Spire Healthcare reports its results for the six months ended 30 June 2021

London, UK, 9 September 2021, Spire Healthcare Group plc (LSE: SPI), a leading independent hospital group in the UK, today announces its interim results for the six months ended 30 June 2021.

Record self-pay revenue and private mix, strong platform for future

Summary Group results for the six months ended 30 June 2021

	Six months ended 30 June (Unaudited)				
(£ million)	2021	2020	Variance 2021 v 2020	2019	Variance 2021 v 2019
Revenue	**558.2**	**401.9**	**38.9%**	**491.6**	**13.5%**
Adjusted operating profit (Adjusted EBIT)	**48.5**	**14.9**	**NM[1]**	**51.4**	**(5.6%)**
Adjusting items	(2.3)	(204.7)	NM	(0.4)	NM
Operating profit (EBIT)	**46.2**	**(189.8)**	**NM**	**51.0**	**(9.4%)**
Profit / (loss) before taxation	4.7	(231.3)	NM	9.6	(51.0%)
(Loss) /profit after taxation[2]	(16.9)	(233.1)	NM	7.1	NM
Basic (loss) / profit per share, pence	**(4.2)**	**(58.2)**	**NM**	**1.8**	**NM**
Adjusted profit / (loss) per share, pence [3]	(3.6)	(7.3)	50.7%	1.8	NM
EBITDA [4]	96.0	61.6	55.8%	96.8	(0.8%)
FCF [5]	24.5	(6.1)	NM	37.7	(35.0%)
Capital investments	26.5	19.5	35.9%	19.7	34.5%
Net bank debt [6]	**(306.3)**	**(330.6)**	**7.4%**	**(362.2)**	**15.4%**

1. Not meaningful
2. Loss after tax in H1 2021 is reported after the deferred tax revaluation impact of the tax rate increase from April 2023 from 19% to 25% of £17.7m.
3. Adjusted profit / (loss) per share is stated after the effects of Adjusting Items.
4. EBITDA is calculated as Operating Profit, adjusted to add back depreciation, and Adjusting items, referred to hereafter as 'EBITDA'. For EBITDA for covenant purposes, refer to note 15.
5. 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 of plant, property and equipment.
6. Net bank debt is defined as bank borrowings less cash and cash equivalents.

Included in our interim results are comparatives for both the prior year (2020) and the previous year (2019). This is to allow meaningful comparisons as FY20 was affected by the COVID-19 pandemic, specifically from Q2 2020 – Q4 2020. In addition, Q1 2021 was impacted to a lesser degree as the Group remained under a COVID-19 NHS contract. Q2 2021 reflects a move back towards a pre COVID-19 trading environment. The comparison to two previous periods is only expected for FY21, and comparatives are against H1 2020 unless otherwise stated. Additional information in respect of the Balance Sheet and cash flow for the previous two periods can be found on our website: www.spirehealthcare.com/investorrelations.

Operating and financial highlights

- Good H1 performance with strong 13.5% revenue growth (vs H1 19) despite continued impact from COVID-19 (vs H1 20: 38.9%)
- Significantly improved private mix. Record self-pay performance with 46.7% revenue growth (vs H1 19) (vs H1 20: 172.3%)
- H1 21 EBITDA of £96.0m in-line with H1 19 (£96.8m) (H1 20: £61.6m) despite COVID-19 specific costs of at least £16m in H1 21
- £6.8m provision for holiday accrual (H1 20: £nil) which will unwind over the next 18 months
- Quality investments delivering further improvements in consumer ratings – 93% said their clinical care was outstanding
- Strong cash generation lowering the net debt/EBITDA covenant ratio to 2.7x (from 3.9x at end 2020 and 3.0x at end 2019)

Developing our business

- Positive consumer sentiment. TV advertising campaign has increased brand awareness from 62% to 69% from Q4 20 to Q2 21
- Further progress on efficiency programmes, expected to deliver savings of at least £15m in FY22, increasing in future years
- £26.5m investment in facilities and equipment in the period, including new CT and MRI scanners at six hospitals (H1 20: £19.5m)
- Colleague engagement increasing with 84% proud to work for Spire Healthcare, up 4pp on 2020
- Record number of appointments booked through the Group's digital portals (56,639 in H1 21 vs 18,508 in H1 19)

Looking to the future

- Unprecedented demand. NHS waiting list continues to rise, supporting growth in self-pay
- Underlying performance strong, near term margins impacted by measures to maintain COVID-secure environment
- Actively managing down COVID costs within our control, but increased costs of staff absence and late notice patient cancellations in July and August as COVID levels increase
- Securing future workforce with 166 nurse degree apprentices recruited in Q2 21.

Current trading and outlook

We are pleased that H1 trading has met our previous guidance for 2021 trading to return to 2019 levels, subject to COVID-19. H1 revenue is materially ahead of H1 2019, and EBITDA is in line with H1 2019.

Nevertheless, the future development of the COVID-19 pandemic remains uncertain for all healthcare providers and Spire Healthcare will continue to focus on maintaining a COVID-secure environment in which to treat as many patients as possible. Admissions in July and August have been impacted by an increased prevalence of COVID-19 in the UK. Whilst revenues remained in growth, last minute cancellations due to patients, colleagues and Consultants being required to self-isolate by NHS Test and Trace have led to higher labour costs, which impacted EBITDA by c. £4m per month on average in July and August.

However, we expect many of these COVID-related costs will be offset by improvements in testing and progressive efficiency measures providing a platform for margin expansion in 2022. Given the positive underlying trends, we are confident 2021 revenue will be materially above 2019. We also expect EBITDA to recover from the July and August levels to trade in line with 2019 over the last four months of the year, assuming current COVID-19 prevalence does not rise materially, creating further cancellation and absence. Should it do so, the operating impacts seen in July and August could prevail for the rest of the year.

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

"I am pleased by our performance in the first six months of the year, which has seen us return to operating profit despite ongoing COVID costs, due to the exceptional growth in private revenues. We have been successful in building the Spire Healthcare brand and responding to the resulting unprecedented demand from private patients. As waiting lists continue to climb, the Company is helping patients find options for treatment, be that privately or by assisting the NHS.

"We are of course experiencing material additional costs arising from the complexities of delivering safe care in a COVID-secure environment, which will continue as long as COVID case numbers remain high in the UK. However, we have successfully driven down the cost of COVID testing and our continued investment in digital systems and efficient pathways will deliver significant cost savings in 2022 and beyond. The long-term prospects for the healthcare sector are positive and we stand ready to play our part in addressing waiting lists and supporting the UK's recovery from the pandemic.

"I am immensely proud of the way our outstanding teams have continued to provide exceptional care throughout the recent challenges of the pandemic and the approach from Ramsay Health Care. I want to thank our colleagues once again for their dedication and commitment to making a positive difference to patients' lives."

For further information please contact:

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

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

Registered Office and Head Office:

Spire Healthcare Group plc
3 Dorset Rise
London
EC4Y 8EN

Registered number 09084066

About Spire Healthcare

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

Spire Healthcare delivered tailored, personalised care to approximately 750,000 in-patients and daycase 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 a longer life expectancy.

Cautionary statement

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

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

Analyst and investor meeting

There will be an analyst and investor meeting today at 9am via Zoom webinar. Please register in advance through this link:
https://spirehealthcare.zoom.us/webinar/register/WN_v-hP3A_sTK2nN_6gHAUDRQ

Operating Review

Overview

Spire Healthcare delivered a strong performance in H1 21 with record revenue growth and solid underlying margin. The Company has continued to navigate well through the various challenges presented by the COVID-19 pandemic, transitioning from supporting the NHS through a volume-based contract in Q1 21 to a more 'normalised' trading environment in Q2 21, albeit with significant additional COVID-19 restrictions. Exceptional private revenue growth of 25% in Q2 21 versus Q2 19 reflects our clear strategy to focus on private patients in order to protect the business from the unpredictable nature of NHS commissioning and provides a solid base for margin expansion. Our investment in high quality standards and culture have kept patients safe, are reflected in patient feedback and underpin the record growth in self-pay.

The COVID-19 pandemic has encouraged people to reprioritise health and wellbeing, the use of the independent sector to support the NHS has raised consumer awareness of private healthcare, and recognition of the Spire Healthcare brand has strengthened due to the recent TV advertising campaign. All of which places Spire Healthcare in a strong position to further develop its private patient proposition.

However, the continued prevalence of COVID-19, and our relentless focus on patient safety, means near-term operating costs remain elevated as we maintain safe patient pathways to prevent COVID-19 from entering our hospitals and manage the disruption caused by both high colleague and Consultant absenteeism and late notice patient cancellations.

Longer-term market dynamics remain positive, demand is strong, especially in self-pay, and we expect COVID related costs to reduce as the pandemic eases. The Company has the right strategy in place to meet elevated demand and is making good progress on programmes to deliver operational improvements, and therefore margin expansion, from 2022.

On 26 May 2021 it was announced that Ramsay Health Care had made a bid to acquire Spire Healthcare. The Spire Healthcare Board and its advisors supported the proposed transaction and it was put forward to shareholders. The Company respects the view of shareholders who did not provide sufficient votes to support the Scheme of Arrangement and is confident that it remains well positioned for success as a standalone business. This period of uncertainty is now behind us, and has not impacted the operating performance of the business. We remain focussed on our Purpose to make a positive difference to patients' lives through outstanding personalised care.

Performance

Admissions and revenue growth

On 1 January 2021, Spire Healthcare entered into a new contract with NHS England (NHSE). This contract was volume-based, rather than the cost-based contract of 2020, and was designed to facilitate a smooth transition back to Spire Healthcare's usual mix of business as the pandemic eased; providing elective surgery to reduce the NHS waiting lists whilst increasing private activity. The emergence of a new, highly contagious variant of COVID-19 in early 2021 placed greater strain on the NHS than in the first wave and required different independent sector support from that envisaged.

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-19 infection rates. 13 of the Group's hospitals went into surge in early 2021, mainly in the South East, but these surge clauses were lifted by early March. Spire Healthcare worked closely with NHSE to provide appropriate care for NHS patients, and we are proud that nine Spire Healthcare hospitals acted as NHS cancer hubs. Elsewhere, activity, such as urgent cardiac care, was transferred to be managed by the local Spire Healthcare hospital; and the cystic fibrosis service managed by Spire Manchester was extended to the end of March. Despite this, performance in Q1 21 was broadly in-line with the Board's expectations, with self-pay admissions in non-surge hospitals above Q1 19 levels and higher average revenue per case for private procedures.

The NHSE contract ended on 31 March 2021, providing Spire Healthcare with full control of the payor mix in its facilities for the first time in 12 months. Private revenue growth recovered strongly in Q2 21, up 25.2% versus Q2 19, driven by a record 80.6% growth in self-pay revenues. The recovery in PMI has lagged that of self-pay; whilst Q2 21 PMI admissions are some 5% below Q2 19. These have been more complex procedures carrying a higher average revenue per case (ARPC) leading to PMI revenue growth of 5%.

It is widely acknowledged that growing NHS waiting lists are the most significant issue facing the healthcare system today and that the independent sector will have an important role to play to help address the problem. Spire Healthcare stands ready to play its part and we look forward to building on the strong relationships forged with local NHS partners during the pandemic.

The Company was successful in its bid to be included on the NHSE Framework for purchasing additional activity from the independent sector, which commenced in April 2021. Inclusion on the Framework is at an agreed price for activity, based on the NHS tariff, but carries no guaranteed volumes. As indicated at the FY 20 results announced on 4 March 2021, we expected commissioning through the NHS Framework to start slowly and build over the course of the year. To date, NHS commissioning has been lower than anticipated, with NHS admissions in Q2 21 some 24% below Q2 19 and coming mainly through the eRS system. These cases have carried an ARPC nearly 16% above Q2 19 as the NHS has a priority to treat those with greatest clinical need, which are usually the more complex cases, and who have been waiting the longest.

