals so will remain a vital part of service delivery in the future.

The Group's digital portals for both patients and our partners are seeing record levels of bookings (58,190 in FY20 versus 43,920 in FY19) further highlighting growing demand for online services. The Group also transferred its outsourced call handling service in June to improve its capacity to respond to fluctuations in patient enquiries and take direct bookings, handling over 8,500 overflow calls per week in January 2021. Not only does this provide the ability to meet the increased demand in enquires but also allows some bookings to be made centrally. Both of these initiatives are key steps to improving the patient pathway and making more efficient use of our resources.

The introduction of electronic pre-operative assessment (ePOA) was prioritised and piloted during 2020 in three Spire Healthcare sites (Spire Nottingham, Spire Hartswood and Spire Leicester). Full implementation of ePOA across all sites is now underway, which should significantly reduce the use of paper within Spire Healthcare whilst facilitating a better patient experience and shorter processing time, thereby 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 oversight and optimisation of self-pay pricing across the group. This platform will also make it easier for Consultants to securely post and amend their own, independently determined, charges. The project is now in pilot in Spire Fylde Coast, Spire Liverpool, Spire Norwich and Spire St Anthony's, with rollout to all hospitals expected over the course of the year.

The Company also launched two new platforms with an aim to improve the HR function during 2020. The first is a new Oracle-based people management platform which consolidates four existing HR systems (HR, payroll and two recruitment systems) into one. This development aims to significantly reduce the paper and administrative burden within HR whilst providing greater control and transparency in payroll. The rollout experienced mixed success, with disruption to accurate payments experienced by many colleagues primarily as a result of different approaches to remuneration for non-contracted hours across the portfolio of hospitals. We apologised to those affected, and are working hard to correct errors through changes to the system. The experience highlighted the importance of a more integrated 'one Spire' way of working.

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. The improved communication has been very well received and the live, interactive application is providing a transformation to our ability to connect with, and listen to, our colleagues. This Cloud-based system will be developed further to allow managers to book bank and/or temporary workers and will link to the Group's payroll systems.

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 Healthcare hospitals becoming more aligned operationally and working more efficiently as one organisation. This 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, Wales and Scotland totalled £362.7m in FY 20, leading to total NHS revenue of £430.0m (FY 19: £285.7m). As of 31 December 2020 the Company has seen over 210,000 NHS patients under the COVID-19 contracts. Over 90,800 NHS patients were admitted for treatment including 27,300 for urgent cancer care. In certain regions the local NHS trust transferred whole service lines, such as chemotherapy or cystic fibrosis, to be managed by the local Spire Healthcare hospital, and in other areas Spire Healthcare provided clinical teams 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 or their local NHS trusts 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. On 21 December, the Group announced that it had committed to refund all payments received under the furlough scheme. The Company has, in addition, announced an exceptional financial COVID-19 gift of £500 to all colleagues not on a bonus scheme, to thank them for their contribution. The £7.3m cost of this payment has been met by the Company and not charged to 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 contracts, Garry Watts, Justin Ash and Jitesh Sodha agreed a 20% salary reduction, and an equivalent sum of money has been 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.

Patient safety and clinical quality

Spire Healthcare remains unwavering in its commitment to patient safety and clinical quality. The COVID-safe patient pathways that were established in all hospitals in late May enabled a return to near normal operating capacity from mid-Q3 until the end of the year.

Two hospitals were inspected by the CQC in 2020 (versus 11 in 2019), and two were inspected virtually by Healthcare Inspectorate Wales (one in 2019), all received Good or Positive reports, meaning that 90% of the Group's sites are rated Good or Outstanding, up from 85% at end FY19.

Spire Healthcare is aiming to be the largest provider of complex care outside London with five Critical Care Units in the portfolio following the opening of a new unit in Spire Nottingham at the beginning of the pandemic. This strategy will remain a key focus in 2021 with up to three further critical care units planned for this year.

The Company is working through the recommendations arising from the Independent Inquiry into Mr Ian Paterson, published on 4 February 2020, and has written to all living patients of Paterson for whom it had records, to make sure that their care had been fully reviewed, that the outcome of the reviews had been fully communicated and that, if required, they are getting the support and care that they need. We are determined to minimise the chances of another practitioner like Paterson ever operating in our hospitals again, and all of the actions and interventions described in the report, together with the changes we have made in recent years, will help us to do this. The Group has recognised an additional charge during the year accordingly (see note 9 for more detail).

Doing the right thing

Doing the right thing is one of Spire Healthcare's six values. In 2016 the Group set a five year target to reduce CO_2e (carbon dioxide equivalent emissions) from electricity and natural gas by 15% per pound of revenue by 2020, from the baseline year of 2015. This energy reduction target was achieved ahead of schedule in 2017, and by end 2020 the Company's CO_2e per pound of revenue was reduced by 34%.

In December 2020 the Spire Healthcare Board approved a decarbonisation strategy, designed to achieve net zero carbon emissions by 31 December 2030. Some £16.0m of investment over the next 10 years has been ring fenced to help achieve this aim and, as a first step, from October 2021 the Company will procure 100% of electricity from renewable sources.

During 2020 Spire Healthcare colleagues were keen to contribute to their local communities in other ways beyond the invaluable care they provide every day. This involved many charity initiatives. In particular, in December, every hospital collected food and raised money for local food banks, in partnership with the Trussell Trust. Spire Healthcare then match-funded up to £250 for each site, meaning a total of £20,000 was raised. We are very grateful to our food supplier, Bidfood, who converted our financial donations into food and then provided a generous supplementary food donation.

We placed a particular emphasis on supporting our colleagues during the crisis, both operationally and financially, providing support packs and training along with robust individual colleague risk assessments and making adjustments to keep our people safe. We used digital platforms to maintain strong communication which comprised comprehensive mental health support programmes, and Let's Talk debates to foster a strong listening and learning culture.

These debates started with a very positive engagement on Black Lives Matter which, amongst other initiatives, is helping us to build new programmes that support our succession plans and grow more Black leaders of the future. The Let's Talk programme is now extending to other areas of diversity, inclusion and matters of importance to our teams, and builds on our successful and sector leading apprenticeship programme.

As a healthcare company, a focus on environmental, social and governance (ESG) is an inherent part of Spire Healthcare's business, and is firmly embedded in its Purpose to make a positive difference to patients' lives though outstanding personalised care. The Company has been working on a comprehensive ESG strategy which it expects to launch in 2021 with appropriate KPIs and targets; further information will be provided in due course.

Senior appointments in 2020

Professor Clifford Shearman (Cliff) joined Spire Healthcare as an independent Non-Executive Director on 1 October 2020 and joined the Clinical Governance and Safety Committee from 1 January 2021.

This appointment increases 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 joined Spire Healthcare as Group Medical Director on 26 October 2020. 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 strengthen further the medical support for hospitals and Consultants, Spire Healthcare has recruited a Medical Governance Lead. In addition, it has developed three new Regional Medical Director posts, one for each of the three geographical business units (North, Central and South). This is in addition to the existing Responsible Officer post. The investment in this structure is expected to further improve the medical performance standards, and enhance the clinical voice 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.

Looking to the future

The impact of COVID-19 will remain for much of the first half of 2021, but the overall positive dynamics in our market have not changed with lengthening waiting lists and significant demand in both the NHS and private sector resulting from the postponement of elective procedures during the pandemic.

Spire Healthcare's Purpose and underlying strategy is unchanged, and the Company emerges from 2020 as a stronger organisation; the positive relationships formed with all key stakeholders will, we believe, provide a strong foundation for the business in the years ahead.

First choice for private patients

Private patients are key to Spire Healthcare's strategy. The limited ability to access elective care during the COVID pandemic has led to the creation of a private waiting list for the first time. A survey of target consumers conducted for Spire Healthcare indicates that awareness of the role of the private sector in supporting the NHS has led our target audience to view private hospital providers in a more positive light, with 33% agreeing that they are more likely to consider a private hospital than before as a result. Furthermore, the survey indicated that 34% of Spire Healthcare's target market has had a medical diagnosis or treatment cancelled since spring 2020. There is a significant opportunity for the Company to increase private activity and in 2021 we anticipate a wider marketing campaign to help potential patients understand how to access private healthcare. Our market research tells us that patients want to know what is wrong with them, quickly, and our digital strategy is designed to make private healthcare easier for patients to navigate, from finding out about services on our website, booking an appointment, through to accessing virtual consultations and diagnostics.

To support rapid diagnosis, we anticipate investing £20m in imaging equipment this year and will continue with modernisation projects designed to transition our manual paper-based processes to digital solutions. The introduction of ePOA and the pricing engine are important steps on this journey, we expect to focus on our pathology and order communications platforms next as we progress towards the creation of a full electronic patient record.

Key partner to the NHS

The capacity provided by Spire Healthcare will make a critical contribution to minimising the scale of the long-term NHS waiting list and the duration of waiting times, and to the recovery of the health system more broadly in 2021 and beyond. The recent White Paper published by the Government seeks to evolve the structure of the NHS by implementing Integrated Care Systems and simplifying the procurement process for healthcare services. The changes are still under review but we are encouraged by the proposals to strengthen patient choice and the Any Qualified Provider process, which signals that the independent sector remains a vital part of the nation's healthcare infrastructure.

Uncompromising on patient safety

Patient safety and clinical quality is at the heart of everything we do, and we are proud that 90% of our sites are now rated Good or Outstanding by the CQC, or equivalent body in Wales and Scotland. Only four of the Group's 39 hospitals are rated requires improvement and these hospitals have not had a rated inspection for over four years. We are hopeful that the CQC will re-inspect the sites soon and believe we have taken the appropriate steps to be positively re-rated.

