

Parent company accounts for: *AFFINITY HOSPITALS LTD*

Registered number: *3966451*

(note on page 38)

Partnerships in Care UK 1 Limited

**Annual report and consolidated financial statements for the
year ended 31 December 2016**

Registered number 09057543

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Partnerships in Care UK 1 Limited

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Partnerships in Care UK 1 Limited

Strategic report

The directors present their strategic report on Partnerships in Care UK 1 Limited for the year ended 31 December 2016.

Throughout the document, references to the "Company" refer to Partnerships in Care UK 1 Limited. References to the "Group" and "PIC Group" refer to Partnerships in Care 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 the leading provider of behavioural care in the United Kingdom, focusing on the provision of acute psychiatry, forensic and rehabilitation and recovery services, specialist education and children's services, older people care and specialist support for adults who have learning difficulties. The Group operates in four sectors:

- The **Healthcare** segment focuses on the treatment of patients with a variety of psychiatric conditions which are treated in both open and secure environments. This segment also provides neuro-rehabilitation services.
- The **Education** segment provides day and residential schooling, care and assessment for children with emotional and behavioural difficulties or autistic spectrum disorders.
- The **Amore Care** segment provides long term, short term and respite nursing care for older people who are physically frail or suffering with dementia related disorders.
- The **Craegmoor** segment focuses on the care of service users with a variety of learning difficulties and mental health illnesses. This segment includes care homes and supported living services.

Business review

The results for the year are set out in the consolidated income statement on page 7 and the financial position of the Group as at 31 December 2016 is set out in the consolidated balance sheet on page 9. Group revenue for the year was £823.8m (2015: £236.0m) and Group Adjusted EBITDAR was £202.8m (2015: £56.2m), which represented a margin of 24.6% (2015: 23.8%) of revenue. Adjusted EBITDA was £176.9m (2015: £55.4m), which represented a margin of 21.5% (2015: 23.5%) of revenue. Operating profit for the year was £84.4m (2015: £40.8m).

On 16 February 2016 the Group acquired the entire share capital of Priory Group No. 1 Limited ("the Priory Group") for a consideration of £1.5bn. The Priory Group provides behavioural care in the United Kingdom, focusing on the provision of acute psychiatry, forensic and rehabilitation and recovery services, specialist education and children's services, older people care and specialist support for adults who have learning difficulties. Further details relating to the acquisition are given in note 10.

2016 was a positive year for the Group with the acquisition of the Priory Group significantly increasing revenue and Adjusted EBITDAR in the Healthcare segment and also expanding into the Education, Amore Care and Craegmoor segments. The Priory Group contributed £549.3m of revenue and £116.7m of Adjusted EBITDA to the Group results.

Net costs of £14.0m (2015: £nil) were recognised as exceptional items in the consolidated income statement. These costs primarily relate to the restructuring of the Group following the acquisition of the Priory Group and the transaction related costs arising from the acquisition. Further details of these exceptional charges are given in note 7 to the financial statements.

On 30 November 2016 the Group disposed of 22 facilities from the Healthcare division generating a loss on disposal of £167.2m. This was in response to the UK Competition and Markets Authority review of the acquisition of the Priory Group.

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 operate across the Group's divisions, with the NHS often being the dominant provider, although the recent trend has been towards increased outsourcing.

Regulatory requirements differ across the divisions, though almost all of the Group's activities in England in relation to mental healthcare, older people care and specialist services are regulated by the same body, the CQC, and, in Scotland, Wales and Northern Ireland, its local equivalent. Children's homes, residential schools and colleges in England are regulated by Ofsted, and in Scotland and Wales by their local equivalent. All schools must be licensed by the Department for Education.

Land and buildings of the Group (including fixtures and fittings) were recorded at fair values on acquisition, as determined by independent third party valuers. The net book value at 31 December 2016 of £1.3bn (2015: £563m) is therefore considered to approximate to market value.

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 for privately funded healthcare services. Credit evaluations are carried out on privately funded residents in the Amore Care business.

Interest rate risk

The Group finances its operations through intra group loans. The loans are denominated in pounds and are borrowed at a fixed interest rate of 7.4% per annum. The loans are repayable 1 July 2022 and 16 February 2024.

Partnerships in Care UK 1 Limited

Strategic report

Liquidity risk

The Group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. The Group has sufficient available facilities and cash flows from profits to fund current commitments.

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 25 to the consolidated financial statements.

Future developments and strategy

Management consider the Group to be in a strong position to pursue a growth strategy. This strategy will comprise growth at existing facilities, new developments and strategic acquisitions in order to increase the number of available beds and continue to broaden the care pathway.

The Group aims to maintain and improve relationships with commissioners and capitalise on the long-term trend of services shifting from public to private provision. The Group aims 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. The Group aspires to deliver the highest quality care in behavioural care services consisting of mental health, learning disabilities and autism, specialist education, nursing and residential care. The priorities for driving quality are to exceed national benchmarks for standards of care and education, striving for excellence in the services provided. The Group aims to deliver the best possible outcomes for the people who use its services, leading the market 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 EBITDAR and Adjusted EBITDA, Adjusted EBITDAR margin, available beds, average daily census ("ADC") and occupancy percentages.

Financial

Adjusted EBITDAR reflects earnings before interest, tax, depreciation, amortisation, rent and operating exceptional items. Adjusted EBITDA reflects earnings before interest, tax, depreciation, amortisation and operating exceptional items. These measures are presented as part of the consolidated income statement and in note 3 to the consolidated financial statements. Adjusted EBITDAR margin reflects Adjusted EBITDAR divided by revenue and was 24.6% (2015: 23.8%) in the year.

Non-financial

During the year, the average number of available beds across the Group was 9,369 (2015: 2,159); excluding supported living rental beds the number of available beds was 9,329 (2015: 2,159). ADC (excluding supported living rental beds) was 8,233 (2015: 1,727) and occupancy was 88.3% (2015: 80.0%). The Group aims to maximise available beds occupancy by increasing ADC across the divisions.

Principal risks and uncertainties

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

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 represent value for money 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 regulations may be introduced that could impose increased costs on the Group's operations. The Group is unable to predict the content of new legislation and regulations and their effect on its business. Whilst the Group would seek to recover such costs from its customers, there can be no assurance that the Group's operations will not be adversely affected by regulatory development.

Inspections 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 the registration of any service or a decrease in, or cessation of, services provided by the Group.

To mitigate these risks, the quality of care is monitored by an experienced team through the establishment of robust policies and procedures. Homes are regularly audited by the team to ensure compliance with care standards. Supporting vulnerable people is an inherently risky activity. Risks are mitigated by investing significantly in the quality assurance team, recruitment and training and where changes in legislation can be predicted, the Group models the impact the changes will have in advance of the legislation being implemented.

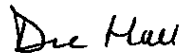
Partnerships in Care UK 1 Limited

Strategic report

Employees

The Group's performance depends largely on its regional managers and local staff. 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 schemes linked to the Group's results that are designed to retain key individuals.

By order of the Board



David Hall

Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
14 September 2017

Partnerships in Care UK 1 Limited

Directors' report

The directors present their annual report and the audited consolidated and company financial statements of Partnerships in Care UK 1 Limited for the year ended 31 December 2016. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) Interpretations as adopted by the European Union (EU) 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 1, which contains, inter alia, disclosures regarding future developments and financial risk management.

Dividends

The directors do not recommend the payment of a dividend (2015: £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

Joey Jacobs

Nigel Myers (appointed 19 July 2017)

Trevor Torrington (appointed 19 July 2017)

Going concern

The Group's business activities, together with the factors likely to affect its future development, its financial position and financial risk management objectives are described in the strategic report on pages 1 to 3. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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 are: the employee opinion survey, employee sickness levels and compliance with the Group e-learning programme. Low levels of sickness and high levels of compliance with training programmes indicate that the Group is successfully addressing quality and motivation of employees.

Whilst monitoring these performance indicators, the Group continues to review its remuneration system to ensure it is fair, transparent, flexible and provides individual recognition. Its learning and development tool is used to ensure that all 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 and performance. 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 workshops which are run regularly across the Group. Our 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.

The directors believe that it is important to recruit and retain capable and caring staff regardless of their sex, marital status, race 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.

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 he ought to have taken as a director in order to make himself 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

Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
14 September 2017

Partnerships in Care 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, 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.

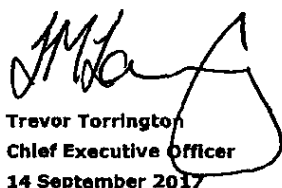
In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union, and applicable UK Accounting Standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the Group and parent financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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.

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



Trevor Torrington
Chief Executive Officer
14 September 2017



Nigel Myers
Finance Director
14 September 2017



Building a better
working world

Partnerships In Care UK 1 Limited

Independent auditors' report - Group

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARTNERSHIPS IN CARE UK 1 LIMITED

We have audited the financial statements of Partnerships In Care UK 1 Limited for the year ended 31 December 2016 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- based on the work undertaken in the course of the audit
 - the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;
 - the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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
- we have not received all the information and explanations we require for our audit.

Other matters

The corresponding information in the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows and consolidated statement of changes in equity are unaudited.

Ernst & Young LLP

Anup Sodhi (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Luton

21 September 2017

Partnerships in Care UK 1 Limited

Consolidated income statement for the year ended 31 December 2016

| £'000 | Note | Year ended 31 December 2016 | Year ended 31 December 2015 - unaudited |
|----------------------------------|------|--------------------------------|---|
| Revenue | 3 | 823,792 | 235,955 |
| Operating costs | 4 | (739,392) | (195,151) |
| Operating profit | 3 | 84,400 | 40,804 |
| Analysed as: | | | |
| Adjusted EBITDAR | 3 | 202,778 | 56,191 |
| Rental amounts currently payable | | (25,859) | (805) |
| Adjusted EBITDA | | 176,919 | 55,386 |
| Depreciation | 4 | (54,059) | (14,582) |
| Amortisation | 4 | (24,438) | - |
| Exceptional items | 7 | (14,022) | - |
| Operating profit | | 84,400 | 40,804 |
| Loss on disposal of investments | | (167,150) | |
| Finance costs | 8 | (92,517) | (22,698) |
| Finance income | | 109 | 22 |
| (Loss)/profit before tax | | (175,158) | 18,128 |
| Income tax | 9 | 60,730 | (21,797) |
| Loss for the year | | (114,428) | (3,669) |

Adjusted EBITDAR represents earnings before interest, tax, depreciation, amortisation, rent and exceptional items. 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.

