Priory Group No. 1 Limited

Annual report and consolidated financial statements for the year ended 31 December 2015

Registered number 07480152

Priory Group No. 1 Limited

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Priory Group No. 1 Limited

Strategic report

The directors present their strategic report on Priory Group No. 1 Limited for the year ended 31 December 2015.

Throughout the document, references to the "Company" refer to Priory Group No. 1 Limited. References to the "Group" and "Priory Group" refer to Priory Group No. 1 Limited and its subsidiaries. All amounts are stated 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. At 31 December 2015, the Group had 327 facilities (2014: 319 facilities) with 7,134 available beds (2014: 7,096) located throughout the United Kingdom. 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 **Older People Services** segment provides long term, short term and respite nursing care for older people who are physically frail or suffering with dementia related disorders, trading under the brand 'Amore Care'.
- The **Adult Care** 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 11 and the financial position of the Group as at 31 December 2015 is set out in the consolidated balance sheet on page 13. Group revenue for the year was £571.2m (2014: £520.7m) and Group Adjusted EBITDAR was £151.3m (2014: £143.8m), which represented a margin of 26.5% (2014: 27.6%) of revenue. Adjusted EBITDA before future minimum rental increases was £125.1m (2014: £129.7m), which represented a margin of 21.9% (2014: 24.9%) of revenue. Operating profit for the year was £22.7m (2014: £74.1m).

During the year, net costs of £49.5m (2014: £2.5m) were recognised as exceptional items in the consolidated income statement. These costs primarily relate to goodwill impairment, impairment of property, plant and equipment, transaction related costs from the strategic review of Older People Services, sale of the business to Acadia and acquisitions, in addition to redundancy and restructuring costs. The prior year net costs primarily related to senior management restructuring as well as aborted acquisition costs, offset by the profit on disposal from properties sold in the year. Further details of these exceptional charges are given in note 7 to the financial statements.

The performance of the Group on a divisional basis is as follows:

Healthcare

The division's performance during the course of 2015, showed an increase in revenue but a decrease in Adjusted EBITDAR. This was driven principally by higher ADC, offset by the impact of sites transferred to the Adult Care division and increased wage costs.

Education

Due to the acquisition of Castlecare in November 2014 and the contribution from new sites, the division recorded an increase in revenue and Adjusted EBITDAR in 2015.

Older People Services

The division's existing portfolio continued to mature during 2015 and as a result revenue and Adjusted EBITDAR both increased. Occupancy was 96% in 2015 compared to 89% in 2014.

Adult Care

The division recorded an increase in revenue and Adjusted EBITDAR in 2015 as a result of steady growth in underlying operations, together with the impact of transferred and new sites.

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.

On 17 September 2015 the Group acquired a 100% interest in Life Works Community Limited ('Life Works') for total cash consideration of £7.8m. The Life Works group operates an 18 bed facility in South East England which specialises in providing inpatient therapy for individuals with drug, alcohol and other addictions, eating disorders and depression within the Healthcare division.

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On 22 December 2015 the Group acquired a 100% interest in Progress Care (Holdings) Limited ('Progress Care') for total cash consideration of £10.8m. The Progress Care group operates 11 facilities across the North West of England which provide specialist education and care for children and young adults with severe learning disabilities, challenging behaviours and autism, within the Adult Care and Education division.

Further details in relation to the above acquisitions are given in note 10.

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 2015 of £1.1bn (2014: £1.1bn) 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 risks faced by the Group, which primarily relates to credit, interest and liquidity risks, which arise in the normal course of the Group's business. Financial risks are also considered by the Group risk management committee.

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 89% of revenue (2014: 87%) 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 Older People Services business.

Interest rate risk

The Group finances its operations through called up share capital, retained earnings, bank facilities, high yield bonds and loan notes. At 31 December 2015 the majority of the Group's borrowings (£877.2m; 2014: £844.0m) were fixed rate debt with a weighted average interest rate of 9.2% (2014: 8.8%), with the exception of £40.3m (2014: £31.3m) which was drawn down on the revolving credit facility at interest rates of LIBOR plus 3.5% (2014: 4.0%). The interest rate on future cash advances under the facility is the aggregate of the applicable margin, LIBOR/EURIBOR and mandatory costs (if any). The margin may range from 4.0% to 3.0% based on the ratio of total net debt (defined as senior secured notes, senior unsecured notes, revolving credit facility and finance leases, less cash and excluding accrued interest) to EBITDA.

Liquidity risk

The Group prepares annual cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance requirements. 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.

Financial resources

The Group's capital structure is as follows:

£'m	2015	2014
Borrowings	**927.7**	883.4
Cash	**(40.5)**	(22.6)
Net debt	**887.2**	860.8
Equity	**196.1**	234.1

Net debt is defined as long-term and short-term borrowings less cash. The Group is not subject to any externally imposed capital requirements.

The revolving credit facility was entered into on 3 February 2011 and expires on 3 February 2017. A £40.3m (2014: £31.3m) loan has been drawn down and £2.7m (2014: £2.6m) has been utilised by outstanding letters of credit and other ancillary facilities. The revolving credit facility provides for borrowings up to an aggregate of £70.0m on a committed basis and a further £30.0m on an uncommitted basis. The Group therefore has undrawn facilities of £57.0m at 31 December 2015 (2014: £66.1m).

The revolving credit facility requires the Group to maintain a financial ratio in relation to drawn super senior gross leverage defined as the total amount outstanding under the facility (excluding accrued interest, fees and commission) and EBITDA for the relevant period. The current forecasts indicate that the Group will comply with this ratio for the foreseeable future.

Further details on capital and debt and repayment terms are given in note 25.

Post balance sheet events

On 16 February 2016 the entire share capital of Priory Group No. 1 Limited was acquired by Whitewell UK Investments 1 Limited, an indirect wholly owned subsidiary of Acadia Health Company Inc.

At the date of acquisition, certain borrowings of the Group were repaid, see note 28 for further details.

Priory Group No. 1 Limited

Strategic report

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. In the Healthcare division, the Group has identified opportunities to launch new services in some acute hospitals as well as new secure and rehabilitation and recovery services. The group will continue to roll out new wellbeing centres, building on the sites already opened. In the Education division, focus will continue to be on the development of new children's homes for specialist conditions and the opening of new special schools to meet demand for the group's services. The Adult Care division will benefit in 2016 from the development and maturing of new residential homes for service users with autism. We will target to win further tenders in supported living continuing the growth of our market share in this space. The focus in the Older People Services division will be remain on maintaining occupancy at our mature homes while adjusting the mix of service users to higher fee paying groups. The Group will consider further strategic acquisitions where appropriate.

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 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, operating cash conversion, 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. In addition, management use EBITDA before future minimum rental increases to assess the performance of the business before the non-cash cost associated with future property rental increases. 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 26.5% (2014: 27.6%) in the year. Operating cash conversion (calculated as net cash generated from operating activities before tax divided by EBITDA before future minimum rental increases) was 88.1% in 2015 (2014: 89.8%).

Non-financial

As at 31 December 2015, the total number of available beds across the Group was 7,134 (31 December 2014: 7,096); excluding supported living rental beds the number of available beds was 7,094 (31 December 2014: 6,903). During the year ADC was 6,282 (2014: 5,945) and occupancy based on available beds at year end was 88.6% (2014: 87.4%).

These can be analysed by division as follows:

			Movement	
	2015	**2014**	**Change**	**% Change**
Available beds (number)				
Healthcare	1,593	1,675	(82)	(4.9%)
Education	1,486	1,367	119	8.7%
Older People Services	2,294	2,351	(57)	(2.4%)
Adult Care	1,721	1,510	211	14.0%
Total	**7,094**	**6,903**	**191**	2.8%
ADC (number)				
Healthcare	1,382	1,422	(40)	(2.8%)
Education	1,205	1,045	160	15.3%
Older People Services	2,208	2,095	113	5.4%
Adult Care	1,487	1,383	104	7.5%
Total	**6,282**	**5,945**	**337**	**5.7%**
Occupancy				
Healthcare	86.8%	84.9%	1.9%	
Education	81.1%	82.9%	(1.8%)	
Older People Services	96.3%	89.1%	7.2%	
Adult Care	86.4%	91.6%	(5.2%)	
Total	**88.6%**	**87.4%**	**1.2%**	

Adult Care available beds figure in the table above excludes 40 (2014: 193) supported living rental beds and Adult Care ADC excludes 432 (2014: 404) supported living places. Occupancy is calculated using ADC and available beds excluding supported living ADC and rental beds. Education occupancy and total occupancy at 31 December 2014 of 82.9% and 87.4% respectively have been determined as if the acquisition of Castlecare occurred on 1 January 2014 rather than 28 November 2014, using pro forma average Education ADC of 1,133.

The Group aims to maximise available beds occupancy by increasing ADC across the divisions. Occupancy is monitored per division based on the nature of the services provided. Healthcare occupancy is targeted in the region of 85%-89%, Education occupancy is targeted between 83%-85%, Older People Services occupancy is targeted in the region of 90%-95% and Adult Care occupancy is expected to be between 92%-94%.

Priory Group No. 1 Limited

Strategic report

Principal risks and uncertainties

As the Group is focussed on the healthcare, specialist education, older people care and specialist services sectors, the performance of 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. The Group also has a public affairs department which tracks developments to influence policy and help to prepare the Group for planned changes.

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.

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.

Contractual arrangements

In 2015 revenue from NHS England amounted to 18% of total revenue (2014: 19%). No other single publicly-funded body accounted for more than 5% of total revenue in 2015 or 2014. On a consolidated basis, 47% of revenue (2014: 44%) arose from Social Services and 42% (2014: 43%) arose from the NHS. The Group expects UK publicly funded entities to continue to generate the majority of revenues, see principal risks and uncertainties section above for how the Group mitigates this risk.