A large part of the investment in quality and safety related to increasing the number of clinical colleagues, particularly in pre-assessment. Our colleagues are essential to our Purpose, and are fundamental to our service delivery. We consistently receive positive feedback from patients regarding the care they have received from our colleagues. Despite the challenging circumstances created by COVID, over the course of the year we have reduced staff turnover from 15% to 12% and underlying staff absence through sickness from 5.5% to 4.5% of contracted hours; however an additional 4.5% of contracted hours were lost due to COVID-related absence in 2020. We remain focussed on improving recruitment, reward, training and retention in order to reduce reliance on agency staff. We have placed a particular emphasis on ensuring that when colleagues join us they have a positive experience, and the proportion of new joiners leaving in one year fell from 35.2% in 2019 to 33.1% in 2020.

Agency costs as a proportion of total clinical costs fell from 7.7% in 2019 to 4.7% in 2020 as we acted to reduce unnecessary costs in the early phase of the first contract when NHS surgical activity was low. We anticipate an increase in 2021 as activity builds but aim to reduce this over time, which will further improve the patient experience, whilst lowering our clinical staff costs.

Following the successful recruitment of 175 nurses from the Philippines in 2018 and 2019, Spire Healthcare has recruited a further 154 nurses from overseas who will join the Company in Q1 21 to ensure it has sufficient clinical staff to safely meet expected demand. Approval has also been received to recruit an additional 125 overseas nurses in 2021, with a focus on theatre colleagues. These nurses come with high clinical skills, and are supported by a comprehensive induction programme before they transition to providing care in our hospitals. We are proud that Spire Healthcare has plans in place to use all of its apprenticeship levy contributions made during the year and currently has 262 apprentices in training, of which 147 are clinical roles. This makes Spire Healthcare a leading provider of apprenticeships and we plan to expand this programme further in 2021, making a meaningful contribution to training the UK's nurses of the future. In 2020 Spire Healthcare also had over 900 doctors receiving training under NHS mentor supervision in its sites, playing an important role in supporting the doctors of the future.

The Company continues to invest in patient safety and clinical quality and is currently developing a standard operating procedure for patient notification exercises, which does not currently exist in UK healthcare, to ensure further quality improvements through shared learnings.

Improving revenue, profit and cash

Our focus on patient safety and clinical quality helps to attract patients, which in turn supports revenue growth. The recovery in elective activity is likely to drive margin improvement which can be further enhanced through cost efficiency programs. We have a number of key projects planned, many of which have digital transformation at the core. These include electronic patient records, pathology order communications and remote CT reading. With improved capital allocation we continue to strive to improve cash generation to reduce debt and improve leverage.

2021 will see a material impact from the costs of COVID compliance. These costs amounted to £32m in 2020 but we believe we will be able to lower these in 2021, by reducing the costs of COVID testing, pricing adjustments, and through the easing of some restrictions later in the year. The impact of this cost increase is accommodated in the Company's guidance. COVID security will nonetheless remain a key part of hospital care for months or years to come and costs may increase if testing guidance or protocols change.

Financial review

Selected financial information

(£m)	Year ended 31 December 2020 Total before Adjusting items	Adjusting items (note 9)	Total	Year ended 31 December 2019 Total before Adjusting items	Adjusting items (note 9)	Total
Revenue	919.9	-	919.9	980.8	-	980.8
Cost of sales	(464.1)	-	(464.1)	(529.4)	-	(529.4)
Gross profit	455.8	-	455.8	451.4		451.4
Other operating costs	(389.1)	(213.3)	(602.4)	(353.8)	(3.2)	(357.0)
Other income	0.4	-	0.4	-	-	-
Operating (loss) / profit (EBIT)	67.1	(213.3)	(146.2)	97.6	(3.2)	94.4
Net finance costs	(85.6)	0.8	(84.8)	(84.8)	-	(84.8)
(Loss) / profit before taxation	(18.5)	(212.5)	(231.0)	12.8	(3.2)	9.6
Taxation	(2.2)	(0.7)	(2.9)	(3.0)	0.6	(2.4)
(Loss) / profit for the period	(20.7)	(213.2)	(233.9)	9.8	(2.6)	7.2
EBITDA [1]	161.1	-	161.1	189.0	-	189.0
Basic (loss) / earnings per share, pence	(5.2)	(53.2)	(58.4)	2.4	(0.6)	1.8
FCF [2]	34.7	-	34.7	51.0	-	51.0
Capital investments	50.8	-	50.8	62.5	-	62.5
Net cash from operating activities	159.7	-	159.7	201.7	-	201.7
Net bank debt [3]	314.5	-	314.5	330.0	-	330.0

1. EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'EBITDA'. See page 11 for further information
2. FCF (Free Cash Flow) is calculated as EBITDA, less rent and capital expenditure cash flows. Rent cash flows are defined as Interest on, and Payment of, Lease Liabilities. Capital expenditure cash flows are defined as the Purchase, and Proceeds on Disposal, of Property, Plant and Equipment
3. Net bank debt is defined as bank borrowings less cash and cash equivalents

Revenue

Group revenues declined 6.2% to £919.9m (FY 19: £980.8m) due to the suspension or restriction of private activity during the NHS COVID-19 contracts. NHS revenue of £430.0m includes £362.7m revenue from the COVID-19 contracts, net of rebates for private activity. The NHS COVID-19 contracts are reimbursed on a cost recovery basis and therefore the detail of revenue by location (inpatient, day case or Out-patient) is not available.

Revenue by location and payor

(£m)	Year ended 31 December 2020	2019	Variance %
Total revenue	919.9	980.8	(6.2%)
Of which:			
Inpatient	188.3	370.5	(49.2%)
Day case	170.3	298.9	(43.0%)
Out-patient	181.9	286.9	(36.6%)
NHS – COVID-19	362.7	-	NM[1]
Other	16.7	24.5	(31.8%)
Total revenue	919.9	980.8	(6.2%)
Of which:			
PMI	337.6	491.8	(31.4%)
Self-Pay	135.6	178.8	(24.1%)
Total Private	473.2	670.6	(29.4%)
Total NHS	430.0	285.7	50.5%)
Other	16.7	24.5	(31.8%)
Total revenue	919.9	980.8	(6.2%)

1 Not meaningful

Cost of sales and gross profit

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

Gross profit increased by 1.0% (2019: 4.1%) to £455.8m (2019: £451.4m). Gross margin increased by 350bp (2019: a decline of 60bp) to 49.5% (2019: 46.0%). Cost of sales decreased in the period by £65.3m, or by 12.3%, to £464.1m (2019: £529.4m) on revenues that decreased by 6.2%.

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

	2020		2019	
	Year ended 31 December		Year ended 31 December	
	£m	% of revenue	**£m**	% of revenue
Clinical staff	**212.6**	23.1%	**203.3**	20.7%
Direct costs	**192.8**	21.0%	**223.9**	22.8%
Medical fees	**58.7**	6.4%	**102.2**	10.4%
Cost of sales	**464.1**	50.5%	**529.4**	54.0%
Gross profit	**455.8**	49.5%	**451.4**	46.0%

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

Other operating costs

Other operating costs for the year ended 31 December 2020 increased by £245.4m or 68.7% to £602.4m (2019: £357.0m). The main driver for this increase is a one-off non-cash charge for impairment relating to goodwill as reported in H1 2020 of £200m which has been reported as an Adjusting item. Excluding Adjusting Items, other operating costs have increased by £35.3m, or 10.0% to £389.1m (2019: £353.8m).

The increase in other operating costs is mainly driven by increased COVID-19 related costs including £11.0m for testing, as well as increased staff costs.

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

EBITDA

EBITDA for the Group has decreased by 14.8% in the period from £189.0m to £161.1m for 2020. The decrease is driven by a fall in revenue following restrictions over private activity during the COVID-19 pandemic, 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 other employees under the Company's Long Term Incentive Plan. For the year ended 31 December 2020, the charge to the income statement is £1.7m (2019: £1.0m), or £1.9m inclusive of National Insurance (2019: £1.1m). In addition, the Group has a Share save scheme which was launched in 2019. Further details are contained in note 27 of the Annual Report and Accounts.

Adjusting items

	Year ended 31 December	
(£m)	**2020**	2019
Asset disposals, impairment and aborted project costs	**200.3**	(0.1)
Remediation of regulatory compliance or malpractice	**12.8**	1.9
Hospitals set up and closure costs	**0.2**	0.3
Business reorganisation and corporate restructuring	**-**	1.1
Total operating costs	**213.3**	3.2
Interest receivable on Adjusting item	**(0.8)**	-
Total pre-tax other costs	**212.5**	3.2
Income tax charge / (credit) on Adjusting Items	**0.7**	(0.6)
Total post-tax other costs	**213.2**	2.6

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

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

In the prior period, asset disposals, impairment and aborted project costs netted a credit of £0.1m comprising: a credit of £2m in connection with the reversal of an impairment charge on a property which had been classified as held for sale, offset by the £0.1m impairment on classification of another asset as held for sale; a further charge of £0.3m taken for aborted project costs relating to a potential hospital development at Milton Keynes; and a write down of £1.5m against non-sterile Single Use Devices as a consequence of the Medical Device Regulations (MDR) change.

The Group has recognised £12.8m (2019: £1.9m) of charges relating to Remediation of Regulatory Compliance or Malpractice Costs, this includes the following two matters:

- During the year, a judgment was received in favour of the Group in its case against one of its insurers relating to Ian Paterson and the Group was awarded £11.6m, including £0.8m of interest. The net difference of £10.8m is reported within Remediation of Regulatory Compliance or Malpractice Costs and £0.8m is shown in the above table as Interest Receivable on Adjusting Items. The insurer has sought to appeal the ruling at the Court of Appeal and the Group is awaiting the outcome of this request. The Group is committed to providing on-going support to Paterson's patients, and following the release of the Paterson Public Inquiry in February 2020, the Group has incurred, or provided for, costs of £22.2m during the year.
- During 2020 the Group reached a settlement with the Competition and Marketing Authority (CMA) as disclosed in the RNS announcement released on 1 July 2020. Professional costs in respect of the CMA investigation have also been recognised, bringing the total cost recognised in the period to £1.3m.