All operations for the current and prior year are continuing.

Partnerships in Care UK 1 Limited

Consolidated statement of comprehensive income for the year ended
31 December 2016

| £'000 | Year ended 31 December 2016 | Year ended 31 December 2015 - unaudited |
|---|--------------------------------|---|
| Loss for the year | (114,428) | (3,669) |
| Actuarial loss on defined benefit scheme | (6,172) | (1,924) |
| Movement in deferred tax relating to pension losses | 1,029 | 349 |
| Other comprehensive expense for the year | (5,143) | (1,575) |
| Total comprehensive expense for the year | (119,571) | (5,244) |

Partnerships in Care UK 1 Limited

Consolidated balance sheet at 31 December 2016

| £'000 | Note | 31 December 2016 | 31 December 2015 - unaudited |
|---|------|--------------------|---------------------------------|
| Non-current assets | | | |
| Intangible assets | 11 | 558,327 | 111,223 |
| Property, plant and equipment | 12 | 1,340,085 | 563,069 |
| | | 1,898,412 | 674,292 |
| Current assets | | | |
| Inventories | 13 | 560 | 693 |
| Trade and other receivables | 14 | 69,420 | 17,585 |
| Cash | 15 | 31,500 | 5,535 |
| | | 101,480 | 23,813 |
| Assets held for sale | 16 | 3,940 | - |
| | | 105,420 | 23,813 |
| Total assets | | 2,003,832 | 698,105 |
| Current liabilities | | | |
| Trade and other payables | 17 | (100,756) | (19,217) |
| Corporation tax payable | | (2,200) | (4,154) |
| Borrowings | 18 | (1,599) | - |
| Provisions for liabilities and charges | 20 | (13,319) | - |
| | | (117,874) | (23,371) |
| Net current (liabilities)/assets | | (12,454) | 442 |
| Non-current liabilities | | | |
| Borrowings | 18 | (1,154,180) | (420,872) |
| Provisions for liabilities and charges | 20 | (6,821) | - |
| Deferred income tax | 21 | (156,584) | (73,012) |
| Pension liability | 22 | (12,801) | (6,979) |
| | | (1,330,386) | (500,863) |
| Net assets | | 555,572 | 173,871 |
| Equity attributable to the owners of the parent: | | | |
| Share capital | 23 | 74,984 | 73,651 |
| Share premium account | | 647,240 | 147,301 |
| Accumulated losses | | (166,652) | (47,081) |
| Total equity | | 555,572 | 173,871 |

The consolidated financial statements of Partnerships in Care UK 1 Limited (registered company number 09057543) on pages 7 to 40 were approved by the board of directors and authorised for issue on 14 September 2017. They were signed on its behalf by:


Trevor Torrington
Chief Executive Officer


Nigel Myers
Finance Director

Partnerships in Care UK 1 Limited

Consolidated statement of cash flows for the year ended 31 December 2016

| £'000 | Note | Year ended 31 December 2016 | Year ended 31 December 2015 - unaudited |
|--|-----------|--------------------------------|---|
| Operating activities | | | |
| Operating profit | | 84,400 | 40,804 |
| Profit disposal of property, plant and equipment | 7 | (38) | - |
| Depreciation of property, plant and equipment | 4 | 54,059 | 14,582 |
| Amortisation of intangible assets | 4 | 24,438 | - |
| Impairment of property, plant and equipment | 7 | 2,403 | - |
| Decrease/(Increase) in inventories | | 94 | (86) |
| Increase in trade and other receivables | | (4,192) | (4,635) |
| Decrease in trade and other payables | | (7,404) | (169) |
| Provision for future minimum rental increases | | 2,000 | - |
| | | 155,760 | 50,496 |
| Taxation | | (6,863) | - |
| Net cash generated from operating activities | | 148,897 | 50,496 |
| Investing activities | | | |
| Interest received | | 109 | 22 |
| Purchased goodwill | | - | (14,410) |
| Purchase of subsidiaries, net of cash acquired | 10 | (1,466,192) | (164,498) |
| Proceeds from disposal of property, plant and equipment | | 1,111 | - |
| Purchases of property, plant and equipment | | (92,564) | (81,916) |
| Proceeds from disposal of subsidiaries, net of cash disposed | | 296,320 | - |
| Net cash used in investing activities | | (1,261,216) | (260,802) |
| Financing activities | | | |
| Proceeds from borrowings | | 992,203 | 128,123 |
| Repayments of borrowings | | (234,813) | - |
| Repayment of obligations under finance leases | | (1,473) | - |
| Proceeds from issue of ordinary shares | | 501,272 | 100,352 |
| Interest paid | | (118,905) | (22,477) |
| Net cash generated from financing activities | | 1,138,284 | 205,998 |
| Net increase/(decrease) in cash | | 25,965 | (4,308) |
| Cash at the beginning of the year | 15 | 5,535 | 9,843 |
| Cash at the end of the year | 15 | 31,500 | 5,535 |

Partnerships in Care UK 1 Limited

Consolidated statement of changes in equity for the year ended 31 December 2016

| £'000 | Not e | Share capital | Share premium account | Accumulated losses | Total equity |
|---|----------|---------------|-----------------------------|-----------------------|-----------------|
| At 1 January 2015 - <i>unaudited</i> | | 40,200 | 80,400 | (41,837) | 78,763 |
| Loss for the year - <i>unaudited</i> | | - | - | (3,669) | (3,669) |
| Actuarial loss on pension scheme - <i>unaudited</i> | 22 | - | - | (1,575) | (1,575) |
| Total comprehensive expense for the year - <i>unaudited</i> | | - | - | (5,244) | (5,244) |
| Issue of shares - <i>unaudited</i> | 23 | 33,451 | 66,901 | - | 100,352 |
| Total transactions with owners - <i>unaudited</i> | | 33,451 | 66,901 | - | 100,352 |
| At 31 December 2015 - <i>unaudited</i> | | 73,651 | 147,301 | (47,081) | 173,871 |
| Loss for the year | | - | - | (114,428) | (114,428) |
| Actuarial loss on pension scheme | 22 | - | - | (5,143) | (5,143) |
| Total comprehensive expense for the year | | - | - | (119,571) | (119,571) |
| Issue of shares | 23 | 1,333 | 499,939 | - | 501,272 |
| Total transactions with owners | | 1,333 | 499,939 | - | 501,272 |
| At 31 December 2016 | | 74,984 | 647,240 | (166,652) | 555,572 |

Partnerships in Care 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, specialist education and children's 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 W14 8UD.

2. Significant accounting policies

a) Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union (EU). They also comply with applicable UK Companies' Legislation; references to Companies Act 2006 as applicable to companies using IFRS and other legislation are therefore references to UK legislation. The Company has elected to prepare its parent company financial statements in accordance with UK generally accepted accounting principles (UK GAAP), including FRS 101.

These are the first financial statements of the Group prepared in accordance with IFRS. The Group's date of transition to IFRS is 1 January 2015. The impact to the Group's previously adopted accounting policies in accordance with FRS 102 is explained in Note 29.

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 pages 15 and 16.

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. 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. Accordingly, the financial statements have been prepared on a going concern basis.

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 2016. 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) 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 and the asset or disposal group is available for immediate sale in its present condition. 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.

e) Intangible assets

1) 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.

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For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units on an EBITDAR 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, 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.

f) Segment reporting

The Group operates solely in the UK, therefore no geographical disclosures are presented. Segmental information is presented in respect of the Group's operating segments, based on management's internal reporting structure and information reported to the chief operating decision maker, which is considered to be the board of directors. Further details are provided in note 3 to the consolidated financial statements.

g) Revenue recognition

Revenue represents consideration received for the provision of healthcare, education, older people care 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, older people care 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.

h) 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.

i) 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 2016 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 cost of the defined benefit plan recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- The increase in net pension benefit liability arising from employee service during the period; and
- The cost of plan introductions, benefit changes, curtailments and settlements.

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 "Health & Care Services (UK) Limited Pension and Life Assurance Scheme" for staff at one of its homes. The defined benefit obligation, plan assets and net surplus/deficit are not material, and are therefore not separately recognised in the consolidated financial statements.

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Notes to the consolidated financial statements

j) 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.

k) 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 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 or over the period of the lease |
| Fixtures and fittings | 3 to 16 years |
| Motor vehicles | over the shorter of the lease term and 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.

l) Inventory

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

m) Leases

i) Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Leased assets classified as property, plant and equipment are depreciated over the shorter of their useful economic life or the period of the lease.

Lease payments made in respect of finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

ii) Operating leases

Lease payments made in respect of operating leases are recognised on a straight line basis over the term of the lease. Minimum future rental increases are also recognised on a straight line basis and this non cash element is included in provisions until it is reversed in future periods.

iii) Future minimum rental increases

The charge for future minimum rental increases reflects the non-cash element of rent expense which arises upon the straight lining of rent on leasehold properties over the lease term where the conditions of the lease stipulate that annual (or other periodic) rent uplifts are made according to a fixed minimum percentage. Leases which do contain fixed minimum percentage uplifts (for example where rent reviews are market-based or calculated by reference to an inflationary index) are not subject to a charge for future minimum rental increases.

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Notes to the consolidated financial statements

n) 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

Trade and other receivables are initially stated at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, and are assessed for indicators of impairment at each balance sheet date. Trade and other receivables are considered to be impaired where there is objective evidence that the estimated future cash flows associated with the asset have been affected. In addition, certain trade and other receivables that are not considered to be individually impaired, may be assessed for impairment on a collective basis. Objective evidence for impairment for a portfolio of receivables could include the Group's past experience of collecting payment, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions.

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.