Spire Healthcare has signed contracts with most Trusts and CCGs against the framework, with collaborative arrangements, and is now well-placed to participate in any increase in commissioning for the balance of the year. It remains to be seen if funding will be made available for a material growth in NHS use of the independent sector, although signals are positive from the government's recent funding announcement. Spire Healthcare's strong private mix means the Company is not dependent on such an uplift to deliver revenue growth in H2 21.

Operating costs
Whilst many sectors in the UK are now able to trade normally, with little or no COVID restrictions, as a hospital group we continue with our stringent COVID controls to ensure the safety of our patients, Consultants and colleagues, and to reduce the risk of COVID outbreaks within our hospitals. Most of these controls are mandated by Public Health England (PHE), including more restrictive return to work policies for healthcare workers who have been in contact with an infected person than those which apply to the rest of the population, although these have been eased somewhat recently. We test our Consultants and colleagues twice a week and every patient must take a PCR test and self-isolate before admission. Our safe patient pathways and infection control procedures are maintained assiduously.

These COVID control measures reduced EBITDA by £16.2m in H1 21, including £12.2m spent on COVID tests (£0.1m in H1 20). We have been able to reduce the monthly test cost from c.£3m in Q1 to less than £1m in June through changes to staff testing protocols and a lower unit price per test. However, as the prevalence of COVID in the community increased, we saw higher rates of late notice cancellation of procedures, particularly in Q2, which reduced EBITDA through lost revenue and costs associated with the pre-operative process (initial consultation and diagnostics for example). Staff absenteeism through COVID sickness or self-isolation requirements also impacted EBITDA. Reported H1 21 EBITDA (£96.0m) was broadly in line with H1 19 (£96.8m) (H1 20: £61.6m) despite the COVID operating cost burden, due to Spire Healthcare's strong revenue growth.

Clinical staff costs increased 260bp to 22.7% of revenue in H1 21, versus 20.1% in H1 19 due to the higher absence costs mentioned previously (H1 20: 24.2%). However efforts to improve the Bank worker proposition and encourage overtime rather than agency use has resulted in a reduction in the agency cost proportion of total clinical staff costs from 7.3% in H1 19 to 6.8% in H1 21 (H1 20: 3.7%), despite agency cost inflation arising from supply constraints. Labour costs were also impacted by an increased holiday provision of £6.8m (£nil in H1 19 and H1 20), as many colleagues have been unable to take leave due to the COVID-19 restrictions in place in the period and the high clinical workload. We expect this provision to unwind over the next 18 months.

Despite the COVID-19 pandemic, we continued to invest in our estate and in high quality equipment and facilities. We invested £26.5m in capital projects in H1 21, above prior years (£19.5m in H1 20, £19.7m in H1 19)) but below our planned run-rate as we slowed investment during Q1 when hospitals were focussed on supporting the NHS through the peak of the COVID-19 pandemic. Investments included new CT and MRI machines, plus associated infrastructure, at six hospitals (Cambridge, Hartswood, Portsmouth, Norwich, Fylde Coast and Leicester), the installation of a new, mobile operating theatre at Spire Norwich to increase capacity and the expansion of the car park at Spire Bristol.

We now plan to invest some £75m-85m in FY21, slightly below our original £90m-95m guidance due to the slower rate of investment in Q1 21, with further investment planned in new MRI and CT scanners in H2 2021. We are also pleased to announce a planned £8m investment to increase our services and patient capacity in our two Edinburgh hospitals. Spire Shawfair, which is currently offering daycase procedures only, will be enhanced through the addition of three high-grade laminar flow theatres and patient accommodation to support overnight inpatient cases. Meanwhile, at Spire Murrayfield, we will increase the number of patient beds and expand our outpatient services, including the installation of a new CT machine. This investment will help to meet strong private demand and create additional capacity to support future NHS Scotland waiting list initiatives.

Working capital decreased £11.3m in the period due to an increase of debtors arising for the higher private mix and a reduction in creditors due to payment timing differences, offset by a fall in inventory. However, the cash position of £116.1m at end of June 2021 is £9.8m higher than at year-end 2020 (£106.3m) and £25.2m above 30 June 2020 (£90.9m). This strong cash generation results in an improvement in the net debt/EBITDA ratio, as per the covenant calculation, to 2.7x, a significant improvement on FY 20 and FY 19 levels of 3.9x and 3.0x respectively.

We are pleased with the significant progress we have made to reduce leverage and are now below our medium-term target of 3.0x. We will, therefore, review our capital structure and capital allocation, including future dividend policy in conjunction with our next debt refinancing, whilst keeping a close watch on our leverage ratio as the impact of the pandemic progresses.

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 2020, the maturity date of the Senior Loan Facility has been extended by one year to July 2023. The RCF, which is undrawn at present, will remain at £100m until July 2022 and reduce to £87m thereafter until July 2023. Whilst an agreement was reached with the lenders to waive the net debt / EBITDA ratio and interest cover test for June 2021, a new liquidity measure replaced these tests which 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. As the ratio stood at 2.7x at 30 June 2021, the limit will revert to 4.0x at 31 December 2021, and the new liquidity measure referred to above has fallen away from 30 June 2021.

Colleagues and Consultants
We continue to develop strong, positive working partnerships with the NHS across the country, both at a local and national level and were delighted to be recognised by the Health Service Journal who awarded us the *Best Healthcare Provider Partnership with the NHS* award at their Partnership Awards in June. We also reached an agreement with the NHS to welcome surgeons and anaesthetists in training to undertake placements in our hospitals. Several hundred doctors in training worked in our hospitals in 2020 and Q1 21 and we are looking to build on this foundation to provide further training opportunities in the future, as requested by NHS partners.

Spire Healthcare is determined to play its part in addressing the shortage of clinical staff across the healthcare sector by recruiting and retraining great colleagues and providing opportunities for clinical leaders of the future to develop themselves. In the spring, we launched a major new nurse degree apprenticeship programme in our hospitals in England, in partnership with the University of Sunderland. The nurse degree apprenticeship is open to applicants at all stages of life, including school leavers, university graduates and people looking to retrain. The programme combines university study and workplace learning and apprentices obtain a BSc degree at the end. Around 5,000 people applied to the programme, with 166 offers made. 15% of the successful candidates were colleagues already working at Spire Healthcare.

In addition to the clinical and non-clinical apprenticeships we already offer, we are now able to launch programmes for Operating Department Practitioners and Assistant Practitioners with the University of Derby, starting in September 2021. During H1 21 we also launched our 'GROW' learning framework which includes our Step Up and Stretch initiative for future leaders across the business.

We have worked hard to continue our overseas nurse recruitment programme, despite international travel restrictions and are on track to introduce 250 new clinical colleagues by end 2021, with over 140 already established in our hospitals.

In late March/early April we conducted our 2021 Colleague Engagement Survey, including Bank colleagues for the first time. We saw an outstanding 100% response rate from Bank colleagues, with 87% indicating that they are proud to work for Spire Healthcare. The response rate from all colleagues was 77% with 84% saying they felt proud to work for Spire Healthcare, an increase of four percentage points relative to the 2020 survey.

Strategic initiatives

A number of efficiency programmes are in place to target savings in the following key areas:

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

We have already delivered savings through procurement and changes to COVID-19 testing protocols and anticipate further savings in H2 21 from the areas listed above. Savings are expected to total at least £15m in FY22.

Private patients are key to Spire Healthcare's long-term strategy. A survey of target consumers was conducted for Spire Healthcare in H1 21, repeating the questions asked in Q4 20. The results indicate even greater awareness of the role of the private sector in supporting the NHS leading more of our target audience to view private hospital providers in a more positive light, with 53% agreeing that they are more likely to consider a private hospital than before as a result (up 2pp). Furthermore, the survey indicated that 33% of Spire Healthcare's target market has had a medical diagnosis or treatment cancelled since spring 2020. 80% of our target audience is now fully vaccinated and levels of anxiety around vising a hospital for diagnosis and treatment has fallen a further 8pp with only 29% of our target market fairly or extremely anxious.

In order to capture the demand presented by this significant opportunity to increase private activity we launched a TV advertising campaign in April 2021, which was supported by print and digital campaigns. Recent survey data shows that almost a third of our target audience recall seeing the TV advertisement and prompted awareness of the Spire Healthcare brand has increased from 62% in Q4 20 to 69% in Q2 21.

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. We invested early, in 2019 and 2020, to enhance our ability to stimulate and capture private demand, and these investments are now yielding benefits.

Digital developments

The Electronic Pre-Operative Assessment tool has now been deployed to nine sites, and enhanced through an agile process. We anticipate full deployment by year end, which should facilitate administrative cost savings of £2m through a significant reduction in the use of paper within Spire Healthcare. The tool is also expected to provide a better patient experience and shorter processing time, thereby freeing up nursing time and hospital consulting rooms.

Significant progress has been made on the introduction of a new pricing system which allows central oversight and optimisation of self-pay pricing across the group. This platform also makes it easier for Consultants to securely post and amend their own, independently determined, charges. The pricing tool has been deployed across 28 sites with the remainder expected to come on stream by early October.

The Group's digital portals for both our patients and our partners (Consultants and PMI providers) are seeing record levels of bookings (56,639 in H1 21 versus 18,508 in H1 19) further highlighting growing demand for online services. The Group transferred its outsourced call handling service in the middle of 2020 to improve its capacity to respond to fluctuations in patient enquiries and take direct bookings, handling over 12,200 calls per week in August 2021 (up from 8,500 in January 2021). Not only does this provide the ability to meet the increased demand in enquires but also allows 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.

We are working towards a comprehensive electronic patient record as part of our wider Hospital Management System programme. We continue to build on our investments in SAP, in our Radiology and Pathology solutions, and our integrations with the NHS rather than look at a wholesale system replacement, which would be a high cost, and a high risk, strategy.

It is our Hospital Management System Programme that drives our key digital transformations for example, ePOA, Pricing Engine and electronic booking. 2021 will see more development of the digital patient pathway and in turn, more operational efficiency. Initiatives will include digital pathology workflow, digital radiology workflow and automating of patient communications.

Portfolio management
On 31 March 2021 Spire Healthcare reached an agreement with East Sussex Healthcare Trust (ESHT) to shorten the lease on Spire Sussex and to transfer operational control of the hospital back to the Trust. Spire Sussex hospital shares a site with the ESHT NHS hospital and Spire Healthcare has been operating the facility on behalf of EHST under a lease and operating agreement which was due to expire in 2027 but will now expire in 2022.

Spire Healthcare received £2m income from the early termination of the lease with all fittings, fixtures, equipment and capex responsibility transferring to the Trust on 31 March 2021. On 31 March 2022 colleagues and any remaining assets will transfer to ESHT under TUPE - Transfer of Undertakings (Protection of Employment). Spire Sussex generated revenue of £8.4m in 2019 with EBITDA of £0.43m.

We continue to push for simplification and efficiency. As part of this we are rationalising and simplifying the Group legal entity structure. This will remove 15, or one-third, of the companies in the Group structure.

Patient safety and clinical quality

Throughout H1 21 we maintained all of the measures we had put in place in 2020 to keep our sites COVID-secure and our colleagues, Consultants and patients safe, including safe patient pathways, restrictions on visitors and a comprehensive testing programme for patients and colleagues.

One key success during the period was the launch of our Quality Improvement Strategy in April. This development of a quality improvement culture, underpinned by a quality improvement methodology, will build on the progress on safety and quality made in recent years. Almost 100 colleagues have been trained as quality improvement practitioners to date, and almost 50 quality improvement projects are under way. We carried out a colleague consultation to decide on our quality priority for the year, and 'Improving patient experience' was chosen from a list of 10. There are three elements to this: improving the admissions process, improving the discharge process and ensuring we listen to patient feedback and engagement, including complaints, concerns and compliments.