During the prior year the £1.9m remediation charge related to two separate regulatory compliance issues. One of the issues related to the temporary closure of a specific site to make improvements following a CQC inspection. The second issue related to expected, but uncertain costs for a regulatory compliance matter.

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

In the prior year, business reorganisation and corporate restructuring costs of £1.1m primarily related to internal group reorganisation costs associated with a strategic review in 2019 which specifically covered Clinical and Operational functions. Those costs were excluded from adjusted operating profit as they related to a fundamental change in how those areas were organised and functioned.

Net finance costs

Net finance costs remained static at £84.8m (2019: £84.8m). However net finance costs included Adjusting items of £0.8m, for interest income on the RSA judgment (see note 9 for further details). Excluding Adjusting items, net finance costs increased by 0.9% (2019: 10.6%) to £85.6m (2019: £84.8m).

Taxation

The effective tax rate assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

	Year ended 31 December	
(£m)	**2020**	2019
(Loss) / profit before taxation	**(231.0)**	9.6
Tax at the standard rate	**(43.9)**	1.8
Effects of:		
Expenses and income not deductible or taxable	**5.6**	2.8
Impairment charge in respect of goodwill (not tax deductible)	**38.0**	-
Adjustments to prior year	**(2.4)**	(1.5)
Difference in tax rates	**5.8**	(0.4)
Deferred tax not previously recognised	**(0.2)**	(0.3)
Total tax charge	**2.9**	2.4

The effective tax rate on profit before taxation for the year was negative (1.3%) (2019: positive 25.0%), which is mainly driven by the effects of revaluing deferred tax assets and liabilities to 19% following the abolishment of the rate reduction to 17% due in April 2020, and the permanent difference relating to the £200m impairment charge. Without these items, the effective tax rate is 9.4% (2019: 29.2%). Deferred tax is detailed in note 23 of the Annual Report and Accounts.

As announced in the budget on 3 March 2021, the Government are intending to increase the corporation tax rate from 19% to 25% from April 2023. As this rate was not substantively enacted at the balance sheet date, it has not been used to calculate the deferred tax balances. If the net deferred tax liability as at 31 December 2020 were to reverse at the tax rate of 25% the net deferred tax liability would increase by £17.0m.

Profit after taxation

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

Adjusted financial information

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

Non-GAAP financial measures

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

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

EBITDA and Adjusted EBIT

	Year ended 31 December	
(£m)	**2020**	2019
Operating (loss) / profit	**(146.2)**	94.4
Remove effects of:		
Adjusting items before interest and tax[1]	**213.3**	3.2
Adjusted EBIT	**67.1**	**97.6**
Depreciation (including profit/ loss on sale of fixed assets)	**94.0**	91.4
EBITDA	**161.1**	**189.0**

1 Adjusting items before tax total £212.5m including the £0.8m interest receivable on the RSA judgment awarded to Spire Healthcare. Interest receivable is not included in EBIT or EBITDA.

Adjusted profit after tax and adjusted earnings per share

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

	Year ended 31 December	
(£m)	**2020**	2019
(Loss) / profit before tax	**(231.0)**	9.6
Adjustments for:		
Adjusting Items – operating costs	**213.3**	3.2
Adjusting items - interest receivable	**(0.8)**	-
Adjusted (loss) / profit before tax	**(18.5)**	12.8
Taxation[1]	**(2.2)**	(3.0)
Adjusted (loss) / profit after tax	**(20.7)**	9.8
Weighted average number of ordinary shares in issue (No.)	**400,835,795**	400,828,739
Adjusted (loss) / earnings per share (pence)	**(5.2)**	2.4

1 Reported tax charge for the period adjusted for the tax effect of Adjusting Items

Cash flow analysis for the period

	Year ended 31 December	
(£m)	**2020**	2019
Opening Cash balance	**90.8**	47.7
Operating cash flows before Adjusting Items and income tax paid	**158.9**	205.5
Adjusting Items	**(2.8)**	(2.7)
Income tax received / (paid)	**3.6**	(1.1)
Operating cash flows after Adjusting Items and income tax	**159.7**	201.7
Net cash in investing activities	**(46.3)**	(48.6)
Net cash in financing activities	**(97.9)**	(110.0)
Closing cash balance	**106.3**	90.8

Operating cash flows before Adjusting items

The cash inflow from operating activities before tax and Adjusting items was £158.9m (2019: £205.5m inflow), which constitutes a cash conversion rate from £161.1m EBITDA of 99% (2019: 109% conversion of £189.0m EBITDA). The net cash outflow from movements in working capital in the period was £3.9m (2019: £17.9m inflow). This movement largely represents the accrued income at year end of £35.0m (2019: £13.0m) and the increase in provision of £19.9m (2019: decrease of £3.3m).

Investing and financing cash flows

Net cash used in investing activities for the period was £46.3m (2019: £48.6m). Cash outflow for the purchase of plant, property and equipment in the period totalled £46.6m (2019: £60.6m), which included theatre refurbishments in Liverpool, a new MRI in Southampton, a new CT at St Anthony's, a new boundary wall and car park at Spire Bristol and the implementation of Safe Pathways across all hospitals. The total capital investment in the year in respect of additions of plant, property and equipment amounted to £50.8m (2019: £62.5m) and the difference between additions and the cash outflow during the year will result in an additional cash outflow during 2021 upon receipt of invoice.

Net cash used in financing activities for the period was £97.9m (2019: £110.0m), including interest paid and other financing costs of £84.5m (2019: £75.5m), and £13.4m (2019: £19.3m) of lease liability payments. No dividend has been paid to shareholders (2019: £15.2m).

Borrowings

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

	Year ended 31 December	
(£m)	**2020**	2019
Cash	**106.3**	90.8
Bank borrowings	**420.8**	420.8
Bank borrowings less cash and cash equivalents ("net bank debt")	**314.5**	330.0

During the course of the year, the Group negotiated bank waivers and put in place a new liquidity covenant (see the going concern section in note 2 for more detail).

The Group has an undrawn revolving credit facility of £100.0m (2019: £100.0m) available until July 2022 and a reduced balance of £87m available to July 2023.

Net debt for the purposes of the covenant test in respect of the Senior Loan Facility was £318.7m (2019: £334.2m) and the net debt to EBITDA ratio was 3.9x (2019: 3.0x). The net debt for covenant purposes comprises the senior facility of £425.0m less cash and cash equivalents. EBITDA for covenant purposes comprises pre-IFRS 16 EBITDA of £90.7m (2019: £120.5m) less the annual rental of a finance lease pre-IFRS 16 of £8.8m (2019: £8.6m).

Interest cover is 4.0x (2019: 4.8x).

As at 31 December 2020 lease liabilities were £749.5m (2019: £745.3m). Refer to note 17 for more detail.

Dividend

No dividend is proposed for the year ended 31 December 2020.

Related party transactions

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

Principal Risks

The Principal Risks fall under the following categories:

Clinical & Patient Safety
1. Patient Safety & Clinical Quality

People
2. Workforce

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

Geopolitical
8. Government and NHS Policy
9. UK-EU Trade Relations

Technology
10. Information Governance & Security

Social
11. Covid-19 pandemic
12. Brand Reputation

Governance
13. Compliance and Regulation

Risk	Risk Mitigation
1. Patient Safety and Clinical Quality	In response to the COVID-19 pandemic, the Group introduced a specific infection prevention control programme to minimise the risk of hospital acquired COVID-19 infections that included: • Red, Amber & Green patient pathways, • PPE , • Testing of patients, colleagues and Consultants. The Group maintains controls to mitigate against a failure of patient safety and clinical quality: • A reporting culture of openness and shared learning from Ward-to-Board, with a FTSUG at each site • Incident reporting via a database with central oversight • Continual monitoring of clinical standards, reporting progress via the Clinical Governance and Safety Committee ('CGSC'). A schedule of robust and regular hospital audits including the Patient Safety and Quality Reviews, with an action plan for improvement. • Colleague induction, clinical competencies requirements and mandated training Reporting on clinical outcomes with workforce and Consultants including the Chairs of hospital Medical Advisory Committees.
2. Workforce	The Group seeks to retain staff through: • A common purpose and a positive workplace culture. • Maintaining competitive pay and benefits. • Responding to key metrics such as staff turnover, rookie staff levels (less than one-years' service), vacancy rates and levels of positive engagement from staff surveys. • Continuous investment in its equipment, facilities and services to retain high-quality clinicians. The Group seeks to recruit staff through: • A centralised recruitment processes • An overseas recruitment capability to secure skilled healthcare workers from outside the EU where necessary. • Offering apprenticeship programmes to support the development of clinical and non-clinical teams across the business. • Working with the Royal Colleges to offer Consultant-training opportunities in the private sector. • Building of local bank staff pools The Group manages immediate staff shortages with agency and bank workers.