Capital structure

As at 31 December 2015, funds managed and/or advised by Advent beneficially owned and controlled (through wholly owned intermediate holding companies) approximately 88% of the ordinary share capital of Priory Group No.1 Limited. The remaining 12% of the ordinary share capital was allocated for equity investments by the senior management team and other senior executives.

Advent has been investing in the health care sector for 24 years and has invested in over 35 health care companies worldwide across a broad range of sub-sectors, including pharmaceuticals, health care services and medical devices. Since 1989, Advent has invested $30bn in 310 transactions across 40 countries.

See note 28 post balance sheet events for capital structure post year end.

By order of the Board

D Hall

David Hall

Company Secretary

Fifth Floor
80 Hammersmith Road
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W14 8UD
29 February 2016

Priory Group No. 1 Limited

Directors' report

The directors present their annual report and the audited consolidated and company financial statements of Priory Group No. 1 Limited for the year ended 31 December 2015. 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, financial risk management and post balance sheet events.

Dividends

The directors do not recommend the payment of a dividend (2014: £nil).

Directors

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

Tom Allen	(resigned 16 February 2016)
Humphrey Battcock	(resigned 16 February 2016)
Ian Fraser	(resigned 16 February 2016)
Jason Lock	(resigned 1 April 2015)
Mark Moran	(appointed 1 April 2015)
William Moyes	(resigned 16 February 2016)
Brian Murphy	(resigned 30 April 2015)
Tom Riall	

Executive directors

Tom Riall joined the Priory Group as Chief Executive Officer in April 2013. Prior to this he worked for the FTSE 100 support services company Serco Group plc where he was Chief Executive of the Global Services Business, Serco's business process outsourcing division. Before joining Serco, Tom held senior leadership positions at both Onyx and Reliance Group plc working extensively with both Local Authorities across the UK as well as a number of Central Government organisations, before joining Serco as Managing Director of its Home Affairs business in 2005. He subsequently became Chief Executive of Serco's largest division in the UK in 2007, which included Serco's rapidly expanding Health business, a post he held for five years until his appointment to lead the newly established Global Services Business.

Mark Moran has been Chief Financial Officer of the Priory Group since April 2015. He was formerly Group Finance Director of healthcare manufacturer SSL International and, more recently, CFO of Premier Foods and has extensive experience and knowledge of financial management and investor relations.

Non-executive directors

Tom Allen is a partner at Advent, having joined from KPMG's private equity group in 2004. He has over ten years of private equity experience and is responsible for Advent's activities in the health care sector in Europe. He began his career with Andersen, in the firm's London private equity team, before the team moved to Deloitte and, latterly, KPMG. Tom is a Chartered Accountant and has a BA in economics, specialising in finance, from the University of Manchester.

Humphrey Battcock has been a partner at Advent since 1994. Prior to joining Advent, Humphrey spent nine years as a partner with Trinity Capital Partners, a UK venture capital and buyout firm. From 1976 to 1983, he worked for Coopers & Lybrand, first in London, where he qualified as a Chartered Accountant, then in New York, where he gained experience in international mergers and acquisitions. Humphrey has a physics degree from Cambridge University and also obtained an MBA from the London Business School.

Ian Fraser was appointed as Chairman of the Group in June 2014. Ian was previously CEO of Enterprise Group, a leading supplier to the UK utility and government services markets from 2011 to 2013, before overseeing its eventual sale to Spanish infrastructure business Ferovial. Prior to this, Ian was CEO of automotive specialist Kwik Fit. Ian is currently chairman of R&R Ice Cream, Europe's second biggest ice cream maker and is also a board member at German auto parts retailer and service provider ATU. He was also previously a non-executive director and Chairman of the Audit Committee at Punch Taverns from 2004 to 2012 where he worked closely with the executive management team during a period of significant regulatory reform.

William Moyes joined the Priory Group Board in December 2011. He is currently Chairman of the General Dental Council, a non-executive Director of the Legal Services Board and a trustee of the Catholic Trust for England and Wales. He stepped down from the Board of the Office of Fair Trading in 2014 when it and the Competition Commission were merged to form the Competition and Markets Authority; and in November 2014 as Chairman of the Governing Body of Heythrop College (part of the University of London). Previously, he was Executive Chairman of Monitor from 2003-2010, Director-General of the British Retail Consortium from 2000-2003 and Head of Infrastructure Investments at the Bank of Scotland. Before that, he held a variety of posts in the Scottish Office and Whitehall as a senior civil servant, including three years in the Economic Secretariat of the Cabinet Office and four years as Director of Strategy for the NHS in Scotland.

Political and charitable contributions

The Group does not make political contributions. Donations to UK charities in the year amounted to £0.1m (2014: £0.1m) which were donated to a wide range of healthcare related charities.

Policy and practice on payment of creditors

The Company's policy, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Company does not follow any code or standard on payment practice. The Group had a trade payables balance of £13.0m at 31 December 2015 (2014: £13.9m). At 31 December 2015 the Group's supplier payment period was 53 days (2014: 63 days).

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.

The table below provides a breakdown of the gender of Directors and employees at the end of the financial year:

Number	Men	Women
Company Directors	6	-
Other senior managers*	13	5
All employees	4,555	12,218

*Relates to the senior management team of the Group

Corporate Social Responsibility

Carbon reduction commitments

The Group remains linked to the CRC Energy Efficiency Scheme. In 2015 the liability was £0.4m (2014: £0.3m) based on 25,109 tonnes of CO_2 reported emissions (2013: 26,589 tonnes). The increased cost was incurred due to Government change in cost per tonne. The Group also entered a submission under E.S.O.S. (Energy Saving Opportunities Scheme) which will assist in the targeting of our efforts to reduce the carbon footprint through continued structured investment in energy efficiency programmes as and where identified.

Ethical trading

The Group has maintained its efforts to purchase goods and services with the least environmental impact. Our efforts for waste recycling, collection and segregation procedure have increased and in doing so in 2015 the Group has recycled some 61% of all trade waste as generated (48% in 2014) and we remain committed to increasing this percentage recycling year on year.

We continue to be supported in our efforts through the collection of recyclable materials, the collection and conversion of our waste cooking oil to diesel and other initiatives.

Estates and facilities

In addition to works already undertaken during refurbishments, where low energy lighting and small appliances are part of standard specifications, we also undertake works to install low energy lighting schemes and where heating systems are being renewed, efficient boilers and hot water systems are specified as standard. We have achieved savings in electricity and heating fuels and expect to achieve further savings as installations are improved across the Estate. We are also undertaking an energy saving review to target specific sites where new technologies can reduce carbon footprint.

Quality and Safety

The Group is committed to delivering first class services across all of its operations in a manner that ensures a safe and healthy workplace and minimises the impact on the environment. Our Environmental Strategy outlines our commitment to care for and protect the environment in which we operate and our commitment to improving our environmental performance across all of our activities.

The Group has an established track record of clinical quality, demonstrated by robust outcome data made available to Commissioners. A number of our hospitals are recognised as a teaching environment by the General Medical Council. Our facilities overall have reported a high level of compliance with the Care Quality Commission and other regulatory standards such as those of Ofsted and other regulatory bodies in England, Wales, Scotland and Northern Ireland.

The Assurance team provides leadership and direction to the Group and covers the three vital components needed to support the provision of excellent care, Safety, Quality and Compliance with statutory duties and regulatory standards. Our Director of Safety looks after all aspects of safety, whilst the Director of Compliance makes sure sites keep up the high standards demanded by the regulatory bodies. The four divisions each have their own specialist Director of Quality to oversee the unique and varied quality matters specific to each area of service provision.

Priory Group No. 1 Limited

Directors' report

Priory Central Services are accredited against the high standards of ISO 9001, which is recognised worldwide as a well-respected quality programme, ensuring that robust systems, policies and practices are in place across the Group, setting out a clear and consistent safety and quality framework. This accreditation has been retained with constant improvements and innovations since 2008, and this year the Group has also been accredited against the ISO 27000 standards for its IT provision. The Group have also demonstrated their compliance with and sound management of all basic Health and Safety legislation across their UK based sites accredited by the Contractors Health and Safety Assessment Scheme (CHAS). These accreditations underline the Group's commitment to providing *a first rate service to our staff, visitors and most significantly* to all our service users.

The Group has developed care pathways in collaboration with the NHS and Local Authorities that are acknowledged as high quality and consistent. They are subject to ongoing robust internal quality monitoring and commissioner contract review.

Human Resources

The Group is committed to challenging discrimination and harassment and promoting equality for all. The Group Equalities and Diversity policy outlines our longstanding commitment to ensuring the services that we deliver to the diverse patient, resident and student community we serve are relevant, of the highest possible quality and accessible as of right to those service users and that our employment practices policies and opportunities are fair and value the diversity of the workforce we employ.

The Group is committed to ensuring the environment for our workforce and customers is free from harassment and bullying and that every individual is treated with dignity and respect. The Group Equalities and Diversity is intended to inform staff, patients, residents, tenants, students and their carers, visitors, contractors and all other stakeholders, of how equality and diversity is part of carrying out our core business and the actions we will take to ensure this happens.

The Group will achieve equal opportunities by making sure that we give equal consideration to people's needs and develop flexible and responsive services and employment opportunities that meet those needs.

Community

By their nature the Group's facilities are an integral part of the communities they serve, focussing on integrating service users back into the community, educating future generations and providing care where possible in supported living settings to enable service users to remain within the community.

During the year the Group supported a number of healthcare related charities and will continue to do so. In addition, the Group works with a variety of organisations to raise awareness of mental health issues.

Human rights

The Group firmly believes in the dignity and individual rights of every human being. We are committed to supporting human rights through our compliance with laws and regulations in all aspects of our operations and through our policies. All corporate policies are drafted to take account of the Human Rights Act 1998 (HRA) and particular emphasis is given to the HRA in policies relating to Safeguarding, Data Protection, Mental Capacity Deprivation of Liberty and detention under the Mental Health Act.