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 25.

o) 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.

p) 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.

q) 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, Rent and exceptional items (Adjusted EBITDAR) and 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.

r) 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 judgements have been applied by the Group in order to prepare the consolidated financial statements with respect to the valuation of deferred tax assets and the impairment of goodwill, 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:

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

(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) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows and growth rates expected to arise from the cash-generating unit and select a suitable discount rate in order to calculate present value. Changes to the assumptions regarding discount rates, growth rates and expected changes to revenues and costs used in making these forecasts could significantly alter the assessment of the carrying value of goodwill. Refer to note 11 for details of the key assumptions used in the calculation of the value in use of the cash generating units to which goodwill is attributed and the impairment review performed.

(III) 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 acquisitions completed in the years ended 31 December 2015 and 31 December 2016, 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.

s) Changes in accounting policy and disclosure

From 1 January 2016 the following interpretations became effective and were adopted by the Group:

IAS 19 (revised 2011): 'Employee benefits' regarding defined benefit plans
Annual Improvements 2010-2012
IFRS 11: 'Joint arrangements' on acquisition of an interest in a joint operation
IAS 16: 'Property plant and equipment' and IAS 38: 'Intangible assets' on depreciation and amortisation
IAS 16: 'Property plant and equipment' and IAS 41: 'Agriculture' regarding bearer plants
IAS 27: 'Separate financial statements' on the equity method
IFRS 10: 'Consolidated financial statements' and IAS 28: 'Investments in associates and joint ventures'
Annual Improvements 2012-2014
IAS 1: 'Presentation of financial statements' disclosure initiative

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 EU endorsed, have not been applied in these financial statements:

| | Effective for periods commencing on or after |
|--|--|
| IFRS 14: 'Regulatory deferral accounts' | 1 January 2016 |
| IAS 12: 'Income taxes' on Recognition of deferred tax assets for unrealised losses | 1 January 2017 |
| IAS 7: 'Statement of cash flows' | 1 January 2017 |
| IFRS 4: amendments regarding Implementation of IFRS 9 | 1 January 2018 |
| Annual Improvements 2014-2016 | 1 January 2018 |
| IFRS 15: 'Revenue from contracts with customers' | 1 January 2018 |
| IFRS 9: 'Financial Instruments' | 1 January 2018 |
| IFRS 9: 'Financial Instruments' regarding general hedge accounting | 1 January 2018 |
| IFRS 2: 'Share based payments' classification and measurement | 1 January 2018 |
| IAS 40: 'Investment property' transfer of property | 1 January 2018 |
| IFRS 15: 'Revenue from contracts with customers' - clarifications | 1 January 2018 |
| IFRIC 22: 'Foreign currency transactions and advance consideration' | 1 January 2018 |
| IFRS 16: 'Leases' | 1 January 2019 |

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group in 2016. The Group is assessing the impact of the above standards, amendments and interpretations in future years.

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Notes to the consolidated financial statements

3. Segmental Information

The Group is organised into the following operating segments:

- The **Healthcare** segment focuses on the treatment of patients with a variety of psychiatric conditions which are treated in both open and secure environments. This segment also provides neuro-rehabilitation services.
- The **Education** segment provides day and residential schooling, care and assessment for children with emotional and behavioural difficulties or autistic spectrum disorders.
- The **Amore Care** segment provides long term, short term and respite nursing care for older people who are physically frail or suffering with dementia related disorders.
- The **Craegmoor** segment focuses on the care of service users with a variety of learning difficulties and mental health illnesses. This segment includes care homes and supported living services.

The Group also has a central office, which carries out administrative and management activities. All of the Group's revenue arises in the United Kingdom (UK). There are no sales between segments and all revenue arises from external customers and relate to the provision of services. All of the Group's assets are domiciled in the UK.

Segment revenues and results

The measure of segment profit is adjusted earnings before interest, tax, depreciation, amortisation, rent and exceptional items (Adjusted EBITDAR), being EBITDAR before exceptional items. Adjusted EBITDAR is reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Central costs include the Group's centralised functions such as finance and accounting centres, IT, marketing, human resources, payroll and other costs not directly related to the hospitals, schools and older people care homes included in the reportable segments.

The following is an analysis of the Group's revenue and results by reportable segment:

Year ended 31 December 2016

| £'000 | Healthcare | Education | Amore Care | Craegmoor | Central | Total |
|---------------------------------|------------|-----------|------------|-----------|----------|-----------|
| Revenue | 823,901 | 109,258 | 70,320 | 120,313 | - | 823,792 |
| Adjusted EBITDAR | 156,015 | 31,683 | 13,081 | 35,619 | (33,620) | 202,778 |
| Rent | (11,900) | (4,326) | (8,190) | (1,443) | - | (25,859) |
| Adjusted EBITDA | 144,115 | 27,357 | 4,891 | 34,176 | (33,620) | 176,919 |
| Depreciation (note 4) | | | | | | (54,059) |
| Amortisation (note 4) | | | | | | (24,438) |
| Exceptional items (note 7) | | | | | | (14,022) |
| Operating profit | | | | | | 84,400 |
| Loss on disposal of investments | | | | | | (167,150) |
| Net finance costs (note 8) | | | | | | (92,408) |
| Profit before tax | | | | | | (175,158) |

Year ended 31 December 2015

For the year ended 31 December 2015 the Group's results related entirely to the Healthcare segment.

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Segment assets

Information regarding segmental assets is reviewed by the CODM annually.

| £'000 | 2016 | 2015 - unaudited |
|--|------------------|------------------|
| Healthcare | 265,036 | 111,223 |
| Education | 113,318 | - |
| Amore Care | 200 | - |
| Craegmoor | 183,713 | - |
| Total segment assets | 562,267 | 111,223 |
| Unallocated assets: | | |
| Property plant and equipment | 1,340,085 | 563,069 |
| Inventories | 560 | 693 |
| Trade and other receivables | 69,420 | 17,585 |
| Cash | 31,500 | 5,535 |
| Total assets | 2,003,832 | 698,105 |
| Included in total segment assets above: | | |
| Intangible assets | | |
| Healthcare | 264,206 | 111,223 |
| Education | 112,718 | - |
| Amore Care | - | - |
| Craegmoor | 181,403 | - |
| | 558,327 | 111,223 |
| Assets held for sale | | |
| Healthcare | 830 | - |
| Education | 600 | - |
| Amore Care | 200 | - |
| Craegmoor | 2,310 | - |
| | 3,940 | - |

Information about major customers

In 2016 revenue from NHS England amounted to 27% of total revenue and no other single customer accounted for more than 10% of total revenue. On a consolidated basis, revenue of £250.2m and £505.5m arose from Social Services and the NHS respectively, which each represent more than 10% of the Group's total revenue. Of this revenue, £480.2m arose in the Healthcare segment, £106.9m arose in the Education segment, £114.8m arose in the Craegmoor segment and £53.8m in the Amore Care segment. In 2015 all operations related to the Healthcare segment.

4. Operating costs

| £'000 | 2016 | 2015 - unaudited |
|---|----------------|------------------|
| Staff costs (note 6) | 482,506 | 132,897 |
| Other operating costs | 137,731 | 46,444 |
| Depreciation of property, plant and equipment (note 12) | | |
| Owned | 52,460 | 14,582 |
| Leased | 1,599 | - |
| Amortisation of intangible assets (note 11) | 24,438 | - |
| Rentals under operating leases | | |
| Property leases | 25,859 | 805 |
| Other operating leases | 777 | 423 |
| Exceptional Items (note 7) | 14,022 | - |
| | 739,392 | 195,151 |

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Notes to the consolidated financial statements

5. Auditors' remuneration

| £'000 | 2016 | 2015 unaudited |
|---|------|----------------|
| Fees payable to the Company's current auditors: | | |
| Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements | - | 276 |

Audit fees in the current year are borne by the ultimate parent company.

6. Employee numbers and costs

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

| Number | 2016 | 2015 - unaudited |
|------------|---------------|------------------|
| Healthcare | 11,178 | 4,749 |
| Education | 2,420 | - |
| Amore Care | 3,045 | - |
| Craegmoor | 3,305 | - |
| Central | 537 | - |
| | 20,485 | 4,749 |

Their aggregate remuneration comprised:

| £'000 | 2016 | 2015 - unaudited |
|-----------------------|----------------|------------------|
| Wages and salaries | 439,648 | 120,442 |
| Social security costs | 34,830 | 10,988 |
| Other pension costs | 8,028 | 1,467 |
| | 482,506 | 132,897 |

7. Exceptional items

| £'000 | 2016 | 2015 - unaudited |
|---|---------------|------------------|
| Reorganisation and rationalisation costs | 5,008 | - |
| Transaction related costs | 6,649 | - |
| Impairment | 2,403 | - |
| Profit on disposal of property, plant and equipment | (38) | - |
| | 14,022 | - |

Reorganisation and rationalisation costs primarily relate to the restructuring of the Group following the acquisition of the Priory Group in February 2016. Similarly transaction related costs for the period mainly relate to the acquisition of the Priory Group. The impairment cost relates to property, plant and equipment, see note 12.

8. Finance costs

| £'000 | 2016 | 2015 - unaudited |
|--|---------------|------------------|
| Interest payable and similar charges | | |
| Interest on bank facilities and associated costs | 257 | - |
| Interest payable on intercompany loans | 91,615 | 22,477 |
| Interest on obligations under finance leases | 348 | - |
| Provisions: unwinding of discount | 47 | - |
| | 92,267 | 22,477 |
| Other finance costs | | |
| Net cost on post employment benefit | 250 | 221 |
| Total finance costs | 92,517 | 22,698 |

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Notes to the consolidated financial statements

9. Income tax

| £'000 | 2016 | 2015 - unaudited |
|---|-----------------|-------------------------|
| Current tax | | |
| Current tax on profits for the year | 800 | 3,477 |
| Adjustments in respect of prior periods | (692) | 34 |
| | 108 | 3,511 |
| Deferred tax (note 21): | | |
| Origination and reversal of temporary differences | (58,097) | 17,238 |
| Adjustments in respect of prior periods | (113) | (72) |
| Changes in tax rates | (2,628) | 1,120 |
| | (60,838) | 18,286 |
| Taxation | (60,730) | 21,797 |

Corporation tax is calculated at 20% (2015: 20.25%) 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 | 2016 | 2015 - unaudited |
|--|------------------|-------------------------|
| (Loss)/profit before tax | (175,158) | 18,128 |
| Tax at the UK corporation tax rate of 20% (2015: 20.25%) | (35,032) | 3,671 |
| Non-deductible expenses | 3,001 | 2,065 |
| Movement in tax base of fixed assets | - | 16,784 |
| Adjustments in respect of prior years | (805) | (33) |
| Deferred tax not recognised | (128) | 90 |
| Other differences | (575) | (780) |
| Changes in tax rates | (2,512) | - |
| Disposal | (24,679) | - |
| Tax (credit)/charge for the year | (60,730) | 21,797 |

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group's losses for this accounting year are taxed at an effective rate of 20% (2015: 20.25%).