3. PMI Market Dynamics	The Group works hard to maintain good relationships and a joint product/patient health offering with the PMI companies, which, in the opinion of the Directors, assists the healthcare sector as a whole in delivering high-quality patient care. The Group ensures it has have long-term contracts in place with its PMI partners to avoid co-termination of contractual arrangements. The Group believes continuing to invest in its well-placed portfolio of hospitals provides a natural fit to the local requirements of all the PMI providers' long term. The Group continues to invest in efficiency programmes to ensure that it can offer cost effective high quality patient care
4. Macroeconomics	The evidence available to the Group indicates that the COVID-19 pandemic has left high levels of pent up demand for the Group's services. The ability for patients to access private care does not appear presently to be constrained financially. The Group understands that private medical insurance policy renewals and sales remain healthy, and the Group has itself seen higher enquiries from self-pay patients than in 2019 with a rapid recovery in self-pay patient care seen in Q4 2020. In the medium to long term, the Group seeks to have flexibility to respond to changing economic circumstances with a blend of private and NHS funded work that does not leave the Group over reliant on one income source, supported by an efficient cost base.
5. Competitor Challenge	The market has seen increased pressure in 2019 and the Group maintains a watching brief on new and existing competitor activity and retains the ability to react quickly to changes in patient and market demand. The Group considers that a partial mitigation of the impact of competitor activity is ensured by providing patients with high-quality clinical care and by maintaining good working relationships with General Practitioners and Consultants. The Group continues to invest in the brand and deliver an effective acquisition capability both direct and via our partners in order to protect our market position. It has also strengthened its pricing and tendering capabilities. Despite the COVID-19 pandemic, the Group plans to maintain its investment into the estate and clinical equipment to differentiate our proposition. The Group monitors the market for opportunities, should they arise, to acquire or open facilities in specific geographies creating incremental volume.
6. Insurance & Indemnity	The Group reviews and maintains insurance to mitigate the possibility of a major loss. Adequacy of cover is reviewed annually with the Group's brokers with coverage being maintained or increased depending on that advice. Personal injury claims relating to patients, third parties and employees are covered by insurance once predetermined deductible levels have been reached. The Group engages in consultation information events relating to indemnity and has developed a bespoke affinity insurance product MedicaInsure to provide Consultants with a high-quality, regulated alternative to discretionary cover. The Group has made robust representations to Government and the Paterson Inquiry with regard to the need to end discretionary indemnity and to regulate the medical defence organisations

7. Liquidity and Covenants	The Group actively monitors and manages its liquid asset position, its financial liabilities falling due and the cover against its loan covenants is actively focused on cash management and capital expenditure. At the onset of the COVID-19 pandemic, the Group was able to engage positively with its banking group with the result that the Group benefited from covenant waivers in 2020. For June 2021, the banking group has again agreed to waive the covenant tests under its current loan agreements, and provide additional headroom for the December 2021 covenant tests as set out in the Going Concern section of Note 2 to the Financial statements. Note 2 also describes the extended facility to 2023. The Group retains access to an unutilised £100m (reducing to £87m from July 2022 until July 2023) revolving credit facility should its current cash position materially deteriorate. The Group has a solid asset base with the ability to leverage in a short timescale, if required. The Board has considered the risk in detail as part of its assessment of the viability of the Group.
8. Government & NHS Policy	Historically, the Group derived 70% of its revenues from PMI and Self-pay patients that provided a natural 'hedge' against exposure to Government and NHS policy. Post pandemic, the Group will seek to recover its private revenues as far as possible to restore that hedge. The Group has successfully secured accreditation on the NHS Framework to be considered for future contracts. Through the COVID-19 pandemic, the Group has increased its relationships with the Government via DoHSC, NHS England and NHS Improvement. Contact is both directly and through the Independent Healthcare Providers Network where the Group contributed staff across working groups set up to manage the private sector's response to the COVID-19 pandemic.
9. UK-EU Trade Relations	In 2019, the Group undertook a risk assessment. It developed comprehensive plans across all key risk areas to minimise disruption, including: utilising its national supply chain and distribution centre to efficiently utilise stock; undertaking supplier assurance; liaising with NHS England and the Department of Health planning team and promoting the EU settlement scheme to relevant staff. In 2021, the Group's Brexit Steering Committee continues to monitor the Group's resilience to the identified key risk areas. The Group has maintained its pre-Brexit key supply levels as a precautionary measure. To date there has been minimal disruption to the Group's operations.
10. Information Governance & Security	The Group has a governance structure, with Board oversight, that monitors the risk and mitigations for information governance. To support the governance structure the Group has a range of policies and practices covering information governance. All staff have to complete annual mandatory training on information governance and data protection. The Group's IT team have a cyber-security strategy for continuous improvement based on industry standards. It covers the processes from identifying specific risks, to protecting physical and digital data assets through to recovery in the event of a successful cyber-attack. The Group works with a number of industry leading technical partners to provide: • multiple layers of business protection through the use of advanced detection and protection systems, • Regular third-party penetration testing on new and existing IT systems. • Assessment of maturity of control environment against international control frameworks

11. COVID-19 Pandemic	To maximise the utilisation of the hospitals the Group has: • Negotiated a short-term contract from 1 Jan 2021 – 31 March 2021 based on activity with a minimum activity underpin. • Negotiated national contracts with the NHS to support them to provide capacity for treating the backlog of elective procedures. • Maintained capacity within the contractual arrangements with the NHS for PMI and Self-pay patients (overridden in Surge scenarios). • Maintained close links with the Consultant community and support them build their private patient activities. • Maintained the Infection Prevention Control measures to reduce the risk of cross contamination amongst staff at Spire Healthcare facilities. These measures include regularly testing all staff and patients for COVID-19. The Group is supporting the national vaccination programme. Frontline clinical staff will be prioritised with NHS frontline clinical staff.
12. Brand Reputation	The Group's primary mitigations against damage to its brand reputation is through the good management of its principal risks, in particular: • Patient safety and clinical quality; • Cyber security and data protection; and, • Compliance and regulation. Specifically in 2021 the Group will: • Continue to support the NHS through the COVID-19 pandemic; • Continue to focus on enhanced infection prevention control to minimise patient and staff risk from COVID-19 • Substantially complete its response to the recommendations of the Independent Inquiry into the issues raised by Ian Paterson • Launch its first national television advertising campaign focused on its core purpose. The Group has built greater capability to manage its social media, online presence and public relations during 2020.
13. Compliance & Regulation	The Group has a Ward-to-Board system of governance that ensures compliance with law and regulation and provides the pathways to add different elements of compliance, should regulation/laws change and thus the need arise Key components that support the Ward-to-Board governance structure for compliance and regulation include: • A dedicated legal team and company secretary that, with external counsel, monitors legal and regulatory developments and advises the group thereon. • Regular, role specific, mandatory training for all staff (both clinical and non-clinical) across a range of the most important legal and regulatory compliance areas, e.g. data protection, health & safety laws and safeguarding. • Centralised clinical and non-clinical internal audit teams that carry out site audits and assists hospitals in establishing and maintaining a high level of internal control.

Directors' responsibilities statement

Viability

Assessment of prospects

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

Assessment of viability

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

Other specific scenarios covered by our testing were as follows:

- a key hospital is subject to permanent or temporary suspension of trade, for example, due to a major fire or regulatory matter;
- the Group is subject to temporary suspension of trade, with a temporary adverse impact on revenue, for example, as a result of a successful cyber-attack on key business systems;
- the downside modelling of a number of risks which result in a decline in earnings, including the loss of a contractual relationship with a key insurer;
- significant change in Government or NHS policy; 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; and
- the Government will not make significant change to its existing policy towards utilising private provision of healthcare services to supplement the NHS.

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

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

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

The Group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions. Further information on these is provided in the section on Viability above. Based on the current assessment of the likelihood of these risks arising by the 31 March 2022, together with their assessment of the planned mitigating actions being successful, the Directors have concluded that it is appropriate to prepare the accounts on a going concern basis.

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

- The preliminary financial information, which has been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (and IFRSs adopted pursuant to Regulation(EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company on a consolidated and individual basis; and
- The preliminary announcement includes a fair summary of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks that it faces.

By order of the Board

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

3 March 2021

Consolidated income statement

For the year ended 31 December 2020

(£m)	Note	2020 Total before Adjusting items	2020 Adjusting items (note 9)	2020 Total	2019 Total before Adjusting items	2019 Adjusting items (note 9)	2019 Total
Revenue	5	**919.9**	**–**	**919.9**	980.8	–	980.8
Cost of sales		**(464.1)**	**–**	**(464.1)**	(529.4)	–	(529.4)
Gross profit		**455.8**	**–**	**455.8**	451.4	–	451.4
Other operating costs		**(389.1)**	**(213.3)**	**(602.4)**	(353.8)	(3.2)	(357.0)
Other income	6	**0.4**	**–**	**0.4**	–	–	–
Operating (loss) / profit	7	**67.1**	**(213.3)**	**(146.2)**	97.6	(3.2)	94.4
Finance income	8	**0.1**	**0.8**	**0.9**	0.2	–	0.2
Finance cost	8	**(85.7)**	**–**	**(85.7)**	(85.0)	–	(85.0)
(Loss) / profit before taxation		**(18.5)**	**(212.5)**	**(231.0)**	12.8	(3.2)	9.6
Taxation	10	**(2.2)**	**(0.7)**	**(2.9)**	(3.0)	0.6	(2.4)
(Loss) / profit for the year		**(20.7)**	**(213.2)**	**(233.9)**	9.8	(2.6)	7.2
(Loss) / profit for the year attributable to owners of the Parent		**(20.7)**	**(213.2)**	**(233.9)**	9.8	(2.6)	7.2
(Loss) / earnings per share (in pence per share)							
– **basic**	11	**(5.2)**	**(53.2)**	**(58.4)**	2.4	(0.6)	1.8
– **diluted**	11	**(5.2)**	**(53.2)**	**(58.4)**	2.4	(0.6)	1.8