Statement of compliance

The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosures and Transparency in Private Equity.

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

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David Hall

Company Secretary

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29 February 2016

Priory Group No. 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

Mark Moran

Chief Financial Officer

29 February 2016

Priory Group No. 1 Limited

Independent auditors' report - Group

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRIORY GROUP NO. 1 LIMITED

Report on the group financial statements

Our opinion

In our opinion Priory Group No.1 Limited's group financial statements (the "financial statements"):

- Give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the strategic report and directors' report (the "annual report"), comprise:

- The consolidated balance sheet as at 31 December 2015;
- The consolidated income statement for the year then ended;
- The consolidated statement of cash flows for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of comprehensive income for the year then ended; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 8, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Priory Group No. 1 Limited

Independent auditors' report - Group

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 circumstances and they 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Other matter

We have reported separately on the parent company financial statements of Priory Group No. 1 Limited for the year ended 31 December 2015.

Arif Ahmad

Arif Ahmad (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Newcastle upon Tyne

29 February 2016

Priory Group No. 1 Limited

Consolidated income statement for the year ended 31 December 2015

£'000	Note	**Year ended 31 December 2015**	Year ended 31 December 2014
Revenue	3	**571,183**	520,738
Operating costs	4	**(548,454)**	(446,593)
Operating profit	3	**22,729**	74,145
Analysed as:			
Adjusted EBITDAR	3	**151,297**	143,818
Rental amounts currently payable		**(26,190)**	(14,098)
Adjusted EBITDA before future minimum rental increases		**125,107**	129,720
Future minimum rental increases		**(2,565)**	(2,850)
Adjusted EBITDA		**122,542**	126,870
Depreciation	4	**(44,374)**	(43,989)
Amortisation	4	**(5,937)**	(6,203)
Exceptional items	7	**(49,502)**	(2,533)
Operating profit		**22,729**	74,145
Finance costs (including exceptional items of £nil (2014: £16.0m))	8	**(81,674)**	(109,468)
Finance income	8	**198**	229
Loss before tax		**(58,747)**	(35,094)
Income tax	9	**20,758**	22,231
Loss for the year		**(37,989)**	(12,863)

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. Adjusted EBITDA before future minimum rental increases is adjusted to exclude the non-cash cost associated with future property rental increases. 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.

Priory Group No. 1 Limited

Consolidated statement of comprehensive income for the year ended 31 December 2015

£'000	Year ended 31 December 2015	Year ended 31 December 2014
Loss for the year	**(37,989)**	(12,863)
Total comprehensive expense for the year	**(37,989)**	(12,863)
Attributable to:		
Owners of the parent	**(37,989)**	(12,863)

Priory Group No. 1 Limited

Consolidated balance sheet at 31 December 2015

£'000	Note	31 December 2015	31 December 2014
Non-current assets			
Intangible assets	11	**212,906**	215,452
Property, plant and equipment	12	**1,078,518**	1,088,360
		1,291,424	1,303,812
Current assets			
Inventories	13	**64**	49
Trade and other receivables	14	**42,215**	38,005
Cash	15	**40,459**	22,644
		82,738	60,698
Assets held for sale	16	**3,552**	10,808
		86,290	71,506
Total assets		**1,377,714**	1,375,318
Current liabilities			
Trade and other payables	17	**(98,544)**	(83,927)
Borrowings	18	**(17,669)**	(17,886)
Provisions for liabilities and charges	19	**(4,545)**	(4,760)
		(120,758)	(106,573)
Net current liabilities		**(34,468)**	(35,067)
Non-current liabilities			
Borrowings	18	**(910,037)**	(865,563)
Deferred income tax	20	**(128,081)**	(147,108)
Provisions for liabilities and charges	19	**(22,738)**	(21,986)
		(1,060,856)	(1,034,657)
Net assets		**196,100**	234,088
Equity attributable to the owners of the parent:			
Share capital	22	**261,186**	261,185
Share premium account		**11,437**	11,437
Accumulated losses		**(76,523)**	(38,534)
Total equity		**196,100**	234,088

The consolidated financial statements of Priory Group No. 1 Limited (registered company number 07480152) on pages 11 to 45 were approved by the board of directors and authorised for issue on 29 February 2016. They were signed on its behalf by:

Mark Moran
Chief Financial Officer

Priory Group No. 1 Limited

Consolidated statement of cash flows for the year ended 31 December 2015

£'000	Note	**Year ended 31 December 2015**	Year ended 31 December 2014
Operating activities			
Operating profit		**22,729**	74,145
Profit on disposal of property, plant and equipment	7	**(97)**	(7,897)
Depreciation of property, plant and equipment	4	**44,374**	43,989
Amortisation of intangible assets	4	**5,937**	6,203
Impairment of property, plant and equipment and intangible assets	7	**28,963**	-
Decrease in inventories		**-**	3
Increase in trade and other receivables		**(3,667)**	(6,129)
Increase in trade and other payables		**11,507**	5,008
Decrease in provisions		**(2,120)**	(1,628)
Provision for future minimum rental increases	4	**2,565**	2,850
		110,191	116,544
Taxation		**(204)**	(366)
Net cash generated from operating activities		**109,987**	116,178
Investing activities			
Interest received		**198**	229
Purchase of subsidiaries, net of cash acquired		**(18,073)**	(18,181)
Proceeds from disposal of property, plant and equipment	7	**15,411**	239,952
Purchases of property, plant and equipment		**(49,811)**	(47,201)
Net cash (used in)/generated from investing activities		**(52,275)**	174,799
Financing activities			
Proceeds from borrowings		**19,000**	24,250
Repayments of borrowings		**(11,233)**	(10,500)
Repayment of obligations under finance leases		**(1,676)**	(2,011)
Repayment of high yield bonds	18	**-**	(257,547)
Interest paid		**(45,988)**	(66,939)
Net cash used in financing activities		**(39,897)**	(312,747)
Net increase/(decrease) in cash		**17,815**	(21,770)
Cash at the beginning of the year	15	**22,644**	44,414
Cash at the end of the year	15	**40,459**	22,644

Priory Group No. 1 Limited

Consolidated statement of changes in equity for the year ended 31 December 2015

£'000	Note	Share capital	Share premium account	Accumulated losses	Total equity
At 1 January 2014		261,184	11,437	(25,671)	246,950
Loss for the year		-	-	(12,863)	(12,863)
Total comprehensive expense for the year		-	-	(12,863)	(12,863)
Issue of shares	22	1	-	-	1
Total transactions with owners		1	-	-	1
At 31 December 2014		261,185	11,437	(38,534)	234,088
Loss for the year		-	-	(37,989)	(37,989)
Total comprehensive expense for the year		-	-	(37,989)	(37,989)
Issue of shares	22	1	-	-	1
Total transactions with owners		1	-	-	1
At 31 December 2015		**261,186**	**11,437**	**(76,523)**	**196,100**

Priory Group No. 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 Priory Group No. 2 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.

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 19 and 20.

b) Going concern

The Group maintains a mixture of medium-term debt, committed credit facilities, lease finance arrangements and cash reserves, which together are designed to ensure that the Group has sufficient available funds to finance its operations. 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 while maintaining sufficient headroom on its committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

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 2015. 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

i) Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units on an 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 subsidiary companies, operates a funded defined benefit pension scheme, the "Health & Care Services (UK) Limited Pension and Life Assurance Scheme" for staff at one of its homes. The The defined benefit obligation, plan assets and net surplus/deficit are not material, and are therefore not separately recognised in 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.

Priory Group No. 1 Limited

Notes to the consolidated financial statements

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. Where the asset takes a substantial period of time to get ready for its intended use, the cost of the asset includes capitalised borrowing costs.

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.

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) Preference shares

By reference to the underlying terms of the preference shares that the Group has in issue, it has determined that the preference shares represent a residual interest in the assets of the Group and are consequently classified as equity instruments.

r) 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); Earnings before Interest, Tax, Depreciation, Amortisation, exceptional items and future minimum rental increases (Adjusted EBITDA before future minimum rental increases); 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.

s) 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:

(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 20 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 2014 and 31 December 2015, 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 judgment and discretion.

t) Changes in accounting policy and disclosure

From 1 January 2015 the following interpretations became effective and were adopted by the Group:

- Annual improvements 2011-13 — 1 January 2015

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, have not been applied in these financial statements:

	Effective for periods commencing on or after
Amendment to IAS 19 (revised 2011): 'Employee benefits' regarding defined benefit plans	1 February 2015
Annual improvements 2010-2012	1 February 2015
Amendment to IFRS 11: 'Joint arrangements' on acquisition of an interest in a joint operation	1 January 2016
Amendment to IAS 16: 'Property plant and equipment and IAS 38: 'Intangible assets' on depreciation and amortisation	1 January 2016
Amendment to IAS 16: 'Property plant and equipment' and IAS 41: 'Agriculture' regarding bearer plants	1 January 2016
IFRS 14: 'Regulatory deferral accounts'	1 January 2016
Amendments to IAS 27: 'Separate financial statements' on the equity method	1 January 2016
Amendments to IFRS 10: 'Consolidated financial statements' and IAS 28: 'Investments in associates and joint ventures'	1 January 2016
Annual improvements 2014	1 January 2016
Amendments to IAS 1: 'Presentation of financial statements' disclosure initiative	1 January 2016
IFRS 15: 'Revenue from contracts with customers'	1 January 2017
IFRS 9: 'Financial instruments'	1 January 2018
Amendments to IFRS 9: 'Financial instruments' regarding general hedge accounting	1 January 2018

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.

