

Parent company accounts for: *PARTNERSHIPS IN CARE PROPERTY 16 LIMITED*
Registered number: *05510031*
(note on page 49)

Priory Group UK 1 Limited

Annual report and consolidated financial statements for the year ended 31 December 2021

Registered number 09057543



Priory Group UK 1 Limited

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Priory Group UK 1 Limited

Company information

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09057543

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Priory Group UK 1 Limited

Strategic report

The directors present their strategic report on Priory Group UK 1 Limited for the year ended 31 December 2021.

Throughout the document, references to the "Company" refer to Priory Group UK 1 Limited. References to the "Group" refer to Priory Group UK 1 Limited and its subsidiaries. All amounts are presented in GBP £'000, unless otherwise stated.

Principal activities

The principal activity of the parent company is to act as an investment holding company.

The Group is a leading provider of rehabilitation care in the United Kingdom, focusing on the provision of acute psychiatry, forensic and rehabilitation and recovery services, specialist support for adults who have learning difficulties and autism and older people care. The Group operates in two divisions:

- The **Healthcare** division focuses on the treatment of patients with a variety of psychiatric conditions which are treated in both open and secure environments. This division also provides neuro-rehabilitation services.
- The **Adult Care** division provides specialist residential and supported living services for adults with a variety of learning difficulties, autism and mental health illnesses and supports older people who require residential, nursing and dementia care.

During 2021 the Group provided specialist education and children's services, in addition to operating a small number of healthcare and education facilities in the Middle East:

- The **Education and Children's Services** division (hereafter referred to as "Education") provided day and residential schooling, care and assessment for children with emotional and behavioural difficulties or autistic spectrum disorders.

This division was sold to an Investment fund of Waterland Private Equity Investments B.V. on 31 August 2021, see business review below.

Business review

On 19 January 2021 Acadia Healthcare sold the Group to Waterland Private Equity Investments B.V. ("Waterland") for an enterprise value of £1.08bn. The Group's immediate parent AHC-WW Jersey Ltd was acquired by RemedcoUK Ltd, a United-Kingdom registered company under the ultimate control of Waterland.

On 25 June 2021 the group completed a sale and leaseback transaction whereby several freehold properties were sold to corporate entities controlled by a large Real Estate Investment Trust, which already worked closely with MEDIAN Germany. The proceeds received were used in full to pay down accrued interest and capital on the loan note owing to AHC-WW Jersey Ltd, see note 19 for further details.

Following the acquisition of the Group by Waterland, a strategic review identified that the Priory Education and Children's Services business (including the Middle East operations) were non-core to the go-forward Waterland strategy and a decision was made to divest this business, see note 10 for further details.

The results for the year are set out in the consolidated income statement on page 16 and the financial position of the Group as at 31 December 2021 is set out in the consolidated balance sheet on page 18. Group revenue for the year from continuing operations was £721.0m (2020: £716.4m) and Adjusted EBITDA from continuing operations was £127.5m (2020: £113.4m), which represents a margin of 17.7% (2020: 15.8%) of revenue. Loss before tax from continuing operations was £51.9m (2020: loss of £167.6m).

The 2020 period was impacted by the COVID-19 pandemic restricting occupancy on a temporary basis and this situation has continued into 2021 with revenue growth restricted by constraints on the availability of nursing and care staff, impacting on the Group's ability to staff existing and new wards. Adjusted EBITDA has improved from 2020 to 2021 due to a strong focus on cost control, but also supported by the receipt of grants from funders to contribute towards the costs of managing the COVID-19 pandemic.

Net costs of £23.3m were recognised as exceptional items in the consolidated income statement. These related to reorganisation and rationalisation costs, transaction related expenses, impairment of property, plant and equipment and right of use assets and the disposal of property, plant and equipment. This compared to net exceptional costs of £106.7m in 2020, which related to reorganisation and rationalisation costs, transaction related expenses, impairment of property, plant and equipment and right of use assets and loss on disposal of property, plant and equipment. Further details of these exceptional charges are given in note 7 to the financial statements.

The Group ended the year with net liabilities of £184.0m (2020: £298.9m). This decrease in net liabilities was driven primarily by the disposal of the Education division, the sale and lease back transaction and the subsequent repayment of borrowings. The impact of being in a net liabilities position has been assessed and considered as part of the going concern review, see note 2 to the financial statements.

The Group competes in several highly competitive markets with a variety of for-profit and not-for-profit providers (including the NHS). Most competition is local, based on relevant catchment areas and local procurement initiatives. The NHS and other not-for-profit providers deliver equivalent services, with the NHS often being the dominant provider.

Regulatory requirements differ across the divisions, with the Group's activities in England in relation to mental healthcare, older people care and specialist services being regulated by the same body, the Care Quality Commission ("CQC"), and, in Scotland, Wales, Northern Ireland and Middle East, the local equivalent.

Land and buildings of the Group (including fixtures and fittings) were recorded at fair values on the Group's acquisition by Acadia Healthcare Company Inc, as determined by independent third party valuers, and subsequently depreciated and/or impaired as appropriate. The net book value at 31 December 2021 of £454.6m (2020: £1.080bn) is therefore regarded as the deemed cost less subsequent depreciation of the assets.

Priory Group UK 1 Limited

Strategic report

Business review (continued)

As a subsidiary of a US-listed company until the year ended 31 December 2020, the Group was charged with demonstrating compliance with the Sarbanes Oxley Act. Under this Act, the Directors were responsible for maintaining a suitable control environment. In this respect, the Group's Internal Audit department has worked closely with the business to embed process and control recommendations and enhancements. Despite no longer being a subsidiary of a US-listed company, the Group has maintained significant focus on maintaining the control environment.

Financial risk management

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risk faced by the Group, which primarily relates to credit, interest and liquidity risks, which arise in the normal course of the Group's business.

Credit risk

Financial instruments which potentially expose the Group to credit risk consist primarily of cash and trade receivables. Cash is only deposited with major financial institutions that satisfy certain credit criteria.

Credit risk is not considered to be significant given that over 90% of revenue is derived from publicly funded entities and payment is taken in advance from individuals for privately funded healthcare services. Direct debit arrangements are set up for privately funded residents in the Adult Care business. All Private Medical Insurance ('PMI') funded treatment is approved in advance by the relevant insurer.

Interest rate risk

The Group finances its operations through an intra-group loan with RemedcoUK Limited. The loan is denominated in pounds at a fixed interest rate of 7.4% per annum. The loan is repayable on 16 February 2024.

The Group also has access to a shared Revolving Credit Facility with Median Germany. Under this facility a maximum of EUR120m can be borrowed by the combined group. During 2021 RemedcoUK Limited borrowed £20m under this facility and loaned £19.1m to the Group to fund short-term working capital. The same amount remains outstanding at the balance sheet date.

Further information regarding these balances is set out in note 19.

Liquidity risk

The Group prepares annual and monthly cash flow forecasts reflecting known commitments and anticipated projects. The Group has sufficient available facilities and cash flows from profits to fund current commitments and has access to the Revolving Credit Facility discussed above.

Further information on the Group's financial risk management objectives, policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in note 24 to the consolidated financial statements.

Future developments and strategy

Management consider the Group to be in a good position to focus on recovery in capacity and increase occupancy at existing sites. A number of new developments, expansions and small acquisitions have been undertaken in recent years and the Group is focusing on these sites and other forms of organic growth. During 2021, the Group redeveloped a number of services and changed the use of existing sites to match changes in NHS demand, primarily arising from the NHS Transforming Care Agenda. This will continue into 2022. The Group intends to explore value-accretive bolt-on acquisitions of smaller operations that will enable the Group to expand service provision in growth areas or expand its geographical footprint.

The labour market is expected to remain challenging in both the Healthcare and Adult Care divisions in 2022. The Group is expected to have an advantage when competing for talent due to its reputation, competitive remuneration packages and career opportunities, which will be reflected in its recruiting, training and development measures.

The Group aims to continue to develop strong relationships with commissioners and to grow its services to the privately funded markets through a combination of focus on quality of patient care as well as the development of new products and an increased focus on private business development, particularly within the digital healthcare market. The Group aspires to deliver the highest quality care in behavioural care services including mental health, eating disorders, addictions, adult learning disabilities and autism, nursing and residential care. The priorities for driving quality are to meet or exceed national benchmarks for standards of care, striving for excellence in the services provided. The Group aims to deliver the best possible outcomes for the people who use its services and to be a market leader in innovation and best practice.

Key performance indicators

The Group's management uses a range of financial and non-financial indicators to measure the operational and strategic performance of the business. These include Adjusted EBITDA, Adjusted EBITDA margin, available beds, average daily census ("ADC") and occupancy percentages.

Financial

Adjusted EBITDA reflects earnings before interest, tax, depreciation, amortisation and operating exceptional items. This measure is presented as part of the consolidated income statement and in note 3 to the consolidated financial statements. Adjusted EBITDA margin reflects Adjusted EBITDA divided by revenue and for continuing operations it was 17.7% (2020: 15.8%) in the year. The Group aims to achieve Adjusted EBITDA in line with the board approved budget set for the year.

Priory Group UK 1 Limited

Strategic report

Key performance indicators (continued)

Non-financial

During the year, the average number of available beds across the Group was 7,478 (2020: 8,595); excluding supported living rental beds the number of available beds was 7,443 (2020: 8,555). ADC (excluding supported living rental beds) was 6,176 (2020: 7,044) and occupancy was 83.0% (2020: 82.3%). The Group aims to maximise available beds occupancy by increasing ADC across the divisions. ADC has fallen in the current year mainly due to the disposal of the Education division and a slow-down in new admissions due to the ongoing impact of the COVID-19 pandemic on the pipeline for referrals and admissions in certain areas.

Principal risks and uncertainties

The Group can be impacted by external factors. The principal factors are the ongoing COVID-19 crisis, changes in the UK government's policy towards the funding of health and specialist education, changes in the regulatory regime, competitive threats from other providers and the loss of key individuals. The following are the most significant risks and uncertainties facing the Group.

COVID-19

The global outbreak of COVID-19 represents an ongoing source of uncertainty within the wider macroeconomic environment, including the sectors in which we operate. Severe economic disruption was experienced throughout 2020, 2021 and into 2022 across most sectors due to the measures adopted by the UK government in response to the outbreak. Whilst the nature of the Group's business in terms of the provision of essential care services, and the composition of our funder mix, provides some partial mitigation against the financial effects of the outbreak, there is still an impact on the Group's results and operations.

There is a risk that admissions into our facilities are delayed or cancelled which would result in a decline in occupancy levels and reduced revenues. Furthermore, any localised outbreaks of the virus may prevent us from admitting new service users and/or lead to higher mortality rates in our older people business, which would further affect ADC and revenue levels.

There is a risk that our employees are required to self-isolate resulting in additional costs in respect of agency staff, or operational difficulties in maintaining appropriate staffing levels in our facilities. There are risks associated with our supply chains, due to the additional costs of sourcing personal protective equipment albeit some of these costs are offset by funding from central government and local authorities.

The Group continues to monitor the impact of COVID-19, in order to adequately plan for the future and manage our financial resources. The Group took a number of actions to minimise the financial impact in 2020, 2021 and into 2022, including a review of discretionary capital expenditure programmes, targeted consolidation of capacity and staffing, revisions to staff patterns and reductions in non-essential travel and non-mandatory training. Similar courses of action are available to the Group if required in future. The Group also made limited use of various government relief initiatives, for example securing funding to alleviate additional spending on personal protective equipment and the deferral of VAT payments. We do not expect COVID-19 to have any material impact on our ability to collect receivables from our customers as they fall due.

Loss of revenue from contracts with UK local authorities, CCGs and other NHS bodies

A substantial proportion of the Group's revenue derives from publicly funded bodies such as Local Authorities, Clinical Commissioning Groups (CCGs) and other NHS bodies. The Group expects to continue to rely on the ability and willingness of these bodies to pay for the Group's services. There are risks that either budget constraints or other financial pressures could cause such publicly funded bodies to allocate less money to the types of service that the Group provides or that political change or policy changes mean that fewer services are contracted from independent sector providers. To mitigate these risks the Group regularly assesses services provided to ensure they are sustainable and where necessary repositions services to align with demand.

Failure to comply with regulation and increased regulatory costs

All of the Group's services are subject to an increasingly high level of regulation by various regulatory bodies. New laws and regulations are being introduced (and may be introduced in the future) that could impose increased costs on the Group's operations. The Group is unable to predict the content of new legislation and/or regulations and their effect on its business. Whilst the Group would seek to recover such costs from its customers in appropriate cases, there can be no assurance that the Group's operations will not be adversely affected by legal and regulatory developments. In particular, where the Group fails to comply with relevant legislation or regulation, this may result in substantial compensation payments and/or fines which may have an adverse effect on results and/or cash flow.

Inspections by regulators are carried out on both an announced and unannounced basis dependent on the specific regulatory provisions relating to different care services. The failure to comply with government regulations, the receipt of a negative report that leads to the determination of regulatory non-compliance or the failure of the Group to cure any defect noted in an inspection report could result in the revocation of/imposition of conditions on, the registration of any service or a decrease in/cessation of, services provided by the Group.

To mitigate these risks, the quality of care is monitored by an experienced team and through the establishment of robust policies and procedures. The team are independent of the operating divisions and report directly to the board. Homes are regularly audited by the team to ensure compliance with care standards and action plans are drawn up in appropriate cases. Risks are mitigated by investing in the legal and compliance team, and in recruitment and training. Where changes in legislation can be predicted, the Group models the impact the changes will have in advance of the legislation being implemented.

Priory Group UK 1 Limited

Strategic report

Principal risks and uncertainties (continued)

Employees, staffing and recruitment

The Group's performance depends largely on its local staff and senior managers. The loss of key individuals and the inability to recruit people with the right experience and skills from the local community could adversely impact the Group's results. To mitigate these issues the Group have introduced a learning and development programme for all employees and have implemented a number of incentive schemes linked to the Group's results that are designed to retain key individuals.

In order to maintain appropriate staffing ratios at its hospitals and homes, the Group needs to recruit, train and retain adequate numbers of nurses, clinical staff, healthcare assistants and support workers (who are either permanently employed or "bank" staff) or contract with third party suppliers to provide appropriately qualified and trained agency staff. In 2021, against the background of the well documented and ongoing shortage of nurses and other clinical staff in the UK, it became apparent that a limited number of specialised services were experiencing significant local challenges in relation to staffing and it was considered appropriate to work with all stakeholders to relocate service users and patients to alternative placements. The challenges are continuing into 2022 and there is now increased competition for agency nurses and other clinical staff due to the introduction of IR35 in April 2021 which may result in the further consolidation of some services. The board takes proactive steps to mitigate these risks including regularly reviewing pay scales, improving salary offerings locally where appropriate and meeting with agency providers to secure longer term provision.

Inflationary pressures

Group performance also depends on our ability to accurately budget for and control costs. Given the well documented ongoing levels of high inflation in the UK, the Group is anticipating additional inflationary costs arising on rent (linked to RPI), energy supply, food supply and other costs.

The Group is currently proactively managing the procurement process through a consultancy project with Inverto and hedges exposure to fluctuations in energy prices through engagement with energy advisers. Nevertheless inflationary pressures are expected to continue through 2022 and therefore the Group will also work proactively with commissioners to ensure that these pressures are understood and that increased fees may be necessary to allow continuity of service provision.

Supply chain disruption

There continues to be uncertainty regarding trading and political relationships both as a result of Brexit and the conflict in Ukraine. The Directors believe that the Group is well positioned to contend with risks to the supply chain which are considered as follows:

The Group employs staff from overseas, albeit a relatively low proportion of the overall workforce, with retention and availability of these employees a potential risk to the Group. The Group continues to address this as part of its ongoing recruitment and retention strategies. Where overseas recruitment is necessary, the Group focusses on professionals from across the Commonwealth due to the transferable nature of mental health qualifications and accreditations in those jurisdictions.

A number of the Group's suppliers source products from overseas such as medicines, medical devices, clinical consumables and food. There could therefore be issues in relation to the availability of these products and potential price increases. The Group is in regular contact with its suppliers and is aware of the steps they are taking to protect stock levels and prevent disruption to supply. In many cases alternative products are available. Contracts are also in place in relation to price, which further mitigates this risk.

The Board's statement on Section 172(1)

The following Section 172 statement, which is required by the Companies Act 2006, describes how the directors have had regard to the matters set out in s172(1a to 1f) including key decisions and matters that are of strategic importance to the Group. The Board of Directors, in line with their duties under s172 of the Companies Act 2006, act in a way they consider, in good faith would be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term.