The first half of 2021 saw us continue our work to implement the recommendations of the Independent Inquiry into Ian Paterson, which reported in early 2020. Spire Healthcare wrote to all patients of Paterson in December 2020 and some, who had not previously been contacted, were invited to discuss their treatment. The review is on-going but has identified that some of these patients were harmed by Paterson, who was suspended by Spire Healthcare in 2011.

Spire Healthcare has now set up a second compensation fund to deal with any new claims arising out of treatment by Paterson at the company's hospitals. The scheme will be administered by two law firms, Slater and Gordon UK Limited, and Thompsons Solicitors LLP, who administered the earlier Paterson compensation scheme from 2017, and the costs will be covered by the £22m provision held at year-end 2020.

In recent years, we have had to review the practice of a number of doctors, including Ian Paterson, contacting patients and speaking to them about their care. There is no best practice standard for undertaking these reviews and communicating with patients, and so we have been developing our own guidance on how to carry these out, based on our own experiences. We have worked with the Patients Association to hear and understand patients' insights and ensure that these are reflected in our guidance. We have shared our guidance with the NHS and with the wider independent sector, and over the coming months, we will be jointly leading a project involving regulators, the NHS and government as part of the response to the Paterson Inquiry to develop a national toolkit for patient reviews and recalls.

Our priority for the second half of the year is the development of an integrated quality assurance and governance framework, with new key performance indicators, based on the NHS Quality Assurance Framework (QAF). This will build on progress made in recent years and will provide a further improved mechanism for the Board and senior management to oversee and receive assurance on the composite of performance and quality.

In April 2021 the CQC launched its new monitoring framework. In essence, the new regime moves from pre-announced to unannounced inspections, meaning sites have to be inspection ready at all times and have the necessary documentation to demonstrate consistently safe, harm-free care and robust governance processes. In addition, the CQC will also assess compliance with the Medical Practitioners Assurance Framework, a rigorous industry standard of consultant oversight published in 2019, which we helped to develop. This is in line with our guidance that regulatory oversight is likely to strengthen in the years ahead.

We believe that the new CQC approach will favour the efforts we have put in over the last 3 years including the creation of our own internal audit team to ensure we are inspection ready across the estate.

Doing the right thing

Spire Healthcare announced its ambition to reach net zero carbon emissions by 2030. In the FY20 results statement published on 4 March 2021. To support this goal we have now appointed Carbon Champions for each hospital and launched a companywide Carbon Awareness Campaign. Each Carbon Champion will be provided training to understand the relationship between energy use and carbon emissions, be equipped to identify some simple energy savings opportunities and be able to recognise and act upon bad energy management practices.

Spire Cardiff has just completed the installation of 78 PV solar panels on the roof of its outpatients building. Together with improved roof insulation this is projected to reduce the hospital's total carbon output. The work is part of a programme of works across the hospital estate with further PV panel installations expected to take place at other sites in 2022. From October 2021 Spire Healthcare will procure all of its electricity from renewable sources.

Colleague wellbeing has remained a high priority, including mental health which has understandably been impacted throughout the pandemic. We have continued to recruit and train Mental Health First Aiders across all parts of the business and raise awareness of the support available to colleagues. In addition to our Employee Assistance Programme, early in the year we launched a free, dedicated colleague support line which is available at all times to provide help and advice from counsellors and information specialists.

Outlook

The future development of the COVID-19 pandemic remains uncertain for all healthcare providers and Spire Healthcare will continue to focus on maintaining a COVID-secure environment in which to treat as many patients as possible. Admissions in July and August have been impacted by an increased prevalence of COVID-19 in the UK. Whilst revenues remained in growth, last minute cancellations due to patients, colleagues and Consultants being required to self-isolate by NHS Test and Trace have led to higher labour costs, which impacted EBITDA by c. £4m per month on average in July and August.

However, we expect many of these COVID-related costs will be offset by improvements in testing and progressive efficiency measures providing a platform for margin expansion in 2022. Given the positive underlying trends, we are confident 2021 revenue will be materially above 2019. We also expect EBITDA to recover from the July and August levels to trade in line with 2019 over the last four months of the year, assuming current COVID-19 prevalence does not rise materially. Should it do so, the cost impacts seen in July and August could prevail for the rest of the year.

Financial review

Selected financial information

(£ million)	2021 Total before Adjusting items	2021 Adjusting items (note 10)	2021 Total	2020 Total before adjusting items	2020 Adjusting items (note 10)	2020 Total	2019 Total before adjusting items	2019 Adjusting items	2019 Total
	Six months ended 30 June (Unaudited)								
Revenue	**558.2**	**–**	**558.2**	401.9	–	401.9	491.6	–	491.6
Cost of sales	**(304.1)**	**–**	**(304.1)**	(205.1)	–	(205.1)	(261.1)	–	(261.1)
Gross profit	**254.1**	**–**	**254.1**	196.8	–	196.8	230.5	–	230.5
Other operating costs	**(206.2)**	**(2.3)**	**(208.5)**	(182.0)	(204.7)	(386.7)	(179.1)	(0.4)	(179.5)
Other income	**0.6**	**–**	**0.6**	0.1	–	0.1	–	–	–
Operating profit (EBIT)	**48.5**	**(2.3)**	**46.2**	14.9	(204.7)	(189.8)	51.4	(0.4)	51.0
Net finance costs	**(41.5)**	**–**	**(41.5)**	(41.5)	–	(41.5)	(41.4)	–	(41.4)
Profit / (Loss) before taxation	**7.0**	**(2.3)**	**4.7**	(26.6)	(204.7)	(231.3)	10.0	(0.4)	9.6
Taxation	**(21.6)**	**–**	**(21.6)**	(2.6)	0.8	(1.8)	(2.6)	0.1	(2.5)
(Loss) / profit for the period (1)	**(14.6)**	**(2.3)**	**(16.9)**	(29.2)	(203.9)	(233.1)	7.4	(0.3)	7.1
EBITDA (2)			**96.0**			61.6			96.8
Basic (loss) / earnings per share, pence			**(4.2)**			(58.2)			1.8
FCF(3)			**24.5**			(6.1)			37.7
Capital investments			**26.5**			19.5			19.7
Net cash from operating activities			**85.7**			75.6			87.0
Net bank debt (4)			**(306.3)**			(330.6)			(362.2)

1 Loss after tax in H1 2021 is reported after the deferred tax revaluation impact of the tax rate increase from April 2023 from 19% to 25% of £17.7m.
2 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. For EBITDA for covenant purposes, refer to note 15.
3 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 of plant property and equipment.
4 Net bank debt defined as bank borrowings less cash and cash equivalents

Included in our interim results are comparatives for both the prior year (2020) and the previous year (2019). This is to allow meaningful comparison as FY20 was affected by the COVID-19 pandemic, specifically from Q2 2020 – Q4 2020. In addition, Q1 2021 was impacted to a lesser degree as the Group remained under a COVID-19 NHS contract. Q2 2021 reflects a move back towards a pre COVID-19 trading environment. The comparison to two previous periods is only expected for FY21, and comparatives are against H1 2020 unless otherwise stated. Additional information in respect of the Balance Sheet and cash flow for the previous two periods can be found on our website: www.spirehealthcare.com/investorrelations.

Revenue

Group revenues increased by 39% to £558.2m versus H1 2020 of £401.9m (13.5% increase versus H1 2019 of £491.6m). The Group operated under a COVID-19 specific NHS contract in Q1 2021, with a minimum volume guarantee. The increase in revenue in H1 21 is mainly driven by the strong return of private patients as the Company regained full control of the payor mix from Q2 2021, as the NHS contract ended. NHS revenue in the period of £185.4m (H1 2020: £200.4m, H1 2019: £143.7m) includes amounts arising from specific COVID-19 contracts of £124.1m (H1 2020: £133.7m, H1 2019: £nil), with £10.1m relating to the FY20 NHS cost recovery contract being recognised in the period following customer agreement to volume-based variable consideration and final costings.

Revenue by payor

(£ million)	2021	2020	Variance % (2021 – 2020)	2019	Variance % (2021 -2019)
	Six months ended 30 June (Unaudited)				
PMI	**231.3**	145.8	58.7%	247.0	(6.3%)
Self-Pay	**129.9**	47.7	172.3%	88.6	46.7%
Total Private	**361.2**	193.5	86.7%	335.6	7.7%
Total NHS	**185.4**	200.4	(7.5%)	143.7	29.0%
Other	**11.6**	8.0	45.0%	12.3	(5.8%)
Total revenue	**558.2**	401.9	38.9%	491.6	13.5%

Revenue by payor – quarterly analysis

The below table provides additional information regarding the split of revenue between Q1 and Q2 2021 versus Q1 and Q2 2019. This is to provide comparable data in respect of the Company's return to private work in Q2 2021. 2020 data is not provided as it is not considered comparable as a result of the pandemic impact and the operation of the specific NHS contract.

(£ million)	Q1 21 £m	Q1 19 £m	Variance %	Q2 21	Q2 19	Variance %	H1 21 £m	H1 19 £m	Variance %
PMI	**104.3**	126.0	(17.2%)	**127.0**	121.0	5.0%	**231.3**	247.0	(6.3%)
Self-Pay	**50.1**	44.4	13.0%	**79.8**	44.2	80.6%	**129.9**	88.6	46.7%
Total Private	**154.4**	170.4	(9.4%)	**206.8**	165.2	25.2%	**361.2**	335.6	7.7%
Total NHS	**125.5**	74.3	68.7%	**59.9**	69.4	(13.6%)	**185.4**	143.7	29.0%
Other	**5.0**	6.5	(22.4%)	**6.6**	5.8	13.2%	**11.6**	12.3	(5.8%)
Total revenue	**284.9**	251.2	13.4%	**273.3**	240.4	13.7%	**558.2**	491.6	13.5%

Detailed Revenue Analysis for Q2 2021

In Q2 2021, the Group resumed private work following the lifting of COVID-19 restrictions and was no longer operating under the NHS contracts. Detailed revenue data in line with a pre-COVID environment is therefore available for Q2 2021. The table below provides the underlying performance of the business where the Group had full control of the payor mix, and Q2 2019 comparatives have been provided reflecting the pre-COVID operating environment. The table has been included to assist in the understanding of future trends. As Q1 2021 was under the NHS COVID-19 contracts, the admission data does not provide meaningful comparatives.

(Unaudited)	PMI	Self-pay	Total private	NHS	Other	Total
Q2 2021						
IPDC[1] admissions ('000s)	28.6	17.7	46.3	17.0		63.3
ARPC[2] (£)	2,721	3,694	3,093	2,791		2,952
IPDC revenue (£m)	77.8	65.4	143.2	47.5		190.7
Outpatient revenue (£m)	49.2	14.4	63.6	12.4		76.0
Total (£m)	**127.0**	**79.8**	**206.8**	**59.9**	**6.6**	**273.3**
Q2 2019						
IPDC admissions ('000s)	30.1	11.8	41.9	22.3		64.2
ARPC (£)	2,491	2,879	2,600	2,416		2,536
IPDC revenue (£m)	75.1	34.0	109.1	53.9		163.0
Outpatient revenue (£m)	45.9	10.2	56.1	15.5		71.6
Total (£m)	**121.0**	**44.2**	**165.2**	**69.4**	**5.8**	**240.4**
Variance (%)						
IPDC admissions	(5.1%)	50.1%	10.4%	(23.9%)		(1.4%)
ARPC	9.2%	28.3%	19.0%	15.6%		16.4%
IPDC revenue	3.7%	92.6%	31.3%	(12.0%)		17.0%
Outpatient revenue	7.2%	39.8%	13.3%	(20.0%)		6.3%
Total (%)	**5.0%**	**80.6%**	**25.2%**	**(13.6%)**	**13.2%**	**13.7%**

1 Inpatient and daycase

2 Average revenue per case

Cost of sales and gross profit

Gross margin for the first six months of 2021 is 45.5% compared to 2020 levels of 49.0%, and 2019 levels of 46.9%. Cost of sales increased in the period by £99.0m (£43.0m on H1 2019), or 48.3% (H1 2019: 16.5%), to £304.1m (2020: £205.1m, 2019: £261.1m) on revenues that increased by 38.9% (H1 19: 13.5%). This is due to increased costs as a result of COVID-19 to ensure safe patient pathways and additional Agency and Bank staff to assist in short notice absences caused by COVID-19 self-isolation requirements. The margin in H1 2020 was higher as a result of strong private trading in Q1 2020, and the impact of the NHS cost recovery contract in Q2 2020.