In his budget speech on 8 July 2015, the Chancellor announced that the main rate of corporation tax would change from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020. In his budget speech on 16 March 2016, the Chancellor announced a further reduction in the main rate of corporation tax to 17% from 1 April 2020. These changes were substantively enacted on 6 September 2016 and as such the Group's deferred tax balances have been restated to reflect their expected unwind at 17%, rather than the main rate of 20%.

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Notes to the consolidated financial statements

10. Business combinations

Priory Group

On 16 February 2016, Whitewell UK Investments 1 Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Priory Group No. 1 Limited for total consideration of £1.5bn. The Priory Group provides behavioural care in the United Kingdom, focusing on the provision of acute psychiatry, forensic and rehabilitation and recovery services, specialist education and children's services, older people care and specialist support for adults who have learning difficulties.

£'000

| | |
|-----------------------------------|----------------|
| Cash consideration | 1,486,634 |
| Fair value of net assets acquired | (1,024,556) |
| Goodwill | 462,078 |

The fair values of the net assets acquired are as follows:

| £'000 | Fair value |
|-------------------------------|------------------|
| Intangible assets | 114,365 |
| Property, plant and equipment | 1,102,770 |
| Assets held for sale | 4,851 |
| Inventories | 64 |
| Trade and other receivables | 50,307 |
| Cash | 20,442 |
| Deferred tax | (145,439) |
| Finance lease liabilities | (3,213) |
| Trade and other payables | (97,671) |
| Provisions | (21,920) |
| Net assets | 1,024,556 |

The deferred tax liability arises chiefly on the difference between the fair value of the intangible assets and properties acquired and the tax base of these assets.

Intangible assets recognised relate to the Priory brand and customer contracts in the Adult Care and Education segments, see note 11 for further details. Goodwill recognised on acquisition is attributable to the synergies expected to be achieved through integration of the business with the rest of the Group, together with the skills and talent of the assembled workforce.

From the date of acquisition to 31 December 2016, the business contributed revenue of £549.3m and Adjusted EBITDA of £116.7m to the Group results.

If acquired on 1 January 2016, the business would have contributed £625.9m revenue and £131.0m Adjusted EBITDA to the Group results for the year ended 31 December 2016.

Other business combinations

On 1 April 2015 the Group acquired 100% of the share capital of Pastoral Cymru Care Group Limited, Pastoral Cymru Limited and Pastoral Cymru (Cardiff) Limited for consideration of £23,207,000. All three companies are registered in England and Wales.

On 2 April 2015 the Group acquired 100% of the share capital of Bromley Road Limited, Ivydene Willenhall Limited and Price Care Choice Limited for consideration of £25,797,000. All three companies are registered in England and Wales.

On 1 June 2015 the Group acquired 100% of the share capital of City Road Edgbaston Limited and Brunswick Birmingham Limited for consideration of £17,111,000. Both companies are registered in England and Wales.

On 1 June 2015 the Group acquired 100% of the share capital of Care UK Mental Health Partnerships Limited for consideration of £59,999,000. The company is registered in England and Wales.

On 1 July 2015 the Group acquired 100% of the share capital of The Manor Clinic Limited for consideration of £3,859,000. The company is registered in England and Wales.

On 1 September 2015 the Group acquired 100% of the share capital of Manor Hall Specialist Care Partnerships Limited and GJP Deanstone Limited for consideration of £9,141,000. Both companies are registered in England and Wales.

On 1 September 2015 the Group acquired 100% of the share capital of H&SCP Oak Vale Gardens Limited, Oak Vale Gardens 2012 Limited, GJP Liverpool Limited, H&SCP Vancouver House Limited, Vancouver House 2009 Limited and Aragon Care Vancouver Limited for consideration of £17,105,000. All six companies are registered in England and Wales.

On 2 October 2015 the Group acquired 100% of the share capital of Glentworth House Limited for consideration of £4,720,000. The company is registered in England and Wales.

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On 1 November 2015 the Group acquired 100% of the share capital of H&SCP Cleveland House Limited, Cleveland House Limited and GJP Greaves Limited for consideration of £6,672,000. All three companies are registered in England and Wales.

| £'000 | |
|-----------------------------------|---------------|
| Cash consideration | 167,612 |
| Fair value of net assets acquired | (107,167) |
| Goodwill | 60,445 |

The fair values of the net assets acquired are as follows:

| £'000 | Fair value |
|-------------------------------|----------------|
| Property, plant and equipment | 111,215 |
| Trade and other receivables | 4,696 |
| Cash | 3,114 |
| Deferred tax | (6,633) |
| Trade and other payables | (5,225) |
| Net assets | 107,167 |

Trade and asset acquisitions

On 3 February 2015, the Group acquired the trade and assets of Fern Lodge for consideration of £853,000.

On 1 April 2015, the Group acquired the trade and assets of Mildmay Oaks for consideration of £10,479,000.

On 1 September 2015, the Group acquired the trade and assets of Hops Hill, Ellingham and Knightsbridge Hospital for consideration of £40,211,000.

11. Intangible assets

| £'000 | Goodwill | Brands | Customer contracts | Total |
|---|----------------|---------------|--------------------|----------------|
| Cost | | | | |
| At 1 January 2015 - <i>unaudited</i> | 34,400 | - | - | 34,400 |
| Additions- <i>unaudited</i> | 16,378 | - | - | 16,378 |
| Arising on business combinations (note 10) - <i>unaudited</i> | 60,445 | - | - | 60,445 |
| At 31 December 2015 - <i>unaudited</i> | 111,223 | - | - | 111,223 |
| Arising on business combinations | 462,078 | 16,000 | 98,365 | 576,443 |
| Disposals | (103,960) | (941) | - | (104,901) |
| At 31 December 2016 | 469,341 | 15,059 | 98,365 | 582,765 |
| Accumulated amortisation and impairment | | | | |
| At 1 January 2015 and 31 December 2015 | - | - | - | - |
| Amortisation charge | - | 466 | 23,972 | 24,438 |
| At 31 December 2016 | - | 466 | 23,972 | 24,438 |
| Net book value | | | | |
| At 31 December 2016 | 469,341 | 14,593 | 74,393 | 558,327 |
| At 31 December 2015 | 111,223 | - | - | 111,223 |

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Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Subsequently, goodwill is monitored for impairment at a segment level. At 31 December, goodwill was allocated as follows:

| £'000 | 2016 | 2015 - unaudited |
|--------------|----------------|-------------------------|
| Healthcare | 249,613 | 111,223 |
| Education | 92,288 | - |
| Craegmoor | 127,440 | - |
| | 469,341 | 111,223 |

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding forecast cash flows, discount rates and future growth rates.

Management estimates discount rates using rates that reflect current market assessments of the time value of money. There is no significant difference in the risks associated with each individual CGU, therefore the same discount rate is applied to the cash flows of all units.

The Group prepares cash flow forecasts for each CGU derived from the most recent financial budgets approved by management and the board, and extrapolates cash flows for the following years and into perpetuity based on estimated growth rates. Growth rates do not exceed the average long-term growth rate for the relevant markets. Growth rates are determined by management based on their experience of both the industry and the wider economic environment.

The pre-tax discount rate and long term growth rate used were as follows:

| | 2016 |
|-------------------------------------|--------------------|
| Pre-tax discount rate | 7.5% |
| Long term net cash flow growth rate | 1.5% - 2.0% |

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. For each CGU no reasonably likely reduction in cash flow or long term growth rate would result in a material impairment charge. Should all other assumptions remain constant, an increase in the pre-tax discount rate of between 2.0% and 3.7% would be required in order to eliminate the headroom on an individual CGU.

Brands

The brand intangible arose on the acquisition of the Priory Group and has a remaining amortisation period of 29.1 years.

Customer contracts

The customer contract intangible asset arose on the acquisition of the Priory Group and includes the following:

| | 2016 | | 2015 - unaudited | |
|--------------------------|-----------------------|--------------------------------------|-------------------------|--------------------------------------|
| | Carrying value | Amortisation period remaining | Carrying value | Amortisation period remaining |
| | £'000 | years | £'000 | years |
| Priory Group - Craegmoor | 53,963 | 7.1 | - | - |
| Priory Group - Education | 20,430 | 3.1 | - | - |
| | 74,393 | | - | |

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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 2015 - <i>unaudited</i> | 375,456 | - | 14,471 | 761 | 390,688 |
| Arising on business combinations- <i>unaudited</i> | 87,760 | - | 5,090 | 20 | 92,870 |
| Additions- <i>unaudited</i> | 87,393 | - | 12,304 | 563 | 100,260 |
| Disposals- <i>unaudited</i> | (131) | - | (758) | (40) | (929) |
| At 31 December 2015- <i>unaudited</i> | 550,478 | - | 31,107 | 1,304 | 582,889 |
| Arising on business combinations | 973,017 | 10,800 | 115,063 | 3,890 | 1,102,770 |
| Additions | 36,586 | 5,926 | 39,327 | 3,104 | 84,943 |
| Disposals | (334,300) | - | (28,371) | (670) | (363,341) |
| Transfers between classifications | 5,600 | (6,613) | 1,013 | - | - |
| Transferred to current assets (note 16) | 690 | - | (533) | - | 157 |
| At 31 December 2016 | 1,232,071 | 10,113 | 157,606 | 7,628 | 1,407,418 |
| Accumulated depreciation | | | | | |
| At 1 January 2015- <i>unaudited</i> | 4,235 | - | 1,784 | 120 | 6,139 |
| Charge for the year- <i>unaudited</i> | 9,552 | - | 4,716 | 314 | 14,582 |
| Disposals- <i>unaudited</i> | (130) | - | (731) | (40) | (901) |
| At 31 December 2015- <i>unaudited</i> | 13,657 | - | 5,769 | 394 | 19,820 |
| Charge for the year | 25,468 | - | 26,531 | 2,060 | 54,059 |
| Disposals | (5,504) | - | (3,157) | (288) | (8,949) |
| Impairment | 1,969 | - | 434 | - | 2,403 |
| At 31 December 2016 | 35,590 | - | 29,577 | 2,166 | 67,333 |
| Net book value | | | | | |
| At 31 December 2016 | 1,196,481 | 10,113 | 128,029 | 5,462 | 1,340,085 |
| At 31 December 2015- <i>unaudited</i> | 536,821 | - | 25,338 | 910 | 563,069 |

At 31 December 2016, the carrying amount of assets (motor vehicles) held under finance lease was £4.1m (2015: Enil). The Group's obligations under finance leases are secured by the lessors' title to the leased assets. At 31 December 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £10.6m (2015: £17.6m).