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 **Older People Services** segment provides long term, short term and respite nursing care for older people who are physically frail or suffering with dementia related disorders, trading under the brand 'Amore Care'.
- The **Adult Care** 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 2015

£'000	Healthcare	Education	Older People Services	Adult Care	Central	Total
Revenue	268,667	110,651	75,604	116,261	-	571,183
Adjusted EBITDAR	79,749	30,584	14,478	36,610	(10,124)	151,297
Rent	(13,264)	(4,050)	(7,798)	(1,078)	-	(26,190)
Adjusted EBITDA before future minimum rental increases	66,485	26,534	6,680	35,532	(10,124)	125,107
Future minimum rental increases						(2,565)
Adjusted EBITDA						122,542
Depreciation (note 4)						(44,374)
Amortisation (note 4)						(5,937)
Exceptional items (note 7)						(49,502)
Operating profit						22,729
Net finance costs (note 8)						(81,476)
Loss before tax						(58,747)

Year ended 31 December 2014

£'000	Healthcare	Education	Older People Services	Adult Care	Central	Total
Revenue	259,845	89,325	70,555	101,013	-	520,738
Adjusted EBITDAR	83,163	26,464	12,312	32,489	(10,610)	143,818
Rent	(2,219)	(3,408)	(7,701)	(770)	-	(14,098)
Adjusted EBITDA before future minimum rental increases	80,944	23,056	4,611	31,719	(10,610)	129,720
Future minimum rental increases						(2,850)
Adjusted EBITDA						126,870
Depreciation (note 4)						(43,989)
Amortisation (note 4)						(6,203)
Exceptional items (note 7)						(2,533)
Operating profit						74,145
Net finance costs (note 8)						(109,239)
Loss before tax						(35,094)

Segment assets

Information regarding segmental assets is reviewed by the CODM annually.

£'000	2015	2014
Healthcare	**716,715**	693,022
Education	**232,408**	243,834
Older People Services	**71,579**	85,284
Adult Care	**286,920**	282,387
Central	**29,633**	48,147
Total segment assets	**1,337,255**	1,352,674
Unallocated assets:		
Cash	**40,459**	22,644
Total assets	**1,377,714**	1,375,318
Included in total assets above:		
Intangible assets		
Healthcare	**107,531**	101,173
Education	**51,895**	51,096
Older People Services	**153**	12,001
Adult Care	**53,327**	51,182
	212,906	215,452
Assets held for sale		
Healthcare	**750**	200
Education	**-**	1,143
Older People Services	**-**	-
Adult Care	**2,802**	9,465
	3,552	10,808

£'000	Amortisation 2015	Depreciation 2015	Additions to property, plant and equipment 2015
Healthcare	**752**	**20,491**	**3,994**
Education	**1,742**	**8,244**	**2,458**
Older People Services	**9**	**4,329**	**16,254**
Adult Care	**3,434**	**8,126**	**8,582**
Central	**-**	**3,184**	**21,781**
Total	**5,937**	**44,374**	**53,069**

£'000	Amortisation 2014	Depreciation 2014	Additions to property, plant and equipment 2014
Healthcare	735	21,930	13,666
Education	1,685	8,277	12,168
Older People Services	9	3,765	5,809
Adult Care	3,774	6,503	14,881
Central	-	3,514	2,257
Total	6,203	43,989	48,781

Information about major customers

In 2015 revenue from NHS England amounted to 18% of total revenue (2014: 19%). No other single customer accounted for more than 5% of total revenue in 2015 or 2014. On a consolidated basis, revenue of £265.7m (2014: £230.6m) and £237.4m (2014: £224.2m) arose from Social Services and the NHS respectively, which each represent more than 10% of the Group's total revenue. Of this revenue £225.4m (2014: £215.6m) arose in the Healthcare segment, £108.9m (2014: £88.2m) arose in the Education segment, £110.0m (2014: £95.3m) arose in the Adult Care segment and £58.8m (2014: £55.7m) in the Older People Services segment.

4. Operating costs

£'000	**2015**	2014
Staff costs (note 6)	**326,400**	296,198
Other operating costs	**93,100**	80,335
Depreciation of property, plant and equipment (note 12)		
Owned	**42,617**	42,195
Leased	**1,757**	1,794
Amortisation of intangible assets (note 11)	**5,937**	6,203
Rentals under operating leases		
Property leases	**26,190**	14,098
Other operating leases	**386**	387
Future minimum rental increases	**2,565**	2,850
Exceptional items (note 7)	**49,502**	2,533
	548,454	446,593

5. Auditors' remuneration

£'000	**2015**	2014
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements	**205**	193
	205	193
Fees payable to the Company's auditors for other services:		
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	**75**	71
Services relating to information technology	**24**	55
Services relating to corporate finance transactions	**1,540**	244
Assurance services	**21**	21
All other services	**-**	235
Total other fees	**1,660**	626
	1,865	819

Auditors' remuneration is stated net of value added tax.

6. Employee numbers and costs

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

Number	2015	2014
Healthcare	**6,103**	5,545
Education	**2,624**	2,183
Older People Services	**3,247**	3,131
Adult Care	**3,525**	3,440
Central	**422**	413
	15,921	14,712

Their aggregate remuneration comprised:

£'000	2015	2014
Wages and salaries	**298,636**	270,502
Social security costs	**23,002**	21,051
Other pension costs	**4,762**	4,645
	326,400	296,198

Further information relating to Directors' remuneration and key management personnel remuneration is disclosed in note 26.

7. Exceptional items

£'000	2015	2014
Reorganisation and rationalisation costs	**2,196**	7,660
Transaction related costs	**17,368**	2,770
Legal and professional costs	**1,072**	-
Net impairment	**28,963**	-
Profit on disposal of property, plant and equipment	**(97)**	(7,897)
	49,502	2,533

Reorganisation and rationalisation costs for the year ended 31 December 2015 primarily relate to the closure and restructuring of a number of sites. For the year ended 31 December 2014, reorganisation and rationalisation costs included £2.6m for senior management redundancy and restructuring with the remainder due to the closure and restructuring of sites.

Transaction related costs for the year ended 31 December 2015 relate to the strategic review of the Older People Care division, the recent sale of the business to Acadia and costs associated with the acquisitions explained in note 10. The year ended 31 December 2014 related to acquisition costs and £2.4m of aborted acquisition costs.

The net impairment cost for the year ended 31 December 2015 primarily relates to Older People Care goodwill (£11.8m) and property, plant and equipment (£17.7m); see notes 11, 12 and 16 for further details.

The profit on disposal of property plant and equipment for the year ended 31 December 2015 relates to the sale of properties with a total consideration of £15.4m. The profit on disposal of property plant and equipment for the year ended 31 December 2014 is principally due to the sale of a property which was held for sale at December 2013 amounting to £15.5m, in addition to the six acute hospitals which were sold and leased back during the year for consideration of £217.5m and other properties with a total consideration of £7.0m.

8. Net finance costs

£'000	2015	2014
Interest on bank facilities and associated costs	**2,382**	2,099
High yield bond interest and associated costs	**43,190**	58,258
Loan note interest	**33,515**	29,925
Amortisation of issue costs	**2,318**	2,981
Exceptional bond redemption premium	**-**	12,847
Exceptional amortisation of issue costs	**-**	3,137
Release of premium on issue of high yield bonds	**(185)**	(300)
Interest on obligations under finance leases	**364**	343
Provisions: unwinding of discount	**90**	178
Total finance costs	**81,674**	109,468
Interest receivable on bank deposits	**(198)**	(229)
Net finance costs	**81,476**	109,239

The exceptional bond redemption costs in the year ended 31 December 2014 include the premium paid on redemption of £12.8m and accelerated amortisation of issue costs of £3.1m.

9. Income tax

£'000	2015	2014
Deferred tax (note 20):		
Origination and reversal of temporary differences	**(19,713)**	(21,445)
Adjustments in respect of prior years	**(1,045)**	(786)
	(20,758)	(22,231)
Taxation	**(20,758)**	(22,231)

Corporation tax is calculated at 20.25% (2014: 21.5%) 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	2015	2014
Loss before tax	**(58,747)**	(35,094)
Tax at the UK corporation tax rate of 20.25% (2014: 21.5%)	**(11,896)**	(7,545)
Non deductible expenses	**6,430**	765
Movement in tax base of fixed assets	**118**	(11,873)
Effect of change in tax rate	**(14,365)**	(1,031)
Recognition of deferred tax assets	**-**	(1,761)
Adjustments in respect of prior years	**(1,045)**	(786)
Tax credit for the year	**(20,758)**	(22,231)

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's losses for this accounting year are taxed at an effective rate of 20.25% (2014: 21.5%).

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. These changes were substantively enacted on 26 October 2015, as such the Company's deferred tax balances have been restated to reflect their expected unwind at 18% or 19% rather than the main rate of 20%.

10. Business combinations

Life Works Community

On 17 September 2015 the Group acquired a 100% interest in Life Works Community Limited ('Life Works') for total cash consideration of £7.8m. The Life Works group operates an 18 bed facility in South East England which specialises in providing inpatient therapy for individuals with drug, alcohol and other addictions, eating disorders and depression within the Healthcare division.

£'000	
Cash consideration	7,803
Fair value of net assets acquired	(1,960)
Goodwill	**5,843**

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

£'000	Fair value
Intangible assets	1,265
Property, plant and equipment	2,865
Inventories	15
Trade and other receivables	71
Cash	163
Deferred tax	(793)
Bank loan	(1,054)
Trade and other payables	(572)
Net assets	**1,960**

The Group settled the outstanding bank loan in full immediately upon acquisition.

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 Life Works brand and are subsequently amortised on a straight line basis over 20 years. 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 2015, the contribution of the business to the Group results was as follows:

£'000	
Revenue	841
Adjusted EBITDA before future minimum rental increases	308
Profit before tax	288

If acquired on 1 January 2015, the business would have contributed £2.9m revenue, £1.4m Adjusted EBITDA before future minimum rental increases and £1.0m profit before tax to the Group results for the year ended 31 December 2015.