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

	Six months ended 30 June (Unaudited)					
	2021		2020		2019	
	£m	% of revenue	£m	% of revenue	£m	% of revenue
Clinical staff	**126.9**	22.7%	**97.1**	24.2%	**98.8**	20.1%
Direct costs	**132.8**	23.8%	**78.9**	19.6%	**110.7**	22.5%
Medical fees	**44.4**	8.0%	**29.1**	7.2%	**51.6**	10.5%
Cost of sales	**304.1**	54.5%	**205.1**	51.0%	**261.1**	53.1%
Gross profit	**254.1**	45.5%	**196.8**	49.0%	**230.5**	46.9%

Clinical staff costs includes £4.4m relating to the provision for holiday accruals, which is booked in other operating costs. Adjusting for the provision, gross profit margin was 46.3%, down only 80bp on H1 19, or 270bp on H1 20.

Hospital operating profit margin (gross profit less indirect hospital costs) was 24.7% compared to 23.8% in June 2020 and 26.3% in June 2019, with indirect hospital costs increasing by £15.4m from £101.0m in H1 2019 to £116.4m in H1 2021 (H1 20: £95.5m) .

Other operating costs

Other operating costs for the six months ended 30 June 2021 decreased by £178.2m or 46.1% versus H1 20 to £208.5m, mainly due to a one-off impairment to goodwill of £200m recognised in H1 2020. Excluding Adjusting Items, other operating costs have increased by £24.2m, or 13.3% to £206.2m (H1 2020: £182.0m). This increase is mainly driven by increased non-clinical staff costs (which includes £2.4m in respect of the provision for holiday accruals), depreciation and marketing costs. In H1 2019, other operating costs were £179.5m, being 16.2% lower than H1 2021, and excluding Adjusting Items, 15.1% lower at £179.1m.

Operating margin for the six months ended 30 June 2021 is 8.3%, compared to (47.2%) at H1 2020 and 10.4% at H1 2019. Excluding adjusting items, operating margin is 8.7%, up from 3.7% at H1 2020, and down from 10.5% at H1 2019.

EBITDA

EBITDA for the Group has increased by 55.8% in the period from £61.6m to £96.0m for H1 2021, or decreased by 0.8% from H1 2019 EBITDA of £96.8m. The increase in H1 2021 reflects the reducing limitations placed on the trading operations of the business as a consequence of both the NHS COVID-19 contract and Government policy in response to the pandemic.

Share-based payments

During the period, grants were made to Executive Directors and members of the executive management team under the Company's Long Term Incentive Plan. For the six months ended 30 June 2021, the charge to the income statement is £1.7m (H1 2020: £0.8m), or £1.9m inclusive of National Insurance (H1 2020: £0.9m).

Adjusting Items

	Six months ended 30 June (Unaudited)		
(£ million)	**2021**	2020	2019
Asset disposals, impairment and aborted project costs	**2.6**	200.0	0.3
Hospital set up and closure costs	**0.1**	0.1	0.1
Remediation of regulatory compliance or malpractice	**(0.4)**	4.6	–
Total costs	**2.3**	204.7	0.4
Income tax credit on Adjusting Items	**–**	(0.8)	(0.1)
Total post-tax Adjusting Items	**2.3**	203.9	0.3

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 comparable measure of the Group's underlying performance.

In the period, the Group agreed to terminate the lease for our Sussex Hospital, with the NHS Trust taking over the running of the hospital from 31 March 2022. As part of this agreement, the Plant, Property and Equipment were sold to the Trust on 31 March 2021, the property lease shortened to a period of one year (reduced from 6 years) and a transitional arrangement was agreed. This has resulted in a £0.4m profit being reflected in Asset disposals, offset by £0.2m of sale costs. Offsetting this profit are Mergers and Acquisition ("M&A") costs of £2.8m, largely relating to the attempted takeover bid by Ramsay Health Care. This results in net Asset Disposal, Impairment and Aborted Project costs of £2.6m in H1 2021. In the prior period, the Group recognised a one-off non-cash impairment to Goodwill of £200m.

Following the judgment in favour of the Group in its case against one of its insurers relating to Ian Paterson in H2 2020, the costs awarded were reviewed as part of the Court process in H1 2021 and the Group received an additional £0.4m of income, which has been recorded as Remediation of Regulatory Compliance or Malpractice. The insurer has been granted their appeal to the ruling, and this is expected to be heard at the Court of Appeal in H2 2021. In the prior period, the Group committed to providing on-going support to Paterson's patients, following the release of the Paterson Public Inquiry in February 2020, and provided for costs of £3.2m in ensuring the recommended actions from the report are fully adhered to.

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

Net finance costs

Net finance costs have remained flat at £41.5m (H1 2020: £41.5m, H1 2019: £41.4m).

Taxation

The taxation charge for the six months ended 30 June 2021 is £21.6m (H1 2020: £1.8m, H1 2019: £2.5m). This consists of a £nil (H1 2020: £nil, H1 2019: £1.3m) charge for corporation tax and a charge of £19.3m (H1 2020: £2.5m, H1 2019 £1.2m) for the current year movement on deferred tax, and £2.3m (H1 2020: £0.7m credit, H1 2019: £nil) for a prior year adjustment to deferred tax. The deferred tax charge includes a one off charge of £17.7m (H1 2020: £6.1m, H1 2019: £nil)) as a result of the deferred tax assets and liabilities being revalued from 19% to 25% following the Government's announcement to increase in the corporation tax which was due to take place on 1 April 2023.

Profit after taxation

The loss after taxation for the six months ended 30 June 2021 was £16.9m (H1 2020: loss £233.1m, H1 2019: profit £7.1m)

Non-GAAP financial measures

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

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

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

EBITDA

	Six months ended 30 June (Unaudited)		
(£ million)	**2021**	2020	2019
Operating profit / (loss)	**46.2**	(189.8)	51.0
Remove effects of:			
Adjusting items	**2.3**	204.7	0.4
Depreciation	**47.5**	46.7	45.4
EBITDA	**96.0**	61.6	96.8

Adjusted EBIT

	Six months ended 30 June (Unaudited)		
(£ million)	**2021**	2020	2019
Operating profit / (loss)	**46.2**	(189.8)	51.0
Remove effects of:			
Adjusting items	**2.3**	204.7	0.4
Adjusted EBIT	**48.5**	14.9	51.4

Adjusted profit after tax and adjusted earnings per share

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

	Six months ended 30 June (Unaudited)		
(£ million)	**2021**	2020	2019
Profit / (Loss) before tax	**4.7**	(231.3)	9.6
Remove effects of:			
Adjusting items	**2.3**	204.7	0.4
Adjusted profit / (loss) before tax	**7.0**	(26.6)	10.0
Taxation[1]	**(21.6)**	(2.6)	(2.6)
Adjusted (loss) / profit after tax	**(14.6)**	(29.2)	7.4
Weighted average number of ordinary shares in issue (No.)	**400,842,733**	400,837,911	400,828,739
Adjusted basic (loss) / earnings per share (pence)	**(3.6)**	(7.3)	1.8

[1] Reported tax charge for the period includes a one-off rate change impact of £17.7m

Cash flow analysis for the period

	Six months ended June (Unaudited)		
(£ million)	**2021**	2020	2019
Opening cash balance	**106.3**	90.8	47.7
Adjusted operating cash flows	**85.7**	73.2	85.3
Adjusting items	**–**	(1.2)	(0.1)
Income tax received	**–**	3.6	1.8
Operating cash flows	**85.7**	75.6	87.0
Net cash in investing activities	**(29.5)**	(28.1)	(21.3)
Net cash in financing activities	**(46.4)**	(47.4)	(55.0)
Closing cash balance	**116.1**	90.9	58.4

Operating cash flows before Adjusting items

The cash inflow from adjusted operating activities was £85.7m, which constitutes a cash conversion rate from £96.0m EBITDA of 89.3% (H1 2020: 118.8% conversion of £61.6m EBITDA, H2 2019: 88.1% conversion of £96.8m). The net cash outflow from movements in working capital in the period was £11.3m (H1 2020: £13.2m inflow, H1 2019: £11.8m outflow).

Investing and financing cash flows

Net cash used in investing activities for the period was £29.5m (H1 2020: £28.1m, H1 2019: £21.3m). Cash outflow for the purchase of Plant, Property and Equipment in the period totalled £31.6m (H1 2020: £28.1m, H1 2019: £21.5m), which included new MRI or CT scanners and associated works at 3 hospitals. Proceeds of £2m were received for the sale of Sussex assets to the NHS Trust in advance of the business operations moving to the NHS in March 2022.

Net cash used in financing activities for the period was £46.4m (H1 2020: £47.4m, H1 2019: £55.0m), including lease and bank interest paid of £39.2m (H1 2020: £36.8m, H1 2019: £35.9m) and £7.2m (H1 2020: £10.6m, H1 2019: £9.1m) of lease principal payments. In H1 19, £10.0m was paid as an interim dividend. No dividends have been paid since the cancellation of the final dividend in 2019 as a result of the uncertainty caused by the COVID-19 pandemic.

Borrowings

At 30 June 2021, the Group has bank borrowings of £422.4m (December 2020: £420.8m, June 2020: £420.6m), drawn under facilities which is due to mature in July 2023.

	As at	
(£ million)	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Cash	**116.1**	106.3
Bank borrowings	**422.4**	420.8
Bank borrowings less cash and cash equivalents	**306.3**	314.5

As disclosed in the 2020 year-end financial results, the Group had reached agreement with its lenders to provide the necessary financial flexibility to continue to support the NHS for a longer period than was initially envisaged, this included a covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 and a new liquidity measure as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committed facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x if this measure has not already reduced below 4x. As at 30 June 2021 this measure stood at 2.7x, and the new liquidity measure referred to above has fallen away from 30 June 2021.

Spire Healthcare currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The Senior Loan Facility will mature in July 2023. The RCF will remain at £100m until July 2022 and reduce to £87m thereafter until maturity in July 2023.

As at 30 June 2021, lease liabilities were £750.6m (December 2020: £749.5m). Refer to note 16 for more detail.

Dividend

As a result of the continued COVID-19 uncertainty, the Board will not be proposing an interim dividend. No dividends have been proposed or paid since the start of the pandemic.

Related party transactions

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

Principal Risks

There are a number of risks facing the Group as disclosed in the 2020 Annual Report. The Governance structures as described in the 2020 Annual Report for the review and management of the Principal Risks remain the same. The Board has decided that the Principal Risk concerning EU-UK trading relations reported in the 2020 Annual Report has now broadened to an overall Principal Risk from supply chain disruption as described below. Otherwise, the risk profile of the Group has remained broadly stable in H1 2021 and the Board anticipates that the Principal Risks described below in summary will remain the same through to the year-end.