13. Inventories

| £'000 | 2016 | 2015- <i>unaudited</i> |
|---------------------|------|------------------------|
| Consumable supplies | 560 | 693 |

14. Trade and other receivables

| £'000 | 2016 | 2015- <i>unaudited</i> |
|--------------------------------|--------|------------------------|
| Trade receivables | 33,993 | 10,937 |
| Allowance for doubtful debts | (946) | - |
| | 33,047 | 10,937 |
| Other receivables | 21,546 | 1,647 |
| Prepayments and accrued income | 14,827 | 5,001 |
| | 69,420 | 17,585 |

15. Cash

| £'000 | 2016 | 2015- <i>unaudited</i> |
|-------|--------|------------------------|
| Cash | 31,500 | 5,535 |

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16. Assets held for sale

| £'000 | Land and buildings | Fixtures and fittings | Total |
|--|--------------------|-----------------------|--------------|
| Cost and net book value | | | |
| At 1 January 2015 and 31 December 2015 | - | - | - |
| Additions through business combinations | 4,318 | 533 | 4,851 |
| Transferred from property, plant and equipment (note 12) | 690 | (533) | 157 |
| Disposals | (1,068) | - | (1,068) |
| At 31 December 2016 | 3,940 | - | 3,940 |

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

17. Trade and other payables

| £'000 | 2016 | 2015- unaudited |
|------------------------------------|----------------|-----------------|
| Trade payables | 9,577 | 173 |
| Amounts owed to group undertakings | 2,692 | 1,346 |
| Other taxes and social security | 12,100 | 3,660 |
| Accruals and deferred income | 66,555 | 12,674 |
| Other payables | 9,832 | 1,364 |
| | 100,756 | 19,217 |

18. Borrowings

| £'000 | 2016 | 2015- unaudited |
|---|------------------|-----------------|
| Borrowings due less than one year | | |
| Finance lease liabilities | 1,599 | - |
| | 1,599 | - |
| Borrowings due greater than one year | | |
| Loans from related party | 1,144,437 | 387,047 |
| Accrued interest | 7,193 | 33,825 |
| Finance lease liabilities | 2,550 | - |
| | 1,154,180 | 420,872 |
| Total borrowings | 1,155,779 | 420,872 |

Loans from related parties undertakings comprise unsecured loans from Acadia Healthcare Company Inc of £152,234,000 (2015: £387,047,000) and £992,203,000 (2015: £nil) with interest at 7.4% pa which are repayable on 1 July 2022 and 16 February 2024 respectively. The directors have assessed the fair market value of the loans to be consistent with their book value.

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19. Obligations under finance leases

| | Present value of minimum lease payments | Present value of minimum lease payments |
|--|---|---|
| £'000 | 2016 | 2015- unaudited |
| Amounts payable under finance leases: | | |
| Within one year | 1,599 | - |
| In one to five years inclusive | 2,550 | - |
| Present value of lease obligations | 4,149 | - |

The Group's finance leases relate to leased vehicles. The average lease term is 4 years and interest rates are fixed at the contract date. All lease obligations are denominated in Sterling. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations is approximately equal to their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 12.

20. Provisions for liabilities and charges

| £'000 | Dilapidations | Onerous contracts and legal costs | Future minimum rent | Total |
|--|---------------|---|------------------------|---------------|
| At 1 January 2015 and 31 December 2015 | - | - | - | - |
| Acquired from business combinations | 1,920 | 20,000 | - | 21,920 |
| Charged to income statement | - | - | 2,000 | 2,000 |
| Discount unwind | - | 47 | - | 47 |
| Used during year | (20) | (3,807) | - | (3,827) |
| At 31 December 2016 | 1,900 | 16,240 | 2,000 | 20,140 |

Analysis of provisions:

| £'000 | 2016 | 2015- unaudited |
|-------------------------|---------------|--------------------|
| Current | 13,319 | - |
| Non - current | 6,821 | - |
| Total provisions | 20,140 | - |

Dilapidations

Provisions have been recorded for costs of returning properties held under operating leases to the state of repair at the inception of the lease. These provisions are expected to be utilised on the termination of the underlying leases.

Onerous contracts and legal costs

Provisions have been recorded for the onerous payments on certain lease arrangements. They have been established on the basis of the expected onerous element of future lease payments over the remaining life of the relevant leases and agreements, which expire in between 6 and 20 years. These have been discounted and the provisions are expected to be utilised, with the discounts unwinding accordingly, over the remaining terms of the corresponding lease arrangements.

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. The directors anticipate that the majority will be settled over the next year.

Future minimum rent

Provisions have been recorded for future minimum rent payable as a result of the policy to straight line rent payments in the income statement where leases have built in minimum rent escalator clauses. The provisions will be utilised over the life of the leases.

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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 | Other timing differences | Intangibles | Property, plant and equipment | Total |
|--|------------|--------------------------|-------------|-------------------------------|----------|
| At 1 January 2015- <i>unaudited</i> | (4,169) | - | - | 52,611 | 48,442 |
| Arising on business combinations- <i>unaudited</i> | - | - | - | 6,633 | 6,633 |
| Charge/(credit) to income statement- <i>unaudited</i> | 1,814 | (1,523) | - | 17,995 | 18,286 |
| Charge to other comprehensive income- <i>unaudited</i> | - | (349) | - | - | (349) |
| At 31 December 2015- <i>unaudited</i> | (2,355) | (1,872) | - | 77,239 | 73,012 |
| Arising on business combinations | (12,099) | (9,754) | 20,586 | 146,706 | 145,439 |
| Charge/(credit) to income statement | 3,955 | 8,398 | (5,458) | (67,733) | (60,838) |
| Charge to other comprehensive income | - | (1,029) | - | - | (1,029) |
| At 31 December 2016 | (10,499) | (4,257) | 15,128 | 156,212 | 156,584 |

The Group has tax losses of £69.6m (2015: £13.1m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

A deferred tax asset of £10.3m (2015: £2.3m) 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 £1.6m (2015: £nil) has not been recognised in respect of £9.4m 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 £1.6m.

A deferred tax asset of £4.3m (2015: £1.9m) has been recognised in respect of other timing differences, based on the expectation that these timing differences will reverse and reduce future taxable profits.

There are no corporation tax consequences attaching to the payment of dividends in either 2016 or 2015 by the Group to its shareholders. Dividends received by Group parent companies from their subsidiaries are also not expected to be taxable.

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 £822,000 (2015: £1,466,000). Contributions totalling £nil (2015: £329,000) were payable to the fund at the balance sheet date and are included in creditors.

The Group operates a defined benefit pension scheme.

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 2016 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 2016, updated to 31 December 2016. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2016, 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 2017 consist of shortfall contributions amounting to £331,000. 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.

| £'000 | 2016 | 2015- <i>unaudited</i> |
|-------------------------------------|----------|------------------------|
| Fair value of scheme assets | 39,211 | 32,277 |
| Present value of future obligations | (52,012) | (39,256) |
| Net pension scheme liability | (12,801) | (6,979) |

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The amounts recognised in the income statement are as follows:

| £'000 | 2016 | 2015- unaudited |
|---|-------------|------------------------|
| Current service cost | 0 | 254 |
| Administration costs | 0 | 149 |
| Past service cost including curtailments | 0 | (898) |
| Net interest on net defined benefit liability | 250 | 221 |
| | 250 | (274) |

Reconciliation of fair value of plan liabilities were as follows:

| £'000 | 2016 | 2015- unaudited |
|--|---------------|------------------------|
| Opening defined benefit obligation | 39,256 | 43,079 |
| Current service cost | - | 254 |
| Interest cost | 1,449 | 1,550 |
| Contributions by scheme participants | - | 73 |
| Actuarial (gains) and losses | 12,544 | (3,631) |
| Past service cost including curtailments | - | (898) |
| Administration costs | - | 149 |
| Benefits paid | (1,237) | (1,320) |
| Closing defined benefit obligation | 52,012 | 39,256 |

Reconciliation of fair value of plan assets were as follows:

| £'000 | 2016 | 2015- unaudited |
|---|---------------|------------------------|
| Opening fair value of scheme assets | 32,277 | 36,928 |
| Interest income on plan assets | 1,199 | 1,329 |
| Return on scheme assets excluding interest income | 6,372 | (5,555) |
| Contributions by employer | 600 | 822 |
| Contributions by scheme participants | - | 73 |
| Benefits paid | (1,237) | (1,320) |
| Closing fair value of scheme assets | 39,211 | 32,277 |

Actuarial assumptions

The principal assumptions at the balance sheet date were:

| | 2016 | 2015- unaudited |
|----------------------------------|----------------------------|----------------------------|
| Discount rate | 2.65% | 3.75% |
| Price inflation (RPI) | 3.40% | 3.20% |
| Price inflation (CPI) | 2.40% | 2.20% |
| Retirement age | 65 | 65 |
| Expected return on scheme assets | 2.65% | 3.75% |
| | 75% of HMRC maximum | 75% of HMRC maximum |
| Commutation | S2NA CMI 2015 | S2NA CMI 2015 |
| Mortality | 1%, -1 age rating | 1%, -1 age rating |

Asset breakdown

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

| | 2016 | 2015- unaudited |
|------------------|-------------|------------------------|
| Equities | 6.5% | 27.0% |
| Gilts | 0.0% | 4.4% |
| Bonds | 20.6% | 0.0% |
| Real Return Fund | 22.0% | 28.6% |
| Real LDI | 13.8% | 0.0% |
| Insurance Policy | 35.4% | 38.1% |
| Cash | 1.7% | 1.9% |

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23. Share capital

| | Number | 2016 Nominal value £'000 | Number | 2015- unaudited Nominal value £'000 |
|---|-------------------|--------------------------------|------------|---|
| Allotted, called up and fully paid | | | | |
| Ordinary shares of £1 each | 74,983,981 | 74,984 | 73,650,645 | 73,651 |

On 1 January 2016 the Company issued 1,333,334 Ordinary £1 shares for a consideration of £4,000,000 and on 16 February 2016 the Company issued 2 Ordinary £1 shares for a consideration of £497,272,000.