We aim to pursue an open and transparent dialogue with our key stakeholders in order to develop a clear understanding of their needs, assess their perspectives and monitor their impact on our strategic objectives. As part of the Board's decision-making process, the directors consider the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Group's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

Key stakeholders

Our key stakeholders are our service users (and their families), our workforce and our investors. Our regulators, commissioners, suppliers, and the communities we operate within are also important stakeholder groups. All key Board decisions take into account the impact on the relevant stakeholder groups, as follows:

Service users and their families

Our service users and their families are central to everything we do – the Group aims to make a real and lasting difference for every individual we provide services to in our facilities. The board receives regular updates around quality and compliance metrics so that the quality of the services provided can be closely monitored. Where necessary, the board may take the decision to temporarily close a service or suspend new admissions where this is deemed to be in the best interests of existing service users. Dialogue is maintained with clinical experts and service commissioners so that the services provided in a particular location are able to respond appropriately to local needs. The Group recognises that the families of our service users are also important stakeholders (particularly where services users are unable to give informed consent), and transparent and honest communication is vital - this is especially the case given the anxieties created by, and the ameliorating actions taken in response to, the COVID-19 outbreak. Transparent and honest communication includes informing service users and their families about the Group's approach to managing the current COVID-19 situation as well as more generally being open and honest about expectations, methodologies and preferred outcomes.

Priory Group UK 1 Limited

Strategic report

The Board's statement on Section 172(1) (continued)

Workforce

Our workforce is key to providing safe and effective care to the people we support. The Group employs a wide array of healthcare, education and social care professionals and engagement with those employees is paramount. The directors monitor the results of staff surveys, both regular and ad hoc; together with the Group's system of employee forums, which occur at local, regional and national level the Board is able to discuss human resourcing matters with the interests of its workforce at heart. An example of actions taken in response to the feedback generated through these channels is the articulation of tailored career pathways available to all Group employees. Annual salary reviews are undertaken with reference to the importance of colleague retention, changes in the National Living Wage, and commercial factors. The directors are committed to communicating the results of any wage reviews in a transparent manner.

Further information in respect of employees is set out in the Directors' report.

Investors

Our owners, Waterland Private Equity Investments B.V., are a European independent private equity investment group, with the UK Group being one of a number of current portfolio companies. Members of the UK Board engage regularly via meetings and phone calls with both the wider MEDIAN European Board and senior Waterland management in order to, inter alia, develop long-term and short-term business strategy and decide upon resource allocation.

Regulators

We are subject to a high degree of regulation, particularly in relation to the registration and ongoing inspection of our services. The "business review" section above outlines the key regulatory bodies. Results of inspections and more general reports made by the regulators are discussed by the board where appropriate, and ongoing dialogue is maintained in order to respond with agility to emerging areas of focus. Some of our regulators also have responsibility for monitoring the ongoing financial viability of our business – individual directors meet with the regulators periodically to discuss this aspect. Staff bonuses at all levels of the organisation are partly linked to the outcomes of internal and external quality metrics.

Commissioners

As the majority of our revenue is derived from public sources (local authorities, NHS England, local healthcare commissioners etc), it is important that we evolve our service provision to satisfy local demand (which can change over time) and provide those services at an appropriate cost. Communication with commissioners is ongoing both locally and nationally, and the Board will consider the requirements of commissioners when allocating resources for new or retooled service offerings, and agreeing a general approach to funding and contract renewal.

Suppliers

We aim to treat our suppliers fairly and work in partnership with them as they provide essential goods and services to the Group. It is our policy to adhere to agreed credit terms. Together with our contracted workforce, agency workers in the nursing and care professions play an essential role in delivering quality services – we endeavour to utilise pre-approved agencies and ensure that the level of onboarding and continuous training and development is provided to agency resource.

Communities and the wider environment

The Group operates nationally and many of our facilities are embedded within the wider community. It is therefore important that the impact of our operations on the communities we operate in are taken into consideration, particularly with regard to the readjustment of service users back into community settings. We are also cognisant of the need to consider the overall environment when contracting with suppliers, or considering any significant development projects, for example. The wider environment in which we operate is also of importance, particularly with the growing awareness of climate change and the concomitant expectation that organisations should seek to minimise their impact on the environment. We therefore take certain measures to improve energy efficiency, further details of which are set out in the directors' report under "Streamlined energy and carbon reporting".

Principal decisions

The Group defines principal decisions as those that are material, or of strategic importance to the Group, and also those that have a significant impact on any of our key stakeholder groups. By way of example, a selection of principal decisions taken by the Board during the year is set out below, highlighting the primary stakeholder groups affected and some of the considerations taken into account in reaching those decisions.

Approval of the 2022 budget and business plan

The board approved the final budget for 2022 which includes business plans for each existing facility as well as central functions in order to arrive at an aggregated business plan. The key stakeholder groups affected were our investors and our workforce. Some of the key considerations taken into account included the need for an appropriate shareholder return, the need to recruit, motivate and retain our staff (including assessing appropriate pay increases and incentive schemes) and the likely impact on our cost base of increases in supply costs, balancing value for money with the interests of our suppliers.

Sale and leaseback and sale of education division

As discussed above, the board approved the sale and leaseback of several of the group's freehold property assets. Additionally, the board approved the divestment of the Education division to a sister Waterland investment vehicle. The key stakeholder groups affected were our investors, our workforce, our finance providers and our service users and their families. Some of the key considerations taken into account included the need to safely maximise shareholder return, to provide the best service to service users and provide resource to strengthen our ability to invest and grow the divisions of the group. Taken together, these approved transactions have enabled the wider group to reduce its levels of external debt finance and concentrate management resource on its core activities of healthcare and adult social care.

Priory Group UK 1 Limited

Strategic report

The Board's statement on Section 172(1) (continued)

Facility refurbishments, expansions and retoolings

As part of the 2021 and 2022 budgets and looking ahead into the medium term, the Board approved a number of significant capital expenditure projects in order to refurbish and/or expand existing facilities, retool locations to better reflect demand for services or offer higher value services, and consider selective additional property acquisitions to expand certain service lines. The key stakeholder groups affected are our investors, our commissioners and current and future service users. Some of the key considerations taken into account included the likely return on investment of such projects, the ability of a project to meet the requirements of commissioners in providing a particular service, and our ability to safely staff and effectively operate the service. The timing of such projects is kept under review and planned works amended where necessary.

Reorganisation of operating models

During the year, the Board decided to introduce divisional Operating Boards to monitor performance of the individual divisions. This decision was taken in conjunction with a restructuring exercise to rationalise layers of management within the Healthcare division in particular. The key objectives being to devolve more managerial autonomy to site level and regional leaders, bringing key decisions closer to operational level. This strategy will continue to be monitored within an overriding Group framework, but aligns Priory closer to the operational model which has been successful for Median in Germany for a number of years.

Rationalisation of certain facilities

During the year, the Board decided to rationalise a number of services, primarily within the Group's older people care offering, through a managed wind down and/or sale of a number of non-core facilities. The key stakeholder groups affected are our service-users, our commissioners and regulators, our workforce as well as in some instances our landlords. Some of the key considerations taken into account included whether the operational and financial performance of facilities could be satisfactorily improved, whether enhanced capital expenditure at these facilities represents an efficient use of capital, and where sites were earmarked for closure how employees, commissioners and service users were consulted in order to minimise disruption.

By order of the Board

Dave Hall

David Hall

Director

Fifth Floor
80 Hammersmith Road
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England
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29 June 2022

Priory Group UK 1 Limited

Directors' report

The directors present their annual report and the audited consolidated and company financial statements of Priory Group UK 1 Limited for the year ended 31 December 2021. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations in conformity with the requirements of the Companies Act 2006 and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), in particular FRS 101.

This report should be read in conjunction with the strategic report set out from page 2. The Group has chosen in accordance with Section 414C(11) of the Companies Act 2006 to set out in the strategic report the following which the directors believe to be of strategic importance:

- Business review;
- Future developments and strategy;
- Financial risk management; and
- Principal risks and uncertainties.

Dividends

The directors do not recommend the payment of a dividend (2020: £nil).

Directors

The directors who held office during the year and up to the date of signing the financial statements were as follows:

| | |
|--------------------|-----------------------------|
| Christopher Howard | (resigned 19 January 2021) |
| Debra Osteen | (resigned 19 January 2021) |
| Trevor Torrington | (resigned 12 July 2021) |
| Ryan Jarvis | (resigned 12 July 2021) |
| Jim Lee | (appointed 12 July 2021) |
| André Schmidt | (appointed 12 July 2021) |
| David Hall | (appointed 12 July 2021) |
| Rebekah Cresswell | (appointed 8 December 2021) |

Going concern

The Board reviews forecasts of the Group's liquidity requirements based on a range of scenarios to ensure it has sufficient cash to meet operational needs. The formal period for which the Board has assessed the appropriateness of the going concern assumption extends from the date of signing these financial statements to 30 June 2023, although there are no known or anticipated events or factors beyond this period that would impinge on the ability of the Group to determine its continuation as a going concern.

At 31 December 2021, the Group had debt (including accrued interest) of £280.4m due to its immediate parent, RemedcoUK Limited, a wholly owned subsidiary of the Group's ultimate parent.

The directors have adopted the going concern basis (notwithstanding the net liabilities as at 31 December 2021 of £184.0m) in preparing these financial statements after assessing the principal risks and having considered the impact of a severe but plausible scenario potentially precipitated by a general deterioration in trading conditions.

With regard to the ongoing impact of COVID-19, it is assumed that operations remain substantially open for business, given the nature of the facilities, customer base and the vulnerable nature of the people supported. Given the Group's proven resilience to the effects of the pandemic as demonstrated by its performance throughout 2021, the ongoing impact of the pandemic is not thought to materially threaten the going concern status of the Group.

The directors have used the 2022 budget as a base case financial and liquidity forecast for the going concern assessment period and applied sensitivities to that forecast to derive a severe but plausible downside scenario. Specifically, the severe but plausible downside scenario assumes:

- Reductions in occupancy levels from budget of between 2% and 7% depending on business division;
- Additional group-wide wage costs of 2% compared to the base case;
- No revision to capital expenditure programmes where non-essential and development/expansion capital expansion is deferred or paused indefinitely; and
- No utilisation of the RCF Facility.

The revenue and cost impact of such a scenario would have a significant negative impact on the Group's profitability for 2022 and the first half of 2023, although would still deliver positive EBITDA and sufficient cash liquidity throughout the going concern assessment period.

The directors have also conducted a review of the forecast to ascertain the possible circumstances in which liquidity would become negative during the going concern assessment period. Such a scenario would involve an unprecedented reduction in occupancy, a failure to take any mitigating actions with regard to the cost base of the Group and planned capital expenditure, and would be significantly more pessimistic than conditions experienced in recent years. As such, the likelihood of the realisation of this hypothetical scenario is considered to be remote.

After making appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties, the directors are satisfied that the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. They have done this by examining and stress-testing the trading forecasts and financing requirements of the Group for the period from the date of approval of these financial statements to 30 June 2023. The directors are satisfied that the going concern basis of preparation for these financial statements is appropriate. Accordingly, the financial statements have been prepared on a going concern basis.

Priory Group UK 1 Limited

Directors' report

Employees

The directors recognise that the continued position of the Group in the behavioural care industry depends on the quality and motivation of its employees. Well trained, engaged and quality employees are crucial for the Group to ensure that service users receive the best quality care. The key quality performance indicators the Group uses to measure engagement and training are: the employee opinion survey, employee sickness levels and compliance with the Group e-learning programme. The Group has low levels of sickness and high levels of compliance with training programmes. Whilst monitoring these performance indicators, the Group continues to review its remuneration system to ensure it is fair, transparent, flexible and provides individual recognition. Employees have a personal development plan that is monitored, assessed and modified during the annual appraisal process.

The Group recognises that good and effective employee communications are particularly important to retaining and motivating employees, and throughout the business it is the directors' policy to promote the understanding by all employees of the Group's business aims, purpose, performance and individual opportunities for personal and career development. This is achieved through internal publications, presentations on performance and a variety of other approaches appropriate for a particular location. Employees are consulted on issues through the "Your Say" forum. Our internal employee communications have been reviewed and improved during the year, resulting in an updated intranet site and a weekly e-newsletter. Results of the employee opinion survey will drive further improvements. In all these areas, the Group continues to further invest in resource and IT solutions in order to deliver a positive experience for all our colleagues.

The directors believe that it is important to recruit and retain capable and caring staff regardless of their gender, marital status, race, sexuality or religion. It is the Group's policy to give full and fair consideration to applications for employment from people who are disabled, to continue wherever possible the employment of and to arrange appropriate training for, employees who become disabled and to provide equal opportunities for the career development, training and promotion of disabled employees.

Streamlined energy and carbon reporting

In April 2019, the Department for Business, Energy and Industrial Strategy introduced a new reporting regulation entitled the Streamlined Energy and Carbon Reporting Framework ("SECR"), replacing various other reporting requirements. Organisations subject to the SECR are required to include information relating to their energy usage and carbon emissions. This is the second year for which such disclosures apply to the Group.

The energy used by the Group in the year ended 31 December 2021 is as follows¹:

| Emission type | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|--------------------|--------------------|--|
| Scope 1 (direct) | 112,725,005 | 22,407 |
| Scope 2 (indirect) | 35,590,751 | 7,556 |
| Scope 3 (indirect) | 2,895,023 | 717 |
| | 151,210,779 | 30,680 |

¹Energy and carbon reporting data for the divested companies was prepared for the full year and an apportionment is included in the above data for the period they were part of the Priory Group.

Scope 1 emissions are emissions from activities owned or controlled by the Group that release emissions into the atmosphere. These include emissions from combustion in boilers, furnaces and vehicles. Scope 2 emissions are those associated with the Group's consumption of purchased electricity, heat, steam and cooling. Scope 3 emissions are those emissions which occur at sources which the Group does not own or control, primarily employee-owned vehicles.

Scope 1 emissions in the year ended 31 December 2021 were as follows:

| Emission type | Definition | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|---------------|--|--------------------|--|
| Gas | Emissions from combustion of gas | 83,367,337 | 15,269 |
| Liquid fuels | Emissions from combustion of fuel for stationary machinery and engines | 21,383,153 | 5,177 |
| Transport | Emissions from combustion of fuel for transport purposes | 7,974,515 | 1,961 |
| | | 112,725,005 | 22,407 |

Scope 2 emissions in the year ended 31 December 2021 were as follows:

| Emission type | Definition | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|---------------|--------------------------------------|--------------------|--|
| Electricity | Emissions from purchased electricity | 35,590,751 | 7,556 |

Priory Group UK 1 Limited

Directors' report

Streamlined energy and carbon reporting (continued)

Scope 3 emissions in the year ended 31 December 2021 were as follows:

| Emission type | Definition | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|---------------------|--|--------------------|--|
| Employee-owned cars | Emissions from business travel in rental cars or employee-owned vehicles | 2,895,023 | 717 |

The energy used by the Group in the year ended 31 December 2020 is as follows:

| Emission type | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|--------------------|--------------------|--|
| Scope 1 (direct) | 111,377,137 | 22,408 |
| Scope 2 (indirect) | 37,634,818 | 8,774 |
| Scope 3 (indirect) | 3,125,296 | 844 |
| | 152,137,251 | 32,026 |

Scope 1 emissions are emissions from activities owned or controlled by the Group that release emissions into the atmosphere. These include emissions from combustion in boilers, furnaces and vehicles. Scope 2 emissions are those associated with the Group's consumption of purchased electricity, heat, steam and cooling. Scope 3 emissions are those emissions which occur at sources which the Group does not own or control, primarily employee-owned vehicles.

Scope 1 emissions in the year ended 31 December 2020 were as follows:

| Emission type | Definition | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|---------------|--|--------------------|--|
| Gas | Emissions from combustion of gas | 79,318,187 | 14,584 |
| Liquid fuels | Emissions from combustion of fuel for stationary machinery and engines | 22,933,396 | 5,630 |
| Transport | Emissions from combustion of fuel for transport purposes | 9,125,554 | 2,194 |
| | | 111,377,137 | 22,408 |

Scope 2 emissions in the year ended 31 December 2020 were as follows:

| Emission type | Definition | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|---------------|--------------------------------------|--------------------|--|
| Electricity | Emissions from purchased electricity | 37,634,818 | 8,774 |

Scope 3 emissions in the year ended 31 December 2020 were as follows:

| Emission type | Definition | Total volume (kWh) | Calculated emissions (Tonnes of CO ₂ e) |
|---------------------|--|--------------------|--|
| Employee-owned cars | Emissions from business travel in rental cars or employee-owned vehicles | 3,125,296 | 844 |

Intensity measure

The intensity measure used by the Group is Tonnes of CO₂e per available bed. On this measure, the intensity value for the year ended 31 December 2021 is 4.103 Tonnes of CO₂e per available bed (2020: 3.726 Tonnes of CO₂e per available bed). The increase in the current year is being driven by the change in the number of available beds rather than increased emissions.

Priory Group UK 1 Limited

Directors' report

Streamlined energy and carbon reporting (continued)

Methodology

The Group has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol - Corporate Standard, and from the UK Government GHG Conversion Factors for Company Reporting document for calculating carbon emissions. Energy usage information (gas and electricity) has been obtained directly from our energy suppliers and HH/AMR data, where available, for those supplies with HH/AMR meters. For supplies where there wasn't complete 12 month energy usage available, flat profile estimation techniques were used to complete the annual consumption. CO₂e emissions were calculated using the appropriate emission factors from the UK Government GHG conversion information.