The Principal Risks fall into the following categories:

Clinical & Patient Safety	People	Financial	Geopolitical	Technology	Social	Governance
Patient Safety & Clinical Quality	Workforce	Macroeconomic	Government & NHS Policy	Information Governance and Security	COVID-19/Pandemic	Compliance & Regulation
		PMI market dynamics	Supply Chain Disruption		Brand Reputation	
		Competitor Challenge				
		Liquidity & Covenants				
		Insurance & Indemnities				

Below is a summary of the Principal Risks facing the Group with a description of the material mitigations.

Risk	Mitigation
Patient Safety & Clinical Quality There is a risk to the provision of high quality patient care due to: • A shortage of skilled workforce • Clinical and non-clinical staff and Consultants failing to follow guidelines, standards and policies resulting in patient harm • Failing to learn from incidents, complaints, mortality reviews, patient feedback and Patient Notification Exercises • Failure to act on findings from audits, clinical outcome measures (including registry data), peer reviews and external inspections • Nosocomial COVID-19 infection	The Group maintains the following controls to mitigate against a failure of patient safety and clinical quality: • A reporting culture from Ward to Board, with a Freedom To Speak Up Guardian (FTSUG) at each site • Incident / red flag staffing reporting • Continually monitoring clinical standards • A schedule of robust and regular hospital audits • Colleague induction, clinical competencies requirements and mandated training • Reporting on clinical outcomes In response to the COVID-19 pandemic, the Group introduced a specific infection prevention control programme.
Workforce There is a global shortage of nursing and allied healthcare practitioners. In addition, the Group has an ageing workforce. The COVID-19 pandemic has caused up to 10%-15% of the workforce to be absent at its peak.	The Group seeks to retain and recruit staff through a variety of mechanisms including: • A common purpose and a positive workplace culture • Maintaining competitive pay and benefits • A centralised recruitment process • 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 The Group manages immediate staff shortages through the use of agency and bank workers.
Macroeconomic Following the end of the COVID-19 contract, the business has returned to normal trading channels (Private and NHS), albeit that these continue to be impacted by the pandemic (e.g. access to GP, NHS commissioning levels due to funding uncertainty). The wider economic outlook remains unclear, with the expectation of inflation (short term) and the potential for higher unemployment following the end of the furlough scheme.	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 to be constrained financially at this time. The Group understands that private medical insurance policy renewals and sales remain stable, and the Group has itself seen strong growth in 2021 that is expected to continue while waiting lists remain at record levels.

Risk	Mitigation
Despite these macroeconomic headwinds the expectation is that the primary growth drivers will remain medium term, namely record NHS waiting lists, stable/growing PMI lives covered and a growing Self Pay market.	In response to macro inflationary pressure we will continue to benefit from the inflation mechanisms built into the PMI contracts and will benefit from our ability to change Self-Pay pricing quickly via our new pricing engine. In addition, the Group will continue to respond to changing economic circumstances by optimising our private and NHS funded work ensuring the Group is not over reliant on one income source, supported by an efficient cost base.
PMI market dynamics	
The PMI market remains concentrated, with the top four companies (Bupa, AXA, Aviva and VitalityHealth) having a market share estimated at over 85%. The Group has individual contractual relationships for the provision of its services with all the major PMI providers. These contracts come up for renewal on a recurring basis. There is a risk that renewal of contract terms cannot be secured on historical terms. Service line tenders and the introduction of triage services are expected to continue medium term as PMIs look to reduce costs. We also expect an increase in directional networks. PMI patient volumes remain below historical levels despite PMI models forecasting growth in 2021. It remains unclear how volumes will recover over the medium term.	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 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 the best combination of high quality patient care at competitive prices.
Competitor Challenge	
The Group operates in a highly competitive market. New or existing competitors may enter the market of one or more of our existing hospitals, or offer new services. In the current economic environment, there is a risk that the pressures on competitors results in irrational market behaviour manifesting itself in low pricing on tenders or self pay.	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 GP's 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.
Liquidity & Covenants	
The Group may not have sufficient liquidity to meet its financial liabilities as they fall due, or breach financial covenants linked to its borrowings. The Group may not be able to refinance on favourable terms.	The Group actively monitors and manages its liquid asset position, its financial liabilities falling due and the cover against its loan covenants. It is actively focussed on cash management and capital expenditure. At the onset of the COVID-19 pandemic, the Group was able to positively engage with its banking group with the result that the Group benefitted from covenant waivers in 2020. For June 2021, the banking group has again agreed to waive the covenant tests under its current loan agreements. The Group retains access to an unutilised £100m revolving credit facility should its current cash position materially deteriorate. The Group has a solid asset base with the ability to promptly leverage in a short timescale, if required. The Board has considered the risk in detail as part of its assessment of Going Concern for the Group.
Insurance & Indemnities	
The Group procures insurance from global insurers and syndicates with a presence in the Lloyds of London insurance market.	The Group reviews and maintains insurance to mitigate the possibility of a major loss. Adequacy of cover is reviewed annually with the Group's

Risk	Mitigation
The Group could be subject to litigation for actions by third parties or may be found liable for damages which may not be covered by its insurance policies, if the claims are in excess of cover or claims are not covered by the Group's insurance due to other policy limitations or exclusions or where it has failed to comply with the terms of the policy.	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. We are also engaging with medical defence organisations to explore how alternative insurance products could reduce the risk associated with historic models.
Government & NHS Policy	
The Group expects NHSE to complete the establishment of regional Integrated Care Systems (ICS) over the coming 18 months. Meanwhile Scotland and Wales will broadly remain unchanged. It remains unclear what the new NHSE commissioning models and/or changes in the tariff structures will be post pandemic. Our expectation is this this will become a combination of direct referrals from GPs, waiting list transfers and an increasing use of block contracts. The economic policy of the Treasury post the COVID-19 pandemic is also still unknown. There is a risk that future economic policy is unfavourable to the healthcare sector as a whole; however, the political pressure of record waiting lists will ultimately result in funding being made available.	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 is seeing strong private revenues that are expected to continue medium term. The Group has successfully secured accreditation on the NHS Frameworks in England, Scotland and Wales ensuring access to tender for future contracts. Through the COVID-19 pandemic, the Group has increased its relationships with the government via DoHSC, NHS England and NHS Improvement. Meanwhile hospitals have also strengthened their relationships with the local NHS commissioners. Working effectively with the new ICS in each our markets will be a primary objective for hospital management teams.
Supply Chain Disruption	
The widely reported disruption in the Global and UK supply chains because of a variety of factors, including a UK shortage of HGV drivers, could lead to shortages of critical components or products within: • Medicines • Consumables • Prostheses • Food	For high volume and or critical medical consumable lines, the Group maintains a centralised supply chain with a national distribution centre (NDC) and its own vehicle and driver fleet, typically representing 8 weeks supply. It also stocks centrally some prosthesis that is supplemented by locally held Supplier consigned stock. Medicines are delivered direct to hospital. In 2021, the Group has had to respond to a number of product shortages, and has seen some minor shortfalls in order fulfilment. In all cases the Group's centralised procurement function has been able to find alternative supplies to maintain hospitals' activities. Fresh food is supplied through a national food distributor who has its own delivery fleet and directly employs its HGV drivers. Order fulfilment has remained in the high ninety percentile. As a result of the Group's Brexit planning, the Group does have contingency menu plans in case fresh food shortages. Any national shortages in critical medicines are managed by NHS Supply Chain. The Group is able to receive allocations based on its activity.
Information Governance & Security	
The Group has to maintain and manage a range of physical and digital data assets including patient records, commercial information and staff data. Personal data has to be managed in compliance with the principles set out in the Data Protection Act 2018 and the General Data Protection Regulations (GDPR). The level of risk to Spire Healthcare's IT architecture and systems continues to grow as the volume of cyber security threats increases and they become more sophisticated. Healthcare and pharmaceutical organisations saw increased hostile cyber activity in 2020 as a result of the COVID-19 pandemic. The group	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:

Risk	Mitigation
anticipates that the Healthcare sector will remain a higher risk sector from cyber attacks.	• 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
COVID-19/Pandemic	
Repeated waves of infection occur that risk overwhelming the NHS and forcing HM Government to re-introduce severe lock-down measures either regionally or nationally.	To maximise the utilisation of the hospitals the Group has: • Encouraged all staff to be fully vaccinated • 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
Brand Reputation	
The COVID-19 pandemic has resulted in a substantial amount of positive media coverage for the Group. Our brand presence within the consumer and NHS & HM Government is higher than at any point. The Group's future growth depends upon its ability to maintain, and continue to enhance, its reputation amongst patients, clinicians and other stakeholders. As the Group's brand presence grows, the risk increases that adverse events such as: • patient notifications and recalls; • mishandling of patient data; or, • a breach of law or regulation will have a more material impact on the Group.	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. In addition, the Group continues to invest in the awareness and health of the brand through national advertising, public relations and centrally coordinated social media. It also continues to build its reputation amongst analysts and public commentators.
Compliance & Regulation	
The increasing range and complexity of the legislation and regulation which impact on the Group, plus the fact that, alongside many other complex and highly-regulated entities, the Group fully expects that the legal and regulatory landscape in which it operates will change and become more onerous, complex and demanding, means that this is considered an area of potential risk for the Group and its operations. In addition, as the UK makes the transition from being part of the EU, there will be flux in legal and regulatory developments, potentially arising from the interpretation of retained EU law by the UK courts or from the direction taken by the UK following the end of the transition period; it is not possible to determine with any degree of certainty the speed, impact or direction of forthcoming legal or regulatory change. This will therefore require monitoring, compliance and assurance.	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' responsibility statement

Going Concern

As detailed in the Financial Review, the Group assesses going concern on a 12 month period to 30 September 2022. At 30 June 2021, the Group has cash of £116.1m and access to a further £100m through a committed and undrawn revolving credit facility.

Given the economic uncertainty arising from the COVID-19 pandemic, the Group has maintained its position of not paying a dividend. The Group has not had to undertake any further action in regard of maintaining its liquidity in H1 2021.

The Group confirmed in an 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 covering the period from 1 January 2021 to 31 March 2021, 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 contract, which covered Q1 2021, provided Spire Healthcare with liquidity and a greater degree of certainty as the Group received monthly payments on account, which were then subject to finalisation with reference to actual volumes in the period, rather than a cost based approach.

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 over the last 12 months. 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.

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. As the ratio stood at 2.7x on 30 June 2021, the limit for this measure will revert to 4x for the purposes of the next test on 31 December 2021.

As part of the agreement reached with its lenders in 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. This requirement fell away from 30 June 2021 as the Group's actual net debt to EBITDA ratio was below 4x.

In addition to this, the maturity date of the Senior Loan Facility was extended by one year to July 2023.

The Group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions, which in the first instance would include management of working capital and constrained levels of capital investment. The specific scenarios covered by the Group's testing are summarised below, further information on these is provided in the Principal Risks section.

- In respect of the on-going uncertainty relating to the COVID-19 pandemic, the Group has modelled for the risk of extensive restrictions as a result of lockdowns in late 2021 and early 2022;
- Downside modelling of a number of risks which result in a decline in earnings arising from issues connected with the UK/ EU trade negotiations, a general economic downturn or competitor action;
- A key hospital is subject to permanent or temporary suspension of trade, for example, due to a severe climate event, a major fire or regulatory matter;
- The Group is subject to temporary suspension of trade, with a temporary adverse impact on revenue, for example, as a result of regulatory action or a successful cyber-attack on key business systems; and
- The business is subject to significant uninsured losses arising from medical malpractice, negligence or similar claims.

For the covenant testing periods ending December 2021 and June 2022, the Directors are confident that the Group has sufficient headroom to stay within the new covenants, with the mitigations available (which would include management of working capital and constrained levels of capital investment), even in its severe but plausible downside scenarios.