During 2015 the Company issued 33,450,613 ordinary £1 shares for a consideration of £100,352,000.

24. Operating lease arrangements

| £'000 | 2016 | 2015- unaudited |
|--|---------------|-----------------|
| Minimum lease payments under operating leases recognised as an expense in the year | 25,859 | 805 |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| £'000 | Land and buildings | Other | 2016 Total |
|----------------------------|--------------------|------------|----------------|
| Within one year | 28,914 | 413 | 29,327 |
| Two – five years inclusive | 114,748 | 208 | 114,956 |
| After five years | 565,181 | 4 | 565,185 |

| £'000 | Land and buildings | Other | 2015- unaudited Total |
|----------------------------|--------------------|-------|--------------------------|
| Within one year | 763 | 512 | 1,275 |
| Two – five years inclusive | 2,240 | 18 | 2,258 |
| After five years | 514 | - | 514 |

Operating lease payments represent rentals payable by the Group for certain of its operational and office properties, as well as leases for other assets used at the Group's sites. Most property leases have an average term of between 20 to 30 years. The period for which rentals are fixed varies for each lease.

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25. 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 Amore Care business. The Group provides credit to customers in the normal course of business and the balance sheet is net of allowances of £0.9m (2015: £nil) for doubtful receivables. The Group does not require collateral in respect of financial assets. Trade receivables are measured at amortised cost.

The average credit period taken at the year end on the provision of services is 15 days (2015: 17 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 | 2016 | 2015- unaudited |
|-------------|--------|-----------------|
| Current | 19,138 | 4,144 |
| 30-60 days | 9,461 | 4,562 |
| 60-150 days | 3,099 | 1,261 |
| 150 days + | 2,295 | 970 |
| | 33,993 | 10,937 |

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

The ageing of trade receivables past due but not impaired at 31 December is as follows:

| £'000 | 2016 | 2015- unaudited |
|-----------|-------|-----------------|
| 60 days + | 4,456 | 2,231 |

The movement in allowance for doubtful debts is as follows:

| £'000 | 2016 | 2015- unaudited |
|--|-------|-----------------|
| Arising on business combinations | 1,121 | - |
| Amounts written off during the year as uncollectible | (133) | - |
| Disposals | (42) | - |
| Balance at end of year | 946 | - |

Apart from the Group's two largest customers (CCGs 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 not impaired 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.

Interest rate risk

The Group finances its operations through inter group loans. The loans are denominated in pounds and are borrowed at a fixed interest rate of 7.4% per annum. The loans are repayable 1 July 2022 and 16 February 2024.

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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:

2016

| £'000 | Total | 0-1 years | 2-5 years | 5 years and over |
|---------------------------|------------------|---------------|--------------|------------------|
| Trade and other payables | 65,630 | 65,630 | - | - |
| Loan from related party | 1,736,958 | - | - | 1,736,958 |
| Finance lease liabilities | 4,149 | 1,599 | 2,550 | - |
| | 1,806,737 | 67,229 | 2,550 | 1,736,958 |

2015- unaudited

| £'000 | Total | 0-1 years | 2-5 years | 5 years and over |
|---------------------------|----------------|---------------|-----------|------------------|
| Trade and other payables | 15,256 | 15,256 | - | - |
| Loan from related party | 607,081 | - | - | 607,081 |
| Finance lease liabilities | - | - | - | - |
| | 622,337 | 15,256 | - | 607,081 |

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 | 2016 | 2015- unaudited |
|------------|-------------|-----------------|
| Cash | 31,500 | 5,535 |
| Borrowings | (1,155,779) | (420,872) |
| Equity | 555,572 | 173,871 |

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

Foreign currency risk

The Group operates entirely in the UK and is not exposed to any foreign currency risks.

Fair values

There is no difference between the carrying value of financial instruments and their fair value. The Group has no financial instruments that are measured at fair value.

26. Related party transactions

Ultimate parent and controlling party

The ultimate parent undertaking is Acadia Healthcare Company Inc., a company incorporated in the United States of America.

The largest group in which the results of this company are consolidated is that headed by Acadia Healthcare Company Inc., incorporated in the United States of America. The consolidated financial statements of the Acadia Healthcare Group may be obtained from 830 Crescent Centre Drive, Suite 610, Franklin, TN 37067.

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.

Remuneration of key management personnel

During the year no directors received any emoluments (2015: £nil). Joey Jacobs and Christopher Howard are remunerated by Acadia Healthcare Company Inc. as their services to the Company are incidental to their services to other companies. Nigel Myers and Trevor Torrington were appointed after the year end and as a result have no emoluments in the current or prior period.

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

27. 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 (formerly Priory Group No. 3 PLC) | Holding company | United Kingdom | 100% ordinary |
| Priory Investments Holdings Limited | Holding company | Cayman Islands | 100% ordinary |
| Priory Health No. 1 Limited | 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 | Holding company | Cayman Islands | 100% ordinary |
| Priory New Investments Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Services for Young People (IOM) Limited | Non trading | Isle of Man | 100% ordinary |
| Priory Health No. 2 Limited | Holding company | Cayman Islands | 100% ordinary |
| Priory Healthcare Investments Limited | Holding company | United Kingdom | 100% ordinary |
| Priory Finance Company Limited | 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 |
| Coxlease School Limited | Non trading | 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 |
| Care Continuums Limited | Non trading | United Kingdom | 100% ordinary |
| Sturt House Clinic Limited | Non trading | United Kingdom | 100% ordinary |
| Community Addiction Services Limited | Non trading | United Kingdom | 100% ordinary |
| Public Health Solutions Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Healthcare Europe 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 Grange (St Neots) Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Grange (Potters Bar) 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 |
| Priory Rehabilitation Services Holdings Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Specialist Health Limited | Non trading | United Kingdom | 100% ordinary |
| Jacques Hall Developments Limited | Non trading | United Kingdom | 100% ordinary |
| Blenheim Healthcare Limited | Non trading | United Kingdom | 100% ordinary |
| Highbank Private Hospital 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 |
| Farm Place Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Healthcare Services Limited | Non trading | United Kingdom | 100% ordinary |

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Principal activities | Country of Incorporation | Class and percentage of shares held |
|---|-------------------------------|--------------------------|-------------------------------------|
| Farleigh Schools Limited | Non trading | United Kingdom | 100% ordinary |
| Eastwood Grange Company Limited | Non trading | United Kingdom | 100% ordinary |
| Chelfham Senior School Limited | Non trading | United Kingdom | 100% ordinary |
| Rossendale School Limited | Non trading | United Kingdom | 100% ordinary |
| Autism (GB) Limited | Non trading | United Kingdom | 100% ordinary |
| ZR Builders (Derby) Limited | Non trading | United Kingdom | 100% ordinary |
| Solutions (Ross) Limited | Non trading | United Kingdom | 100% ordinary |
| Solutions (Llangarron) Limited | Non trading | United Kingdom | 100% ordinary |
| Mark College Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Hospitals Limited | Non trading | United Kingdom | 100% ordinary |
| North Hill House Limited | Non trading | United Kingdom | 100% ordinary |
| Libra Nursing Homes Limited | Non trading | United Kingdom | 100% ordinary |
| Ticehurst House Private Clinic Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Holdings Company No. 2 Limited | 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 Specialist Health Division Limited | Non trading | United Kingdom | 100% ordinary |
| Priory Holdings Company No. 3 Limited | Holding company | Cayman Islands | 100% ordinary |
| Priory Bristol (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Chadwick Lodge (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Coach House (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Condoover (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Coombe House (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Eastwood Grange (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Eden Grove (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Farm Place (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Hemel Grange (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Hove (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Jacques Hall (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Marchwood (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Mark College (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Nottingham (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Roehampton (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Sheridan House (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Sketchley Hall (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Solutions (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Sturt (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Tadley Court (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Unsted Park (Property) Limited | Property company | Cayman Islands | 100% ordinary |
| Priory Wildnes (Property) Limited | Property 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 Education Services Limited | Specialist education 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 |
| 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 |

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Principal activities | Country of Incorporation | Class and percentage of shares held |
|---|-------------------------------|--------------------------|---|
| 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 |
| CO Developments Limited | Property company | United Kingdom | 100% ordinary |
| Priory Care Homes Holdings Limited | Non trading | United Kingdom | 100% ordinary |
| Heiden 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 |
| Priory New Education Services Limited | Education | United Kingdom | 100% ordinary |
| Priory (Troup House) Limited | Education | United Kingdom | 100% ordinary |
| Dunhall Property Limited | Non trading | United Kingdom | 100% ordinary |
| Affinity Healthcare Limited | Holding company | United Kingdom | 100% ordinary |
| Affinity Hospitals Holding Limited | Holding company | United Kingdom | 100% ordinary |
| Affinity Hospitals Group Limited | 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 Hospital Limited | Non trading | 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 |
| Speciality Care Limited | Holding company | United Kingdom | 100% 10p ordinary shares, 100% cumulative redeemable preference shares |
| 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) |
| Speciality Care (Rest Homes) Limited | Care delivery | United Kingdom | 100% ordinary |
| Strathmore College Limited | Care delivery | United Kingdom | 100% ordinary |
| Speciality Care (Medicare) Limited | Holding company | United Kingdom | 100% ordinary |
| Specialised Courses Offering Purposeful Education Limited | Care delivery | United Kingdom | 100% ordinary |
| Independent Community Living (Holdings) Limited | Holding company | United Kingdom | 100% ordinary |
| 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 |