Energy efficiency measures

The Group takes its impact on the global climate seriously, recognising the importance of good environmental practice. Where feasible, the Group is committed to adopting energy efficiency measures to help reduce its impact on climate change. Energy efficiency measures taken across the Group during the year include works to replace older and inefficient air conditioning units and boilers with modern, cleaner alternatives (including installing air source heat pumps at one location), conversion of oil fired boilers to LPG, installation of LED lighting and the upgrade of building insulation. The Group will also be buying renewable energy moving forward.

The Priory Green initiative was set up in 2020 and is the corporate sustainability programme which will interlink Priory's medical expertise with a sustainable sourcing and responsibility strategy. Priory have committed to reduce CO₂ emissions by 5% per year between 2021 and 2025.

Provision of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

David Hall

David Hall
Director

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
29 June 2022

Priory Group UK 1 Limited

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with UK adopted International accounting standards in conformity with the requirements of the Companies Act 2006, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit and loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs (and in respect of the parent company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance;
- in respect of the group financial statements, state whether UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and/or the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

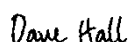
On behalf of the Board



Jim Lee

Director

29 June 2022



David Hall

Director

29 June 2022

Priory Group UK 1 Limited

Independent auditors' report to the members of Priory Group UK 1 Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Priory Group UK 1 Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the consolidated and parent company balance sheets as at 31 December 2021; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Priory Group UK 1 Limited

Independent auditors' report to the members of Priory Group UK 1 Limited

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety legislation, data protection regulations and employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax laws. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance, management bias in determining significant accounting estimates and accounting for significant one-off or unusual transactions. Audit procedures performed by the engagement team included:

- enquiring with management, internal audit and those charged with governance to understand the relevant laws and regulations applicable to the group and parent company, and their assessment of fraud related risks;
- evaluating management's controls designed to prevent and detect fraudulent financial reporting;
- identifying and testing journal entries using a risk-based targeting approach for unusual account combinations that could impact revenue and EBITDA;
- challenging assumptions and judgements made by management in determining significant accounting estimates including litigation provisions, impairment charges and the assumptions underpinning the defined benefit pension obligation;
- assessing the accounting for the sale and lease back transaction and disposal of the Education division against the requirements of the relevant IFRSs; and
- reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Priory Group UK 1 Limited

Independent auditors' report to the members of Priory Group UK 1 Limited

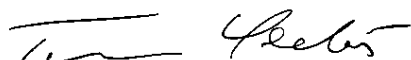
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Tom Yeates (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

29 June 2022

Priory Group UK 1 Limited

Consolidated income statement for the year ended 31 December 2021

| £'000 | Note | Year ended 31 December 2021 | Year ended 31 December 2020 Restated* |
|--|------|--------------------------------|---|
| Continuing operations | | | |
| Revenue | 3 | 721,010 | 716,390 |
| Operating costs | 4 | (660,504) | (672,946) |
| Exceptional items | 7 | (23,304) | (106,699) |
| Other operating income | 13 | 277 | 277 |
| Operating profit/(loss) | 3 | 37,479 | (62,978) |
| Analysed as: | | | |
| Adjusted EBITDA | | 127,483 | 113,399 |
| Depreciation | 4 | (61,651) | (63,160) |
| Amortisation | 4 | (5,049) | (6,518) |
| Exceptional items | 7 | (23,304) | (106,699) |
| Operating profit/(loss) | | 37,479 | (62,978) |
| Finance costs | 8 | (89,461) | (104,661) |
| Finance income | 8 | 56 | 61 |
| Loss before tax | | (51,926) | (167,578) |
| Income tax | 9 | (32,542) | 27,898 |
| Loss from continuing operations | | (84,468) | (139,680) |
| Profit/(loss) from discontinued operations | 10 | 194,162 | (129,912) |
| Profit/(loss) for the year | | 109,694 | (269,592) |

*See Note 2(v) for details of restatement. Comparatives have been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items. All are 'non-GAAP measures' as they are not measures defined within IFRS and are discussed in more detail in note 2.

Priory Group UK 1 Limited

Consolidated statement of comprehensive income for the year ended 31 December 2021

| £'000 | Year ended 31 December 2021 | Year ended 31 December 2020 restated* |
|--|--------------------------------|---|
| Loss from continuing operations | (84,468) | (139,680) |
| Profit/(loss) from discontinued operations | <u>194,162</u> | <u>(129,912)</u> |
| | 109,694 | (269,592) |
| Actuarial gain/(loss) on defined benefit scheme | 5,760 | (4,864) |
| Movement in deferred tax relating to actuarial gain/(loss) | <u>(554)</u> | <u>924</u> |
| Other comprehensive income/(expense) for the year | 5,206 | (3,940) |
| Total comprehensive income/(expense) for the year | <u>114,900</u> | <u>(273,532)</u> |

*See Note 2(v) for details of restatement. Comparatives have also been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

Priory Group UK 1 Limited

Consolidated balance sheet at 31 December 2021

| £'000 | Note | 31 December 2021 | 31 December 2020 restated* | 1 January 2020 restated* |
|--|------|---------------------|-------------------------------|-----------------------------|
| Non-current assets | | | | |
| Intangible assets | 11 | 15,936 | 20,985 | 130,652 |
| Property, plant and equipment | 12 | 454,600 | 1,080,255 | 1,178,659 |
| Right of use assets | 13 | 534,956 | 270,094 | 365,937 |
| | | 1,005,492 | 1,371,334 | 1,675,248 |
| Current assets | | | | |
| Net investment in finance leases | 13 | 302 | 592 | 633 |
| Inventories | 14 | 468 | 539 | 519 |
| Trade and other receivables | 15 | 81,910 | 61,480 | 57,783 |
| Corporation tax recoverable | | 7,763 | 1,682 | 601 |
| Cash | 16 | 20,058 | 54,971 | 14,408 |
| | | 110,501 | 119,264 | 73,944 |
| Assets held for sale | 17 | 500 | 5,025 | 4,181 |
| | | 111,001 | 124,289 | 78,125 |
| Total assets | | 1,116,493 | 1,495,623 | 1,753,373 |
| Current liabilities | | | | |
| Trade and other payables | 18 | (124,636) | (137,130) | (106,587) |
| Corporation tax payable | | (7,739) | - | - |
| Lease liabilities | 13 | (60,016) | (31,234) | (33,891) |
| Borrowings | 19 | (19,295) | - | - |
| Provisions | 20 | (15,457) | (16,761) | (14,269) |
| | | (227,143) | (185,125) | (154,747) |
| Net current liabilities | | (116,142) | (60,836) | (76,622) |
| Non-current liabilities | | | | |
| Lease liabilities | 13 | (776,980) | (309,154) | (338,308) |
| Borrowings | 19 | (261,136) | (1,199,194) | (1,163,149) |
| Deferred income tax | 21 | (33,111) | (91,491) | (116,168) |
| Pension liability | 22 | (2,147) | (9,583) | (6,393) |
| | | (1,073,374) | (1,609,422) | (1,624,018) |
| Net liabilities | | (184,024) | (298,924) | (25,392) |
| Equity attributable to the owners of the parent: | | | | |
| Share capital | 23 | 74,984 | 74,984 | 74,984 |
| Share premium account | | 647,240 | 647,240 | 647,240 |
| Accumulated losses | | (906,248) | (1,021,148) | (747,616) |
| Total equity | | (184,024) | (298,924) | (25,392) |

* See Note 2(v) for details of restatement.

The consolidated financial statements of Priory Group UK 1 Limited (registered company number 09057543) on pages 16 to 50 were approved by the board of directors and authorised for issue on 29 June 2022. They were signed on its behalf by:

Jim Lee

Jim Lee
Director

David Hall

David Hall
Director

Priory Group UK 1 Limited

Consolidated statement of cash flows for the year ended 31 December 2021

| £'000 | Note | Year ended 31 December 2021 | Year ended 31 December 2020 restated* |
|---|------|--------------------------------|---|
| Operating activities | | | |
| Operating profit/(loss) | | 59,973 | (185,832) |
| (Profit)/loss on disposal of property, plant and equipment | | (37,739) | 224 |
| Depreciation of property, plant and equipment and right of use assets | | 70,765 | 76,114 |
| Amortisation of intangible assets | 4 | 5,049 | 7,726 |
| Impairment of non-current assets | 7 | 43,340 | 238,807 |
| Non-cash exceptional items | | 1,403 | 10,436 |
| Decrease/(increase) in inventories | | 71 | (20) |
| Increase in trade and other receivables | | (16,553) | (1,293) |
| Increase in trade and other payables | | 25,209 | 15,022 |
| Post-employment benefits | | (1,780) | (1,780) |
| | | 149,738 | 159,404 |
| Taxation | | (67,425) | (948) |
| Net cash generated from operating activities | | 82,313 | 158,456 |
| Investing activities | | | |
| Interest income | 8 | 56 | 61 |
| Proceeds from disposal of property, plant and equipment | | 13,360 | 4,769 |
| Purchases of property, plant and equipment | | (44,301) | (38,794) |
| Proceeds from sale and leaseback transaction | | 801,252 | - |
| Proceeds from sale of Education division (less divested cash)** | | 138,292 | - |
| Net cash generated from/(used in) investing activities | | 908,659 | (33,964) |
| Financing activities | | | |
| Repayment of obligations under lease liabilities | | (14,064) | (12,380) |
| Proceeds from borrowings | | 19,137 | - |
| Repayment of borrowings | | (875,056) | - |
| Interest paid on lease liabilities | | (38,798) | (23,595) |
| Interest paid on borrowings | | (117,104) | (47,954) |
| Net cash used in from financing activities | | (1,025,885) | (83,929) |
| Net (decrease)/increase in cash | | (34,913) | 40,563 |
| Cash at the beginning of the year | 16 | 54,971 | 14,408 |
| Cash at the end of the year | 16 | 20,058 | 54,971 |

*See Note 2(v) for details of restatement.

** This represents proceeds of £59.7m, settlement of intercompany receivables of £92.6m less cash divested of £14.0m.

Priory Group UK 1 Limited

Consolidated statement of changes in equity for the year ended 31 December 2021

| £'000 | Share capital | Share premium account | Accumulated losses | Total equity |
|--|---------------|-----------------------|--------------------|------------------|
| At 1 January 2020 | 74,984 | 647,240 | (754,677) | (32,453) |
| Restatement* | - | - | 7,061 | 7,061 |
| Restated total equity at 1 January 2020* | 74,984 | 647,240 | (747,616) | (25,392) |
| Loss from continuing operations (restated) | - | - | (139,680) | (139,680) |
| Loss from discontinued operations (restated) | - | - | (129,912) | (129,912) |
| Other comprehensive expense for the year | - | - | (3,940) | (3,940) |
| Total comprehensive expense for the year | - | - | (273,532) | (273,532) |
| At 31 December 2020 | 74,984 | 647,240 | (1,021,148) | (298,924) |
| At 31 December 2020 as originally presented | 74,984 | 647,240 | (1,032,110) | (309,886) |
| Restatement* | - | - | 10,962 | 10,962 |
| Restated total equity at 31 December 2020* | 74,984 | 647,240 | (1,021,148) | (298,924) |
| Loss from continuing operations | - | - | (84,468) | (84,468) |
| Profit from discontinued operations | - | - | 194,162 | 194,162 |
| Other comprehensive income for the year | - | - | 5,206 | 5,206 |
| Total comprehensive income for the year | - | - | 114,900 | 114,900 |
| At 31 December 2021 | 74,984 | 647,240 | (906,248) | (184,024) |

*See Note 2(v) for details of restatement. Comparatives have been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

1. General information

The Company is a private limited company, limited by shares and incorporated and domiciled in the UK. The Company is the holding company of Whitewell UK Holding Company 1 Limited and its subsidiaries, whose principal activity is the provision of behavioural care in the United Kingdom, focusing on the provision of acute psychiatry, forensic and rehabilitation and recovery services, older people care, and specialist support for adults who have learning difficulties.

The address of the registered office is: Fifth Floor, 80 Hammersmith Road, London, England, W14 8UD.

2. Significant accounting policies

a) Basis of preparation

The consolidated financial statements are prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 ('IFRS'). They also comply with applicable legal requirements of the Companies Act 2006 as applicable to companies using IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK generally accepted accounting principles (UK GAAP), including FRS 101.

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The accounting policies set out below have been applied consistently. The Group has not adopted any new IFRS standards, amendments to standards or interpretations prior to their effective date.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the particular circumstance, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to the financial statements are discussed on page 26.

b) Going concern

The Board reviews forecasts of the Group's liquidity requirements based on a range of scenarios to ensure it has sufficient cash to meet operational needs. The formal period for which the Board has assessed the appropriateness of the going concern assumption extends from the date of signing these financial statements to 30 June 2023, although there are no known or anticipated events or factors beyond this period that would impinge on the ability of the Group to determine its continuation as a going concern.

At 31 December 2021 the Group had debt (including accrued interest) of £280.4m due to its immediate parent, RemedcoUK Limited, a wholly owned subsidiary of the Group's ultimate parent.

The directors have adopted the going concern basis (notwithstanding the net liabilities as at 31 December 2021 of £184.0m) in preparing these financial statements after assessing the principal risks and having considered the impact of a severe but plausible scenario potentially precipitated by a general deterioration in trading conditions.

With regard to the ongoing impact of COVID-19, it is assumed that operations remain substantially open for business, given the nature of the facilities, customer base and the vulnerable nature of the people supported. Given the Group's proven resilience to the effects of the pandemic as demonstrated by its performance throughout 2021, the ongoing impact of the pandemic is not thought to materially threaten the going concern status of the Group.

The directors have used the 2022 budget as a base case financial and liquidity forecast for the going concern assessment period and applied sensitivities to that forecast to derive a severe but plausible downside scenario. Specifically, the severe but plausible downside scenario assumes:

- Reductions in occupancy levels from budget of between 2% and 7% depending on business division;
- Additional group-wide wage increase of 2% compared to the base case;
- No revision to capital expenditure programmes where non-essential and development/expansion capital expansion is deferred or paused indefinitely; and
- No utilisation of the RCF Facility.

The revenue and cost impact of such a scenario would have a significant negative impact on the Group's profitability for 2022 and the first half of 2023, although would still deliver positive EBITDA and sufficient cash liquidity throughout the going concern assessment period.

The directors have also conducted a review of the forecast to ascertain the possible circumstances in which liquidity would become negative during the going concern assessment period. Such a scenario would involve an unprecedented reduction in occupancy, a failure to take any mitigating actions with regard to the cost base of the Group and planned capital expenditure, and would be significantly more pessimistic than conditions experienced in recent years. As such, the likelihood of the realisation of this hypothetical scenario is considered to be highly remote.

After making appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties, the directors are satisfied that the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. They have done this by examining and stress-testing the trading forecasts and financing requirements of the Group for the period from the date of approval of these financial statements to 30 June 2023. The directors are satisfied that the going concern basis of preparation for these financial statements is appropriate. Accordingly, the financial statements have been prepared on a going concern basis.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to 31 December 2021. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The purchase method is used to account for the acquisition of subsidiaries and group reorganisations. Under the purchase method the cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred in exchange for the subsidiary. Identifiable assets, liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. All acquisition costs are expensed immediately.

Non-controlling interests are initially measured at fair value.

Intercompany transactions and balances between group entities are eliminated on consolidation. Where necessary, the accounting policies applied by subsidiaries have been changed to ensure consistency with the accounting policies applied by the Group.

d) Discontinued operations

During the year, the Group disposed of the Education division, which represented a separate line of business. The net results of the Education division, up until disposal, are presented as discontinued operations in the Group consolidated income statement. Comparatives have been re-presented – see note 10 for further details.

e) Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and when the asset or disposal group is being actively marketed. Management must be committed to the sale and expect the sale to complete within one year from the date of classification or the reporting date.

f) Intangible assets

i) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently where circumstances suggest an impairment may have occurred. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units on an EBITDA basis, in line with the expected benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of that unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary or disposal group, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

ii) Brands and customer contracts

Acquired brands and customer contracts acquired in a business combination are shown at fair value at the acquisition date. They have finite useful economic lives and are carried at cost less accumulated amortisation. Brands are amortised on a straight line basis to allocate the cost of a brand over its estimated useful life of up to 30 years. Customer contracts are amortised on an attrition basis over their useful economic lives of between 3 and 10 years. Attrition rates are calculated with reference to the average length of stay of service users.

g) Segment reporting

Substantially all of the Group's operations are in the UK, therefore no geographical disclosures are presented. The group is not required to comply with IFRS 8 'Operating segments' and has not voluntarily chosen to present the information required by IFRS 8. Further details regarding revenue are provided in note 3 to the consolidated financial statements.

h) Revenue recognition

Revenue represents consideration received for the provision of healthcare, education and adult care services. Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes. Revenue in respect of the provision of healthcare, education and adult care services is recognised in respect of the number of days of care that have been provided in the relevant period. Revenue in respect of ancillary services is recognised as the services are provided, assuming the other revenue recognition criteria are met. Revenue paid in advance is included in deferred income until the service is provided. Revenue in respect of services provided but not yet invoiced by the period end is included within accrued income.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

i) Borrowing costs and interest

All borrowing costs are recognised in the income statement in the period in which they are incurred. Interest income is recognised in the income statement as it accrues, using the effective interest method. The Group has no borrowing costs directly attributable to the acquisition, construction or production of specific qualifying assets.

j) Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due, when the service is provided by the employee. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

The Group, through one of its subsidiaries, Partnerships in Care Limited, operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at 31 December 2021 less the fair value of the plan assets.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and have terms approximating to the estimated period of future payments.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets. The cost is recognised in profit or loss as a finance expense.