Consolidated statement of comprehensive income

For the year ended 31 December 2020

(£m)	2020	2019
(Loss) / profit for the year	**(233.9)**	7.2
Items that may be reclassified to profit or loss in subsequent periods		
Net loss on cash flow hedges (net of taxation)	**(1.1)**	(1.6)
Other comprehensive loss for the year	**(1.1)**	(1.6)
Total comprehensive (loss) / income for the year attributable to owners of the Parent	**(235.0)**	5.6

Consolidated statement of changes in equity

For the year ended 31 December 2020

(£m)	Note	Share Capital (note 16)	Share premium	Capital reserves (note 16)	EBT share reserves (note 16)	Hedging Reserve (note 16)	Retained earnings	Total Equity
As at 1 January 2019		**4.0**	**826.9**	**376.1**	**(0.8)**	**(0.5)**	**(257.2)**	**948.5**
Profit for the year		–	–	–	–	–	7.2	7.2
Other comprehensive loss for the year		–	–	–	–	(1.6)	–	(1.6)
Total comprehensive income		–	–	–	–	(1.6)	7.2	5.6
Dividend paid	20	–	–	–	–	–	(15.2)	(15.2)
Share-based payments	21	–	–	–	–	–	1.0	1.0
As at 1 January 2020		**4.0**	**826.9**	**376.1**	**(0.8)**	**(2.1)**	**(264.2)**	**939.9**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(233.9)**	**(233.9)**
Other comprehensive loss for the year		**–**	**–**	**–**	**–**	**(1.1)**	**–**	**(1.1)**
Total comprehensive loss		**–**	**–**	**–**	**–**	**(1.1)**	**(233.9)**	**(235.0)**
Share-based payments	21	**–**	**–**	**–**	**–**	**–**	**1.7**	**1.7**
Balance at 31 December 2020		**4.0**	**826.9**	**376.1**	**(0.8)**	**(3.2)**	**(496.4)**	**706.6**

Consolidated balance sheet

For the year ended 31 December 2020

(£m)	Note	2020	2019 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,535.3	1,563.4
Intangible assets	13	317.8	517.8
Financial assets		1.6	1.5
		1,854.7	2,082.7
Current assets			
Inventories		37.6	32.0
Trade and other receivables	14	101.4	73.0
Income tax receivable		-	3.6
Cash and cash equivalents		106.3	90.8
		245.3	199.4
Non-current assets held for sale	15	4.8	5.1
		250.1	204.5
Total assets		2,104.8	2,287.2
EQUITY AND LIABILITIES			
Equity			
Share capital	16	4.0	4.0
Share premium		826.9	826.9
Capital reserves	16	376.1	376.1
EBT share reserves		(0.8)	(0.8)
Hedging reserve	16	(3.2)	(2.1)
Retained earnings		(496.4)	(264.2)
Equity attributable to owners of the Parent		706.6	939.9
Total equity		706.6	939.9
Non-current liabilities			
Bank Borrowings	17	418.6	419.1
Lease liabilities	17	670.3	667.8*
Derivatives	17	1.5	1.5
Deferred tax liabilities		53.9	51.4
		1,144.3	1,139.8
Current liabilities			
Bank Borrowings		2.2	1.7
Lease liabilities	17	79.2	77.5*
Derivatives	17	2.5	1.0
Provisions	18	33.0	13.1
Trade and other payables	19	136.9	114.2
Income tax payable		0.1	-
		253.9	207.5
Total liabilities		1,398.2	1,347.3
Total equity and liabilities		2,104.8	2,287.2

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

These Consolidated financial statements and the accompanying notes were approved for issue by the Board on 3 March 2021 and signed on its behalf by:

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

Consolidated statement of cash flows

For the year ended 31 December 2020

(£m)	Note	2020	2019
Cash flows from operating activities			
(Loss)/profit before taxation		**(231.0)**	9.6
Adjustments for:			
Impairment of goodwill (Adjusting items)	13	**200.0**	-
Impairment of assets held for sale (Adjusting items)	15	**0.3**	0.1
Adjusting items - other		**9.4**	-
Depreciation	12	**94.0**	91.6
Reversal of impairment on assets held for sale	15	**-**	(2.0)
(Profit)/loss on disposal of property plant and equipment	6	**-**	(0.2)
Finance income	8	**(0.1)**	(0.2)
Finance costs	8	**85.7**	85.0
Share-based payments	21	**1.7**	1.0
		160.0	184.9
Movements in working capital:			
(Increase)/Decrease in trade and other receivables		**(15.5)**	8.1
(Increase) in inventories		**(5.6)**	(2.6)
Increase in trade and other payables		**18.5**	15.7
Increase/(decrease) in provisions		**(1.3)**	(3.3)
Cash generated from operations		**156.1**	202.8
Tax received/(paid)		**3.6**	(1.1)
Net cash from operating activities		**159.7**	201.7
Cash flows from investing activities			
Interest received		**0.1**	0.2
Income from financial asset		**0.2**	-
Purchase of property, plant and equipment		**(46.6)**	(60.6)
Proceeds on disposal of property, plant and equipment		**-**	0.2
Proceeds on disposal of assets held for sale		**-**	11.6
Net cash used in investing activities		**(46.3)**	(48.6)
Cash flows from financing activities			
Interest paid and other financing costs		**(18.1)**	(17.4)
Interest on lease liabilities		**(66.4)**	(58.1)
Payment of lease liabilities		**(13.4)**	(19.3)
Dividends paid to equity holders of the Parent	20	**-**	(15.2)
Net cash used in financing activities		**(97.9)**	(110.0)
Net increase in cash and cash equivalents		**15.5**	43.1
Cash and cash equivalents at 1 January		**90.8**	47.7
Cash and cash equivalents at 31 December		**106.3**	90.8
Adjusting items (note 9)			
Adjusting items paid included in the cash flow		**(2.8)**	(2.7)
Total Adjusting items	9	**(212.5)**	(3.2)

Notes to the preliminary announcement

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

The financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors of the Company on 3 March 2021.

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

2. Basis of preparation
The preliminary financial information for the year ended 31 December 2020 included in this report was approved by the Board on 3 March 2021. The financial information set out here does not constitute the Company's statutory accounts for the year ended 31 December 2020, but is derived from those accounts. Statutory accounts for 2020 will be delivered following the Company's annual general meeting. The auditor has reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

Going concern

As detailed in the Financial Review section, at 31 December 2020 the Group had unrestricted cash of £106.3m 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 for 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 terms, with effect from the 1 July 2020, for the variation of the NHS England ("NHSE") contract. The variation was intended to 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, expired in-line with expectation at the end of December 2020.

In December 2020, the Group announced that it had signed a new contract with NHSE, to provide a volume-based commitment aimed at reducing NHS waiting lists when the existing contract ended on 31 December 2020. This new contract aimed to provide a smooth transition for NHS services from the previous cost-based contract to the new NHS framework for purchasing additional activity from the independent sector. The new contract has a definitive end date of 31 March 2021 and could be terminated before this by NHSE with six weeks' notice, which has not occurred. The contract also allows NHSE to access further capacity, under certain conditions, in locations where there are a high concentration of COVID-19 cases.

The new contract provides Spire Healthcare with liquidity and a greater degree of certainty as the Group receives monthly payments on account, which is then subject to finalisation with reference to actual volumes in the period.

As was announced in September 2020, the Group obtained agreement from its lenders that net debt to EBITDA and interest cover ratio covenant testing would be waived for June 2021. For December 2021 the agreement allows for a maximum net debt to EBITDA ratio of 6x to apply if this measure has not already dipped below 4x at any month end from June to November 2021. If the ratio does fall below this, then the maximum leverage ratio reverts to 4x at 31 December 2021.

From September 2020 the Group undertook that available liquidity, the aggregate of cash and committed but unutilised facilities (any undrawn element of the Revolving Credit Facility), would not be less than £50m at the end of each month.

In addition to this, the maturity date of the Senior Loan Facility was extended by one year to 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 and viability (see the viability section on page 15 for more detail), covering the risk of extensive lockdowns continuing well into the first half of 2021.

Further detail on COVID-19 is provided in the Principal Risks section.

For the covenant testing periods ending June and December 2021, 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.

The Group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions. Further information on these is provided in the Principal Risks section. Based on the current assessment of the likelihood of these risks arising by 31 March 2022, together with their assessment of the planned mitigating actions being successful, the Directors have concluded that it is appropriate to prepare the accounts on a going concern basis.

In arriving at their conclusion, the Directors have also noted that were these risks to arise in combination, this could result in liquidity constraints however they believe that the risk of this is remote.

Notes to the preliminary announcement continued

2. Basis of preparation continued

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.

No third balance sheet is presented given the prior year adjustment is a reclassification between balance sheet categories.

3. Accounting policies

In preparing this preliminary announcement, the same accounting policies, methods of computation and presentation have been applied as set out in the Group's Annual Report and Accounts for the year ended 31 December 2020, a copy of this report will shortly be available on the Company's website at www.spirehealthcare.com.

Changes in accounting policy

New standards, interpretations and amendments applied

The following amendments to existing standards were effective for the Group from 1 January 2020. Other than some additional disclosures, these amendments have not had a material impact.

	Effective date*
Amendments to IFRS 3 Definition of a Business	1 January 2020
Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform	1 January 2020
Conceptual Framework for Financial Reporting	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020

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

New standards, interpretations and amendments in issue, but not yet effective

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

	Effective date*
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2	1 January 2021
Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022
IFRS 9 Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities	1 January 2022
Amendments to IAS 1 – Classification of liabilities as Current or Non-Current	1 January 2023

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as issued by the IASB as endorsed by the UK, the application of new standards and interpretations will result in an effective date subject to that agreed by the UK Endorsement process.