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Principal activities | Country of incorporation | Class and percentage of shares held |
|---|-----------------------|--------------------------|-------------------------------------|
| 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 |
| 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 (Cockeremouth) 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 |
| Stoke 3 Limited | Non trading | United Kingdom | 100% ordinary |

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Principal activities | Country of incorporation | Class and percentage of shares held |
|--|--------------------------|--------------------------|-------------------------------------|
| 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 Care and Education Limited | Children's homes | 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 (formerly Oaktree Care Group Limited) | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Schools) 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 |
| 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 | Mental health services | United Kingdom | 100% ordinary |
| Partnerships in Care (Meadow View) Limited (formerly Glentworth House 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 |
| 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 2 Limited | Property holding company | United Kingdom | 100% ordinary |

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Principal activities | Country of Incorporation | Class and percentage of shares held |
|---|--------------------------|--------------------------|-------------------------------------|
| 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 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 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 17 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 21 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 24 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 26 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 27 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 28 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 29 Limited | Property holding company | United Kingdom | 100% ordinary |
| Partnerships in Care Property 30 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 |

All of the subsidiary undertakings of the Group have their registered address at Fifth Floor, 80 Hammersmith Road, London W14 8UD, United Kingdom, with the following exceptions:

The following subsidiaries have their registered address at c/o M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, Georgetown, Grand Cayman, Cayman Islands: Priory Chadwick Lodge (Property) Limited, Priory Coach House (Property) Limited, Priory Eden Grove (Property) Limited, Priory Farm Place (Property) Limited, Priory Hemel Grange (Property) Limited, Priory Hove (Property) Limited, Priory Marchwood (Property) Limited, Priory Mark College (Property) Limited, Priory Nottingham (Property) Limited, Priory Roehampton (Property) Limited, Priory Sheridan House (Property) Limited, Priory Sketchley Hall (Property) Limited, Priory Sturt (Property) Limited, Priory Unsted Park (Property) Limited, Priory Bristol (Property) Limited, Priory Conover (Property) Limited, Priory Coombe House (Property) Limited, Priory Eastwood Grange (Property) Limited, Priory Jacques Hall (Property) Limited, Priory Solutions (Property) Limited, Priory Tadley Court (Property) Limited, Priory Widnes (Property) Limited, Priory Finance Company Limited, Priory Health No. 1 Limited, Priory Health No. 2 Limited, Priory Holdings Company No. 1 Limited, Priory Holdings Company No. 2 Limited, Priory Holdings Company No. 3 Limited and Priory Investments Holdings Limited.

The following subsidiaries have their registered address at 38-40 Mansionhouse Road, Glasgow G41 3DW, United Kingdom: Affinity Hospitals Group Limited, Affinity Hospitals Holding Limited, Priory (Troup House) Limited.

The following subsidiary has its registered address at Norwich Union House, 7 Fountain Street, Belfast BT1 5EA, United Kingdom: CO Developments Limited.

The following subsidiaries have their registered address at First Floor, Jubilee Buildings, Victoria Street, Douglas IM1 2SH, Isle of Man: Amore (Coventry) Limited, Priory Services for Young People (IOM) Limited.

The following subsidiary has its registered address at Manor Hall Deanston, Doune, Stirlingshire, United Kingdom, FK16 6AD: Manor Hall Specialist Care Partnerships Limited.

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Notes to the consolidated financial statements

28. Section 479A Companies Act exemption

The Company has provided a guarantee in respect of the outstanding liabilities of the subsidiary undertakings listed in note 28 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 accounts by virtue of section 479A of this Act.

| Name of subsidiary | Registered number | Name of subsidiary | Registered number |
|---|-------------------|---|-------------------|
| Priory Education Services Limited | 6244880 | Priory Group No 3 Limited | 7480550 |
| Priory Healthcare Limited | 6244860 | Velocity Healthcare Limited | 6485062 |
| Priory Rehabilitation Services Limited | 6244877 | Revona LLP | OC341361 |
| Cheadle Royal Healthcare Limited | 3254624 | Craegmoor Group Limited | 6600023 |
| Priory Finance Property LLP | OC315650 | Craegmoor Group (No. 3) Limited | 6628024 |
| Priory Group No. 1 Limited | 7480152 | Amore Group (Holdings) Limited | 6628016 |
| Parkcare Homes (No. 2) Limited | 4000281 | Craegmoor Group (No. 5) Limited | 4204571 |
| Parkcare Homes Limited | 2155276 | Craegmoor Group (No. 6) Limited | 4229516 |
| Coxlease Holdings Limited | 4427783 | Craegmoor Limited | 2825572 |
| Fanplate Limited | 5347672 | Amore Care (Holdings) Limited | 3517404 |
| Priory Central Services Limited | 4391278 | Amore Care Limited | 1825148 |
| Priory Finance Property Holdings No 1 Limited | 5590294 | Speciality Healthcare Limited | 2904221 |
| Priory Finance Property Holdings No 2 Limited | 5590103 | Health & Care Services (NW) Limited | 2847005 |
| Priory Group Limited | 4433255 | Craegmoor Care (Holdings) Limited | 4790555 |
| Priory Healthcare Finance Co Limited | 4433253 | Greymount Properties Limited | 3091645 |
| Priory Healthcare Investments Limited | 4433250 | Craegmoor Healthcare Company Limited | 3830455 |
| Priory Securitisation Holdings Limited | 4793915 | Craegmoor Supporting You Limited | 4955186 |
| Priory Securitisation Limited | 3982134 | Craegmoor Facilities Company Limited | 3656033 |
| Affinity Hospitals Holding Limited | SC196089 | Craegmoor Hospitals (Holdings) Limited | 4675861 |
| Affinity Hospitals Limited | 3966451 | Independent Community Living (Holdings) Limited | 4226452 |
| 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 | Strathmore College Limited | 4147939 |
| Priory New Investments No. 3 Limited | 7102547 | Specialised Courses Offering Purposeful Education Limited | 2485984 |
| Affinity Healthcare Holdings Limited | 5305312 | Speciality Care Limited | 2787609 |
| Affinity Healthcare Limited | 5236108 | Speciality Care (Addison Court) Limited | 3011310 |
| Affinity Hospitals Group Limited | SC224907 | Speciality Care (EMI) Limited | 2192205 |
| Dunhall Property Limited | 5771757 | Speciality Care (Rest Homes) Limited | 3010116 |
| Priory (Troup House) Limited | SC287396 | Speciality Care (UK Lease Homes) Limited | 3071277 |
| Amore (Ben Madigan) Limited | 6715859 | J C Care Limited | 3251577 |
| Amore (Cockermouth) Limited | 6889688 | Lansdowne Road Limited | 2115380 |
| Amore (Ings Road) Limited | 6766727 | Lothlorien Community Limited | 2872249 |
| Amore (Prestwick) Limited | 6715857 | R. J. Homes Limited | 2980088 |
| Amore (Stoke 1) Limited | 6866823 | Heddfan Care Limited | 2928647 |
| Amore (Warrenpoint) Limited | 6715869 | Sapphire Care Services Limited | 4146017 |
| Amore (Watton) Limited | 6773612 | Autism Tasc Services Limited | 4744054 |
| Amore (Wednesfield 1) Limited | 6882968 | Craegmoor Homes Limited | 4790588 |
| Priory Care Homes Holdings Limited | 6660792 | Johnston Care Limited | 3381658 |
| Amore Elderly Care Limited | 6660776 | Cotswold Care Services Limited | 3341447 |
| SP Cockermouth Limited | 6485612 | Treehome Limited | 2776626 |
| CO Developments Limited | NI064937 | Strathmore Care Services Limited | 4147864 |
| Amore Elderly Care (Wednesfield) Limited | 7318739 | Lambs Support Services Limited | 5562543 |
| Positive Living Limited | 5868343 | The Manor Clinic Limited | 6084605 |
| Craegmoor Holdings Limited | 3830300 | Manor Hall Specialist Care Partnerships Limited | SC445897 |
| Ferguson Care Limited | 2582268 | Partnerships In Care (Meadow View) Limited | 5075900 |
| Speciality Care (Rehab) Limited | 2965073 | Partnerships In Care (Cleveland) Limited | 8671457 |
| Speciality Care (Learning Disabilities) Limited | 2953416 | Partnerships In Care 1 Limited | 1833385 |