The Group, through one of its subsidiary companies, operates an additional funded defined benefit pension scheme, the "Priory Central Services Pension and Life Assurance Scheme" for staff at one of its homes. The defined benefit obligation, plan assets and net surplus are not material, and are therefore not separately recognised in the consolidated financial statements.

k) Government grants

The Group from time to time receives government grants and financial assistance from central government, national bodies such as NHS England and local government (local authorities), particularly in connection with lost revenues and additional costs associated with the COVID-19 pandemic. Such grants are only recognised in the financial statements when there is reasonable assurance that the Group will comply with any conditions attached to the grant and that the grant will be received. The grants are recognised as income over the period necessary to match them with the related service provided or costs incurred for which they are intended to compensate, on a systematic basis. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs or conditions, is recognised as income in the period in which it is receivable. During the year ended 31 December 2021, the Group (along with other organisations in the sector) received various forms of government assistance in the form of COVID support payment that do not strictly meet the definition of a government "grant". Further details are set out in note 3.

l) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit can differ from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, or that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

m) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Assets in the course of construction represent the direct costs of purchasing, constructing and installing property, plant and equipment ahead of their productive use. No depreciation is provided on an asset that is in the course of construction until it is completed and the asset is ready for its intended use.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

| | |
|-----------------------|---------------|
| Buildings | 50 years |
| Fixtures and fittings | 3 to 16 years |
| Motor vehicles | 4 years |

The expected residual values and useful lives of the assets to the business are reassessed, and adjusted if appropriate at each balance sheet date. Land is not depreciated on the basis that land has an unlimited life. Where the cost of land and buildings cannot be split, the directors have estimated that the value attributable to land is 22% of the cost of the land and buildings, based on experience.

n) Inventory

Inventory comprises primarily medical drugs and catering supplies and is stated at the lower of cost and net realisable value.

o) Leases

The Group applied IFRS 16 using the modified retrospective approach from 1 January 2019. From that date, the Group's accounting policy is as follows:

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either the Group has the right to operate the asset, or the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Group recognises a "right of use" asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the Group's incremental borrowing rate for financial instruments of a duration commensurate with the lease term. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

o) Leases (continued)

The lease liability is remeasured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

For motor vehicle leases that were classified as finance leases applying IAS 17, the carrying amount of the right of use asset and the lease liability at initial application are the carrying amount of the finance lease asset and liability immediately prior to the redesignation as right of use assets and lease liabilities.

IFRS 16 sets out a number of practical expedencies that an entity can utilise upon adoption of the standard. The Group has made use of the following practical expedencies:

1) Short-term leases

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases of property and equipment that have a lease term of 12 months or less. The Group recognises the lease payments associated with short-term leases as an expense on a straight-line basis over the lease term.

2) Leases of low-value assets

The Group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets, including sundry IT and office equipment. The Group recognises the lease payments associated with low-value leases as an expense on a straight-line basis over the lease term.

3) Portfolio approach to discount rates

The Group has elected to apply a single discount rate to portfolios of leases with reasonably similar characteristics, namely leases with a similar remaining lease term.

4) Impairment review on initial application

The Group has elected to rely on its assessment of whether leases are onerous (through the application of IAS 37) as an alternative to performing an impairment review on initial application. The Group has therefore adjusted the right of use asset by the amount of the provision for onerous leases.

The Group sublets a small number of properties. When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assumes the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of operating costs.

p) Non derivative financial instruments

Non derivative financial instruments comprise trade and other receivables, cash, borrowings and trade and other payables. Non derivative financial instruments are recognised initially at fair value. The Group has no financial instruments measured at fair value through the income statement. Subsequent to initial recognition, financial instruments are measured as described below:

i) Trade and other receivables

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets rather than the incurred credit loss model required under IAS 39. The ECL model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date.

The main area of focus to the Group is considered to be the impairment provisioning of trade receivables. For trade receivables, the Group uses the simplified approach under IFRS 9 to recognise lifetime expected credit losses. For trade receivables, the Group recognises a loss allowance for expected credit losses at an amount equal to the lifetime expected credit loss (ECL). In calculating, the Group uses its historical experience, external indicators and forward-looking information to evaluate the expected credit losses. This is recorded through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

In assessing the credit risk, the majority of the Group's customers are Local Authorities and other public bodies ultimately controlled by the UK Government. The credit risk associated with trade receivables with such bodies is considered low.

ii) Cash

Cash comprises all bank balances and is stated in the balance sheet at fair value. The Group does not hold any cash equivalents.

iii) Trade and other payables

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost using the effective interest rate method.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

p) Non derivative financial instruments (continued)

iv) Borrowings

All borrowings are initially stated at the fair value of proceeds received after deduction of finance costs and are subsequently measured at amortised cost using the effective interest rate method. The issue costs are amortised over the life of the underlying borrowings at a constant rate on the carrying amount. On early repayment of the borrowings, the balance of the un-amortised issue costs, and any premium and discounts arising in the early repayment of borrowings are recognised in the income statement. Details of the Group's financial risk management policies are included in note 24.

q) Classification of financial instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Instruments issued that do not evidence a residual interest in the assets of the Group are classified as liabilities. Equity instruments issued by the Group are recognised in equity at the value of the net proceeds received.

r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

s) Reserves

The share premium reserve records the amount received in return for the issue of shares, in excess of the nominal value of those shares. The accumulated losses reserve is the cumulative amount of profits and losses less any dividend distributions made.

t) Non-GAAP measures and exceptional items

The Group assesses its operational performance using a number of financial measures, some of which are 'non-GAAP measures' as they are not measures defined within IFRS. These measures include Earnings before Interest, Tax, Depreciation, Amortisation and exceptional items (Adjusted EBITDA). Management believe presenting the Group's results in this way provides users of the financial statements with additional useful information on the underlying performance of the business, and is consistent with how business performance is monitored internally.

Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the consolidated financial information are referred to as exceptional items. Items that may give rise to classification as exceptional include, but are not limited to, significant and material restructuring and reorganisation programmes, re-financing and acquisition costs, impairment charges and profits or losses on the disposal of assets. Further detail of exceptional items is provided in note 7.

u) Significant sources of estimation, uncertainty and critical accounting judgements in applying the Group's accounting policies

The preparation of financial statements in conformity with adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period then ended. Management bases its estimates on historical experience and various other assumptions that are considered to be reasonable in the particular circumstances. Actual results may differ from these estimates.

Estimates are used in accounting for allowances for uncollected receivables, depreciation, impairment, taxes and contingencies. Estimates and assumptions are reviewed periodically and the effects of the revision are reflected in the financial statements in the period that an adjustment is determined to be required.

Significant accounting estimates and judgements have been applied by the Group in order to prepare the consolidated financial statements with respect to the valuation of deferred tax assets, the valuation of property, plant and equipment and the initial recognition and subsequent amortisation of customer relationships and other intangible assets. These judgements are described below:

(i) Valuation of deferred tax assets

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. Refer to note 21 for further detail of deferred tax assets recognised.

(ii) Initial recognition and subsequent amortisation of customer relationships and other intangible assets

In accounting for each acquisition, the Group considers whether there are acquired intangible assets that qualify for separate recognition. In respect of previous acquisitions the Group has concluded that two classes of intangibles qualify under certain circumstances: brands and customer contracts. The valuation method used to value the customer contracts is a multi-period excess earnings method, based on an estimate of the amount of earnings attributable to those contracts. The intangible asset is then amortised on an attrition basis. The valuation method used to value acquired brands is the royalty relief method, with subsequent amortisation charged on a straight line basis. Estimating excess earnings, appropriate royalty rates and the useful economic life of customer contracts and brands requires management judgement and discretion.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

u) Significant sources of estimation, uncertainty and critical accounting judgements in applying the Group's accounting policies (continued)

(iii) Classification and measurement of exceptional items

The Group recognises certain expenses and gains as "exceptional" – these are both judgemental and often material in nature. Exceptional items are defined as those that are not incurred in the standard operational course of business and if not stated as exceptional would artificially skew the reported results of the Group.

v) Prior year restatements

(i) Correction of error in calculating leases

During the year ending 31 December 2021 a material error was discovered relating to the interpretation of inflation used in lease calculations. This resulted in an overstatement of right of use lease assets and lease liabilities.

This has been corrected by restating each of the affected financial statement line items in the current period as follows:

| £'000 | 31 December 2020 (as previously reported) | (Decrease)/ increase | 31 December 2020 (restated) | 31 December 2019 (as previously reported) | (Decrease)/ increase | 31 December 2019 (restated) |
|------------------------|---|-------------------------|--------------------------------------|---|-------------------------|--------------------------------------|
| Right of use assets | 281,551 | (11,457) | 270,094 | 404,989 | (39,052) | 365,937 |
| Lease liabilities | (362,807) | 22,419 | (340,388) | (418,312) | 46,113 | (372,199) |
| Net liabilities | (309,886) | 10,962 | (298,924) | (32,453) | 7,061 | (25,392) |
| Retained earnings | 1,032,110 | (10,962) | 1,021,148 | 754,677 | (7,061) | 747,616 |
| Total equity | 309,886 | (10,962) | 298,924 | 32,453 | (7,061) | 25,392 |

| £'000 | 2020 (as previously reported) | Profit increase/ (decrease) | 2020 (restated) |
|--|-------------------------------------|-----------------------------------|--------------------|
| Statement of profit or loss (extract) | | | |
| Operating costs | (673,938) | 992 | (672,946) |
| Operating loss | (63,970) | 992 | (62,978) |
| Finance costs | (107,570) | 2,909 | (104,661) |
| Income tax | 27,898 | - | 27,898 |
| Loss for the year | (273,493) | 3,901 | (269,592) |
| Statement of comprehensive income (extract) | | | |
| Loss for the year | (273,493) | 3,901 | (269,592) |
| Other comprehensive expense for the year | (3,940) | - | (3,940) |
| Total comprehensive expense for the year | (277,433) | 3,901 | (273,532) |

(ii) Presentation of provisions for legal liabilities

The Group is party to a number of legal cases for which the estimated liability is required by IAS 37 to be presented gross of any insurance receivable, but in previous periods the Group has applied a net presentation. The effect of correcting this error is to increase Provisions and Other receivables by £10.6m at 31 December 2020 and by £8.2m at 1 January 2020. There was no impact on opening reserves at 1 January 2020.

w) Changes in accounting policy and disclosure

From 1 January 2021 the following standards and interpretations became effective and were adopted by the Group:

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest rate benchmark reform – phase 2
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9
Amendments to UK and Republic of Ireland accounting standards UK exit from the European Union

The adoption of these interpretations has had no impact on the Group's profit for the year or equity.

The following new standards, amendments and interpretations, which are in issue at the balance sheet date but not yet effective and/or endorsed for use in the UK, have not been applied in these financial statements:

Priory Group UK 1 Limited

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

| | Effective for periods commencing on or after |
|--|--|
| Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions | 1 April 2021 |
| A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 | 1 January 2022 |
| Amendments to IAS 1: 'Presentation of financial statements' relating to classification of liabilities as current or non-current | 1 January 2024 |
| Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 | 1 January 2023 |
| Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction | 1 January 2023 |
| IFRS 17, 'Insurance contracts' as amended in December 2021 | 1 January 2023 |

It is considered that the above standards and amendments will not have a significant effect on the results or net assets of the Group in 2022.

3. Revenue

The following is an analysis of the Group's revenue for the period:

| £'000 | 2021 | 2020 (restated*) |
|--------------|----------------|---------------------|
| Healthcare | 462,367 | 470,546 |
| Adult Care | 258,643 | 245,844 |
| TOTAL | 721,010 | 716,390 |

Included in the above revenue is total income from government grants and financial assistance of £10,948,000 (2020: £6,651,000) which primarily relates to amounts designed to compensate the Group for lost revenues and additional general expenditure throughout the COVID-19 pandemic. This financial assistance fell into two broad types: firstly, relating to contracts with NHS bodies that are based on an indicative number of beds being filled (with the financial assistance being payment for those beds that could not be fully occupied due to COVID-19 restrictions), and, secondly, infection control funds received from local authorities which are considered to amount to modifications of the underlying contracts with those local authorities as the funds were designed to compensate the Group for forced modifications to its operations as a direct result of COVID-19 (for example through isolating patients by reducing capacity and placing restrictions on the movements of staff between settings). As such it is considered appropriate to recognise these amounts within revenue. The total income from government grants and financial assistance is split between the divisions as follows:

| £'000 | 2021 | 2020 (restated*) |
|--------------|---------------|---------------------|
| Healthcare | 2,884 | 4,118 |
| Adult Care | 8,064 | 2,533 |
| TOTAL | 10,948 | 6,651 |

*See Note 2(v) for details of restatement. Comparatives have been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

Information about major customers

In 2021 revenue from NHS England amounted to 11% (2020: 19%) of total revenue (continuing and discontinuing) and no other single customer accounted for more than 10% of total revenue. On a consolidated basis, revenue of £179.8m (2020: £180.5m) and £447.0m (2020: £457.0m) arose from organisations within Social Services and the NHS respectively, which each represent more than 10% of the Group's total revenue. Of this revenue, £391.4m (2020: £410.4m) arose in the Healthcare division and £235.4m (2020: £227.1m) in the Adult Care division.

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Notes to the consolidated financial statements

4. Operating costs

| £'000 | 2021 | 2020* |
|---|----------------|----------------|
| Staff costs (note 6) | 417,206 | 424,921 |
| Other operating costs | 176,315 | 178,328 |
| Depreciation of property, plant and equipment (note 12) | 40,933 | 42,510 |
| Depreciation of right of use assets (note 13) | 20,718 | 20,650 |
| Amortisation of intangible assets (note 11) | 5,049 | 6,518 |
| Sundry lease expenses | 283 | 19 |
| | 660,504 | 672,946 |

*Comparatives have been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

5. Auditors' remuneration

Audit fees of £nil (2020: USD 902,000) were borne by Acadia Healthcare, with a further £450,000 (2020: £75,000) that were borne by the Group. The audit fees borne directly by the Group in respect of the year ended 31 December 2021 and 2020 all relate to the audit of the consolidated financial statements of the Group.

6. Employee numbers and costs

The average monthly number of employees (including executive directors) was:

| Number | 2021 | 2020* |
|------------------------------|---------------|---------------|
| Medical, care and nursing | 15,033 | 17,133 |
| Administrative and ancillary | 4,198 | 4,624 |
| | 19,231 | 21,757 |

Their aggregate remuneration comprised:

| £'000 | 2021 | 2020* |
|------------------------------|----------------|----------------|
| Wages and salaries | 434,703 | 467,381 |
| Social security costs | 36,501 | 37,863 |
| Other pension costs | 10,131 | 11,542 |
| | 481,335 | 516,786 |
| Less discontinued operations | (64,129) | (91,865) |
| | 417,206 | 424,921 |

*Comparatives have been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

7. Exceptional items

| £'000 | 2021 | 2020* |
|--|---------------|----------------|
| Reorganisation and rationalisation costs | 7,466 | 15,447 |
| Professional costs and other fees | 9,509 | 4,410 |
| Impairment of property plant and equipment and right of use assets | 43,340 | 86,971 |
| Profit on disposal of property, plant and equipment | (37,011) | (129) |
| | 23,304 | 106,699 |

*Comparatives have been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

Reorganisation and rationalisation costs primarily relate to early lease exit costs and closure and redundancy provisions for smaller sites. Early lease exit costs have been recognised for leasehold facilities where a negotiated settlement was reached with landlords in order to assign the leases to other operators.

Professional and other fees primarily relate to costs in relation to the sale and leaseback transaction, the disposal of the Education division and non-recurring management consultancy projects undertaken in the period arising from the change in ownership.

Impairment costs relate to the impairment of property, plant and equipment and right of use assets - see note 12 and 13.

Loss on disposal of property, plant and equipment includes the profit from the sale and lease back - see note 12.