Based on the current assessment of the likelihood of these risks arising by 30 September 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.

Directors' responsibility statement *continued*

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

- This condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with UK adopted International Accounting Standard 34 and Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company on a consolidated basis.

- The interim management report, which is incorporated into the Chief -Executive Officer message, Operating Review and Financial Review, includes a fair review of the information as required by:

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

    - DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially impacted the financial position or performance of the Group during the period and any material changes in the related party transactions described in the Group's Annual Report and Accounts for the year ended 31 December 2020.

By order of the Board

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

8 September 2021

Independent review report of Spire Healthcare Group plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity, Consolidated interim balance sheet, Consolidated interim statement of cash flows and related notes 1 to 21 We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

As disclosed in note 3, the annual financial statements of the Group will be prepared in accordance with UK adopted International Accounting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

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

Ernst & Young LLP

London

08 September 2021

Condensed financial statements

Consolidated interim income statement

For the six months ended 30 June 2021

		Six months ended 30 June (Unaudited)					
		2021			2020		
(£ million)	Note	**Total before adjusting items**	**Adjusting items (note 10)**	**Total**	Total before adjusting items	Adjusting items (note 10)	Total
Revenue	6	**558.2**	**–**	**558.2**	401.9	–	401.9
Cost of sales		**(304.1)**	**–**	**(304.1)**	(205.1)	–	(205.1)
Gross profit		**254.1**	**–**	**254.1**	196.8	–	196.8
Other operating costs		**(206.2)**	**(2.3)**	**(208.5)**	(182.0)	(204.7)	(386.7)
Other income	8	**0.6**	**–**	**0.6**	0.1	–	0.1
Operating profit		**48.5**	**(2.3)**	**46.2**	14.9	(204.7)	(189.8)
Net finance costs	9	**(41.5)**	**–**	**(41.5)**	(41.5)	–	(41.5)
Profit / (Loss) before taxation		**7.0**	**(2.3)**	**4.7**	(26.6)	(204.7)	(231.3)
Taxation	11	**(21.6)**	**–**	**(21.6)**	(2.6)	0.8	(1.8)
Loss for the year		**(14.6)**	**(2.3)**	**(16.9)**	(29.2)	(203.9)	(233.1)
Loss for the year attributable to owners of the Parent		**(14.6)**	**(2.3)**	**(16.9)**	(29.2)	(203.9)	(233.1)
Loss per share (in pence per share)							
– **basic**	12	**(3.6)**	**(0.6)**	**(4.2)**	(7.3)	(50.9)	(58.2)
– **diluted**	12	**(3.6)**	**(0.6)**	**(4.2)**	(7.3)	(50.9)	(58.2)

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2021

(£ million)	Six months to 30 June (Unaudited) 2021	2020
Loss for the period	**(16.9)**	(233.1)
Items that may be reclassified to profit or loss in subsequent periods		
Profit / (loss) on cash flow hedges	**1.6**	(2.3)
Taxation on cash flow hedges	**(0.3)**	0.5
Other comprehensive income / (loss) for the period	**1.3**	(1.8)
Total comprehensive loss for the period attributable to owners of the Parent	**(15.6)**	(234.9)

Consolidated interim statement of changes in equity

For the six months ended 30 June 2021

(£ million)	Notes	Share capital	Share premium	Capital reserves	EBT share reserves	Hedging reserve	Retained earnings	Total equity
As at 1 January 2020		**4.0**	**826.9**	**376.1**	**(0.8)**	**(2.1)**	**(264.2)**	**939.9**
Profit for the period		–	–	–	–	–	(233.1)	(233.1)
Other comprehensive loss for the period		–	–	–	–	(1.8)	–	(1.8)
Total comprehensive income		–	–	–	–	(1.8)	(233.1)	(234.9)
Share-based payments (net of tax)	20	–	–	–	–	–	0.8	0.8
As at 30 June 2020		**4.0**	**826.9**	**376.1**	**(0.8)**	**(3.9)**	**(496.5)**	**705.8**
As at 1 January 2021		**4.0**	**826.9**	**376.1**	**(0.8)**	**(3.2)**	**(496.4)**	**706.6**
Loss for the period		**–**	**–**	**–**	**–**	**–**	**(16.9)**	**(16.9)**
Other comprehensive loss for the period		**–**	**–**	**–**	**–**	**1.3**	**–**	**1.3**
Total comprehensive loss		**–**	**–**	**–**	**–**	**1.3**	**(16.9)**	**(15.6)**
Share based payments (net of tax)	20	**–**	**–**	**–**	**–**	**–**	**1.7**	**1.7**
Balance at 30 June 2021		**4.0**	**826.9**	**376.1**	**(0.8)**	**(1.9)**	**(511.6)**	**692.7**

Consolidated interim balance sheet

(£ million)	Notes	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	**1,520.6**	1,535.3
Intangible assets	14	**317.8**	317.8
Financial asset		**1.9**	1.6
		1,840.3	1,854.7
Current assets			
Inventories		**35.3**	37.6
Trade and other receivables		**106.4**	101.4
Cash and cash equivalents		**116.1**	106.3
		257.8	245.3
Non-current assets held for sale	5	**4.8**	4.8
		262.6	250.1
Total assets		**2,102.9**	2,104.8
EQUITY AND LIABILITIES			
Equity			
Share capital		**4.0**	4.0
Share premium		**826.9**	826.9
Capital reserves		**376.1**	376.1
EBT share reserves		**(0.8)**	(0.8)
Hedging reserve		**(1.9)**	(3.2)
Retained earnings		**(511.6)**	(496.4)
Equity attributable to owners of the Parent		**692.7**	706.6
Total equity		**692.7**	706.6
Non-current liabilities			
Bank borrowings	15	**420.2**	418.6
Lease liability	16	**670.7**	670.3
Derivatives	17	**0.1**	1.5
Deferred tax liability		**75.8**	53.9
		1,166.8	1,144.3
Current liabilities			
Bank borrowings	15	**2.2**	2.2
Lease liability	16	**79.9**	79.2
Derivatives	17	**2.3**	2.5
Provisions	18	**32.8**	33.0
Trade and other payables	19	**126.1**	136.9
Income tax payable		**0.1**	0.1
		243.4	253.9
Total liabilities		**1,410.2**	1,398.2
Total equity and liabilities		**2,102.9**	2,104.8

Consolidated interim statement of cash flows

For the six months ended 30 June 2021

(£ million)	Notes	Six months ended 30 June (Unaudited) 2021	2020
Cash flows from operating activities			
(Loss) / profit before taxation		**4.7**	(231.3)
Adjustments for:			
Depreciation	7	**47.5**	46.7
Adjusting Items, including impairment		**2.3**	201.2
Share-based payments	20	**1.7**	0.8
Fair value movement on financial assets		**(0.6)**	(0.1)
(Profit) / Loss on disposal of property, plant and equipment	7	**(0.1)**	–
Finance costs	9	**41.5**	41.5
		97.0	58.8
Movements in working capital:			
(Increase)/Decrease in trade and other receivables		**(5.5)**	42.4
Decrease/(Increase) in inventories		**2.3**	(2.4)
Decrease in trade and other payables		**(8.0)**	(28.9)
(Decrease)/increase in provisions		**(0.1)**	2.1
Cash generated from operations		**85.7**	72.0
Income tax received		**–**	3.6
Net cash from operating activities		**85.7**	75.6
Cash flows from investing activities			
Purchase of property, plant and equipment		**(31.6)**	(28.1)
Proceeds of disposal of Sussex assets (Adjusting Item)		**2.0**	–
Proceeds of disposal of property, plant and equipment		**0.1**	–
Net cash used in investing activities		**(29.5)**	(28.1)
Cash flows from financing activities			
Bank interest paid		**(6.5)**	(7.8)
Lease interest paid		**(32.7)**	(29.0)
Payment of lease principal		**(7.2)**	(10.6)
Net cash used in financing activities		**(46.4)**	(47.4)
Net increase in cash and cash equivalents		**9.8**	0.1
Cash and cash equivalents at beginning of period		**106.3**	90.8
Cash and cash equivalents at end of period		**116.1**	90.9
Adjusting items (note 10)			
Adjusting items included in the cash flow		**2.0**	(3.5)
Total Adjusting items		**(2.3)**	(204.7)

1. General information

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

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

The condensed consolidated interim financial information for the six months ended 30 June 2021 was approved by the Board on 8 September 2021.

2. Basis of preparation

The condensed consolidated interim financial information has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with UK adopted International Accounting Standard 34 "Interim Financial Reporting". It does not include all the information required for full annual financial statements and should be read in conjunction with information contained in the Group's Annual Report and Accounts for the year ended 31 December 2020. The condensed consolidated interim financial information has been reviewed, not audited.

The financial information contained in these interim statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Financial information for the year ended 31 December 2020 has been extracted from the statutory accounts which were approved by the Board of Directors on 03 March 2021 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Going concern

The Group assesses going concern on a 12 month period to 30 September 2022. The Group has cash of £116.1m and access to a further £100m through a committed and undrawn revolving credit facility.

Given the economic uncertainty arising from the COVID-19 pandemic, the Group has maintained its position of not paying a dividend. The Group has not had to undertake any further action in regard of maintaining its liquidity in H1 2021.

The Group confirmed in an 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 covering the period from 1 January 2021 to 31 March 2021, 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 contract, which covered Q1 2021, provided Spire Healthcare with liquidity and a greater degree of certainty as the Group received monthly payments on account, which were then subject to finalisation with reference to actual volumes in the period, rather than a cost based approach.

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 over the last 12 months. 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.

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. As the ratio stood at 2.7x on 30 June 2021, the limit for this measure will revert to 4x for the purposes of the next test on 31 December 2021.

As part of the agreement reached with its lenders in 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. This requirement fell away from 30 June 2021 as the Group's actual net debt to EBITDA ratio was below 4x.

In addition to this, the maturity date of the Senior Loan Facility was extended by one year to July 2023.

The Group has undertaken extensive activity to identify plausible risks which may arise and mitigating actions, which in the first instance would include management of working capital and constrained levels of capital investment. The specific scenarios covered by the Group's testing are summarised below, further information on these is provided in the Principal Risks section.

- In respect of the on-going uncertainty relating to the COVID-19 pandemic, the Group has modelled for the risk of extensive restrictions as a result of lockdowns in late 2021 and early 2022;
- Downside modelling of a number of risks which result in a decline in earnings arising from issues connected with the UK/ EU trade negotiations, a general economic downturn or competitor action;
- A key hospital is subject to permanent or temporary suspension of trade, for example, due to a severe climate event, a major fire or regulatory matter;
- The Group is subject to temporary suspension of trade, with a temporary adverse impact on revenue, for example, as a result of regulatory action or a successful cyber-attack on key business systems; and
- The business is subject to significant uninsured losses arising from medical malpractice, negligence or similar claims.

For the covenant testing periods ending December 2021 and June 2022, the Directors are confident that the Group has sufficient headroom to stay within the new covenants, with the mitigations available (which would include management of working capital and constrained levels of capital investment), even in its severe but plausible downside scenarios.

Based on the current assessment of the likelihood of these risks arising by 30 September 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.

3. Accounting policies

In preparing the condensed consolidated financial information, the same accounting policies, methods of computation and presentation have been applied as set out in the Group's Annual Report and Accounts for the year ended 31 December 2020. The accounting policies are consistent with those of the previous financial year and corresponding interim period with the exception of the additional policies as set out below:

- Revenue from contracts with customers: the Group is not providing a revenue split between in-patient/Daycase, out-patient and other for the six month period ended 30 June 2021. This is on the basis that, for Q1 2021, the Group operated under an NHS COVID-19 contract rather than its normal operating model. The information is therefore not considered meaningful to users. The policy will remain under review for the full year 2021.