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

4. Critical accounting judgements and estimates

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

In preparing this preliminary announcement, the significant judgements and estimates made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2020.

Notes to the preliminary announcement continued

5. Segmental reporting

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

All revenue is attributable to, and all non-current assets are located in, the United Kingdom.

The NHS COVID-19 contracts are reimbursed on a cost recovery basis and therefore the detail of revenue by location (inpatient, day case or Out-patient) is not available.

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

(£m)	2020	2019
Inpatient	188.3	370.5
Day case	170.3	298.9
Out-patient	181.9	286.9
NHS – COVID-19	362.7	-
Other	16.7	24.5
Total revenue	919.9	980.8
NHS	430.0	285.7
Insured	337.6	491.8
Self-pay	135.6	178.8
Other [1]	16.7	24.5
Total	919.9	980.8

1 Other revenue includes fees paid to the Group by Consultants (e.g. for the use of Group facilities and services) and third-party revenue (e.g. pathology services to third-parties).

Group revenues declined 6.2% to £919.9m (2019: £980.8m) due to the suspension or restriction of private activity during the NHS COVID-19 contracts. NHS revenue of £430.0m includes £362.7m revenue from the COVID-19 contracts, net of rebates for private activity, of which £10.8m relates to income relating to an embedded operating lease (for the duration of one month during the surge period of the NHS England contract) for the use of Spire Healthcare hospitals as a result of a technical aspect of IFRS 15 and IFRS 16 as set out in note 3 of the Annual Report & Accounts.

6. Other income

(£m)	2020	2019
Unrealised fair value movement on financial asset	0.4	–
Fair value movement on financial asset	0.4	–

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

7. Operating (loss) / profit

Arrived at after charging / (crediting):

(£m)	2020	2019
Depreciation of property, plant and equipment (see note 12)	66.0	65.1
Depreciation of right of use assets (see note 12)	28.0	26.5
Lease payments made in respect of low value and short leases	11.1	11.3
Income awarded from a judgment related to Ian Paterson offset by related costs in the period [1] (see note 9)	11.4	0.3
Charge / (reversal) of impairment on assets held for sale (see note 15)	0.3	(2.0)
Impairment of property, plant and equipment (see note 12)	-	0.1
Impairment charge in respect of goodwill	200.0	-
Profit on disposal of property, plant and equipment (see note 12)	-	(0.2)
Staff restructuring costs (see note 18)	1.5	0.6
Staff costs (net of Government Job Retention Scheme grant and staff restructuring costs)	349.9	312.7
Repayment of Government Job Retention Scheme grant	0.2	-

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

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

Notes to the preliminary announcement continued

8. Finance income and costs

(£m)	2020	2019
Finance income		
Interest on the RSA judgment (included in Adjusting items)	(0.8)	-
Interest income on bank deposits	(0.1)	(0.2)
Total finance income	(0.9)	(0.2)
Finance cost		
Interest on bank facilities	17.5	17.0
Amortisation of fee arising on facilities extensions (1)	0.9	0.9
IFRS 9 gain arising on facilities extension (1)	(0.3)	-
Interest on obligations under leases	67.6	67.1
Total finance costs	85.7	85.0
Total net finance costs	84.8	84.8

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

9. Adjusting items

(£m)	2020	2019
Asset disposals, impairment and aborted project costs	200.3	(0.1)
Remediation of regulatory compliance or malpractice costs	12.8	1.9
Hospital set up and closure costs	0.2	0.3
Business reorganisation and corporate restructuring costs	-	1.1
Total Adjusting items in operating costs	213.3	3.2
Interest receivable on Adjusting items	(0.8)	-
Total Adjusting items before tax	212.5	-
Income tax charge / (credit) on Adjusting items	0.7	(0.6)
Total post-tax Adjusting items	213.2	2.6

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

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

In the prior period, asset disposals, impairment and aborted project costs netted a credit of £0.1m comprising: a credit of £2m in connection with the reversal of an impairment charge on a property which had been classified as held for sale, offset by the £0.1m impairment on classification of another asset as held for sale; a further charge of £0.3m taken for aborted project costs relating to a potential hospital development at Milton Keynes; and a write down of £1.5m against non-sterile Single Use Devices as a consequence of a future Medical Device Regulation (MDR) change.

The Group has recognised £12.8m (2019: £1.9m) of charges relating to Remediation of Regulatory Compliance or Malpractice Costs, this includes the following two matters:

- During the year, a judgment was received in favour of the Group in its case against one of its insurers relating to Paterson and the Group was awarded £11.6m, including £0.8m of interest. . The net difference of £10.8m is reported within Remediation of Regulatory Compliance or Malpractice Costs and £0.8m is shown in the above table as Interest Receivable on Adjusting Items. The insurer has sought to appeal the ruling at the Court of Appeal and the Group is awaiting the outcome of this request. The Group is committed to providing on-going support to Paterson's patients, and following the release of the Paterson Public Inquiry in February 2020, the Group has incurred, or provided for, costs of £22.2m during the year.
- During 2020, the Group reached a settlement with the Competition and Marketing Authority (CMA) as disclosed in the RNS announcement released on 1 July 2020. Professional costs in respect of the CMA investigation have also been recognised, bringing the total cost recognised in the period to £1.3m.

During the prior year the £1.9m remediation charge related to two separate regulatory compliance issues. One of the issues related to the temporary closure of a specific site to make improvements following a CQC inspection. The second issue related to expected, but uncertain costs for a regulatory compliance matter.

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

In the prior year, business reorganisation and corporate restructuring costs of £1.1m primarily related to internal group reorganisation costs associated with a strategic review in 2019 which specifically covered Clinical and Operational functions. Those costs were excluded from adjusted operating profit as they related to a fundamental change in how those areas were organised and functioned.

Notes to the preliminary announcement continued

10. Taxation

(£m)	2020	2019
Current tax		
UK corporation tax expense	**0.1**	-
UK corporation tax adjustment to prior years	**-**	(0.4)
Total current tax / (credit)	**0.1**	(0.4)
Deferred tax		
Origination and reversal of temporary differences	**(0.6)**	4.3
Effect of change in tax rate	**5.8**	(0.4)
Adjustments in respect of prior years	**(2.4)**	(1.1)
Total deferred tax charge	**2.8**	2.8
Total tax charge	**2.9**	2.4

Corporation tax is calculated at 19.0% (2019: 19.0%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year was negative (1.3%) (2019: 25.0%), which is mainly driven by the effects of revaluing deferred tax assets and liabilities to 19% following the abolishment of the rate reduction to 17% due in April 2020, and the permanent difference relating to the £200m impairment charge. Without these items, the effective tax rate is 9.4% (2019: 29.2%). Deferred tax is detailed in note 23 of the Annual Report and Accounts.

The effective tax assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

(£m)	2020	2019
Profit/(loss) before taxation	**(231.0)**	9.6
Tax at the standard rate	**(43.9)**	1.8
Effects of:		
Expenses and income not deductible or taxable	**5.6**	2.8
Impairment charge in respect of goodwill (not tax deductible)	**38.0**	-
Adjustments to prior year	**(2.4)**	(1.5)
Difference in tax rates	**5.8**	(0.4)
Deferred tax not previously recognised	**(0.2)**	(0.3)
Total tax charge	**2.9**	2.4

Expenses and income not deductible or taxable relate mostly to depreciation on non-qualifying fixed assets, disallowable entertaining, legal claims, professional fees and equity income (e.g. dividends).

The charge above is driven mainly by the revaluation of deferred tax assets and liabilities to 19% from 17% as a result of the substantive enactment in March 2020 of the Government's decision to cancel the reduction to 17% from 1 April 2020.

The Group does not hold any uncertain tax positions under IFRIC 23 at the year-end (2019: none).

As announced in the budget on 3 March 2021, the Government are intending to increase the corporation tax rate from 19% to 25% from April 2023. As this rate was not substantively enacted at the balance sheet date, it has not been used to calculate the deferred tax balances. If the net deferred tax liability as at 31 December 2020 were to reverse at the tax rate of 25% the net deferred tax liability would increase by £17.0m.

Notes to the preliminary announcement continued

11. Earnings per share

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

	2020	2019
Profit for the year attributable to owners of the Parent (£m)	(233.9)	7.2
Weighted average number of ordinary shares	401,081,391	401,081,391
Adjustment for weighted average number of shares held in EBT	(245,596)	(252,652)
Weighted average number of ordinary shares in issue (No.)	400,835,795	400,828,739
Basic earnings per share (in pence per share)	(58.4)	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. Refer to the Remuneration Committee Report for the terms and conditions of instruments generating potential ordinary shares that affect the measurement of diluted EPS.