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8. Finance income and finance costs

| £'000 | 2021 | 2020 Restated* |
|---|---------------|-------------------|
| Finance costs | | |
| Interest payable on intercompany loans | 54,210 | 83,999 |
| Interest on lease liabilities | 35,147 | 20,549 |
| Provisions: unwinding of discount | - | 7 |
| Net cost on post-employment benefit | 104 | 106 |
| | 89,461 | 104,661 |
| Finance income | | |
| Interest received on finance leases | (24) | (26) |
| Interest receivable on intercompany loans | (21) | - |
| Interest income | (11) | (35) |
| | (56) | (61) |
| Net finance costs | 89,405 | 104,600 |

*See Note 2(v) for details of restatement. Comparatives have also been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

9. Income tax

| £'000 | 2021 | 2020 Restated* |
|---|-----------------|-------------------|
| Current tax | | |
| Current tax on profits for the year | 63,414 | (1,114) |
| Adjustments in respect of prior periods | (1,635) | (78) |
| | 61,779 | (1,192) |
| Deferred tax (note 21): | | |
| Origination and reversal of temporary differences | (31,210) | (26,893) |
| Adjustments in respect of prior periods | 1,973 | 187 |
| | (29,237) | (26,706) |
| Taxation | 32,542 | (27,898) |

Corporation tax is calculated at 19% (2020: 19%) of the estimated taxable profit or loss for the year. The expected tax credit for the year can be reconciled to the credit per the income statement as follows:

| £'000 | 2021 | 2020 Restated* |
|---|---------------|-------------------|
| Loss before tax | (51,926) | (167,578) |
| Tax at the UK corporation tax rate of 19% (2020: 19%) | (9,866) | (31,840) |
| Effect of: | | |
| Non-deductible expenses | 12,612 | (1,301) |
| Adjustments in respect of prior years | 338 | 109 |
| Recognition of previously unrecognised losses | 534 | (5,201) |
| Property and sale and lease back transaction | 14,551 | - |
| Other differences | 708 | (2,893) |
| Changes in tax rates | 13,665 | 13,228 |
| Tax charge/(credit) for the year | 32,542 | (27,898) |

Finance Bill 2021 was substantively enacted on 24 May 2021; this legislation increases the main rate of corporation tax to 25% with effect from 1 April 2023. The deferred tax liability has been calculated at 25% (2020: 19%), reflecting the period in which the temporary differences that give rise to deferred tax will reverse.

* Comparatives have been re-presented as a result of the disposal of the Education division, which represents a discontinued operation. See note 10 for further details.

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10. Discontinued operations

On 31 August 2021 the group divested its Education and Children's Services division together with sundry overseas assets to Aspris Bidco Limited for £59.7m. The divestment was part of a planned rationalisation of the Group by its new owners. The division was sold on 31 August 2021 and is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

The financial performance and cash flow information presented are for the 8 months ended 31 August 2021 and the year ended 30 December 2020.

| £'000 | 2021 | 2020 |
|--|----------------|------------------|
| Revenue | 112,656 | 155,840 |
| Operating costs | (87,681) | (126,448) |
| Exceptional items | (2,481) | (152,246) |
| Operating profit/(loss) | 22,494 | (122,854) |
| Finance costs | (3,701) | (3,046) |
| Profit/(loss) before tax | 18,793 | (125,900) |
| Income tax | (1,481) | (4,012) |
| Profit/(loss) after income tax of discontinued operation | 17,312 | (129,912) |
| Gain on disposal of discontinued operation | 176,850 | - |
| Profit/(loss) from discontinued operation | 194,162 | (129,912) |
| Net cash inflow from operating activities | 13,699 | 24,520 |
| Net cash outflow from investing activities | (4,474) | (10,221) |
| Net cash outflow from financing activities | (6,522) | (5,608) |
| Net increase in cash generated by discontinued operations | 2,703 | 8,691 |

| | |
|---|----------------|
| £'000 | |
| Consideration received | 59,728 |
| Carrying amount of net liabilities sold | 117,122 |
| Gain on sale before income tax | 176,850 |
| Income tax expense on gain | - |
| Gain on sale after income tax | 176,850 |

The carrying amount of the assets and liabilities of the Education and Children's Services division at the date of sale were:

| | |
|-------------------------------|------------------|
| £'000 | 31 August 2021 |
| Property, plant and equipment | 109,846 |
| Right of use assets | 120,249 |
| Trade and other receivables | 12,932 |
| Cash | 13,983 |
| Assets held for sale | 500 |
| Total assets | 257,510 |
| Trade and other payables | (148,558) |
| Lease liabilities | (201,416) |
| Provisions | (784) |
| Deferred income tax | (23,874) |
| Total liabilities | (374,632) |
| Net liabilities | (117,122) |

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Notes to the consolidated financial statements

11. Intangible assets

| £'000 | Goodwill | Brands | Customer contracts | Total |
|--|----------------|---------------|--------------------|----------------|
| Cost | | | | |
| At 1 January 2020 and 31 December 2020 | 478,588 | 15,059 | 102,428 | 596,075 |
| Disposal | (101,535) | - | (35,467) | (137,002) |
| At 31 December 2021 | 377,053 | 15,059 | 66,961 | 459,073 |
| Accumulated amortisation and impairment | | | | |
| At 1 January 2020 | 377,053 | 3,103 | 85,267 | 465,423 |
| Amortisation charge | - | 465 | 7,261 | 7,726 |
| Impairment | 101,535 | - | 406 | 101,941 |
| At 31 December 2020 | 478,588 | 3,568 | 92,934 | 575,090 |
| Amortisation charge | - | 465 | 4,584 | 5,049 |
| Disposal | (101,535) | - | (35,467) | (137,002) |
| At 31 December 2021 | 377,053 | 4,033 | 62,051 | 443,137 |
| Net book value | | | | |
| At 31 December 2021 | - | 11,026 | 4,910 | 15,936 |
| At 31 December 2020 | - | 11,491 | 9,494 | 20,985 |

Brands

The brand intangible arose on the acquisition of the Priory Group and has a remaining amortisation period of 24.1 years (2020: 25.1 years).

Customer contracts

The customer contract intangible asset arose on the acquisition of the Priory Group in relation to the Adult Care division and has a remaining amortisation period of 2.1 years (2020: 3.1 years).

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Notes to the consolidated financial statements

12. Property, plant and equipment

| £'000 | Land and buildings | Assets in the course of construction | Fixtures and fittings | Motor vehicles | Total |
|--|--------------------|--------------------------------------|-----------------------|----------------|----------------|
| Cost | | | | | |
| At 1 January 2020 | 1,293,981 | 5,132 | 226,733 | 1,413 | 1,527,259 |
| Additions | 5,033 | 4,879 | 32,265 | 17 | 42,194 |
| Disposals | (4,744) | (291) | (23,915) | (313) | (29,263) |
| Transfers between classifications | 4,845 | (5,880) | 1,035 | - | - |
| Transferred to current assets | (2,437) | - | (1,275) | - | (3,712) |
| At 31 December 2020 | 1,296,678 | 3,840 | 234,843 | 1,117 | 1,536,478 |
| Additions | 10,215 | 4,085 | 29,867 | - | 44,167 |
| Disposals | (743,406) | (1,426) | (87,368) | (1,117) | (833,317) |
| Transfers between classifications | 3,530 | (5,501) | 1,971 | - | - |
| At 31 December 2021 | 567,017 | 998 | 179,313 | - | 747,328 |
| Accumulated depreciation and impairment | | | | | |
| At 1 January 2020 | 264,421 | - | 82,829 | 1,350 | 348,600 |
| Charge for the year | 21,365 | - | 31,966 | 79 | 53,410 |
| Disposals | (3,982) | - | (23,265) | (313) | (27,560) |
| Impairment | 47,959 | - | 32,742 | - | 80,701 |
| Transferred to current assets | 1,081 | - | (9) | - | 1,072 |
| At 31 December 2020 | 330,844 | - | 124,263 | 1,116 | 456,223 |
| Charge for the year | 16,914 | - | 29,953 | - | 46,867 |
| Disposals | (188,570) | - | (52,054) | (1,116) | (241,740) |
| Impairment | 25,332 | - | 6,046 | - | 31,378 |
| At 31 December 2021 | 184,520 | - | 108,208 | - | 292,728 |
| Net book value | | | | | |
| At 31 December 2021 | 382,497 | 998 | 71,105 | - | 454,600 |
| At 31 December 2020 | 965,834 | 3,840 | 110,580 | 1 | 1,080,255 |

Property, plant and equipment was impaired by £31.4m in the year – this related to a number of unprofitable, restructured and/or closed facilities in the Healthcare and Adult Care divisions. Following the impairments, these properties are carried at a value not exceeding the higher of their value in use and fair value less costs to sell.

Fixed assets with a carrying value of £468.8m were disposed of as part of the sale and leaseback transaction. Total proceeds were £801.3m realising a profit on disposal of £41.4m, after accounting for the resulting leases under IFRS16.

The depreciation charge for the year of £46.9m includes £40.9m relating to continuing operations and £6.0m relating to discontinued operations.

At 31 December 2021, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £0.4m (2020: £0.4m).

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13. Right of use assets and lease liabilities

The Group leases a number of assets, including land and buildings, motor vehicles and office printers/photocopiers. Information about leases for which the Group is a lessee is presented below.

Right of use assets

Year ended 31 December 2021:

| £'000 | Land and buildings | Office equipment | Motor vehicles | Total |
|--|--------------------|------------------|----------------|---------|
| Balance at 1 January restated* | 262,693 | 468 | 6,933 | 270,094 |
| Balance at 31 December | 530,519 | - | 4,437 | 534,956 |
| Depreciation charge for the year – continuing operations | 18,230 | 468 | 2,020 | 20,718 |
| Depreciation charge for the year – discontinued operations | 2,435 | - | 745 | 3,180 |
| | 20,665 | 468 | 2,765 | 23,898 |
| Impairment charge for the year | 11,962 | - | - | 11,962 |
| Additions during the year | 410,616 | - | 2,729 | 413,345 |

Year ended 31 December 2020:

| £'000 | Land and buildings | Office equipment | Motor vehicles | Total |
|----------------------------------|--------------------|------------------|----------------|---------|
| Balance at 1 January restated* | 358,891 | 986 | 6,060 | 365,937 |
| Balance at 31 December restated* | 262,693 | 468 | 6,933 | 270,094 |
| Depreciation charge for the year | 19,377 | 518 | 2,809 | 22,704 |
| Impairment charge for the year | 55,515 | - | - | 55,515 |
| Additions during the year | 872 | - | 3,769 | 4,641 |

Lease liabilities

Lease liabilities included in the statement of financial position are as follows:

| £'000 | 2021 | 2020 Restated* |
|-------------|---------|----------------|
| Current | 60,016 | 31,234 |
| Non-current | 776,980 | 309,154 |
| | 836,996 | 340,388 |

*See Note 2(v) for details of restatement.

Amounts recognised in profit or loss

| £'000 | 2021 | 2020 Restated* |
|---|--------|----------------|
| Interest on lease liabilities – continuing activities | 35,147 | 20,549 |
| Interest on lease liabilities – discontinued activities | 3,651 | 3,046 |
| Variable lease payments – continuing activities | (705) | (596) |
| Variable lease payments – discontinued activities | (35) | 177 |
| Expenses relating to short term leases – continuing activities | 234 | 357 |
| Expenses relating to short term leases – discontinued activities | 165 | 355 |
| Expenses relating to leases of low-value assets – continuing activities | 188 | 220 |
| Expenses relating to leases of low-value assets – discontinued activities | 58 | 93 |

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Notes to the consolidated financial statements

13. Right of use assets and lease liabilities (continued)

Amounts recognised in the statement of cash flows

| £'000 | 2021 | 2020 |
|---|---------------|---------------|
| Operating activities (within operating profit): | | |
| Variable lease payments | (740) | (419) |
| Payments on short term leases | 399 | 712 |
| Payments on leases of low-value assets | 246 | 313 |
| Financing activities: | | |
| Repayment of lease liabilities | 14,064 | 12,380 |
| Payment of interest on lease liabilities | 38,798 | 23,595 |
| | 52,767 | 36,581 |

The Group leases land and buildings for its operational facilities. Larger facilities typically involve a lease term of between 20 and 30 years, whilst smaller sites, for example adult care facilities, typically involve shorter lease terms of between three and 10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the initial contractual term. As the exercising of such options is not deemed to be reasonably certain, such renewal options are generally not taken into account when determining the right of use assets and lease liabilities.

The Group leases motor vehicles with lease terms generally of four years. The Group also leases a number of sundry IT and office equipment with contract terms of up to four years. These leases are for low-value items, and the Group has elected not to recognise right of use assets and lease liabilities for these items.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied was 6.24%. Lease liabilities in respect of new leases entered into arising from the Group's sale and leaseback transaction were measured using lease payments discounted at the interest rate implicit in the lease, 5.80%. An analysis of undiscounted contractual cash flows is set out in note 24.

Sub-leases

Finance leases

The Group sublets an office facility under a finance lease arrangement, charging rent of £308,000 annually. Both the head lease and the sublease expire on 31 December 2022. Contractual lease payments are as follows:

| £'000 | 2021 | 2020 |
|--|------------|------------|
| In less than one year | 308 | 308 |
| In more than one year but less than five years | - | 308 |
| | 308 | 616 |
| Finance income relating to future periods | (6) | (24) |
| Net investment in finance lease | 302 | 592 |

The Group recognised £24,000 (2020: £26,000) of finance income on the net investment in the lease; this is included within "finance income" in the income statement.

Operating leases

The Group subleases part of an operational facility within the Healthcare division under a series of operating lease arrangements. As at 31 December 2021, the remaining terms of the subleases were between 11 and 13 years.

Lease payments receivable under operating leases amounted to £277,000 in the year ended 31 December 2021 (2020: £277,000); this is presented within "other operating income" in the income statement.

14. Inventories

| £'000 | 2021 | 2020 |
|---------------------|------|------|
| Consumable supplies | 468 | 539 |

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Notes to the consolidated financial statements

15. Trade and other receivables

| £'000 | 2021 | 2020 Restated* |
|--------------------------------|----------------|--------------------------|
| Trade receivables | 38,410 | 39,247 |
| Allowance for doubtful debts | (1,677) | (1,893) |
| | 36,733 | 37,354 |
| Other receivables | 31,483 | 15,849 |
| Prepayments and accrued income | 13,694 | 8,277 |
| | 81,910 | 61,480 |

*See Note 2(v) for details of restatement.

16. Cash

| £'000 | 2021 | 2020 |
|--------------|---------------|-------------|
| Cash | 20,058 | 54,971 |

17. Assets held for sale

| £'000 | Land and buildings | Fixtures and fittings | Total |
|--|-------------------------------|----------------------------------|--------------|
| Cost and net book value | | | |
| At 1 January 2020 | 3,865 | 316 | 4,181 |
| Transferred from property, plant and equipment (note 12) | 3,518 | 1,266 | 4,784 |
| Impairments | (650) | - | (650) |
| Disposals | (3,114) | (176) | (3,290) |
| At 31 December 2020 | 3,619 | 1,406 | 5,025 |
| Disposals | (3,119) | (1,406) | (4,525) |
| At 31 December 2021 | 500 | - | 500 |

The remaining property is expected to realise net sales proceeds materially consistent with its net book value. All properties held for sale are actively marketed and are expected to be sold within 12 months of the year end.

18. Trade and other payables

| £'000 | 2021 | 2020 |
|------------------------------------|----------------|-------------|
| Trade payables | 10,642 | 11,569 |
| Amounts owed to group undertakings | 40,516 | 1,253 |
| Other taxes and social security | 13,551 | 18,031 |
| Accruals and deferred income | 50,369 | 97,208 |
| Other payables | 9,558 | 9,069 |
| | 124,636 | 137,130 |

Amounts owed to group undertakings includes a £5.0m loan facility with RemedcoUK Limited of which £2.6m is drawn down by RemedcoUK Limited at the year end. Interest is accruing at 3% p.a. The remaining amounts are unsecured and interest free, with no fixed date of repayment.

Included within accruals and deferred income is £5.9m (2020: £32.6m) in respect of deferred income from services provided. The reduction in the current year is a result of the disposal of the Education division.

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19. Borrowings

| £'000 | 2021 | 2020 |
|---|----------------|------------------|
| Borrowings due less than one year | | |
| Loans from related parties | 19,137 | - |
| Accrued interest | 158 | - |
| | 19,295 | - |
| Borrowings due greater than one year | | |
| Loans from related parties | 256,968 | 1,132,024 |
| Accrued interest | 4,168 | 67,170 |
| | 261,136 | 1,199,194 |
| Total borrowings | 280,431 | 1,199,194 |

Loans from related parties due in less than one year comprise an unsecured loan of £19,137,000 (2020: £nil) with RemedcoUK Limited which bears interest at 3.75% per annum.

Loans from related parties due greater than one year comprise an unsecured loan with RemedcoUK Limited which accrues interest at 7.4% pa and is repayable on 16 February 2024. There are no contractual obligations to pay either capital or interest until the date of maturity, and any accrued interest is not compounded.