Progress Care

On 22 December 2015 the Group acquired a 100% interest in Progress Care (Holdings) Limited ('Progress Care') for total cash consideration of £10.8m. The Progress Care group operates 11 facilities across the North West of England which provide specialist education and care for children and young adults with severe learning disabilities, challenging behaviours and autism, within the Adult Care and Education division.

£'000	
Cash consideration	10,762
Fair value of net assets acquired	(4,768)
Goodwill	**5,994**

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

£'000	Fair value
Intangible assets	1,907
Property, plant and equipment	4,195
Trade and other receivables	500
Cash	552
Deferred tax	(1,055)
Bank loan	(179)
Trade and other payables	(1,152)
Net assets	**4,768**

The Group settled the outstanding bank loan in full immediately upon acquisition.

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 service user contracts and are subsequently amortised on an attrition basis over 5 years for Education and 8 years for Adult Care. 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 2015, the contribution of the business to the Group results was as follows:

£'000	
Revenue	177
Adjusted EBITDA before future minimum rental increases	44
Profit before tax	40

If acquired on 1 January 2015, the business would have contributed £7.3m revenue, £1.4m Adjusted EBITDA before future minimum rental increases and £1.2m profit before tax to the Group results for the year ended 31 December 2015.

New Directions

On 31 January 2014 the Group acquired a 100% interest in New Directions (Hastings) Limited, New Directions (Bexhill) Limited, New Directions (Robertsbridge) Limited and New Directions (St. Leonards on Sea) Limited for total cash consideration of £6.3m. The companies operate five specialist care facilities in South East England within the Adult Care division.

£'000	
Cash consideration	6,255
Fair value of net assets acquired	(5,309)
Goodwill	**946**

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

£'000	Fair value
Intangible assets	2,109
Property, plant and equipment	4,407
Inventories	2
Trade and other receivables	73
Cash	94
Deferred tax	(1,221)
Trade and other payables	(155)
Net assets	**5,309**

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 service user contracts and are subsequently amortised on an attrition basis over 8 years. 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 2014, the contribution of the business to the Group results was as follows:

£'000	
Revenue	2,523
Adjusted EBITDA before future minimum rental increases	1,048
Profit before tax	779

If acquired on 1 January 2014, the business would have contributed £2.7m revenue, £1.1m Adjusted EBITDA before future minimum rental increases and £0.9m profit before tax to the Group results for the year ended 31 December 2014.

Castlecare

On 28 November 2014 the Group acquired a 100% interest in Castlecare Group Limited for total cash consideration of £12.7m. The group operates residential care homes for looked-after children with complex and special needs, including challenging behaviour, within the Education division.

£'000	
Cash consideration	12,689
Fair value of net assets acquired	(7,399)
Goodwill	**5,290**

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

£'000	**Fair value**
Intangible assets	900
Property, plant and equipment	6,978
Trade and other receivables	1,634
Cash	669
Deferred tax	(1,081)
Trade and other payables	(1,701)
Net assets	**7,399**

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 service user contracts and are subsequently amortised on an attrition basis over 3 years. 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 2014, the contribution of the business to the Group results was as follows:

£'000	
Revenue	1,518
Adjusted EBITDA before future minimum rental increases	206
Profit before tax	190

If acquired on 1 January 2014, the business would have contributed £16.9m revenue, £1.4m Adjusted EBITDA before future minimum rental increases and £0.7m profit before tax to the Group results for the year ended 31 December 2014.

11. Intangible assets

£'000	Goodwill	Brands	Customer contracts	Total
Cost				
At 1 January 2014	174,370	22,220	35,168	231,758
Arising on business combinations	6,236	-	3,009	9,245
At 31 December 2014	180,606	22,220	38,177	241,003
Arising on business combinations	12,059	1,265	1,907	15,231
At 31 December 2015	**192,665**	**23,485**	**40,084**	**256,234**
Accumulated amortisation and impairment				
At 1 January 2014	-	2,080	17,268	19,348
Amortisation charge	-	744	5,459	6,203
At 31 December 2014	-	2,824	22,727	25,551
Amortisation charge	-	761	5,176	5,937
Impairment charge	11,840	-	-	11,840
At 31 December 2015	**11,840**	**3,585**	**27,903**	**43,328**
Net book value				
At 31 December 2015	**180,825**	**19,900**	**12,181**	**212,906**
At 31 December 2014	180,606	19,396	15,450	215,452

Goodwill arising on business combinations relates to Life Works (£5.8m), Progress Care (£6.0m) and Castlecare (£0.2m).

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	2015	2014
Healthcare	**87,784**	81,941
Education	**49,698**	47,476
Older People Services	**-**	11,840
Adult Care	**43,343**	39,349
	180,825	180,606

The Group tests goodwill for impairment annually, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of each segment are derived through a combination of value in use and fair value less costs to sell calculations.

Recent valuations received for the Group (refer to note 28) as a whole indicate that the fair value less costs to sell of the Healthcare, Education and Adult Care segments is significantly higher than their respective book values, and no reasonably likely changes in underlying assumptions would give rise to an impairment in these three segments.

The Group concluded a strategic review of the Older People Services division in the year which indicated that this segment may be impaired. Consequently, a value in use calculation was performed to determine the appropriate carrying value of goodwill in this segment, the key assumptions for the calculation being forecast cash flows, discount rate and future growth rate.

The Group prepared a cash flow forecast for the Older People Services segment derived from the most recent financial budgets approved by management and the board for the coming financial year, together with forecast cash flows for the following four years, incorporating management's best estimate of fee inflation, volume growth, cost increases (including the effect of the introduction of the National Living Wage) and capital expenditure requirements. These cash flows were extrapolated into perpetuity based on an estimated long term growth rate. The long term growth rate is determined by management based on their experience of both the industry and the wider economic environment. The rate applied to the segment does not exceed the average long term growth rate for the market.

Management estimate a discount rate using rates that reflect current market assessments of the time value of money.

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

	2015	2014
Pre tax discount rate	**8.3%**	8.3%
Long term net cash flow growth rate	**2.0%**	2.5%

Based on the value in use calculation performed, the Older People Services segment was impaired by £11.8m, and consequently the carrying value of goodwill recognised in respect of this division was reduced accordingly. An impairment charge of £11.8m was recognised in the year (refer to note 7).

The Group has conducted a sensitivity analysis on the impairment test for the Older People Services segment - should any of the underlying assumptions change significantly then further impairment of the assets within the segment would result. For example, should all other assumptions remain constant, an increase in the pre tax discount rate of 0.5% would lead to further impairment of £3.5m, or a reduction in the long term growth rate to 1.5% would result in further impairment of £2.8m.

Brands

The brand intangible asset includes the following:

		2015		2014
	Carrying value	**Amortisation period remaining**	Carrying value	Amortisation period remaining
	£'000	**years**	£'000	years
Priory brand (Healthcare)	**18,498**	**25.2**	19,234	26.2
Amore Care brand (Older People Services)	**153**	**18.0**	162	19.0
Life Works brand (Healthcare)	**1,249**	**19.8**	-	-
	19,900		19,396	

Customer contracts

The customer contract intangible asset includes assets arising on the following acquisitions:

		2015		2014
	Carrying value	**Amortisation period remaining**	Carrying value	Amortisation period remaining
	£'000	**years**	£'000	years
Priory Investments Holdings Limited (Education)	**1,596**	**5.2**	2,769	6.2
Craegmoor Group (Adult Care)	**4,622**	**3.3**	6,329	4.3
Harbour Care (Adult Care)	**1,224**	**3.0**	1,922	4.0
PASS (Adult Care)	**443**	**3.3**	668	4.3
HQL (Adult Care)	**843**	**3.7**	1,232	4.7
New Directions (Adult Care)	**1,265**	**6.1**	1,680	7.1
Castlecare (Education)	**281**	**1.9**	850	2.9
Progress Care (Education)	**320**	**5.0**	-	-
Progress Care (Adult Care)	**1,587**	**8.0**	-	-
	12,181		15,450	

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 2014	1,231,991	14,537	119,715	7,127	1,373,370
Arising on business combinations	11,121	-	231	33	11,385
Additions	5,397	5,599	36,342	1,443	48,781
Disposals	(240,511)	(955)	(10,867)	(2,709)	(255,042)
Transfers between classifications	3,808	(13,244)	9,436	-	-
Transferred from current assets (note 16)	1,729	-	587	-	2,316
At 31 December 2014	1,013,535	5,937	155,444	5,894	1,180,810
Arising on business combinations	6,975	-	85	-	7,060
Additions	2,863	9,203	39,209	1,794	53,069
Disposals	(6,934)	(13)	(1,111)	(1,671)	(9,729)
Transfers between classifications	1,867	(6,513)	4,646	-	-
Transferred to current assets (note 16)	(985)	-	(257)	-	(1,242)
At 31 December 2015	**1,017,321**	**8,614**	**198,016**	**6,017**	**1,229,968**
Accumulated depreciation					
At 1 January 2014	43,337	-	34,656	2,676	80,669
Charge for the year	22,376	-	19,610	2,003	43,989
Disposals	(26,455)	-	(4,467)	(2,628)	(33,550)
Transferred from current assets (note 16)	1,058	-	284	-	1,342
At 31 December 2014	40,316	-	50,083	2,051	92,450
Charge for the year	19,605	-	22,800	1,969	44,374
Disposals	(381)	-	(504)	(1,645)	(2,530)
Impairment	13,813	-	3,860	-	17,673
Transferred to current assets (note 16)	(302)	-	(215)	-	(517)
At 31 December 2015	**73,051**	**-**	**76,024**	**2,375**	**151,450**
Net book value					
At 31 December 2015	**944,270**	**8,614**	**121,992**	**3,642**	**1,078,518**
At 31 December 2014	973,219	5,937	105,361	3,843	1,088,360

Substantially all of the Group's freehold land and buildings is pledged as security against certain of the Group's borrowings (note 18). At 31 December 2015, the carrying amount of assets (motor vehicles) held under finance lease was £3.1m (2014: £3.1m). The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

At 31 December 2015, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.6m (2014: £4.3m).

