Priory Group No. 1 Limited

Strategic report, directors' report and consolidated financial statements for the year ended 31 December 2014

Registered number 07480152

Priory Group No. 1 Limited

Contents

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 2014.

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, secure and rehabilitation and recovery services, specialist education, older people care and specialist support for people who have learning difficulties. It is also one of the top three independent providers of secure and rehabilitation services by number of beds. At 31 December 2014, the Group had 319 facilities (2013: 273 facilities) with 7,096 available beds (2013: 7,111) 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 **Amore Care** segment provides long term, short term and respite nursing care for older people who are physically frail or suffering with dementia related disorders.
- The **Craegmoor** segment focuses on the care of service users with a variety of learning difficulties and mental health illnesses. This segment includes care homes and supported living services.

Business review

The results for the year are set out in the consolidated income statement on page 11 and the financial position of the Group as at 31 December 2014 is set out in the consolidated balance sheet on page 12. Group revenue for the year was £520.7m (2013: £480.8m) and Group Adjusted EBITDAR was £143.8m (2013: £138.4m), which represented a margin of 27.6% (2013: 28.8%) of revenue. Adjusted EBITDA before future minimum rental increases was £129.7m (2013: £126.4m) in the year, which represented a margin of 24.9% (2013: 26.3%) of revenue. The performance of the Group on a divisional basis is as follows:

Healthcare
The division's performance during the course of 2014 was strong, with significant growth in both revenue and Adjusted EBITDAR. This was driven principally by higher ADC in Acute and Secure services, particularly as a result of NHS Acute bed demand, together with a mix of higher acuity service users.

Education
Despite occupancy increasing, conditions have been challenging throughout 2014 with a further reduction in the proportion of residential pupils that earn higher fees than day care pupils, leading to a reduction in revenue and Adjusted EBITDAR for the year. Recent growth in demand for day care services and the acquisition of Castlecare, will generate growth in this division in 2015 and beyond.

Amore Care
The division recorded increased revenue and Adjusted EBITDAR due to the continuing maturity of the existing portfolio of homes.

Craegmoor
The division recorded an increase in revenue and Adjusted EBITDAR in 2014 as a result of steady growth in underlying operations together with the impact of the New Directions acquisition and new sites.

The Group competes in several, highly competitive markets with a variety of for-profit, NHS and not-for-profit providers. Most competition is local, based on relevant catchment areas and local procurement initiatives. The NHS and 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 31 January 2014 the Group acquired 100% of the share capital of New Directions (Bexhill) Limited, New Directions (Hastings) 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 Craegmoor division.

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.

In 2013 the Group acquired Helden Homes Limited for cash consideration of £5.5m. The company operates a care home within the Healthcare division.

Further details in relation to the above acquisitions are given in note 9.

During the year, net costs of £2.5m (2013: £54.7m) were recognised as exceptional items in the consolidated income statement. These costs primarily relate to senior management restructuring as well as aborted acquisition costs, offset by the profit on disposal from properties sold in the year. The prior year net costs primarily related to the impairment of property, plant and equipment and onerous lease charges as a result of the Group's decision to close a number of sites following a review of the Group's property portfolio. Further details of these exceptional charges are given in note 6 to the financial statements.

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 2014 of £1.1bn (2013: £1.3bn) is therefore considered to approximate to market value.

On 6 November 2014 the Group completed the sale and leaseback of a portfolio of six acute psychiatric hospitals for a net consideration of £218m. The six hospitals had a combined net book value of £216.5m. The initial annual rent charge on the portfolio is £13.0m, increasing in line with RPI subject to a minimum of 0% and a maximum of 5% annually.

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 which was settled using the net proceeds from the sale and leaseback discussed above and existing cash reserves. An exceptional financing cost of £15.9m has been recognised in respect of the premium paid on redemption of the senior secured notes of £12.8m and release of unamortised issue costs of £3.1m. This is discussed further in note 7.

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 87% of revenue (2013: 86%) is derived from publicly funded entities and payment is taken in advance for privately funded healthcare services. Credit evaluations are carried out on privately funded residents in the Amore Care business.