In the prior year loans were payable to AHC-WW Jersey Limited. Loans of £152,234,000 and £979,790,000 accrued interest at 7.4% pa and were repayable on 1 July 2022 and 16 February 2024 respectively. These loans were listed on The International Stock Exchange ("TISE") until they were cancelled from the official list on 13 October 2021. Repayments totalling £875,056,000 were made during the period, with the remaining balance transferred from AHC-WW Jersey Limited to RemedcoUK Limited.

The directors have assessed the fair market value of the loans to be consistent with their book value.

20. Provisions

| £'000 | Legal costs Restated* |
|--|--------------------------|
| At 1 January 2020 as previously reported | 6,103 |
| Restatement* | 8,166 |
| At 1 January 2020 as restated | 14,269 |
| Charged to income statement | 2,823 |
| Used during year | (331) |
| At 31 December 2020 (restated) | 16,761 |
| Charged to income statement | 3,235 |
| Aspris disposal | (784) |
| Used during year | (3,755) |
| At 31 December 2021 | 15,457 |

*See Note 2(v) for details of restatement.

Analysis of provisions:

| £'000 | 2021 | 2020 Restated* |
|-------------------------|---------------|-------------------|
| Current | 15,457 | 16,761 |
| Total provisions | 15,457 | 16,761 |

Legal costs

In light of a number of outstanding legal claims, provisions have been made which represent management's best estimate of the amounts required to settle the claims totalling £15.5m (202: £16.8m), £9.0m (2020: £10.6m) is covered by insurance (included in other receivables) giving a net position of £6.5m (2020: £6.2m).

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Notes to the consolidated financial statements

21. Deferred tax

The following are the major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current year.

| £'000 | Tax losses | Interest | Other timing differences | Intangibles | Property, plant and equipment | Total |
|--------------------------------------|----------------|-----------------|--------------------------|--------------|-------------------------------|---------------|
| At 1 January 2020 | (7,203) | (14,123) | (460) | 4,949 | 133,005 | 116,168 |
| (Credit)/charge to income statement | (15,851) | (6,764) | 1,450 | (962) | (1,626) | (23,753) |
| Credit to other comprehensive income | - | - | (924) | - | - | (924) |
| At 31 December 2020 | (23,054) | (20,887) | 66 | 3,987 | 131,379 | 91,491 |
| Charge/(credit) to income statement | 21,848 | (6,347) | 1,793 | 314 | (52,668) | (35,060) |
| Disposal of Education division | - | - | - | - | (23,874) | (23,874) |
| Debit to other comprehensive income | - | - | 554 | - | - | 554 |
| At 31 December 2021 | (1,206) | (27,234) | 2,413 | 4,301 | 54,837 | 33,111 |

The credit to the income statement of £35.1m comprises £13.3m relating to continuing operations and £21.8m relating to discontinued operations.

A deferred tax asset of £2.8m and a deferred tax liability of £4.1m are expected to be recovered or settled within the twelve months of 31 December 2021. The remaining net deferred tax liability balance of £31.8m is expected to be recovered or settled more than twelve months after the year end.

The Group has tax losses of £6.3m (2020: £121.3m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset of £1.2m (2020: £23.1m) has been recognised in respect of such losses based on a forecast prepared to anticipate their use against future taxable profits of the companies in which they arose.

A deferred tax asset of £0.4m (2020: £0.4m) has not been recognised in respect of £2.1m (2020: £2.1m) of losses where there is insufficient certainty over their future use. These losses do not expire and if the Group were able to recognise these assets, profit would increase by £0.4m (2020: £0.4m).

A deferred tax asset of £27.2m (2020: £20.9m) has been recognised in respect of interest deductions, based on the expectation that these timing differences will reverse and reduce future taxable profits.

A deferred tax liability of £2.4m (2020: £0.1m) has been recognised in respect of other timing differences, based on the expectation that these timing differences will reverse.

22. Pension commitments

The group operates a defined contribution pension scheme. The scheme assets are held separately from these of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £10,131,000 (2020: £11,542,000).

The Group operates a defined benefit pension scheme in the UK, the Partnerships in Care Limited Pension and Life Assurance Plan. The plan was closed to future accrual from 1 May 2015; at this date, all members who were actively accruing benefits in the plan became deferred members. The disclosures set out below are based on calculations carried out as at 31 December 2021 by a qualified independent actuary.

The assets are held in a separate trustee-administered fund to meet long term pension liabilities to past and present employees. The trustees of the plan are required to act in the best interest of the Plan's beneficiaries. The appointment of members of the trustee board is determined by the trust documentation.

The liabilities of the plan are measured by discounting the best estimate of future cash flows to be paid out of the Plan using the projected unit method. This amount is reflected in the shareholders' funds in the balance sheet. The projected unit method is an accrued benefits valuation method in which the Plan's liabilities make allowances for projected earnings. The liabilities set out in this note have been calculated based on the most recent full actuarial valuation at 31 December 2019, updated to 31 December 2021. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2021, contributions are payable to the Plan at the rates set out in the latest schedule of contributions. The total employer contributions expected to be made in the year commencing 1 January 2022 consist of shortfall contributions amounting to £2.25m. In addition, the employer will directly meet the administration expense of the Plan, including any levies payable to the Pensions Regulator and the Pension Protection Fund.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

22. Pension commitments (continued)

| £'000 | 2021 | 2020 |
|-------------------------------------|----------------|----------------|
| Fair value of scheme assets | 53,492 | 49,145 |
| Present value of future obligations | (55,639) | (58,728) |
| Net pension scheme liability | (2,147) | (9,583) |

The amounts recognised in the income statement are as follows:

| £'000 | 2021 | 2020 |
|---|------|------|
| Net interest on net defined benefit liability | 104 | 106 |

The amounts recognised in other comprehensive income/(expense) are as follows:

| £'000 | 2021 | 2020 |
|---|--------------|----------------|
| Re-measurements: | | |
| Return on scheme assets excluding interest income | 3,660 | 4,186 |
| Profit/(loss) from change in financial assumptions | 3,060 | (8,632) |
| Profit/(loss) from change in demographic assumptions | 17 | (857) |
| Experience (losses)/gains | (977) | 439 |
| Re-measurement gains/(losses) recognised in other comprehensive income/(expense) | 5,760 | (4,864) |

Reconciliation of fair value of plan liabilities were as follows:

| £'000 | 2021 | 2020 |
|---|---------------|---------------|
| Opening defined benefit obligation | 58,728 | 50,412 |
| Interest cost | 695 | 944 |
| Actuarial (gains)/losses | (2,100) | 9,050 |
| Benefits paid | (1,684) | (1,678) |
| Closing defined benefit obligation | 55,639 | 58,728 |

Reconciliation of fair value of plan assets were as follows:

| £'000 | 2021 | 2020 |
|---|---------------|---------------|
| Opening fair value of scheme assets | 49,145 | 44,019 |
| Interest income on plan assets | 591 | 838 |
| Return on scheme assets excluding interest income | 3,660 | 4,186 |
| Contributions by employer | 1,780 | 1,780 |
| Benefits paid | (1,684) | (1,678) |
| Closing fair value of scheme assets | 53,492 | 49,145 |

Actuarial assumptions

The principal assumptions at the balance sheet date were:

| | 2021 | 2020 |
|---------------------------------------|---|---|
| Discount rate | 1.85% | 1.20% |
| Price inflation (RPI) | 3.50% | 3.00% |
| Price inflation (CPI) | 2.95% | 2.45% |
| Future increases in deferred pensions | 2.95% | 2.45% |
| Expected return on scheme assets | 2.95% | 2.45% |
| Commutation | Lump sum such that 20% of pension at retirement is commuted | Lump sum such that 20% of pension at retirement is commuted |

Priory Group UK 1 Limited

Notes to the consolidated financial statements

22. Pension commitments (continued)

Mortality assumptions are set based on actuarial advice in accordance with published statistics. These assumptions translate into an average life expectancy in years of a pensioner retiring at age 65:

| | 2021 | 2020 |
|--|------|------|
| Retiring at the end of the reporting period: | | |
| - Male | 22.9 | 22.9 |
| - Female | 25.0 | 25.0 |
| Retiring 20 years after the end of the reporting period: | | |
| - Male | 24.3 | 24.2 |
| - Female | 26.5 | 26.4 |

Asset breakdown

The major categories of scheme assets as a percentage of total scheme assets are as follows:

| | 2021 | 2020 |
|------------------|-------|-------|
| Equities | 6.8% | 7.4% |
| Bonds | 25.6% | 22.7% |
| Real Return Fund | 21.6% | 21.9% |
| Real LDI | 19.6% | 16.0% |
| Insurance Policy | 24.9% | 29.0% |
| Cash | 1.5% | 3.0% |

The assets are all active on quoted markets with the exception of the private debt holdings and insured pensions.

Sensitivity analysis

The table below shows the impact on the defined benefit obligation if the assumptions were changed as shown (assuming all other assumptions remain constant):

| £'000 | 2021 | 2020 |
|---|-------|-------|
| 0.25% decrease in discount rate | 2,248 | 2,543 |
| 0.25% increase in inflation and related assumptions | 1,458 | 1,706 |
| 1 year increase in life expectancy | 2,114 | 2,238 |

23. Share capital

| | 2021 | | 2020 | |
|---|------------|------------------------|------------|------------------------|
| | Number | Nominal value £'000 | Number | Nominal value £'000 |
| Allotted, called up and fully paid | | | | |
| Ordinary shares of £1 each | 74,983,981 | 74,984 | 74,983,981 | 74,984 |

Priory Group UK 1 Limited

Notes to the consolidated financial statements

24. Financial instruments and risk management

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risks faced by the Group, which primarily relates to credit, interest and liquidity and capital management risks, which arise in the normal course of the Group's business.

Credit risk

Financial instruments which potentially expose the Group to credit risk consist primarily of cash and trade receivables. Cash is only deposited with major financial institutions that satisfy certain credit criteria.

Credit risk is not considered to be significant given that the vast majority of revenue is derived from publicly funded entities and payment is taken in advance for privately funded healthcare services. Credit evaluations are carried out on privately funded residents in the Adult Care business. The Group provides credit to customers in the normal course of business and the balance sheet is net of allowances of £1.7m (2020: £1.9m) for doubtful receivables. The Group measures those allowances at an amount equal to the lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience and forward looking information.

The Group does not require collateral in respect of financial assets.

The average credit period taken at the year end on the provision of services is 17 days (2020: 16 days). Allowances against doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty. The majority of the Group's allowance for doubtful debts relates to specific trade receivables that are not considered to be recoverable, and management only considers it appropriate to create a collective provision based on the age of the trade receivable in respect of certain types of trade receivables.

The ageing of trade receivables at 31 December is as follows:

| £'000 | 2021 | 2020 |
|-------------|---------------|---------------|
| Current | 23,974 | 31,582 |
| 30-60 days | 7,165 | 4,747 |
| 60-150 days | 4,897 | 1,605 |
| 150 days + | 2,374 | 1,313 |
| | 38,410 | 39,247 |

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Trade receivables at least 60 days past due for which no loss allowance has been made at 31 December is as follows:

| £'000 | 2021 | 2020 |
|-----------|-------|-------|
| 60 days + | 5,594 | 1,025 |

The movement in allowance for doubtful debts is as follows:

| £'000 | 2021 | 2020 |
|-------------------------------|--------------|--------------|
| Balance at 1 January | 1,893 | 1,533 |
| Disposal | (403) | - |
| Charged to income statement | 187 | 360 |
| Balance at 31 December | 1,677 | 1,893 |

Apart from the Group's two largest customers (NHS England and Local Authorities on a consolidated basis), the Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

There is no concern over the credit quality of amounts past due but for which no loss allowance has been recognised since the risk is spread over a number of unrelated counterparties which include central and local Government. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above and cash held by the Group.

Expected credit losses

Expected credit losses from trade and other receivables are not expected to be material as the group's revenues are derived largely from publicly-funded sources and credit risk is spread amongst a significant number of individual payors. Revenues from private customers are generally invoiced in advance, and the group has not experienced any significant credit losses historically. There are no future events or changes in condition that would reasonably and materially affect the level of expected credit losses.

Interest rate risk

The Group finances its operations through intragroup loans. The loans are denominated in pounds and are borrowed at fixed interest rates of 7.4% per annum and 3.75%. See note 19 for further details.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

24. Financial instruments and risk management (continued)

Liquidity risk

The Group prepares both annual and short-term cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. The Group has sufficient available bank facilities and cash flows from profits to fund current commitments.

The following table shows the contractual cash flow maturities of financial liabilities:

2021

| £'000 | Total | 0-1 years | 2-5 years | 5 years and over |
|--------------------------|-----------|-----------|-----------|------------------|
| Trade and other payables | 105,178 | 105,178 | - | - |
| Loan from related party | 320,858 | 19,295 | 301,563 | - |
| Lease liabilities | 1,651,834 | 59,585 | 236,057 | 1,356,192 |
| | 2,077,870 | 184,058 | 537,620 | 1,356,192 |

2020 (restated*)

| £'000 | Total | 0-1 years | 2-5 years | 5 years and over |
|--------------------------|-----------|-----------|-----------|------------------|
| Trade and other payables | 86,468 | 86,468 | - | - |
| Loan from related party | 1,442,258 | - | 1,442,258 | - |
| Lease liabilities | 668,778 | 34,409 | 122,134 | 512,235 |
| | 2,197,504 | 120,877 | 1,564,392 | 512,235 |

*See Note 2(v) for details of restatement.

Capital risk management

The Group's objective when managing its capital is to ensure that entities in the Group will be able to continue as a going concern whilst maximising returns for stakeholders through the optimisation of debt and equity. The Group's capital structure is as follows:

| £'000 | 2021 | 2020 Restated* |
|---|-----------|-------------------|
| Cash | 20,058 | 54,971 |
| Lease liabilities | (836,996) | (340,388) |
| Borrowings (including accrued interest) | (280,431) | (1,199,194) |
| Equity | (184,024) | (298,924) |

*See Note 2(v) for details of restatement.

The Group is not subject to any externally imposed capital requirements.

Foreign currency risk

Substantially all of the Group's operations are in the UK and as such foreign currency risk is not deemed significant.

Fair values

There is no difference between the carrying value of financial instruments and their fair value hence the fair value is determined using unobservable market data (unobservable inputs - level 3). The Group has no financial instruments that are measured at fair value.

Analysis of changes in net debt

| £'000 | As at 1 January 2021 | Cash flow | Divestments | Non-cash changes | As at 31 December 2021 |
|-------------------|-------------------------|-----------|-------------|---------------------|------------------------------|
| Cash | 54,971 | (20,927) | (13,986) | - | 20,058 |
| Lease liabilities | (340,388) | (787,188) | 201,416 | 89,164 | (836,996) |
| Borrowings** | (1,132,024) | 855,919 | - | - | (276,105) |
| Net debt | (1,417,441) | 47,804 | 187,430 | 89,164 | (1,093,043) |

**excluding accrued interest

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Notes to the consolidated financial statements

25. Related party transactions

Ultimate parent and controlling party

At 31 December 2020 the ultimate parent undertaking and controlling party was Acadia Healthcare Company Inc.. On 19 January 2021 the entire share capital of AHC-WW Jersey Limited, a subsidiary of Acadia Healthcare Company Inc., was acquired by RemedcoUK Limited, a subsidiary of Waterland Private Equity Investments B.V..

From this date the ultimate parent undertaking became Rehab and Mental Healthcare Group B.V. and the ultimate controlling party became Waterland Private Equity Investments B.V., both registered in the Netherlands.

The largest group in which the results of this company are consolidated is that headed by Median B.V., incorporated in the Netherlands. The consolidated financial statements of Median B.V. can be obtained from Basisweg 10, 1043 AP, Amsterdam, the Netherlands.

The smallest group in which the results of this company are consolidated is that headed by Priory Group UK 1 Limited, incorporated in the United Kingdom. The address of Priory Group UK 1 Limited is Fifth Floor, 80 Fiammersmith Road, London, England, W14 8UD.

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group has loan balances with RemedcoUK Limited which accrue interest, see note 19 and 8 for further details. In addition £40.5m (2020: £nil) is due to RemedcoUK Limited, see note 18.

The Group is owed £9.0m (2020: nil) from Aspris, a related party due to common ownership, this is included within other receivables, see note 15.

Remuneration of key management personnel

| £'000 | 2021 | 2020 |
|------------------------------|-------|-------|
| Short-term employee benefits | 2,239 | 3,291 |
| Post-employment benefits | 37 | 22 |

Like for like emoluments of the highest paid director of the Company payable in the year ended 31 December 2021 were £1,109,000 (2020: £579,000). In addition, the Group paid pension contributions of £5,000 in respect of the highest paid director (2020: £10,000). A further non-recurring payment of £nil (2020: £1,092,000) was made to the highest paid director after the 2020 year end; this payment related to work undertaken over a number of periods that culminated in the successful divestment of the Group by its owners Acadia. This payment was effectively funded by Acadia by way of a reduction in the net selling price achieved.