The annual financial statements of the Group will be prepared in accordance with UK adopted International Accounting Standards (UK adopted International Financial Reporting Standards ("IFRSs")) in conformity with the Companies Act 2006.

New standards, interpretations and amendments applied

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

The following amendments to existing standards were effective for the Group from 1 January 2021. These have not have had a material impact on the Group.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2

The Group will transition from LIBOR to a risk free rate ("RFR") in H2 2021, as has been agreed with lenders. The Group has, or will, apply the following practical expedients:

- Contractual changes or cash flow changes required as a result of the Reform will be treated as a movement in the market rate of interest
- Will not treat a derivative as discontinued as a result of any change required by the Reform
- Apply the temporary relief from having to meet the separately identifiable requirement from an RFR instrument is designated as a hedge of a risk component.

4. Significant judgements and estimates

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

The significant judgements and estimates used in the application of the Group's accounting policies are the same as those described in the Group's Annual Report and Accounts for the year ended 31 December 2020.

5. Non-current assets held for sale

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

	As at	
(£ million)	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Spire St Saviours property	**3.7**	3.7
East Midlands Cancer Centre property (Bostocks Lane)	**1.1**	1.1
Total assets held for sale	**4.8**	4.8

The Group remains committed to selling the above properties and the sale process continues. The timescales have been delayed as a result of the pandemic, but the Group remain confident that the process will reach completion.

6. Segmental reporting

In determining the Group's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the executive management team and the Board of Directors (in aggregate the chief operating decision maker) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that the Group has a single operating segment, being the provision of healthcare services. Admission data is not included due to the NHS COVID-19 contracts in place during the periods mean the data is not meaningful.

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

(£ million)	Six months ended 30 June (Unaudited) 2021	2020
Insured	**231.3**	145.8
NHS	**185.4**	200.4
Self-pay	**129.9**	47.7
Other	**11.6**	8.0
Total revenue	**558.2**	401.9

Group revenues increased by 39% to £558.2m (H1 20: £401.9m). The Group operated under an NHS contract in Q1 2021, with a minimum volume guarantee. The increase in revenue in H1 21 is mainly driven by the strong return of private patients as the Company regained full control of the payor mix from Q2 2021, as the NHS contract ended. NHS revenue in the period of £185.4m (H1 2020: £200.4m) includes amounts arising from specific COVID-19 contracts of £124.1m (H1 2020: £133.7m), with £10.1m relating to the FY20 NHS cost recovery contract being recognised in the period following customer agreement to volume-based variable consideration and final costings.

7. Operating profit

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

(£ million)	Six months ended 30 June (Unaudited) 2021	2020
Depreciation of property, plant and equipment	**33.3**	33.1
Depreciation of right of use assets	**14.2**	13.6
Impairment charge in respect of goodwill	**–**	200.0
Lease payments made in respect of low value and short leases	**6.7**	4.7
Profit on disposal of property, plant and equipment[1]	**(0.6)**	–
Staff costs	**220.7**	176.7

1 £0.4m of the profit on disposal of Property, Plant and Equipment is included in Adjusting Items in respect of the shortening of the lease at Spire Sussex..

8. Other income

(£ million)	Six months ended 30 June (Unaudited) 2021	2020
Fair value movement on financial asset	**0.6**	0.1

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

9. Finance costs

(£ million)	Six months ended 30 June (Unaudited) 2021	2020
Finance income:		
Interest income on bank facilities	**–**	(0.1)
Finance costs:		
Interest on bank facilities	**8.1**	8.5
Interest on obligations under leases	**33.4**	33.1
Total net finance costs	**41.5**	41.5

10. Adjusting Items

(£ million)	Six months ended 30 June (Unaudited) 2021	2020
Asset disposals, impairment and aborted project costs	**2.6**	200.0
Hospitals set up and closure costs	**0.1**	0.1
Remediation of regulatory compliance or malpractice	**(0.4)**	4.6
Total Adjusting Items	**2.3**	204.7
Income tax charge / (credit) on Adjusting Items	**–**	(0.8)
Total post-tax Adjusting Items	**2.3**	203.9

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 comparable measure of the Group's underlying performance.

In the period, the Group agreed to terminate the lease for our Sussex Hospital, with the NHS Trust taking over the running of the hospital from 31 March 2022. As part of this agreement, the Plant, Property and Equipment were sold to the Trust on 31 March 2021, the property lease shortened to a period of one year (reduced from 6 years) and a transitional arrangement was agreed. This has resulted in a £0.4m profit being reflected in Asset disposals offset by £0.2m of sale costs. Offsetting this profit are Mergers and Acquisition ("M&A") costs of £2.8m, largely relating to the attempted takeover bid by Ramsay Health Care. This results in net Asset Disposal, Impairment and Aborted Project costs of £2.6m in H1 2021. In the prior period, the Group recognised a one-off non-cash impairment to Goodwill of £200m.

Following the judgment in favour of the Group in its case against one of its insurers relating to Ian Paterson in H2 2020, the costs awarded were reviewed as part of the Court process in H1 2021 and the Group received an additional £0.4m of income, which has been recorded as Remediation of Regulatory Compliance or Malpractice. The insurer has been granted their appeal to the ruling, and this is expected to be heard at the Court of Appeal in H2 2021. In the prior period, the Group committed to providing on-going support to Paterson's patients, following the release of the Paterson Public Inquiry in February 2020, and provided for costs of £3.2m in ensuring the recommended actions from the report are fully adhered to.

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

11. Taxation

	Six months ended 30 June (Unaudited)	
(£ million)	**2021**	2020
Current tax:		
UK Corporation tax charge	**–**	–
Total current tax charge	**–**	–
Deferred tax:		
Origination and reversal of temporary differences	**1.6**	(2.8)
Impact of Adjusting items	**–**	(0.8)
Adjustments to prior periods	**2.3**	(0.7)
Impact of rate change adjustment	**17.7**	6.1
Total deferred tax charge	**21.6**	1.8
Total tax charge	**21.6**	1.8

The tax charge for the period has been calculated using an estimate of the effective annual rate of tax for the full year. This has been applied to the pre-tax profits for the six months ended 30 June 2021. The Group has separately calculated the tax rates applicable in respect of Adjusting items for the period as well as the tax rate change as a result of the substantive enactment in May 2021 of the Government's decision to increase the corporation tax rate from 19% to 25% from April 2023. The rate change therefore reflects the reassessment of deferred tax assets and liabilities to 25% from 19%, and results in a one-off charge of £17.7m.

12. Earnings per Share (EPS)

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

	Six months ended 30 June (Unaudited)	
	2021	2020
Loss for the period attributable to owners of the Parent (£ million)	**(16.9)**	(233.1)
Weighted average number of ordinary shares	**401,082,216**	401,081,391
Adjustment for weighted average number of shares held in the Employee Benefit Trust (EBT)	**(239,483)**	(243,480)
Weighted average number of ordinary shares in issue (No.)	**400,842,733**	400,837,911
Basic loss per share (in pence per share)	**(4.2)**	(58.2)

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

	Six months ended 30 June (Unaudited)	
	2021	2020
Loss for the period attributable to owners of the Parent (£ million)	**(16.9)**	(233.1)
Weighted average number of ordinary shares in issue	**400,842,733**	400,837,911
Adjustment for weighted average number of contingently issuable shares	**–**	–
Diluted weighted average number of ordinary shares in issue (No.)	**400,842,733**	400,837,911
Diluted loss per share (in pence per share)	**(4.2)**	(58.2)

As the weighted average number for contingently issuable shares would be anti-dilutive, they are excluded from the above. However, 12,630,653 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 comparable performance of the group.
Reconciliation of Profit to Profit excluding Adjusting items ("Adjusted profit"):

	Six months ended 30 June (Unaudited)	
	2021	2020
Loss for the period attributable to owners of the Parent (£ million)	**(16.9)**	(233.1)
Adjusting items (net of taxation) (see note 10)	**2.3**	203.9
Adjusted loss after tax (£ million)	**(14.6)**	(29.2)
Weighted average number of Ordinary Shares in issue	**400,842,733**	400,837,911
Weighted average number of dilutive Ordinary Shares	**400,842,733**	400,837,911
Adjusted basic earnings / (loss) per share (in pence per share)	**(3.6)**	(7.3)
Adjusted diluted earnings / (loss) per share (in pence per share)	**(3.6)**	(7.3)

As the weighted average number for contingently issuable shares would be anti-dilutive, they are excluded from the above. However, 12,630,653 shares are potentially dilutive in the future.

13. Property, plant and equipment

(£ million)	Freehold property	Leasehold improvements	Equipment	Assets in the course of construction	**Sub-total**	Right of use asset	**Total**
Net book value at 1 January 2021	690.2	117.1	152.1	9.2	**968.6**	566.7	**1,535.3**
Additions	2.8	4.8	16.4	2.5	**26.5**	–	**26.5**
New lease additions	–	–	–	–	**–**	9.8	9.8
Disposals and transfers	0.5	(0.2)	1.8	(4.2)	**(2.1)**	(1.4)	**(3.5)**
Depreciation	(9.0)	(4.1)	(20.2)	–	**(33.3)**	(14.2)	**(47.5)**
Net book value at 30 June 2021	**684.5**	**117.6**	**150.1**	**7.5**	**959.7**	**560.9**	**1,520.6**

Right of use assets are included in the following property, plant and equipment categories:

(£ million)	Leasehold Property	Equipment & motor vehicles	Total
Net book value at 1 January 2021	565.6	1.1	566.7
Additions	6.6	3.2	9.8
Indexation adjustments	–	–	–
Disposals and transfers	(1.4)	–	(1.4)
Depreciation	(13.7)	(0.5)	(14.2)
Net book value at 30 June 2021	**557.1**	**3.8**	**560.9**

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. When making the assessment, the value-in-use of the property is compared with its carrying value in the accounts. The value-in-use was calculated in line with the Group's forecast and sensitivities reflected in the Intangible impairment review. Where headroom is significant, no further work is undertaken. Where headroom is minimal, the property is reviewed in more detail, reviewing the factors driving underperformance. No impairment charge was taken in the period.

The value-in-use calculations require the Group to estimate cash flows expected to arise in the future, taking into account market conditions. In some cases, the cash flow forecasts reflect significant improvement in hospital performance as management respond to local market challenges or short-term operational challenges. The present value of these cash flows is determined using an appropriate discount rate and market conditions covering the four and a half-year period to December 2025. The Group has used a discount rate reflecting the Group's cost of capital of 8.97% (2020 year end: 9.4%), adjusted for the effects of IFRS 16. A long-term growth rate of 2% has been applied to cash flows beyond 2025.

Management identified a number of key assumptions relevant to the property impairment calculations, being EBITDA growth, which is impacted by an interaction of a number of elements and assumptions regarding revenue, cost inflation, capex maintenance spend, discount rates and terminal growth rates. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market conditions. Management undertook sensitivity and determined that should the discount rate increase by 200 basis points (bp) with all other assumptions remaining equal, sufficient headroom would remain.

14. Intangible asset

(£ million)	Total
Cost or valuation:	
At 31 December 2020 & 30 June 2021	518.8
Impairment:	
At 31 December 2020	201.0
Impairment	–
Total Impairment at 30 June 2021	201.0
Carrying amount:	
At 30 June 2021	**317.8**
At 31 December 2020	317.8

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

Management identified a number of key assumptions relevant to the value-in-use calculations, being revenue growth, which is impacted by an interaction of a number of elements of the operating model, including pricing trends, volume growth and the mix and complexity of discharges, assumptions regarding cost inflation and discount rate. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends.