13. Inventories

£'000	2015	2014
Consumable supplies	**64**	49

14. Trade and other receivables

£'000	2015	2014
Trade receivables	**32,366**	28,929
Allowance for doubtful debts	**(1,121)**	(1,155)
	31,245	27,774
Other receivables	**2,557**	2,389
Corporation tax receivable	**-**	28
Prepayments and accrued income	**8,413**	7,814
	42,215	38,005

15. Cash

£'000	2015	2014
Cash	**40,459**	22,644

16. Assets held for sale

£'000	Land and buildings	Fixtures and fittings	Total
Cost			
At 1 January 2014	60,977	10,279	71,256
Transferred to property, plant and equipment (note 12)	(1,729)	(587)	(2,316)
Additions	-	708	708
Disposals	(18,000)	(4,511)	(22,511)
At 31 December 2014	41,248	5,889	47,137
Transferred from property, plant and equipment (note 12)	985	257	1,242
Impairment reversal	550	-	550
Disposals	(37,523)	(5,174)	(42,697)
At 31 December 2015	**5,260**	**972**	**6,232**
Impairment			
At 1 January 2014	41,738	7,881	49,619
Transferred to property, plant and equipment (note 12)	(1,058)	(284)	(1,342)
Disposals	(9,107)	(2,841)	(11,948)
At 31 December 2014	31,573	4,756	36,329
Transferred from property, plant and equipment (note 12)	302	215	517
Disposals	(30,156)	(4,010)	(34,166)
At 31 December 2015	**1,719**	**961**	**2,680**
Net book value			
At 31 December 2015	**3,541**	**11**	**3,552**
At 31 December 2014	9,675	1,133	10,808

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	2015	2014
Trade payables	**12,992**	13,866
Corporation tax payable	**59**	-
Other taxes and social security	**7,503**	6,856
Accruals and deferred income	**70,714**	56,359
Other payables	**7,276**	6,846
	98,544	83,927

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. At 31 December 2015 the Group's supplier payment period was 53 days (2014: 63 days). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The directors consider that the carrying amount of trade payables approximates to their fair value.

18. Borrowings

£'000	2015	2014
Borrowings due less than one year		
Finance lease liabilities	**1,417**	1,585
Accrued interest – Bank loans	**206**	255
Accrued interest – Senior secured notes	**10,196**	10,196
Accrued interest – Senior unsecured notes	**5,850**	5,850
Total borrowings due less than one year	**17,669**	17,886
Unsecured borrowings due greater than one year		
Senior unsecured notes	**175,000**	175,000
Unamortised issue costs	**(2,611)**	(3,315)
Loan notes (including accrued interest)	**312,811**	279,295
	485,200	450,980
Secured borrowings due greater than one year		
Bank loans	**40,250**	31,250
Senior secured notes	**386,300**	386,300
Unamortised issue costs (including premium)	**(3,379)**	(4,808)
Finance lease liabilities	**1,666**	1,841
	424,837	414,583
Total borrowings due greater than one year	**910,037**	865,563
Total borrowings	**927,706**	883,449

All of the Group's borrowings are denominated in Sterling.

Senior secured notes and senior unsecured notes

The Company issued £600.0m of high yield bonds on 3 February 2011, comprising £425.0m senior secured notes with a fixed rate of 7.0% and £175.0m senior unsecured notes with a fixed rate of 8.875%, with maturity dates of 15 February 2018 and 15 February 2019 respectively. The senior secured notes are secured by fixed and floating charges over substantially all of the Group's property and assets.

The Company issued additional senior secured notes on 14 April 2011 of £206.0m with a fixed rate of 7.0% due 15 February 2018. A premium on issue of £2.0m was received which is included within unamortised issue costs and amortised to the income statement over the term of the notes.

On 17 November 2014 the Group redeemed £244.7m of its 7% senior secured notes due 2018. In accordance with the terms of the notes, the redemption price was 105.25% of the principal amount of the notes. Including accrued interest of £4.4m, the total amount paid to redeem the notes was £261.9m.

An exceptional financing cost of £15.9m was recognised in the year ended 31 December 2014 in respect of the premium paid on redemption of £12.8m and the release of unamortised issue costs of £3.1m, see Note 8.

The high yield bonds are listed on the Luxembourg stock exchange's Euro MTF market.

Loan notes

The Group issued unsecured loan notes on 4 March 2011 of £130.0m with a fixed rate of 12% and a maturity date of 4 March 2060. Additional loan notes were issued on the 14 April 2011 of £51.5m with a fixed rate of 12% and a maturity date 18 July 2057.

Accrued interest of £9.4m, £8.4m, £7.5m, £6.7m and £4.3m in relation to the £51.5m loan notes was capitalised on 31 December 2015, 31 December 2014, 31 December 2013, 31 December 2012 and 31 December 2011 respectively by the issue of PIK notes on the same terms as the original loan notes.

Accrued interest of £21.9m, £19.6m, £17.5m and £15.6m in relation to the £130.0m loan notes was capitalised on 3 March 2015, 3 March 2014, 3 April 2013 and 3 March 2012 respectively by the issue of PIK notes on the same terms as the original loan notes.

Bank loans

The £40.3m (2014: £31.3m) drawn down on the RCF is secured with an interest rate of LIBOR plus 3.5% and is due for repayment February 2017. The security ranks above the senior secured loan notes and consists of fixed and floating charges over substantially all of the Group's property and assets.

See note 28 for details of borrowings repaid post year end.

Weighted average interest rates

The weighted average interest rates during the year were:

	2015	2014
Loan notes	**12.0%**	12.0%
Bank loans	**4.4%**	4.6%
High yield bonds	**7.6%**	7.4%

19. Provisions for liabilities and charges

£'000	**Dilapidations**	**Onerous contracts and legal costs**	**Future minimum rent**	**Total**
At 1 January 2014	2,409	12,076	10,861	25,346
(Released)/charged to income statement	(425)	-	2,850	2,425
Discount unwind	-	178	-	178
Used during year	(33)	(1,170)	-	(1,203)
At 31 December 2014	1,951	11,084	13,711	26,746
(Released)/charged to income statement	-	(531)	2,565	2,034
Discount unwind	-	90	-	90
Used during year	(6)	(1,581)	-	(1,587)
At 31 December 2015	**1,945**	**9,062**	**16,276**	**27,283**

Analysis of provisions:

£'000	**2015**	2014
Current	**4,545**	4,760
Non - current	**22,738**	21,986
Total provisions	**27,283**	26,746

Dilapidation

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.

20. 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 2014	(13,800)	(13,204)	7,765	186,276	167,037
Arising on business combinations	-	-	538	1,764	2,302
Charge/(credit) to income statement	5,100	3,601	(1,333)	(29,599)	(22,231)
At 31 December 2014	(8,700)	(9,603)	6,970	158,441	147,108
Arising on business combinations	-	(116)	596	1,251	1,731
Charge/(credit) to income statement	2,999	583	(1,790)	(22,550)	(20,758)
At 31 December 2015	**(5,701)**	**(9,136)**	**5,776**	**137,142**	**128,081**

At the balance sheet date, the Group has unused tax losses of £74.2m (2014: £89.8m) available for offset against future profits, representing a potential deferred tax asset on losses of £14.1m (2014: £18.0m).

A deferred tax asset of £5.7m (2014: £8.7m) has been recognised in respect of such losses in the current year based on an assessment of the probability that taxable profits will arise in the foreseeable future against which these losses can be offset.

As at 31 December 2015, a potential deferred tax asset of £8.4m (2014: £9.3m) has not been recognised with respect to losses of £44.2m (2014: £46.5m) as it is not currently anticipated that such losses will be utilised in the foreseeable future.

The Group expects to utilise approximately £8.0m (2014: £7.1m) of the overall deferred tax asset and £4.7m (2014: £5.7m) of the overall deferred tax liability within one year of the date of these financial statements.

Based on an assessment of the probability that temporary differences related to accelerated tax depreciation and short term timing differences will reverse against suitable taxable profits in future periods, deferred tax assets on such temporary differences have been recognised in the amounts noted above as at the balance sheet date.

A deferred tax liability of £137.1m (2014: £158.4m) has been recognised in respect of the differences between the carrying values of property, plant and equipment and their tax base cost.

21. Obligations under finance leases

£'000	**Present value of minimum lease payments 2015**	Present value of minimum lease payments 2014
Amounts payable under finance leases:		
Within one year	**1,417**	1,585
In one to five years inclusive	**1,666**	1,841
Present value of lease obligations	**3,083**	3,426

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.

22. Share capital

	2015	
	Number	**Nominal value £**
Allotted		
A ordinary shares of £0.001 each	**10,049,460**	**10,049**
B ordinary shares of £0.001 each	**57,801**	**58**
C ordinary shares of £0.001 each	**1,341,068**	**1,341**
D ordinary shares of £0.001 each	**4,950,535**	**4,951**
D ordinary shares of £500 each	**5**	**2,500**
E1 ordinary shares of £0.001 each	**1,341,068**	**1,341**
E2 ordinary shares of £0.001 each	**268,214**	**268**
A preference shares of £1 each	**258,111,636**	**258,111,636**
B preference shares of £1 each	**3,053,541**	**3,053,541**
	279,173,328	**261,185,685**

	2014	
	Number	**Nominal value £**
Allotted		
A ordinary shares of £0.001 each	10,049,460	10,049
B ordinary shares of £0.001 each	57,801	58
C ordinary shares of £0.001 each	1,341,068	1,341
D ordinary shares of £0.001 each	4,950,535	4,951
D ordinary shares of £500 each	5	2,500
E1 ordinary shares of £0.001 each	965,130	965
E2 ordinary shares of £0.001 each	134,107	134
A preference shares of £1 each	258,111,636	258,111,636
B preference shares of £1 each	3,053,541	3,053,541
	278,663,283	261,185,175

On 30 March 2015 375,938 E1 ordinary shares were issued and 134,107 E2 ordinary shares.