	2020	2019
Profit for the year attributable to owners of the Parent (£m)	(233.9)	7.2
Weighted average number of ordinary shares in issue	400,835,795	400,828,739
Adjustment for weighted average number of contingently issuable shares	-	6,485,214
Diluted weighted average number of ordinary shares in issue (No.)	400,835,795	407,313,953
Diluted earnings per share (in pence per share)	(58.4)	1.8

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

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

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

	2020	2019
Profit for the year attributable to owners of the Parent (£m)	(233.9)	7.2
Adjusting items (see note 9)	213.2	2.6
Adjusted profit (£m)	(20.7)	9.8
Weighted average number of Ordinary Shares in issue	400,835,795	400,828,739
Weighted average number of dilutive Ordinary Shares	400,835,795	407,313,953
Adjusted basic earnings per share (in pence per share)	(5.2)	2.4
Adjusted diluted earnings per share (in pence per share)	(5.2)	2.4

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

Notes to the preliminary announcement continued

12. Property, plant and equipment

(£m)	Freehold property	Leasehold improvements	Equipment	Assets in the course of construction	Right of use	Total
Cost:						
At 1 January 2019	876.2	129.8	426.5	10.6	733.9	2,177.0
Additions	9.2	4.4	32.0	16.9	–	62.5
Additions to ROU assets	–	–	–	–	8.9	8.9
Adjustments to existing assets (e.g. indexation)	–	–	–	–	21.4	21.4
Disposals	(19.3)	(0.4)	(15.3)	–	–	(35.0)
Transfers	0.5	6.6	1.9	(9.0)	–	–
Assets held for sale	–	–	–	(1.1)	–	(1.1)
Adjustment[1]	–	–	–	–	(15.4)	(15.4)
At 1 January 2020	**866.6**	**140.4**	**445.1**	**17.4**	**748.8**	**2,218.3**
Reallocation between categories[2]	**3.6**	**1.9**	**(5.5)**	**–**	**–**	**–**
Additions	**7.7**	**7.8**	**26.7**	**8.6**	–	**50.8**
Additions to ROU assets	–	–	–	–	**0.4**	**0.4**
Adjustments to existing assets (e.g. indexation)	–	–	–	–	**14.7**	**14.7**
Disposals	**(7.4)**	**(0.9)**	**(20.9)**	–	–	**(29.2)**
Transfers	**-**	**14.8**	**2.0**	**(16.8)**	–	–
At 31 December 2020	**870.5**	**164.0**	**447.4**	**9.2**	**763.9**	**2,255.0**
Accumulated depreciation and impairment:						
At 1 January 2019	160.7	33.0	249.1	–	158.1	600.9
Charge for year	14.4	6.0	44.7	–	26.5	91.6
Disposals	(8.8)	(0.3)	(13.1)	(0.1)	–	(22.3)
Impairment (note 9)	–	–	–	0.1	–	0.1
Adjustment[1]	–	–	–	–	(15.4)	(15.4)
At 1 January 2020	**166.3**	**38.7**	**280.7**	–	**169.2**	**654.9**
Reallocation between categories[2]	**1.2**	**0.8**	**(2.0)**	–	–	–
Charge for the year	**17.6**	**8.0**	**40.4**	–	**28.0**	**94.0**
Disposals	**(7.4)**	**(0.9)**	**(20.9)**	–	–	**(29.2)**
Transfers	**2.6**	**0.3**	**(2.9)**	–	–	–
At 31 December 2020	**180.3**	**46.9**	**295.3**	–	**197.2**	**719.7**
Net book value:						
At 31 December 2020	**690.2**	**117.1**	**152.1**	**9.2**	**566.7**	**1,535.3**
At 31 December 2019	700.3	101.7	164.4	17.4	579.6	1,563.4

1 Adjustment to correct overstatement of the Cost and Accumulated depreciation, impact on the net book value is £nil

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

No assets are subject to restrictions on title or pledged as security for liabilities. There were no borrowing costs capitalised during the year ended 31 December 2020 (2019: Nil).

Impairment testing

The Directors consider property and property right of use assets for indicators of impairment at least annually, or when there is an indicator of impairment. As equipment and leasehold improvements do not generate independent cash flows, they are considered alongside the property. Due to the current COVID-19 position, and economic uncertainty, management reviewed 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 (most likely approach). 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-year period to December 2025.

Notes to the preliminary announcement continued

12. Property, plant and equipment continued

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 analysis and determined that should the discount rate increase by 75 basis points (bp) with all other assumptions remaining equal, sufficient headroom would remain. In addition, given the uncertainty regarding COVID-19, Management undertook sensitivity analysis and determined that should the terminal growth rate decrease by 100 bp with all other assumptions remaining equal, sufficient headroom would remain.

13. Intangible assets

(£m)	Goodwill
Cost or valuation:	
At 1 January 2019, 31 December 2019 and 31 December 2020	**518.8**
Impairment:	
At 1 January 2019 and 31 December 2019	**1.0**
Impairment charged in year	**200.0**
At 31 December 2020	**201.0**
Carrying amount:	
At 31 December 2020	**317.8**
At 1 January 2019 and 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 (using the most likely approach). 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. The COVID-19 pandemic has caused additional estimation and judgement into the forecasts. Management have reviewed their expectation based on the current environment and the impact of the new NHSE contract in Q1 2021.

The Group has used a discount rate reflecting the Group's cost of capital of 9.4% (2019: 8.6%), adjusted for the effects of IFRS 16. A long-term growth rate of 2.0% has been applied to cash flows beyond 2025.

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 it uses to discount future cash flows to current value; accordingly it has taken an impairment 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 10.4% with all other assumptions held constant, would result in a further impairment of approximately c. £120m. Similarly, given the COVID-19 uncertainty, reducing the terminal growth rate by 100 bp in the period beyond 2025, with all other assumptions held constant, would also result in an additional impairment of approximately c. £190m, or taking a 2.5% reduction on the terminal value, with all other assumptions held constant, would result in an additional impairment of £19m.

14. Trade and other receivables

(£m)	2020	2019
Amounts falling due within one year:		
Trade receivables	**35.4**	42.7
Unbilled receivables	**35.0**	13.0
Prepayments	**18.3**	15.2
Other receivables	**18.0**	5.8
	106.7	76.7
Allowance for expected credit losses	**(5.3)**	(3.7)
Total current trade and other receivables	**101.4**	73.0

Unbilled receivables includes one-off accrued income of £30m due from NHS England following the contract variation which took effect from 1 July 2020. This is expected to be settled in H1 2021, subject to customer agreement in respect of volume based variable consideration. The balance of unbilled receivables reflects work in progress where a patient had treatment, or was receiving treatment, at the end of the period and the invoice had not yet been raised.

14. Trade and other receivables continued

Other receivables includes the £11.6m receivable following the RSA judgment, cash received in January 2021 (see note 9 for more detail), and the £5m insurance reimbursement right (2019: £5.6m).

Trade receivables comprise amounts due from private medical insurers, the NHS, patients, Consultants and other third parties who use the Group's facilities. Invoices to customers fall due within 60 days of the date of issue. Under normal trading conditions (which applied until the end of March, some of the agreements with NHS customers operate on the basis of monthly payments on account with quarterly reconciliations, which can lead to invoices being paid after their due date. From March, under the COVID-19 NHS contracts, invoices were raised and settled on a weekly basis. The NHS England contract included volume based adjustments which were subject to calculation and agreement at the end of the contract, and therefore included in unbilled receivables at the year end.

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

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

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

The loss allowance as at 31 December 2019 for trade receivables was determined as follows:

	Current	0-30 days	31-90 days	91-364 days	1-2 years	Total
Expected loss rate	0.6%	5.7%	10.6%	35.0%	35.7%	5.1%
Gross debt (£m)	52.6	8.7	4.7	4.0	2.8	72.8
Less payments on account (£m)						(30.1)
Carrying amount of trade receivables (£m)						42.7
Loss allowance (£m)	0.3	0.5	0.5	1.4	1.0	3.7

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

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

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

(£m)	2020	2019
Private medical insurers	**21.5**	23.2
NHS	**1.0**	7.2
Patient debt	**3.4**	3.2
Other	**4.2**	5.4
	30.1	39.0

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

(£m)	2020	2019
At 1 January	**3.7**	4.7
Provided in the year	**1.9**	0.8
Utilised during the year	**(0.3)**	(0.4)
Released during the year	**-**	(1.4)
At 31 December	**5.3**	3.7

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

14. Trade and other receivables continued

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

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

15. Non-current assets held for sale

As at December 2020, the Group's management remain committed to sell one property, Spire St Saviours Hospital, which closed in 2015. The property is still expected to be sold within twelve months, remains classified as held for sale and is presented separately in the consolidated balance sheet. Impairment of £0.3m has been charged during the year (2019: £2.0m reversed) to reduce the carrying value to the proceeds now expected from the sale.

In addition, the Group's management have committed to sell a parcel of land at Bostocks Lane. Negotiations are complete and the buyer has submitted a planning application to the authorities. The COVID-19 pandemic has slowed this process, as with St Saviours, however management remain committed to the sale and expect to complete within twelve months. This land therefore remains as classified as held for sale.

(£m)	2020	2019
Spire St Saviours Hospital property (note 9)	3.7	4.0
Bostocks Lane (East Midlands Cancer Centre) (note 9)	1.1	1.1
	4.8	5.1

Notes to the preliminary announcement continued

16. Share capital and reserves

	2020	2019
Authorised shares		
Ordinary share of £0.01 each	**401,081,391**	401,081,391
	401,081,391	401,081,391

Issued and fully paid	£0.01 ordinary shares	
	Shares	£'000
At 31 December 2020	**401,081,391**	**4,010**
At 31 December 2019	401,081,391	4,010

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

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

During 2020, the EBT purchased no shares (2019: nil shares acquired).

Where the EBT purchases the Company's equity share capital the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. As at 31 December 2020, 239,283 shares (2019: 252,652) were held by the EBT in relation to the Directors' Share Bonus award and Long-Term Incentive Plan.

(number of shares)	**2020**	2019
At 1 January	**252,652**	252,652
Exercised – 2017 LTIP	**(13,369)**	-
-	**239,283**	252,652

At 1 January 2020, the EBT held 252,652 shares. During the year 2020, 13,369 shares were exercised. There were no new purchases of shares and at 31 December 2020 the EBT held 239,283 shares.

At 1 January 2019 and 31 December 2019, the EBT held 252,652 shares.

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

Hedging reserve

The balance of £3.2m at 31 December 2020 (2019: £2.1m) reflects the £1.4m (2019: £0.8m) recycled in the period, the fair value charge of £2.9m (2019: £2.8m) and the £0.4m tax credit on the loss (2019: £0.4m) to give a net movement of £1.1m during the year (2019: £1.6m) on a hedged transaction. See note 17 for further information.