The Group has used a discount rate reflecting the Group's cost of capital of 8.97% (2020 year end: 9.4%), adjusted for the effects of IFRS 16. A long-term growth rate of 2% has been applied to cash flows beyond 2025.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. For example, an increase of 25 basis points (bp) in the pre-tax discount rate, with all other assumptions held constant, or, reducing the terminal growth rate to 1.75% in the period beyond 2025, with all other assumptions held constant, would not result in an impairment charge (H1 2020: £200m impairment was booked).

15. Bank Borrowings

The bank loans are secured on fixed and floating charges over both the present and future assets of material subsidiaries of the Group. During the year to 31 December 2020, the Group obtained the agreement of its lenders to make certain amendments to its existing bank borrowing arrangements, refer to note 2 Basis of preparation for more information.

	As at	
(£ million)	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Amount due for settlement within 12 months	**2.2**	2.2
Amount due for settlement after 12 months	**420.2**	418.6
Total bank borrowings	**422.4**	420.8

Net debt for the purposes of the covenant test in respect of the Senior Loan Facility was £308.9m (December 2020: £318.7m) and the net debt to EBITDA ratio was 2.7x (December 2020: 3.9x). The net debt for covenant purposes comprises the senior facility of £425.0m less cash and cash equivalents. EBITDA for covenant purposes comprises EBITDA for Last Twelve Months (LTM) of pre-IFRS 16 EBITDA of £123.8m (2020: £90.7m) less the rental of a finance lease pre-IFRS 16 of £9.0m (2020: £8.8m).

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

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

(£ million)	Maturity	Margin over LIBOR	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Senior finance facility(1)	July 2023	2.25%	**423.6**	422.6
Revolving credit facility (undrawn committed facility)(2)	July 2023		**100.0**	100.0

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

2 The Revolving credit facility decreases to £87m from July 2022.

Changes in bank borrowings arising from financing activities

(£ million)	1 January	Cash flows	Non-cash changes	Loan modification	30 June
2021					
Bank loans	**420.8**	**(6.5)**	**7.6**	**0.5**	**422.4**
Total	**420.8**	**(6.5)**	**7.6**	**0.5**	**422.4**

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

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

16. Lease liability

Obligations under finance leases

The Group has finance arrangements in place in respect of hospital properties, vehicles, office and medical equipment. The leases are secured on fixed and floating charges over both the present and future assets of material subsidiaries in the Group. Leases, with a present value liability of £750.6m (H1 20: £740.3m), expire in various years to 2042 and carry a blended implicit interest rate of 9.0% (2020: 9.0%). Rent in respect of hospital property leases are reviewed annually with reference to RPI, subject to assorted floors and caps. The discount rate used is calculated on a lease-by-lease basis, and based on estimates of incremental borrowing rates.

Changes in lease liabilities arising from financing activities

(£ million)	1 January	Cash flows	Non-cash changes	Additions	Disposals / modification	30 June
2021						
Lease liabilities	**749.5**	**(39.9)**	**33.4**	**9.8**	**(2.2)**	**750.6**
Total	**749.5**	**(39.9)**	**33.4**	**9.8**	**(2.2)**	**750.6**

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

In the period, the Group recognised charges of £6.7m (2020: £4.7m) of lease expenses relating to short term and low value leases for which the exemption under IFRS 16 has been taken. Cash outflows in respect of these are materially in line with the expense recognised, resulting in a total cash outflow for all leases of £46.6m (2020: £44.3m). 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 (2020: no) sale and leaseback transactions in this period, however the lease in respect of Sussex was modified to reduce the term from 6 years to 12 months following the agreement for the transfer of the business to the NHS Trust in March 2022.

Some leases receive RPI increases on an annual basis which affects both the cash flow and interest charged on those leases. Except for this increase, cash flows and charges are expected to remain in line with the current period.

17. Derivatives

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

	As at	
(£ million)	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Amount due for settlement within 12 months	**2.3**	2.5
Amount due for settlement after 12 months	**0.1**	1.5
Total derivatives	**2.4**	4.0

The movement in respect of derivatives reflects £1.2m (December 2020: £1.4m) recycled in the period and a £0.4m (December 2020: 2.9m) positive change in fair value. All movements are reflected within other comprehensive income.

18. Provisions

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

(£ million)	Medical malpractice	Business restructuring and other	Total
At 1 January 2021	**29.9**	**3.1**	**33.0**
Increase in existing provisions	**2.6**	**1.3**	**3.9**
Provisions utilised	**(1.7)**	**(2.4)**	**(4.1)**
At 30 June 2021	**30.8**	**2.0**	**32.8**

Medical malpractice relates to estimated liabilities arising from claims for damages in respect of services previously supplied to patients. Amounts are shown gross of insured liabilities. Any such insurance recoveries of £7.4m (December 2020: £5.0m) are recognised in other receivables. This drives the majority of the movement in the Medical Malpractice provision.

Following the completion of the criminal proceedings against Ian Paterson, a consultant who previously had practicing privileges at Spire Healthcare, management agreed settlement with all current and known civil claimants (and the other co-defendants) and made a provision for the expected remaining costs in FY20. The provision is being utilised, but no addition has been made in H1 2021. This provision remains subject to ongoing review following the publication of the Public Inquiry report on Paterson issued on 4 February 2020, as the Group continues to assess the potential impact of the recommendations, but no adjustment has been made in this period. It is possible that, as further information becomes available, an adjustment to this provision will be required, but at this time, it reflects management's best estimate of the costs.

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

As at 30 June 2021, the remaining Business Restructuring and Other provisions primarily includes non-patient claims made against the Group. The Group is in the process of settling or defending such claims as appropriate.

Provisions as at 30 June 2021 are materially considered to be current and expected to be utilised at any time within the next twelve months.

19. Trade and other payables

	As at	
(£ million)	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Trade payables	**43.7**	58.0
Accrued expenses	**55.3**	48.3
Social security and other taxes	**8.2**	9.8
Other payables	**18.9**	20.8
Trade and other payables	**126.1**	136.9

Accrued expenses includes holiday pay accrued of £10.6m (December 2020: £3.8m) due to staff deferring leave to maintain operations throughout the COVID-19 pandemic and the continued impact of this into Q2 2021, as well as bonuses accrued during the year which will be paid in 2022.

Other payables includes an accrual for pensions and payments on account. Revenue in respect of payments on account are not recognised until the performance obligation has been met. At June 2021, the balance of payments on account was £12.2m (December 2020: £7.5m)

20. Share-based payments

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

The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £1.7m in the six months ended 30 June 2021 (2020: £0.8m). Employer's National Insurance is also being accrued, where applicable, at the rate of 14.3%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total National Insurance charge for the period was £0.2m (2020: £0.1m).

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

Long Term Incentive Plan

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

Deferred Share Bonus Award

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

Sharesave scheme

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

21. Financial risk management and impairment of financial assets

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

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

Note 30 in the Annual Report and Accounts 2020 sets out the Group's policies and processes for measuring and managing risk. These have not changed significantly during the period to 30 June 2021.

Credit risk and impairment

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk from trade receivables is considered to be low because of the nature of its customers and policies in place to prevent credit risk occurring in normal circumstances. Most revenues arise from insured patients' business and the NHS. Insured revenues give rise to trade receivables which are mainly due from large insurance institutions, which have high credit worthiness. The remainder of revenues arise from individual self-pay patients and Consultants. During the period, receivables have increased as private work has increased as a result of COVID-19 restrictions being removed, but aged debt has reduced. Individual self-pay patients continues to be the largest risk for the Group given the current economic uncertainty. The Expected Credit Loss ("ECL") as at June 2021 is £4.6m (December 2020: £5.3m).

The Group establishes an allowance for impairment that represents its expected credit loss in respect of trade and other receivables. This allowance is composed of specific losses that relate to individual exposures and also an expected credit loss component established using rates reflecting historic information for payor groups, and forward looking information. Given the continued economic uncertainty, the Group has considered the provision required, specifically for self-pay patients and maintained an adjustment to the provision accordingly, which is in line with the position at December 2020.

Investments

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

Interest rate risk

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

	Variable	Total	Undrawn facility
30 June 2021 (£ million)	**425.0**	**425.0**	**100.0**
Effective interest rate (%)	**2.90%**	**2.90%**	
31 December 2020 (£ million)	425.0	425.0	100.0
Effective interest rate (%)	2.88%	2.88%	

The following derivative contracts were in place at 30 June 2021 (December 2020: £4.0 million liability):

(£ million)	Interest rate	Maturity date	Notional Amount	Carrying value Asset / (Liability)
Interest rate swap	**1.2168%**	**July 2022**	**213.0**	**(2.4)**

The fair value of the above instrument is considered the same as its carrying value. In line with disclosures in note 30 of the 2020 Annual report and accounts, the above instrument uses level 2 of the fair value hierarchy to measure the fair value of the instrument. The variable rate consideration received by the Group is 0.0875% as at 30 June 2021, being lower than the hedged rate, resulting in some exposure on the hedged amount.

Sensitivity analysis

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

	Profit or loss		Equity	
(£ million)	25bp increase	25bp decrease	25bp increase	25bp decrease
30 June 2021				
Variable rate instruments	**(0.5)**	**0.5**	**(0.5)**	**0.5**
31 December 2020				
Variable rate instruments	(0.5)	0.5	(0.5)	0.5

Liquidity risk

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

30 June 2021			Maturity analysis		
(£ million)	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	More than 2 years
Trade and other payables	**117.9**	**117.9**	**117.9**	–	–
Bank borrowings	**422.4**	**450.5**	**10.8**	**11.6**	**428.1**
Lease liabilities	**750.6**	**1,698.7**	**79.9**	**80.1**	**1,538.7**
	1,290.9	**2,267.1**	**208.6**	**91.7**	**1,966.8**
Derivative interest rate swap	**2.4**	**2.9**	**2.4**	**0.5**	–
Total	**2.4**	**2.9**	**2.4**	**0.5**	–

31 December 2020			Maturity analysis		
(£ million)	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	More than 2 years
Trade and other payables	127.1	127.1	127.1	–	–
Bank borrowings	420.8	453.4	10.4	10.1	432.9
Lease liabilities	749.5	1,729.1	79.2	79.0	1,570.9
	1,297.4	2,309.6	216.7	89.1	2,003.8
Derivative interest rate swap	4.0	4.5	2.6	1.9	–
Total	4.0	4.5	2.6	1.9	–

Capital management

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

	As at	
(£ million)	**30 June 2021 (Unaudited)**	31 December 2020 (Audited)
Committed undrawn revolving credit facility	**100.0**	100.0
Cash and cash equivalents	**116.1**	106.3

Capital commitments

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

Capital commitments at the balance sheet date were £26.9m (December 2020: £20.9m).

Bases of valuation
As of 30 June 2021, except for the interest rate swap and the financial asset, the Group did not hold financial instruments that are included in level 1, 2 or 3 of the hierarchy.

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

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

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

As at 30 June 2021, the Group held the following financial instruments measured at fair value. There has been no change in the hierarchy categories during the period.

			Maturity analysis as at 30 June 2021		
Instruments measured at fair value (£ million)	Value as at 30 June 2021	Value as at 31 December 2020	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss					
Profit share arrangement	**1.9**	**1.6**	**–**	**–**	**1.9**
Financial liabilities at fair value through profit or loss					
Interest rate swaps	**(2.4)**	**(4.0)**	**–**	**(2.4)**	**–**
Financial liabilities at fair value using hedge accounting					
Interest rate swaps	(2.4)	(4.0)	–	(2.4)	–

In the period, Spire Healthcare received a profit share in respect of the financial asset of £0.3m. In addition a fair value movement of £0.6m was recognised in the income statement, and remains unrealised. The movement on the financial liability related wholly to fair value movements, and is unrealised.

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