During the prior year 849,193, 80,937 and 35,000 E1 ordinary shares were issued on 27 August, 23 September and 13 October respectively and on 9 September 2014 134,107 E2 ordinary shares were issued.

On 27 August 2014 the 261,156,177 preference shares were re-designated into 258,111,636 A preference shares and 3,053,541 B preference shares.

A Ordinary Shares

Each holder of an A Ordinary Share is entitled to receive notice of and to attend and vote at general meetings of the Company. The A ordinary shares rank equally with the B ordinary shares and C ordinary shares but behind the E Shares and Preference Shares in respect of a distribution of profits by way of dividend and on any winding up of the Company or other return of capital.

B Ordinary Shares

Each holder of a B Ordinary Share is entitled to receive notice of and attend and speak at any general meeting but is not entitled to vote. The B ordinary shares rank equally with the A ordinary shares and C ordinary shares but behind the E shares and Preference Shares in respect of a distribution of profits by way of dividend and on any winding up of the Company or other return of capital.

C Ordinary Shares

Each holder of a C Ordinary Share is entitled to receive notice of and attend and speak at any general meeting but is not entitled to vote. The C ordinary shares rank equally with the A ordinary shares and B ordinary shares but behind the E Shares and Preference Shares in respect of a distribution of profits by way of dividend and on any winding up of the Company or other return of capital.

D Ordinary Shares

Each holder of a D Ordinary Share is entitled to receive notice of and to attend and vote at general meetings of the Company. The D Ordinary Shares do not carry any entitlement to a dividend and rank behind the E Shares and preference shares. The D shareholders are only entitled to the nominal value of the shares on a winding up of the Company or other return of capital.

E1 and E2 Ordinary shares

Each holder of an E Ordinary Share is entitled to receive notice of and attend and speak at any general meeting but is not entitled to vote. E shares rank behind the A preference shares (up to a specified level of return, the "threshold return") and behind the B preference shares but ahead of the A, B, C and D shares. The E1 and E2 shares rank pari passu and are entitled to 12% of distributable proceeds on a distribution or winding up.

A and B Preference Shares

Each holder of a Preference Share is entitled to receive notice of and attend and speak at any general meeting but is not entitled to vote. The B Preference Shares rank ahead of the ordinary shares and the A preference shares rank ahead of the ordinary shares up to the threshold return and after the E shares for any further amounts due. Preference shareholders are entitled to 12% per annum on any winding up of the Company or other return of capital. The Preference Shares may be redeemed in whole or in part by the Company at any time. Other than on a return of capital, preference dividends are payable entirely at the discretion of the Company.

23. Contingent liabilities

There are no contingent liabilities in respect of legal or potential claims arising in the ordinary course of business, the outcome of which cannot at present be foreseen. Appropriate liabilities have been recognised in the balance sheet for all liabilities that are, in the opinion of the directors, likely to materialise.

24. Operating lease arrangements

£'000	2015	2014
Minimum lease payments under operating leases recognised as an expense in the year	26,576	14,485

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	2015 Total
Within one year	28,056	222	28,278
Two - five years inclusive	110,597	400	110,997
After five years	582,344	-	582,344

£'000	Land and buildings	Other	2014 Total
Within one year	27,568	211	27,779
Two - five years inclusive	109,908	330	110,238
After five years	610,816	-	610,816

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.

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 Older People Services business.

The Group provides credit to customers in the normal course of business and the balance sheet is net of allowances of £1.1m (2014: £1.2m) 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 20 days (2014: 19 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	2015	2014
Current	**21,234**	19,333
30-60 days	**9,011**	8,174
60-150 days	**1,167**	1,115
150 days +	**954**	307
	32,366	28,929

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	2015	2014
60 days +	**1,021**	282

The movement in allowance for doubtful debts is as follows:

£'000	2015	2014
Balance at the beginning of the year	**1,155**	1,221
Amounts written off during the year as uncollectible	**(34)**	(66)
Balance at end of year	**1,121**	1,155

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 called up share capital, retained earnings, bank facilities and high yield bonds. At 31 December 2015 the majority of the Group's borrowings were fixed rate debt, with the exception of £40.3m (2014: £31.3m) which was drawn down on the revolving credit facility at an interest rate of LIBOR plus 3.5% (2014: 4.0%). The interest rate on future cash advances under the facility is the aggregate of the applicable margin, LIBOR/EURIBOR and mandatory costs (if any). The margin may range from 4.0% to 3.0% based on the ratio of total net debt (defined as senior secured notes, senior unsecured notes, revolving credit facility and finance leases, less cash and excluding accrued interest) to EBITDA.

The Group's borrowings are at fixed interest rates with the exception of the £40.3m (2014: £31.3m) bank loan and as a result at 31 December 2015, a general increase of one percentage point in interest rates would not have a significant impact on the Group's loss before tax.

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:

2015

£'000	Total	0-1 years	2-5 years	5 years and over
Trade and other payables	**69,289**	**69,289**	**-**	**-**
High yield bonds	**683,262**	**42,572**	**640,690**	**-**
Bank loans	**42,097**	**1,642**	**40,455**	**-**
Finance lease liabilities	**3,083**	**1,417**	**1,666**	**-**
	797,731	**114,920**	**682,811**	**-**

2014

£'000	Total	0-1 years	2-5 years	5 years and over
Trade and other payables	55,802	55,802	-	-
High yield bonds	725,834	42,572	683,262	-
Bank loans	34,555	1,469	33,086	-
Finance lease liabilities	3,426	1,585	1,841	-
	819,617	101,428	718,189	-

The loan notes and associated interest have been excluded from the above table. Interest accruing on the loan notes can be settled in PIK notes, which are not due for repayment until July 2057 or March 2060 in line with the initial capital. Cash outflows are therefore not expected until maturity hence given the length of time to maturity it is deemed reasonable to exclude from the above analysis. Trade and other payables in the table above exclude £21.7m (2014: £21.2m) of deferred income as this is not a cash settled obligation and other taxes and social security which do not meet the definition of financial liabilities under IFRS 7.

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 manages its capital structure and makes adjustments to it with respect to changes in economic conditions and the strategic objectives of the Group. The Group also aims to maintain a strong credit rating and adequate headroom within the Group's banking facilities, whilst ensuring that all covenants are met. Throughout the year the Group has operated comfortably in line with this policy.

The Group's capital structure is as follows:

£'000	2015	2014
Cash	**40,459**	22,644
Borrowings	**(927,706)**	(883,449)
Equity	**196,100**	234,088

The Group is not subject to any externally imposed capital requirements. Net debt is defined as long-term and short-term borrowings less cash.

Foreign currency risk

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

Fair values

IFRS 13 requires financial instruments that are measured at fair value to be classified according to the valuation technique used:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – unobservable inputs

The fair value of the Group's high yield bonds can be observed directly from market prices as the bonds are listed on the Luxembourg Stock Exchange and have therefore been measured using level 1 inputs.

The Group's fixed rate loan notes are not considered to be significantly different to the book value, therefore book value is considered to be a reasonable proxy.

	2015		2014	
£'000	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Receivables				
Cash and cash equivalents	**40,459**	**40,459**	22,644	22,644
Trade receivables	**31,245**	**31,245**	27,774	27,774
	71,704	**71,704**	50,418	50,418
Financial liabilities at amortised cost				
Trade and other payables	**(69,289)**	**(69,289)**	(55,802)	(55,802)
High yield bonds	**(577,346)**	**(575,343)**	(577,346)	(601,156)
Loan notes	**(312,811)**	**(312,811)**	(279,295)	(279,295)
Bank loans	**(40,456)**	**(40,456)**	(31,505)	(31,505)
Finance lease liabilities	**(3,083)**	**(3,083)**	(3,426)	(3,426)
	(1,002,985)	**(1,000,982)**	(947,374)	(971,184)

The Group has no financial instruments that are measured at fair value.

Financing facilities

The Group has the following undrawn borrowing facilities:

£'000	2015	2014
Secured revolving credit facility		
- floating rate expiring beyond one year	**56,978**	66,081

The revolving credit facility was entered into on 3 March 2011 and expires on 3 February 2017. The revolving credit facility provides for borrowings up to an aggregate of £70.0m on a committed basis and a further £30.0m on an uncommitted basis. Of the total available facility, £40.3m was drawn down as at 31 December 2015 (2014: £31.3m) and £2.7m (2014: £2.6m) of the £100.0m facility has been utilised by outstanding letters of credit and other ancillary facilities.

The revolving credit facility requires the Group to maintain a financial ratio in relation to drawn super senior gross leverage defined as the total amount outstanding under the facility (excluding accrued interest, fees and commission) and EBITDA. The current forecasts indicate that the Group will comply with this ratio for the foreseeable future.

26. Related party transactions

Ultimate parent and controlling party

The Group's ultimate parent at 31 December 2015 was Priory Group No. 1 Limited, a company incorporated in the United Kingdom. The results of this company are included in the consolidated financial statements of Priory Group No. 1 Limited, the largest and smallest group undertaking to consolidate these financial statements, a copy of which can be obtained from the Company Secretary at Fifth Floor, 80 Hammersmith Road, London W14 8UD.

During the year Priory Group No. 1 Limited was beneficially owned by funds managed by Advent International Corporation which was considered by the directors to be the ultimate controlling party of the Company.

On 16 February 2016 the entire share capital of Priory Group No. 1 Limited, the Company's ultimate parent, was acquired by Whitewell UK Investments 1 Limited, an indirect wholly owned subsidiary of Acadia Healthcare Company Inc. As a result the ultimate controlling party of the Company from this date is Acadia Healthcare Company Inc.