Company directors Christopher Howard and Debra Osteen were remunerated by Acadia Healthcare as their services to the Company were incidental to their services to other companies. Andre Schmidt was and is remunerated by the Median Group as his services to the Company were incidental to his services to other companies.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

26. Subsidiaries

The subsidiary undertakings at the year-end are as follows:

| Name of subsidiary | Principal activities | Country of incorporation | Class and percentage of shares held |
|---|----------------------------|--------------------------|-------------------------------------|
| Priory Group No. 2 Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Group No. 3 Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Investments Holdings Limited ¹ | Holding company | Cayman Islands | 100% ordinary |
| Priory Health No. 1 Limited ¹ | Holding company | Cayman Islands | 100% ordinary |
| Craegmoor Group Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Healthcare Holdings Limited | Holding company | United Kingdom | 100% ordinary |
| Medical Imaging (Essex) Limited | Non trading | United Kingdom | 100% ordinary |
| Nottcor 6 Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Pension Trustee Limited | Trustee company | United Kingdom | 100% ordinary |
| Priory Healthcare Investments Trustee Limited | Investment trustee company | United Kingdom | 100% ordinary |
| Priory Holdings Company No. 1 Limited ¹ | Holding company | Cayman Islands | 100% ordinary |
| Priory New Investments Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Services for Young People (IOM) Limited ⁴ | Non trading | Isle of Man | 100% ordinary |
| Priory Health No. 2 Limited ¹ | Holding company | Cayman Islands | 100% ordinary |
| Priory Healthcare Investments Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Finance Company Limited ¹ | Financing company | Cayman Islands | 100% ordinary |
| Priory Finance Property Holdings No.1 Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Finance Property Holdings No.2 Limited | Non trading | United Kingdom | 100% ordinary |
| Coxlease Holdings Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Healthcare Finance Co Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Group Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Securitisation Holdings Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Behavioural Health Limited | Non trading | United Kingdom | 100% ordinary |
| Employee Management Services Limited | Non trading | United Kingdom | 100% ordinary |
| Sturt House Clinic Limited | Non trading | United Kingdom | 100% ordinary |
| Fanplate Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Securitisation Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Grange (Holdings) Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Old Acute Services Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Old Grange Services Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Old Forensic Services Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Old Schools Services Limited | Non trading | United Kingdom | 100% ordinary |
| Libra Health Limited | Non trading | United Kingdom | 100% ordinary |
| Jacques Hall Limited | Non trading | United Kingdom | 100% ordinary |
| Robinson Kay House (Bury) Limited | Non trading | United Kingdom | 100% ordinary |
| Farleigh Schools Limited | Non trading | United Kingdom | 100% ordinary |
| Chelfham Senior School Limited | Non trading | United Kingdom | 100% ordinary |
| Autism (GB) Limited | Non trading | United Kingdom | 100% ordinary |
| Solutions (Llangarron) Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Holdings Company No. 2 Limited ¹ | Holding company | Cayman Islands | 100% ordinary |
| Cockermouth Propco Limited | Property company | United Kingdom | 100% ordinary |
| Fulford Grange Medical Centre Limited | Non trading | United Kingdom | 50% ordinary |
| Priory Holdings Company No. 3 Limited ¹ | Holding company | Cayman Islands | 100% ordinary |
| Priory Healthcare Limited | Specialist healthcare | United Kingdom | 100% ordinary |
| Priory Rehabilitation Services Limited | Rehabilitation services | United Kingdom | 100% ordinary |
| Priory Central Services Limited | Management services | United Kingdom | 100% ordinary |
| Velocity Healthcare Limited | Specialist healthcare | United Kingdom | 100% ordinary |
| Revona LLP | Trading | United Kingdom | 100% members' capital |
| CO Developments Limited ³ | Property company | United Kingdom | 100% ordinary |
| Priory Care Homes Holdings Limited | Non trading | United Kingdom | 100% ordinary |

Priory Group UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Principal activities | Country of incorporation | Class and percentage of shares held |
|---|-------------------------|--------------------------|---|
| Holden Homes Limited | Rehabilitation services | United Kingdom | 100% ordinary |
| Priory New Investments No. 2 Limited | Holding company | United Kingdom | 100% ordinary |
| Priory New Investments No. 3 Limited | Holding company | United Kingdom | 100% ordinary |
| Affinity Healthcare Holdings Limited | Holding company | United Kingdom | 100% ordinary |
| Affinity Healthcare Limited | Holding company | United Kingdom | 100% ordinary |
| Affinity Hospitals Holding Limited ² | Holding company | United Kingdom | 100% ordinary |
| Affinity Hospitals Group Limited ² | Holding company | United Kingdom | 100% ordinary |
| Affinity Hospitals Limited | Holding company | United Kingdom | 100% ordinary |
| Cheadle Royal Healthcare Limited | Private healthcare | United Kingdom | 100% ordinary |
| Middleton St George Healthcare Limited | Private healthcare | United Kingdom | 100% ordinary |
| Cheadle Royal Residential Services Limited | Non trading | United Kingdom | 100% ordinary |
| Craegmoor Group (No.1) Limited | Holding company | United Kingdom | Limited by guarantee |
| Craegmoor Group (No.2) Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor Group (No.3) Limited | Holding company | United Kingdom | 100% ordinary |
| Amore Group (Holdings) Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor Group (No.5) Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor Group (No.6) Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor Limited | Holding company | United Kingdom | 100% ordinary |
| Amore Care Holdings Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor Facilities Company Limited | Supply of services | United Kingdom | 100% ordinary |
| Craegmoor Hospitals (Holdings) Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor Learning (Holdings) Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor Care (Holdings) Limited | Holding company | United Kingdom | 100% ordinary |
| Craegmoor (Harbour Care) Limited | Holding company | United Kingdom | 100% ordinary |
| Harbour Care (UK) Limited | Care delivery | United Kingdom | 100% of total issued share capital (ordinary, A, B and cumulative preference) |
| Burnside Care Limited | Care delivery | United Kingdom | 100% ordinary |
| Craegmoor Healthcare Company Limited | Non trading | United Kingdom | 100% ordinary |
| Craegmoor Supporting You Limited | Care delivery | United Kingdom | 100% ordinary |
| Greymount Properties Limited | Care delivery | United Kingdom | 100% ordinary |
| Parkcare Homes (No. 2) Limited | Care delivery | United Kingdom | 100% ordinary |
| Autism TASC Services Limited | Care delivery | United Kingdom | 100% ordinary |
| Cotswold Care Services Limited | Care delivery | United Kingdom | 100% ordinary |
| Craegmoor Holdings Limited | Care delivery | United Kingdom | 100% ordinary |
| Craegmoor Homes Limited | Care delivery | United Kingdom | 100% ordinary |
| J C Care Limited | Care delivery | United Kingdom | 100% ordinary |
| Johnston Care Limited | Care delivery | United Kingdom | 100% ordinary |
| Lambs Support Services Limited | Care delivery | United Kingdom | 100% ordinary |
| Positive Living Limited | Care delivery | United Kingdom | 100% ordinary |
| Sapphire Care Services Limited | Care delivery | United Kingdom | 100% ordinary |
| Strathmore Care Services Limited | Care delivery | United Kingdom | 100% ordinary |
| Treehome Limited | Care delivery | United Kingdom | 100% ordinary |
| Grovedraft Limited | Non trading | United Kingdom | 100% ordinary |
| Peninsula Autism Services and Support Limited | Care delivery | United Kingdom | 100% ordinary |
| High Quality Lifestyles Limited | Care delivery | United Kingdom | 100% ordinary |
| New Directions (Bexhill) Limited | Care delivery | United Kingdom | 100% ordinary |
| New Directions (Hastings) Limited | Care delivery | United Kingdom | 100% ordinary |
| New Directions (Robertsbridge) Limited | Care delivery | United Kingdom | 100% ordinary |
| New Directions (St. Leonards on Sea) Limited | Care delivery | United Kingdom | 100% ordinary |
| Lansdowne Road Limited | Care delivery | United Kingdom | 100% ordinary |
| Lothlorien Community Limited | Care delivery | United Kingdom | 100% ordinary |
| R.J. Homes Limited | Care delivery | United Kingdom | 100% ordinary |
| Heddfan Care Limited | Care delivery | United Kingdom | 100% ordinary |

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| Name of subsidiary | Principal activities | Country of incorporation | Class and percentage of shares held |
|---|------------------------|--------------------------|-------------------------------------|
| Conquest Care Homes (Norfolk) Limited | Care delivery | United Kingdom | 100% ordinary |
| Conquest Care Homes (Peterborough) Limited | Care delivery | United Kingdom | 100% ordinary |
| Conquest Care Homes (Soham) Limited | Care delivery | United Kingdom | 100% ordinary |
| Ferguson Care Limited | Care delivery | United Kingdom | 100% ordinary |
| Speciality Care (Learning Disabilities) Limited | Care delivery | United Kingdom | 100% ordinary |
| Speciality Care (Rehab) Limited | Care delivery | United Kingdom | 100% ordinary |
| Amore (Prestwick) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore Elderly Care Holdings Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore Elderly Care (Wednesfield) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore (Ben Madigan) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore (Warrenpoint) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore (Watton) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore Care Limited | Elderly care services | United Kingdom | 100% ordinary |
| Speciality Healthcare Limited | Elderly care services | United Kingdom | 100% ordinary |
| Health & Care Services (NW) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Speciality Care (Addison Court) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Speciality Care (EMI) Limited | Elderly care services | United Kingdom | 100% ordinary and 100% preference |
| Speciality Care (UK Lease Homes) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Parkcare Homes Limited | Elderly care services | United Kingdom | 100% ordinary |
| Health & Care Services (UK) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore (Stoke 1) Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore (Wednesfield 1) Limited | Elderly care services | United Kingdom | 100% ordinary |
| S P Cockeremouth Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore (Coventry) Limited * | Elderly care services | Isle of Man | 100% ordinary |
| Yorkshire Parkcare Company Limited | Elderly care services | United Kingdom | 100% ordinary |
| Speciality Care (Rest Care) Limited | Non trading | United Kingdom | 100% ordinary |
| Amore (Bourne) Limited | Non trading | United Kingdom | 100% ordinary |
| Amore (Cockermouth) Limited | Non trading | United Kingdom | 100% ordinary |
| Amore (Ings Road) Limited | Non trading | United Kingdom | 100% ordinary |
| Amore Elderly Care Limited | Elderly care services | United Kingdom | 100% ordinary |
| Amore (Stoke 2) Limited | Non trading | United Kingdom | 100% ordinary |
| Amore (Wednesfield 2) Limited | Non trading | United Kingdom | 100% ordinary |
| Wednesfield 3 Limited | Non trading | United Kingdom | 100% ordinary |
| Stoke Trustee (No 2) LLP | Non trading | United Kingdom | 100% membership capital |
| Wednesfield Trustee LLP | Non trading | United Kingdom | 100% membership capital |
| Wednesfield Trustee (No 2) LLP | Non trading | United Kingdom | 100% membership capital |
| Stoke Trustee LLP | Non trading | United Kingdom | 100% membership capital |
| Priory Finance Property LLP | Property company | United Kingdom | 100% membership capital |
| Life Works Community Limited | Specialist healthcare | United Kingdom | 100% ordinary |
| Progress Care (Holdings) Limited | Holding company | United Kingdom | 100% ordinary |
| Progress Adult Services Limited | Care delivery | United Kingdom | 100% ordinary |
| Whitewell UK Holding Company 1 Limited | Holding company | United Kingdom | 100% ordinary |
| Whitewell UK Investments 1 Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Group No. 1 Limited | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care Scotland Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Oaktree) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Ivydene) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Albion) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Brunswick) Limited | Mental health services | United Kingdom | 100% ordinary |

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| Name of subsidiary | Principal activities | Country of incorporation | Class and percentage of shares held |
|--|--------------------------|--------------------------|-------------------------------------|
| Partnerships in Care (Beverley) Limited | Mental health services | United Kingdom | 100% ordinary |
| The Manor Clinic Limited | Mental health services | United Kingdom | 100% ordinary |
| Manor Hall Specialist Care Partnerships Limited ⁵ | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Meadow View) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Cleveland) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care 1 Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Nelson) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Pastoral) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Rhondda) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Cardiff) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Oak Vale) Limited | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Vancouver) Limited | Mental health services | United Kingdom | 100% ordinary |
| Priory Group UK 2 Limited (formerly Partnerships in Care UK 2 Limited) | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Management Limited | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Investments 1 Limited | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Management 2 Limited | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care (Oak Vale) Holding Company Limited | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care (Oak Vale) Property Holding Company Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care (Vancouver) Holding Company Limited | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care (Vancouver) Property Holding Company Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property Holding Company Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 1 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Investments 2 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 3 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 4 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 6 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 7 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 15 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 16 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 19 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 20 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 22 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 31 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care (Cleveland) Holding Company Limited | Holding company | United Kingdom | 100% ordinary |
| Partnerships in Care (Cleveland) Property Holding Company Limited | Property holding company | United Kingdom | 100% ordinary |

Priory Group UK 1 Limited

Notes to the consolidated financial statements

All subsidiary undertakings above were owned for all of the current year and the prior year. During the year the Group disposed of the following undertakings, which had been held from before 1 January 2020:

| Name of subsidiary | Principal activities | Country of incorporation | Class and percentage of shares held |
|---|-------------------------------|--------------------------|--|
| Priory Education Services Limited | Specialist education services | United Kingdom | 100% ordinary |
| Priory (Thetford 1) Limited | Non trading | United Kingdom | 100% ordinary |
| Priory (Thetford 2) Limited | Non trading | United Kingdom | 100% ordinary |
| Thetford Trustee LLP | Non trading | United Kingdom | 100% members' capital |
| Castlecure Group Limited | Non trading | United Kingdom | 100% ordinary |
| Castlecure Holdings Limited | Non trading | United Kingdom | 100% ordinary |
| Castle Homes Care Limited | Children's care homes | United Kingdom | 100% ordinary |
| Castle Homes Limited | Children's care homes | United Kingdom | 100% ordinary |
| Quantum Care (UK) Limited | Children's care homes | United Kingdom | 100% ordinary |
| Castlecure Cymru Limited | Children's care homes | United Kingdom | 100% ordinary |
| Castlecure Education Limited | Specialist education services | United Kingdom | 100% ordinary |
| Rothcare Estates Limited | Property company | United Kingdom | 100% ordinary |
| Priory New Education Services Limited | Education | United Kingdom | 100% ordinary |
| Priory (Troup House) Limited ² | Education | United Kingdom | 100% ordinary |
| Dunhall Property Limited | Non trading | United Kingdom | 100% ordinary |
| Speciality Care Limited | Holding company | United Kingdom | 100% 10p ordinary shares, 100% cumulative redeemable preference shares |
| Coxlease School Limited | Non trading | United Kingdom | 100% ordinary |
| Strathmore College Limited | Care delivery | United Kingdom | 100% ordinary |
| Speciality Care (Medicare) Limited | Holding company | United Kingdom | 100% ordinary |
| Speciality Care (Rest Homes) Limited | Care delivery | United Kingdom | 100% ordinary |
| Specialised Courses Offering Purposeful Education Limited | Care delivery | United Kingdom | 100% ordinary |
| Progress Care and Education Limited | Children's homes | United Kingdom | 100% ordinary |
| Aspire Scotland Limited ² | Children's care and education | United Kingdom | 100% ordinary |
| Aspire Scotland (Holdings) Limited ² | Holding company | United Kingdom | 100% ordinary |
| Galaxy Cafe Limited ² | Children's care and education | United Kingdom | 100% ordinary |
| Galaxy UK Leisure Limited ² | Children's care and education | United Kingdom | 100% ordinary |
| Partnerships in Care Property 2 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 8 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 9 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 10 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 11 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 12 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 14 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 17 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 21 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 24 Limited | Property holding company | United Kingdom | 100% ordinary |

Unless stated otherwise the registered address of each subsidiary is: Fifth Floor, 80 Hammersmith Road, London, England, W14 8UD.

¹ Company registered address is c/o M&C Corporate Services Limited, P.O. Box 309GT, Uglan House, South Church Street, Georgetown, Grand Cayman, Cayman Islands.

² Company registered address is: 38-40 Mansionhouse Road, Glasgow, G41 3DW, United Kingdom.

³ Company registered address is: Norwich Union House, 7 Fountain Street, Belfast BT1 5EA, United Kingdom.

⁴ Company registered address is: First Floor, Jubilee Buildings, Victoria Street, Douglas IM1 2SH, Isle of Man.