Notes to the preliminary announcement continued

17. Borrowings

Bank borrowings

The bank loans are secured by a share pledge over the shareholdings of material subsidiaries of the Group. On 23 July 2014, the Group was refinanced, and it entered into a bank loan facility with a syndicate of banks, comprising a five-year, £425.0m term loan and a five-year £100.0m Revolving Credit Facility (RCF). The loan is non-amortising and carries interest at a margin of 2.25% over LIBOR (2019: 2.50% over LIBOR).

In July 2018, the Group extended the maturity of its bank loan facility for a further 3 years from July 2019 to July 2022 and recorded this as a non-substantial loan modification not resulting in de-recognition. A modification gain of £3.3m was recorded at the date of extension, which in turn decreased the carrying value of the loan held.

In September 2020 the Group further extended the maturity of its senior loan facility of £425.0m for a further year from July 2022 to July 2023. The RCF will remain at £100.0m until July 2022 when it will then reduce to £87.0m until July 2023. This was also recorded as a non-substantial loan modification not resulting in de-recognition and a modification gain of £0.3m was recorded at the date of extension, which in turn decreased the carrying value of the loan held.

(£m)	2020	2019
Amount due for settlement within 12 months	2.2	1.7
Amount due for settlement after 12 months	418.6	419.1
Total bank borrowings	420.8	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.

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

(£m)	Maturity	Margin over LIBOR	2020	2019
Senior finance facility[1]	July 2023	2.25%	422.6	423.2

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

The Group also has access to a further £100m through a committed and undrawn revolving credit facility to July 2022, when it will reduce as detailed above.

Changes in bank borrowings arising from financing activities

(£m)	1 January	Cash flows	Non cash changes[1]	Loan modification[2]	31 December
2020					
Bank loans	420.8	(18.1)	17.5	0.6	420.8
Total	420.8	(18.1)	17.5	0.6	420.8

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

(£m)	1 January	Cash flows	Non cash changes	Loan modification	31 December
2019					
Bank loans	420.4	(17.4)	16.9	0.9	420.8
Total	420.4	(17.4)	16.9	0.9	420.8

17. Borrowings continued

Lease liabilities

Obligations under finance leases

The Group has finance in respect of hospital properties, vehicles, office and medical equipment. The leases are secured on fixed and floating charges over both the present and future assets of material subsidiaries in the Group. Leases, with a present value liability of £749.5m (2019: £745.3m), expire in various years to 2042 and carry incremental borrowing rates in the range 4.5-12.9% (2019: 4.5-12.9%). Rent in respect of hospital property leases are reviewed annually with reference to RPI, subject to assorted floors and caps. The discount rate used are calculated on a lease by lease basis, and are based on estimates of incremental borrowing rates.

Changes in lease liabilities arising from financing activities

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

1 Additions include both new lease entered into and indexation of existing leases. See note 12 for more detail.

(£m)	1 January	Cash flows	Non cash changes	Additions	31 December
2019					
Lease liabilities	**726.1**	**(77.4)**	**84.1**	**12.5**	**745.3**
Total	**726.1**	**(77.4)**	**84.1**	**12.5**	**745.3**

In the year, the Group recognised charges of £11.1m (2019: £11.3m) of lease expenses relating to short term and low value leases for which the exemption under IFRS 16 has been taken. Cash outflows in respect of these are materially in-line with the expense recognised, resulting in a total cash outflow of £90.9m (2019: £88.7m). 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 current year.

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

Derivatives

The following derivatives were in place at 31 December:

	Interest rate	Maturity date	Notional amount	Carrying value Liability
31 December 2020 (£m)				
Interest rate swaps	1.2168%	July 2022	213.0	(4.0)
31 December 2019 (£m)				
Interest rate swaps	1.2168%	July 2022	213.0	(2.5)

(£m)	**2020**	2019
Amount due for settlement within 12 months	**2.5**	1.0
Amount due for settlement after 12 months	**1.5**	1.5
Total derivatives	**4.0**	2.5

The movement in respect of the derivative reflects £1.4m (2019: £0.8m) recycled in the period and a £2.9m (2019: £2.8m) change in fair value. All movements are reflected within other comprehensive income.

Notes to the preliminary announcement continued

18. Provisions

(£m)	Medical malpractice	Business restructuring and other	Total
At 1 January 2020	10.2	2.9	13.1
Increase in existing provisions	23.1	3.6	26.7
Provisions utilised	(2.8)	(2.8)	(5.6)
Provisions released	(0.6)	(0.6)	(1.2)
At 31 December 2020	29.9	3.1	33.0

Medical malpractice relates to estimated liabilities arising from claims for damages in respect of services previously supplied to patients. Amounts are shown gross of insured liabilities. Only when the reimbursement right from insurance recoveries is virtually certain is a separate asset recognised, as such insurance recoveries of £5.0m (2019: £5.6m) are recognised in other receivables.

Following the completion of the criminal proceedings against Ian Paterson, a Consultant who previously had practising privileges at Spire Healthcare, in 2017, management agreed settlement with all known civil claimants (and the other co-defendants). Spire Healthcare continues to provide on-going support to Paterson's patients, and following the publication of the Public Inquiry report issued on 4 February 2020, continues to hold a provision for its current estimate of the future anticipated costs. It is possible that, as further information becomes available, an adjustment to this provision will be required, but at this time, it reflects management's best estimate of the obligation.

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

Business restructuring and other primarily includes staff restructuring costs. The Group has settled with the Competition and Marketing Authority (CMA) as disclosed in the RNS announcement released on 1 July 2020, and £1.2m was settled in August 2020.

Provisions as at 31 December 2020 are materially considered to be current and expected to be utilised at any time within the next twelve months.

19. Trade and other payables

(£m)	2020	2019
Trade payables	58.0	58.5
Accrued expenses	48.3	33.9
Social security and other taxes	9.8	8.0
Other payables	20.8	13.8
Trade and other payables	136.9	114.2

Accrued expenses includes the repayment made during 2021 of the government grant previously received, for furloughed staff, amounting to £0.2m. In addition, accrued expenses includes general operating expenses incurred, but where an invoice was yet to be received at the year end, as well as holiday pay accrued during the year due to staff deferring leave to maintain operations throughout the COVID-19 pandemic, and bonuses accrued during the year and paid during 2021.

Other payables include an accrual for pensions and payments on account. Revenue is not recognised in respect of payments on account until the performance obligation has been met. At year end the balance of payments on account was £7.5m (2019: £5.3m).

20. Dividends

(£m)	2020	2019
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2019 not approved (2019: 2.5 pence)	–	10.0
– interim dividend for the year ended 31 December 2020 not declared (2019: 1.3 pence)	–	5.2
Total	–	15.2

A final dividend of 2.5 pence per share for the year ended 31 December 2019 amounting to a total final dividend of approximately £10.0m, which was expected to the proposed at the Company's Annual General Meeting in May 2020 was removed following the uncertainty caused by the COVID-19 pandemic. No interim dividend was proposed, nor is a final dividend for the year ended 31 December 2020 in light of the COVID-19 environment.

Notes to the preliminary announcement continued

21. Share-based payments

The Group operates a number of share-based payment schemes for Executive Directors and other employees, all of which are equity settled.

The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost in respect of LTIPs and SAYE recognised in the income statement was £1.7m in the year ended 31 December 2020 (2019: £1.0m). Employer's National Insurance is being accrued, where applicable, at the rate of 14.3%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total National Insurance charge for the year was £0.2m (2019: £0.2m).

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

	2020		2019	
	Charge £m	**Number of options (thousands)**	Charge £m	Number of options (thousands)
Long Term Incentive Plan	**1.6**	**10,193**	0.8	5,120
Deferred Share Bonus Plan	**–**	**244**	–	–
Save As You Earn (SAYE)	**0.1**	**3,222**	0.2	3,764
	1.7	**13,659**	1.0	8,884

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

Long Term Incentive Plan
The Long Term Incentive Plan ('LTIP') is open to Executive Directors and designated senior managers, and awards are made at the discretion of the Remuneration Committee. Awards are subject to market and non-market performance criteria.

Awards granted under the LTIP vest subject to achievement of performance conditions measured over a period of at least three years, unless the Committee determines otherwise. Awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the Plan rules.

Vesting of awards will be dependent on a range of financial, operational or share price measures, as set by the Committee, which are aligned with the long-term strategic objectives of the Group and shareholder value creation. Not less than 30% of an award will be based on share price measures. The remainder will be based on either financial and/or operational measures. At the threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance.

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

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

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.

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

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

22. Commitments

Consignment stock

At 31 December 2020, the Group held consignment stock on sale or return of £22.8m (2019: £23.2m). The Group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

Capital commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the consolidated balance sheet date. They include the full cost of goods and services to be provided under the contracts through to completion. The Group has rights within its contracts to terminate at short notice and, therefore, cancellation payments are minimal.

Capital commitments at the end of the year were as follows:

(£m)	**2020**	2019
Contracted but not provided for	**20.9**	16.7

23. Contingent liabilities

The Group had the following guarantees at 31 December 2020:

- the bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5m (2019: £1.5m) in relation to contractual pension obligations and statutory insurance cover in respect of the Group's potential liability to claims made by employees under the Employers' Liability (Compulsory Insurance) Act 1969;
- under certain lease agreements entered into on 26 January 2010, the Group has given undertakings relating to obligations in the lease documentation and the assets of the Group are subject to a fixed and floating charge.

24. Events after the reporting period

There have been no events to disclose.

Shareholders' information

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Corporate Website

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

Financial Calendar

2021 Annual General Meeting (London)	13 May 2021
Announcement of 2021 half year results	September 2021