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

The key management of the Group are deemed to be the Board of Directors. The remuneration of the directors is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

£'000	2015	2014
Short-term employee benefits (including employer's national insurance)	**1,285**	1,966
Compensation for loss of office (including employer's national insurance)	**-**	627
Post-employment benefits	**55**	72
	1,340	2,665

The emoluments of the highest paid director of the Company were £493,000 (2014: £845,000) (excluding employer's national insurance contributions of £67,000 (2014: £115,000)). In addition, the Group paid pension contributions of £20,000 in respect of the highest paid director (2014: £43,000).

Other disclosures

The loan notes issued by the Group are owned by funds managed by Advent International Corporation. See Note 18 for further details.

During the year funds managed and/or advised by Advent beneficially own and control (through wholly owned intermediary holding companies) approximately 88% of the issued share capital of Priory Group No. 1 Limited. The remaining 12% of the share capital was allocated for equity investment by the senior management team and other senior executives.

Tom Riall, a director of Priory Group No. 1 Limited, was issued a loan by the Company for the sole purpose of acquiring 147,943 'C' ordinary shares in Priory Group No. 1 Limited. The principal balance outstanding on the loan at 31 December 2015 is £147,943 (2014: £147,943), and bears interest at the higher of 4% per annum and the official rate of HM Revenue and Customs.

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 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

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 Condover (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 Widnes (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 Secure Services Limited	Forensic psychiatric 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
Renova 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
Castlecare Group Limited	Non trading	United Kingdom	100% ordinary
Castlecare Holdings Limited	Non trading	United Kingdom	100% ordinary
Castle Homes Care Limited	Children's care homes	United Kingdom	100% ordinary

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Castle Homes Limited	Children's care homes	United Kingdom	100% ordinary
Quantum Care (UK) Limited	Children's care homes	United Kingdom	100% ordinary
Castlecare Cymru Limited	Children's care homes	United Kingdom	100% ordinary
Castlecare Education Limited	Specialist education services	United Kingdom	100% ordinary
Rothcare Estates Limited	Property company	United Kingdom	100% ordinary
Priory Farmfield Limited	Non trading	United Kingdom	100% ordinary
CO Developments Limited	Property company	United Kingdom	100% ordinary
Priory Care Homes Holdings Limited	Non trading	United Kingdom	100% ordinary
Helden 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
Craegmoor Hospitals Limited	Care delivery	United Kingdom	100% ordinary
Speciality Care (Care Homes) Limited	Care delivery	United Kingdom	100% ordinary
Burnside Care Limited	Care delivery	United Kingdom	100% ordinary
Craegmoor Healthcare Company Limited	Non trading	United Kingdom	100% ordinary

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
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 TASCC Services Limited	Care delivery	United Kingdom	100% ordinary
Cotswold Care Services Limited	Care delivery	United Kingdom	100% ordinary
Craegmoor Holdings Limited	Care delivery	United Kingdom	100% ordinary
Craegmoor Homes Limited	Care delivery	United Kingdom	100% ordinary
J C Care Limited	Care delivery	United Kingdom	100% ordinary
Johnston Care Limited	Care delivery	United Kingdom	100% ordinary
Lambs Support Services Limited	Care delivery	United Kingdom	100% ordinary
Positive Living Limited	Care delivery	United Kingdom	100% ordinary
Sapphire Care Services Limited	Care delivery	United Kingdom	100% ordinary
Strathmore Care Services Limited	Care delivery	United Kingdom	100% ordinary
Treehome Limited	Care delivery	United Kingdom	100% ordinary
Grovedraft Limited	Non trading	United Kingdom	100% ordinary
Peninsula Autism Services and Support Limited	Care delivery	United Kingdom	100% ordinary
High Quality Lifestyles Limited	Care delivery	United Kingdom	100% ordinary
New Directions (Bexhill) Limited	Care delivery	United Kingdom	100% ordinary
New Directions (Hastings) Limited	Care delivery	United Kingdom	100% ordinary
New Directions (Robertsbridge) Limited	Care delivery	United Kingdom	100% ordinary
New Directions (St. Leonards on Sea) Limited	Care delivery	United Kingdom	100% ordinary
Lansdowne Road Limited	Care delivery	United Kingdom	100% ordinary
Lothlorien Community Limited	Care delivery	United Kingdom	100% ordinary
R.J. Homes Limited	Care delivery	United Kingdom	100% ordinary
Heddfan Care Limited	Care delivery	United Kingdom	100% ordinary
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 Cockermouth Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Coventry) Limited	Elderly care services	Isle of Man	100% ordinary
Yorkshire Parkcare Company Limited	Elderly care services	United Kingdom	100% ordinary
Speciality Care (Rest Care) Limited	Non trading	United Kingdom	100% ordinary
Amore (Bourne) Limited	Non trading	United Kingdom	100% ordinary
Amore (Cockermouth) Limited	Non trading	United Kingdom	100% ordinary

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
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
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

All of the subsidiary undertaking listed above have been controlled by the Group throughout the year, with the following exceptions:

Name of subsidiary	Date of acquisition
Life Works Community Limited	17 September 2015
Progress Care (Holdings) Limited	22 December 2015
Progress Care and Education Limited	22 December 2015
Progress Adult Services Limited	22 December 2015

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 Condover (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.

28. Post balance sheet events

On 16 February 2016 the entire share capital of Priory Group No. 1 Limited was acquired by Whitewell UK Investments 1 Limited, an indirect wholly owned subsidiary of Acadia Healthcare Company Inc, for enterprise value of approximately £1.5bn.

At the date of acquisition, the loan notes, senior secured notes, senior unsecured notes, RCF loans and associated accrued interest (as detailed in note 18) were repaid in full.

Priory Group No. 1 Limited

Independent auditors' report – parent company

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRIORY GROUP NO. 1 LIMITED

Report on the parent company financial statements

Our opinion

In our opinion Priory Group No.1 Limited's parent company financial statements (the "financial statements"):

- Give a true and fair view of the state of the parent company's affairs as at 31 December 2015;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the strategic report and directors' report (the "annual report"), comprise:

- The parent company balance sheet as at 31 December 2015;
- The parent statement of changes in equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 8, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Priory Group No. 1 Limited

Independent auditors' report – parent company

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 parent company's circumstances and they 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Other matter

We have reported separately on the Group financial statements of Priory Group No. 1 Limited for the year ended 31 December 2015.

Arif Ahmad

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
29 February 2016

Priory Group No. 1 Limited

Parent company balance sheet at 31 December 2015

Company balance sheet

£'000	Note	31 December 2015	31 December 2014
Fixed assets			
Investments	3	**453,488**	453,488
Current assets			
Debtors	4	**15,204**	23,454
Net current assets		**15,204**	23,454
Total assets less current liabilities		**468,692**	476,942
Creditors: amounts falling due after more than one year	5	**(312,811)**	(279,295)
Net assets		**155,881**	197,647
Capital and reserves			
Called up share capital	6	**261,186**	261,185
Share premium account		**11,437**	11,437
Profit and loss account		**(116,742)**	(74,975)
Total shareholders' funds		**155,881**	197,647

The financial statements of Priory Group No. 1 Limited on pages 48 to 51 were approved by the board of directors and authorised for issue on 29 February 2016. They were signed on its behalf by:

Mark Moran
Chief Financial Officer

Priory Group No. 1 Limited

Parent statement of changes in equity for the year ended 31 December 2015

£'000	Called up share capital	Share premium account	Profit and loss account	Total shareholders' funds
At 1 January 2014	261,184	11,437	(51,031)	221,590
Loss for the financial year	-	-	(23,944)	(23,944)
Transactions with owners:				
Issue of shares	1	-	-	1
At 31 December 2014	261,185	11,437	(74,975)	197,647
Loss for the financial year	-	-	(41,767)	(41,767)
Transactions with owners:				
Issue of shares	1	-	-	1
At 31 December 2015	**261,186**	**11,437**	**(116,742)**	**155,881**

Priory Group No. 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 45.

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 loss for the financial year was £41.8m (2014: £23.9m). The auditors' remuneration for audit was £10,000 (2014: £10,000). 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 2014 and 31 December 2015	453,488

The investment relates to 100% of the ordinary share capital of Priory Group No. 2 Limited, an investment holding company incorporated in the United Kingdom. The directors believe the carrying value of the investment is supported by its underlying net assets.

4. Debtors

£'000	2015	2014
Amounts owed by group undertakings	**8,092**	16,893
Amounts owed by related parties	**163**	148
Group relief	**6,653**	5,981
Unpaid share capital	**296**	432
	15,204	23,454

Amounts owed by group undertakings and related parties are unsecured, non-interest bearing and repayable on demand.

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

£'000	2015	2014
Accrued interest	**20,377**	18,194
Loan notes	**292,434**	261,101
	312,811	279,295

Details of loan notes are included in note 18 to the consolidated financial statements.

6. Called up share capital

Details of the Company's share capital and movements in the year are disclosed in note 22 to the consolidated financial statements.

7. Contingent liabilities, commitments and dividends

There are no contingent liabilities in respect of legal or potential claims arising in the ordinary course of business, the outcome of which at present cannot be foreseen. Appropriate liabilities have been recognised in the balance sheet for all liabilities that, in the opinion of the directors, are likely to materialise.

The Company does not have any commitments for capital expenditure. The directors do not recommend payment of a dividend.

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

Priory Group No. 1 Limited was beneficially owned by funds managed by Advent International Corporation during the year which was considered by the directors to be the ultimate controlling party of the Company. Further details in respect of related party transactions are disclosed in note 26 to the consolidated financial statements.

On 16 February 2016 the entire share capital of the Company, was acquired by Whitewell UK Investments 1 Limited, an indirect wholly owned subsidiary of Acadia Healthcare Company Inc. As a result the ultimate controlling party of the Company from this date is Acadia Healthcare Company Inc.

9. Post balance sheet events

See note 28 to the consolidated financial statements for details of post balance sheet events.