⁵ Company registered address is: Manor Hall Deanston, Doune, Stirlingshire, United Kingdom, FK16 6AD.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

27. Section 479A Companies Act exemption

The Company has provided a guarantee in respect of the outstanding liabilities of the subsidiary undertakings listed in note 26 in accordance with sections 479A - 479C of the Companies Act 2006, as these UK subsidiary companies of the Group are exempt from the requirements of the Companies Act 2006 relating to the audit of financial statements by virtue of section 479A of this Act.

| Name of subsidiary | Registered number | Name of subsidiary | Registered number |
|---|-------------------|---|-------------------|
| Priory Healthcare Limited | 6244860 | Priory Group No. 3 Limited | 7480550 |
| Priory Rehabilitation Services Limited | 6244877 | Velocity Healthcare Limited | 6485062 |
| Cheadle Royal Healthcare Limited | 3254624 | Revona LLP | OC341361 |
| Priory Finance Property LLP | OC315650 | Craegmoor Group Limited | 6600023 |
| Priory Group No. 1 Limited | 7480152 | Craegmoor Group (No. 3) Limited | 6628024 |
| Parkcare Homes (No. 2) Limited | 4000281 | Amore Group (Holdings) Limited | 6628016 |
| Parkcare Homes Limited | 2155276 | Craegmoor Group (No. 5) Limited | 4204571 |
| Coxlease Holdings Limited | 4427783 | Craegmoor Group (No. 6) Limited | 4229516 |
| Fanplate Limited | 5347672 | Craegmoor Limited | 2825572 |
| Priory Central Services Limited | 4391278 | Amore Care (Holdings) Limited | 3517404 |
| Priory Finance Property Holdings No 1 Limited | 5590294 | Amore Care Limited | 1825148 |
| Priory Finance Property Holdings No 2 Limited | 5590103 | Speciality Healthcare Limited | 2904221 |
| Priory Group Limited | 4433255 | Health & Care Services (NW) Limited | 2847005 |
| Priory Healthcare Finance Co Limited | 4433253 | Craegmoor Care (Holdings) Limited | 4790555 |
| Priory Healthcare Investments Limited | 4433250 | Greymount Properties Limited | 3091645 |
| Priory Securitisation Holdings Limited | 4793915 | Craegmoor Healthcare Company Limited | 3830455 |
| Priory Securitisation Limited | 3982134 | Craegmoor Supporting You Limited | 4955186 |
| Affinity Hospitals Holding Limited | SC196089 | Craegmoor Facilities Company Limited | 3656033 |
| Affinity Hospitals Limited | 3966451 | Craegmoor Hospitals (Holdings) Limited | 4675861 |
| Middleton St George Healthcare Limited | 3864079 | Burnside Care Limited | 5628124 |
| Priory New Investments Limited | 6997550 | Craegmoor Learning (Holdings) Limited | 3015539 |
| Priory New Investments No. 2 Limited | 7102440 | Speciality Care (Addison Court) Limited | 3011310 |
| Priory New Investments No. 3 Limited | 7102547 | Speciality Care (EMI) Limited | 2192205 |
| Affinity Healthcare Holdings Limited | 5305312 | Speciality Care (UK Lease Homes) Limited | 3071277 |
| Affinity Healthcare Limited | 5236108 | J C Care Limited | 3251577 |
| Affinity Hospitals Group Limited | SC224907 | Lansdowne Road Limited | 2115380 |
| Amore (Ben Madigan) Limited | 6715859 | Lothlorien Community Limited | 2872249 |
| Amore (Cockermouth) Limited | 6889688 | R. J. Homes Limited | 2980088 |
| Amore (Ings Road) Limited | 6766727 | Heddfan Care Limited | 2928647 |
| Amore (Prestwick) Limited | 6715857 | Sapphire Care Services Limited | 4146017 |
| Amore (Stoke 1) Limited | 6866823 | Autism Tasc Services Limited | 4744054 |
| Amore (Warrenpoint) Limited | 6715869 | Craegmoor Homes Limited | 4790588 |
| Amore (Watton) Limited | 6773612 | Johnston Care Limited | 3381658 |
| Amore (Wednesfield 1) Limited | 6882968 | Cotswold Care Services Limited | 3341447 |
| Priory Care Homes Holdings Limited | 6660792 | Treehome Limited | 2776626 |
| Amore Elderly Care Limited | 6660776 | Strathmore Care Services Limited | 4147864 |
| SP Cockermouth Limited | 6485612 | Lambs Support Services Limited | 5562543 |
| CO Developments Limited | NI064937 | The Manor Clinic Limited | 6084605 |
| Amore Elderly Care (Wednesfield) Limited | 7318739 | Manor Hall Specialist Care Partnerships Limited | SC445897 |
| Positive Living Limited | 5868343 | Partnerships in Care (Meadow View) Limited | 5075900 |
| Craegmoor Holdings Limited | 3830300 | Partnerships in Care (Cleveland) Limited | 8671457 |
| Ferguson Care Limited | 2582268 | Partnerships in Care 1 Limited | 1833385 |
| Speciality Care (Rehab) Limited | 2965073 | Partnerships in Care (Rhondda) Limited | 5715589 |
| Speciality Care (Learning Disabilities) Limited | 2953416 | Priory Grange (Holdings) Limited | 5346419 |
| Yorkshire Parkcare Company Limited | 1915148 | Priory Healthcare Holdings Limited | 3738107 |
| Conquest Care Homes (Norfolk) Limited | 2894168 | Partnerships in Care (Cardiff) Limited | 5722804 |
| Conquest Care Homes (Soham) Limited | 3934362 | Partnerships in Care (Oak Vale) Limited | 8135440 |
| Conquest Care Homes (Peterborough) Limited | 2706124 | Partnerships in Care (Vancouver) Limited | 6970725 |

Priory Group UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Registered number | Name of subsidiary | Registered number |
|--|-------------------|---|-------------------|
| Speciality Care (Rest Care) Limited | 3257061 | Priory Group UK 2 Limited | 9059930 |
| Health & Care Services (UK) Limited | 2083074 | Partnerships in Care Management Limited | 5401308 |
| Craegmoor (Harbour Care) Limited | 7880338 | Partnerships in Care Investments 1 Limited | 7773948 |
| Harbour Care (UK) Limited | 7838042 | Partnerships in Care Management 2 Limited | 9489130 |
| Peninsula Autism Services & Support Limited | 3804697 | Partnerships in Care (Oak Vale) Holding Company Limited | 8390458 |
| High Quality Lifestyles Limited | 2734700 | Partnerships in Care (Oak Vale) Property Holding Company Limited | 7910544 |
| Helden Homes Limited | 4490949 | Partnerships in Care (Vancouver) Holding Company Limited | 8211574 |
| New Directions (Bexhill) Limited | 3884127 | Partnerships in Care (Vancouver) Property Holding Company Limited | 6244563 |
| New Directions (Hastings) Limited | 5126487 | Partnerships in Care Property Holding Company Limited | 5448019 |
| New Directions (Robertsbridge) Limited | 3466259 | Partnerships in Care Property 1 Limited | 5403392 |
| New Directions (St. Leonards on Sea) Limited | 6339063 | Partnerships in Care Investments 2 Limited | 7773953 |
| Life Works Community Limited | 4740254 | Partnerships in Care Property 3 Limited | 5406109 |
| Progress Care (Holdings) Limited | 3545347 | Partnerships in Care Property 4 Limited | 5406112 |
| Progress Adult Services Limited | 3545816 | Partnerships in Care Property 6 Limited | 5406120 |
| Whitewell UK Investments 1 Limited | 9929374 | Partnerships in Care Property 7 Limited | 5406122 |
| Whitewell UK Holding Company 1 Limited | 9929366 | Partnerships in Care Property 15 Limited | 5406176 |
| Amore Elderly Care Holdings Limited | 7009955 | Partnerships in Care Property 16 Limited | 5510031 |
| Priory Group No. 2 Limited | 7480437 | Partnerships in Care Property 19 Limited | 5613394 |
| Partnerships in Care Limited | 2622784 | Partnerships in Care Property 20 Limited | 5613407 |
| Partnerships in Care Scotland Limited | 4727112 | Partnerships in Care Property 22 Limited | 5852397 |
| Partnerships in Care (Oaktree) Limited | 4785303 | Partnerships in Care Property 31 Limited | 7916205 |
| Partnerships in Care (Ivydene) Limited | 7263526 | Partnerships in Care (Cleveland) Holding Company Limited | 8917740 |
| Partnerships in Care (Albion) Limited | 3671946 | Partnerships in Care (Cleveland) Property Holding Company Limited | 8457596 |
| Partnerships in Care (Brunswick) Limited | 7507166 | Libra Health Limited | 1355923 |
| Partnerships in Care (Beverley) Limited | 7155722 | Priory Old Schools Services Limited | 2838284 |
| Partnerships in Care (Nelson) Limited | 7294608 | Priory Old Acute Services Limited | 1505382 |
| Partnerships in Care (Pastoral) Limited | 7224362 | Solutions (Llangarron) Limited | 4961209 |
| Farleigh Schools Limited | 3225255 | | |

The subsidiary undertakings in note 26 which are excluded from the above list are not required to prepare audited financial statements either because they are dormant, registered outside of the United Kingdom or a small LLP.

Priory Group UK 1 Limited

Parent company balance sheet at 31 December 2021

| £'000 | Note | 31 December 2021 | 31 December 2020 |
|--|------|------------------|--------------------|
| Fixed assets | | | |
| Investments | 3 | <u>628,397</u> | <u>1,112,458</u> |
| Current assets | | | |
| Debtors (of which, due in greater than one year £nil (2020: £113,612,000)) | 4 | <u>33,984</u> | <u>127,704</u> |
| Creditors: amounts falling due within one year | 5 | <u>(904,023)</u> | <u>(12,869)</u> |
| Net current (liabilities)/assets | | (870,039) | 114,835 |
| Total assets less current liabilities | | (241,642) | 1,227,293 |
| Creditors: amounts falling due after more than one year | 6 | <u>(261,136)</u> | <u>(1,199,194)</u> |
| Net (liabilities)/assets | | (502,778) | <u>28,099</u> |
| Capital and reserves | | | |
| Called up share capital | 7 | 74,984 | 74,984 |
| Share premium account | | 647,240 | 647,240 |
| Profit and loss account b/fwd | | (694,125) | (166,571) |
| Loss for the year | | (530,877) | (527,554) |
| Total shareholders' (deficit)/funds | | (502,778) | <u>28,099</u> |

The financial statements of Priory Group UK 1 Limited (registered company number 09057543) on pages 51 to 55 were approved by the board of directors and authorised for issue on 29 June 2022. They were signed on its behalf by:

Jim Lee

Jim Lee
Director

David Hall

David Hall
Director

Priory Group UK 1 Limited

Parent company statement of changes in equity for the year ended 31 December 2021

| £'000 | Called up share capital | Share premium account | Profit and loss account | Total shareholders' funds/(deficit) |
|-----------------------------|--------------------------------|------------------------------|--------------------------------|--|
| At 1 January 2020 | 74,984 | 647,240 | (166,571) | 555,653 |
| Loss for the financial year | - | - | (527,554) | (527,554) |
| At 31 December 2020 | 74,984 | 647,240 | (694,125) | 28,099 |
| Loss for the financial year | - | - | (530,877) | (530,877) |
| At 31 December 2021 | 74,984 | 647,240 | (1,225,002) | (502,778) |

Priory Group UK 1 Limited

Notes to the parent company financial statements

1. Significant accounting policies

The following accounting policies have been applied consistently in the Company's financial statements.

a) Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006 as applicable to companies using FRS 101. As permitted by that Act, the separate financial statements have been prepared in accordance with UK generally accepted accounting principles (UK GAAP), including FRS 101. The financial statements are prepared on a going concern basis under the historical cost convention. Considerations relevant to the going concern basis of preparation are set out in note 2(b) of the group financial statements.

The Company is a private limited company, limited by shares and incorporated and domiciled in the United Kingdom.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 25 of the consolidated financial statements gives details of the Company's ultimate parent. Its consolidated financial statements prepared in accordance with IFRS are set out on pages 16 to 50.

The principle disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- Statement of cash flows;
- IFRS 7 financial instrument disclosures;
- IAS 1 information on management of capital;
- IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective;
- IAS 24 disclosure of key management personnel compensation; and
- IAS 24 disclosures in respect of related party transactions entered into between fellow group companies.

b) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable.

c) Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Management considers that there is one critical accounting estimate that applies to these financial statements, being the carrying value of investments, which is determined by reference to an estimated enterprise value using generally accepted valuation techniques and allowing for contractual debt cash flows (both payable and receivable) in the investee group. To determine enterprise value the directors apply a conservative multiple to forecast EBITDA (defined as Earnings Before Interest, Tax, Depreciation and Amortisation, and adjusted so as to remove the accounting effects of the application of IFRS 16) of the investment as a proxy for future cash flows. Should the multiple applied be adjusted by 1% in either direction the impairment charge recorded in the period would correspondingly change by approximately £18m.

2. Profit and loss account

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The loss for the financial year was £530.9m (2020: loss of £527.6m). The Company had no employees during the year. The costs relating to the directors' services have been borne by Priory Central Services Limited, a fellow group company. No amounts (2020: £nil) have been recharged to the company in respect of the directors' services and the directors do not believe that it is practical to allocate these costs between group companies.

Priory Group UK 1 Limited

Notes to the parent company financial statements

3. Investments

| | £'000 |
|---|------------------|
| Cost | |
| At 1 January 2020, 31 December 2020 and 31 December 2021 | 1,561,495 |
| Provision for impairment | |
| At 1 January 2020 | - |
| Impairment | 449,037 |
| At 31 December 2020 | 449,037 |
| Impairment | 484,061 |
| At 31 December 2021 | 933,098 |
| Net book value | |
| At 31 December 2021 | 628,397 |
| At 31 December 2020 | 1,112,458 |

Investments were impaired by £484.1m in the year (2020: £449.0m). This reduced the carrying value of the investments to a level commensurate with the purchase price at which Waterland Private Equity gained control of the Group from its previous ultimate owners. As the subgroup of companies to which the investment balance relates comprise all the operational activities of the Group, this purchase price is considered a fair proxy for the supportable value of the investments balance.

The Company's subsidiaries are given in note 26 to the consolidated financial statements.

4. Debtors

| £'000 | 2021 | 2020 |
|------------------------------------|---------------|----------------|
| Amounts owed by group undertakings | 2,663 | 113,612 |
| Group relief receivable | 4,086 | - |
| Deferred tax asset | 27,235 | 14,092 |
| | 33,984 | 127,704 |

Amounts owed by group undertakings relates to a £5.0m loan facility with RemedcoUK Limited of which £2.6m (Dec 2020: £nil) is drawn down at the year end with interest accruing at 3% p.a.

Amounts owed by group undertakings in the prior year include an unsecured loan of US\$154.1m (£112.9m) which incurred interest at 7.4% pa. The loan and the associated accrued interest were repaid during the year.

| £'000 | Deferred tax asset |
|----------------------------|--------------------|
| At 1 January 2020 | 14,121 |
| Charge for the year | (29) |
| At 31 December 2020 | 14,092 |
| Credit for the year | 13,143 |
| At 31 December 2021 | 27,235 |

A deferred tax asset of £27.2m (2020: £14.1m) has been recognised in respect of interest deductions, based on the expectation that these timing differences will reverse and reduce future taxable profits.

5. Creditors: amounts falling due within one year

| £'000 | 2021 | 2020 |
|------------------------------------|----------------|---------------|
| Amounts owed to group undertakings | 904,023 | 11,898 |
| Group relief payable | - | 971 |
| | 904,023 | 12,869 |

Amounts owed to group undertakings include loans of £801.2m (2020: £nil) which bear interest at 5.4% and £19.1m (2020: £nil) due to RemedcoUK Limited which bears interest at 3.75%. Loans are unsecured and repayable upon demand.

Other amounts owed to group undertakings are unsecured, interest free and repayable upon demand.

Priory Group UK 1 Limited

Notes to the parent company financial statements

6. Creditors: amounts falling due after more than one year

| £'000 | 2021 | 2020 |
|------------------------------------|---------|-----------|
| Amounts owed to group undertakings | 261,136 | 1,199,194 |

Amounts owed to group undertakings comprises an unsecured loans from RemedcoUK Limited, further details are given in note 19 to the consolidated financial statements.

7. Called up share capital

Details of the Company's share capital are disclosed in note 23 to the consolidated financial statements.

8. Ultimate parent company, controlling party and related party transactions

The company's immediate parent is RemedcoUK Limited, a company registered in the United Kingdom.

At 31 December 2020 the ultimate parent undertaking and controlling party was Acadia Healthcare Company Inc.. On 19 January 2021 the entire share capital of AHC-WW Jersey Limited, a subsidiary of Acadia Healthcare Company Inc., was acquired by RemedcoUK Limited, a subsidiary of Waterland Private Equity Investments B.V..

From this date the ultimate parent undertaking became Rehab and Mental Healthcare Group B.V. and the ultimate controlling party became Waterland Private Equity Investments B.V., both registered in the Netherlands.

The largest group in which the results of this company are consolidated is that headed by Median B.V., incorporated in the Netherlands. The consolidated financial statements of Median B.V. can be obtained from Basisweg 10, 1043 AP, Amsterdam, the Netherlands.

The smallest group in which the results of this company are consolidated is that headed by Priory Group UK 1 Limited, incorporated in the United Kingdom. The address of Priory Group UK 1 Limited is Fifth Floor, 80 Hammersmith Road, London, England, W14 8UD.

The company has loan balances with its immediate parent company RemedcoUK Limited, see note 4, 5 and 6 for further details.