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

| Name of subsidiary | Registered number | Name of subsidiary | Registered number |
|--|-------------------|---|-------------------|
| Yorkshire Parkcare Company Limited | 1915148 | Partnerships in Care (Nelson) Limited | 7294608 |
| Conquest Care Homes (Norfolk) Limited | 2894168 | Partnerships in Care (Pastoral) Limited | 7224362 |
| Conquest Care Homes (Soham) Limited | 3934362 | Partnerships in Care (Rhondda) Limited | 5715589 |
| Conquest Care Homes (Peterborough) Limited | 2706124 | Partnerships in Care (Cardiff) Limited | 5722804 |
| Speciality Care (Rest Care) Limited | 3257061 | Partnerships in Care (Oak Vale) Limited | 8135440 |
| Health & Care Services (UK) Limited | 2083074 | Partnerships in Care (Vancouver) Limited | 6970725 |
| Craegmoor (Harbour Care) Limited | 7880338 | Partnerships in Care UK 2 Limited | 9059930 |
| Harbour Care (UK) Limited | 7838042 | Partnerships in Care Management Limited | 5401308 |
| Peninsula Autism Services & Support Limited | 3804697 | Partnerships in Care Investments 1 Limited | 7773948 |
| High Quality Lifestyles Limited | 2734700 | Partnerships in Care Management 2 Limited | 9489130 |
| Heiden Homes Limited | 4490949 | Partnerships in Care (Oak Vale) Holding Company Limited | 8390458 |
| New Directions (Bexhill) Limited | 3884127 | Partnerships in Care (Oak Vale) Property Holding Company Limited | 7910544 |
| New Directions (Hastings) Limited | 5126487 | Partnerships in Care (Vancouver) Holding Company Limited | 8211574 |
| New Directions (Robertsbridge) Limited | 3466259 | Partnerships in Care (Vancouver) Property Holding Company Limited | 6244563 |
| New Directions (St. Leonards on Sea) Limited | 6339063 | Partnerships in Care Property Holding Company Limited | 5448019 |
| Castlecare Group Limited | 5094462 | Partnerships in Care Property 1 Limited | 5403392 |
| Castlecare Holdings Limited | 2178870 | Partnerships in Care Investments 2 Limited | 7773953 |
| Castle Homes Care Limited | 3124409 | Partnerships in Care Property 2 Limited | 5406092 |
| Castlecare Cymru Limited | 4766939 | Partnerships in Care Property 3 Limited | 5406109 |
| Castle Homes Limited | 2910603 | Partnerships in Care Property 4 Limited | 5406112 |
| Rothcare Estates Limited | 3941902 | Partnerships in Care Property 6 Limited | 5406120 |
| Castlecare Education Limited | 4525732 | Partnerships in Care Property 7 Limited | 5406122 |
| Life Works Community Limited | 4740254 | Partnerships in Care Property 8 Limited | 5406123 |
| Progress Care (Holdings) Limited | 3545347 | Partnerships in Care Property 9 Limited | 5406127 |
| Progress Care and Education Limited | 3162312 | Partnerships in Care Property 10 Limited | 5406132 |
| Progress Adult Services Limited | 3545816 | Partnerships in Care Property 11 Limited | 5406140 |
| Whitewell UK Investments 1 Limited | 9929374 | Partnerships in Care Property 12 Limited | 5406148 |
| Whitewell UK Holding Company 1 Limited | 9929366 | Partnerships in Care Property 14 Limited | 5406163 |
| Priory New Education Services Limited | 7221650 | 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 17 Limited | 5613363 |
| Quantum Care (UK) Limited | 4258780 | 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 21 Limited | 5613357 |
| Partnerships in Care (Oaktree) Limited | 4785303 | Partnerships in Care Property 22 Limited | 5852397 |
| Partnerships in Care (Ivydene) Limited | 7263526 | Partnerships in Care Property 24 Limited | 5852391 |
| Partnerships in Care (Alblon) Limited | 3671946 | Partnerships in Care Property 31 Limited | 7916205 |
| Partnerships in Care (Brunswick) Limited | 7507166 | Partnerships in Care (Cleveland) Holding Company Limited | 8917740 |
| Partnerships in Care (Beverley) Limited | 7155722 | Partnerships in Care (Cleveland) Property Holding Company Limited | 8457596 |

Partnerships in Care UK 1 Limited

Notes to the consolidated financial statements

29. Transition to IFRS

The group transitioned to IFRS from FRS102 as at 1 January 2015. The impact of the transition to IFRS is as follows:

Reconciliation of equity at 31 December 2015:

| £'000 | |
|--|----------------|
| Equity at 31 December 2015 under FRS102 | 194,905 |
| Amortisation | 19,094 |
| Deferred tax | (40,128) |
| Equity shareholders' funds at 31 December 2015 under IFRS | 173,871 |

Reconciliation of profit and loss for the year ended 31 December 2015:

| £'000 | |
|--|----------------|
| Loss for the year ended 31 December 2015 under FRS102 | (4,389) |
| Amortisation | 15,654 |
| Deferred tax | (14,934) |
| Loss for the year ended 31 December 2015 under IFRS | (3,669) |

Amortisation

Under the group's previous accounting framework goodwill recognised on the balance sheet was amortised over a period of 5 years, however on transition to IFRS this should not be amortised resulting in a reduction in amortisation of £19,094,000 and a corresponding increase in equity. The loss for the period ended 31 December 2015 was reduced by £15,654,000.

Deferred tax

Deferred tax liabilities have been recognised in relation to the difference between the carrying value and the tax written down value of land and buildings under IFRS. This has resulted in additional deferred tax of £40,128,000 and a corresponding decrease in equity. The loss for the period ended 31 December 2015 was increased by £14,934,000.



Building a better
working world

Partnerships in Care UK 1 Limited

Independent auditors' report – parent company

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARTNERSHIPS IN CARE UK 1 LIMITED

We have audited the financial statements of Partnerships in Care UK 1 Limited for the year ended 31 December 2016 which comprise the parent company balance sheet, parent company statement of changes in equity and the related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the strategic report and directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Anup Sodhi (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Luton

21 September 2017

Partnerships in Care UK 1 Limited

Parent company balance sheet at 31 December 2016

| £'000 | Note | 31 December 2016 | 31 December 2015 |
|---|------|-----------------------|-----------------------|
| Fixed assets | | | |
| Investments | 3 | <u>1,561,495</u> | <u>412,848</u> |
| Current assets | | | |
| Debtors | 4 | <u>356,417</u> | <u>225,225</u> |
| Creditors: amounts falling due within one year | 5 | <u>(9,880)</u> | <u>-</u> |
| Net current assets | | 346,537 | 225,225 |
| Total assets less current liabilities | | 1,908,032 | 638,073 |
| Creditors: amounts falling due after more than one year | 6 | <u>(1,151,808)</u> | <u>(420,872)</u> |
| Net assets | | <u>756,224</u> | <u>217,201</u> |
| Capital and reserves | | | |
| Called up share capital | 7 | 74,984 | 73,651 |
| Share premium account | | 647,240 | 147,301 |
| Profit and loss account | | 34,000 | (3,751) |
| Total shareholders' funds | | <u>756,224</u> | <u>217,201</u> |

The financial statements of Partnerships in Care UK 1 Limited (registered company number 09057543) on pages 42 to 45 were approved by the board of directors and authorised for issue on 14 September 2017. They were signed on its behalf by:


Trevor Torrington
Chief Executive Officer


Nigel Myers
Finance Director

Partnerships in Care UK 1 Limited

Parent company statement of changes in equity for the year ended 31 December 2016

| £'000 | Called up share capital | Share premium account | Profit and loss account | Total shareholders' funds |
|----------------------------------|-------------------------|-----------------------|-------------------------|---------------------------|
| At 1 January 2015 | 40,200 | 80,400 | (383) | 120,217 |
| Loss for the financial year | - | - | (3,368) | (3,368) |
| <i>Transactions with owners:</i> | | | | |
| Issue of shares | 33,451 | 66,901 | - | 100,352 |
| At 31 December 2015 | 73,651 | 147,301 | (3,751) | 217,201 |
| Profit for the financial year | - | - | 37,751 | 37,751 |
| <i>Transactions with owners:</i> | | | | |
| Issue of shares | 1,333 | 499,939 | - | 501,272 |
| At 31 December 2016 | 74,894 | 647,240 | 34,000 | 756,224 |

Partnerships in Care 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). The financial statements are prepared on a going concern basis under the historical cost convention.

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 26 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 1 to 40.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 1 January 2015. The impact of the amendments to the Company's previously adopted accounting policies in accordance with FRS 102 was not material to the shareholders' equity as at the date of transition or as at 31 December 2015 or as at 31 December 2016, nor on the profit or loss for the years ended 31 December 2015 and 31 December 2016.

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.

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.

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.

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 profit for the financial year was £37.8m (2015: loss of £3.4m). The auditors' remuneration was borne by the ultimate parent company. The Company had no employees during the year. Details of directors' emoluments are given in note 26 to the consolidated financial statements.

3. Investments

| Cost and net book value | £'000 |
|-------------------------|-----------|
| At 31 December 2015 | 412,848 |
| Additions | 1,148,647 |
| At 31 December 2016 | 1,561,495 |

On 12 January 2016 the Company acquired a further 1,000,000 £1 Ordinary shares in Partnerships in Care UK 2 Limited for consideration of £4,000,000.

On 16 February the Company contributed the entire share capital of Partnerships in Care UK 2 Limited, a wholly owned subsidiary, to Whitewell UK Holding Company 1 Limited in consideration for the issue of two ordinary shares in Whitewell UK Holding Company 1 Limited, in addition to a consideration of £1,144,647. As a result the investment at 31 December 2016 represents 100% of the issued share capital of Whitewell UK Holding Company 1 Limited.

The Company's subsidiaries are given in note 27 to the consolidated financial statements.

The directors believe the carrying value of the investment is supported by its underlying net assets.

Partnerships in Care UK 1 Limited

Notes to the parent company financial statements

4. Debtors

| £'000 | 2016 | 2015 |
|------------------------------------|---------|---------|
| Amounts owed by group undertakings | 356,417 | 225,225 |

Amounts owed by group undertakings includes unsecured loans of \$193,599,000 (£156,938,000) (2015: \$311,750,000 (£210,614,000)) and \$243,331,000 (£197,253,000) (2015: £nil) which incur interest at 7.4% pa and are repayable 1 July 2022 and 16 February 2024 respectively.

The directors have assessed the fair market value of the loan to be consistent with its book value.

5. Creditors: amounts falling due within one year

| £'000 | 2016 | 2015 |
|----------------------|-------|------|
| Group relief payable | 9,880 | - |

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

| £'000 | 2016 | 2015 |
|------------------------------------|-----------|---------|
| Amounts owed to group undertakings | 1,151,808 | 420,872 |

Amounts owed to group undertakings include unsecured loans from Acadia Healthcare Company Inc, further details are given in note 18 to the consolidated financial statements.

7. Called up share capital

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

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

The ultimate parent undertaking is Acadia Healthcare Company Inc., a company incorporated in the United States of America.

The largest group in which the results of this company are consolidated is that headed by Acadia Healthcare Company Inc., incorporated in the United States of America. The consolidated financial statements of the Acadia Healthcare group may be obtained from 830 Crescent Centre Drive, Suite 610, Franklin, TN 37067.