Interest rate risk

The Group finances its operations through called up share capital, retained earnings, bank facilities, high yield bonds and loan notes. At 31 December 2014 the majority of the Group's borrowings (£844.0m; 2013: £1,059.5m) were fixed rate debt with a weighted average interest rate of 8.8% (2013: 8.5%), with the exception of £31.3m (2013: £17.5m) which was drawn down on the revolving credit facility at an interest rate of LIBOR plus 4% (2013: 4%). 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 4.00% to 3.00% 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 bank 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 24 to the consolidated financial statements.

Financial resources

The Group's capital structure is as follows:

£'m	2014	2013
Borrowings	**883.4**	1,085.6
Cash	**(22.6)**	(44.4)
Net debt	**860.8**	1,041.2
Equity	**234.1**	247.0

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 £31.3m (2013: £17.5m) loan has been drawn down and £2.7m (2013: £2.7m) 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 £66.1m at 31 December 2014 (2013: £79.8m).

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 24.

Future developments and strategy

Management consider the Group to be in a strong position to pursue a growth strategy. This strategy will comprise organic growth, strategic acquisitions and new developments at existing sites 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. Following the opening of a well-being clinic in 2014, further clinics are planned for 2015, in addition to the development of further NHS Trust partnerships following the success of partnerships established in 2014. In the Education division, focus will continue to be on the development of new children's homes planned in response to market changes and on providing education services to NHS child and adolescent mental health units. The Craegmoor division will benefit in 2015 from the development of new autism sites, in addition to the fill of autism sites opened in 2014, and from the expansion of supported living facilities. The focus in the Amore Care division will be on maintaining occupancy at homes which reached maturity during 2014. The Group will consider further strategic acquisitions and the development of new and existing sites to increase capacity in 2015 where appropriate.

The Group aims to maintain and improve relationships with commissioners and capitalise on the long-term trend of outsourcing by the NHS Trusts and Local Authorities by developing partnerships with them. The Group aims to extend its services to the privately funded and private medical insurance markets through a combination of focus on quality of patient care as well as development of relationships with healthcare insurers and other corporates.

The Group aspires to deliver the highest quality care in 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, becoming a market leader in innovation and best practice.

Key performance indicators

The Group's management uses a range of financial and non-financial indicators to measure the operational and strategic performance of the business. These include Adjusted 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 2 to the consolidated financial statements. Adjusted EBITDAR margin reflects Adjusted EBITDAR divided by revenue and was 27.6% (2013: 28.8%) 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 89.8% in 2014 (2013: 85.6%).

Non-financial

As at 31 December 2014, the total number of available beds across the Group was 7,096 (31 December 2013: 7,111); excluding supported living rental beds the number of available beds was 6,903 (31 December 2013: 6,918). During the year ADC was 5,945 (2013: 5,665) and occupancy based on available beds at year end was 87.4% (2013: 81.9%).

These can be analysed by division as follows:

			Movement	
	2014	**2013**	**Change**	**% Change**
Available beds (number)				
Healthcare	1,675	1,695	(20)	(1.2%)
Education	1,367	1,228	139	11.3%
Amore Care	2,351	2,544	(193)	(7.6%)
Craegmoor	1,510	1,451	59	4.1%
Total	**6,903**	**6,918**	**(15)**	**(0.2%)**
ADC (number)				
Healthcare	1,422	1,295	127	9.8%
Education	1,045	1,014	31	3.1%
Amore Care	2,095	2,010	85	4.2%
Craegmoor	1,383	1,346	37	2.7%
Total	**5,945**	**5,665**	**280**	**4.9%**
Occupancy				
Healthcare	84.9%	76.4%	8.5%	
Education	82.9%	82.6%	0.3%	
Amore Care	89.1%	79.0%	10.1%	
Craegmoor	91.6%	92.8%	(1.2%)	
Total	**87.4%**	**81.9%**	**5.5%**	

Craegmoor available beds figure in the table above excludes 193 (2013: 193) supported living rental beds and Craegmoor ADC excludes 404 (2013: 388) 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.

Priory Group No. 1 Limited

Strategic report

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 84%-86%, Education occupancy is targeted between 83%-85%, Amore Care occupancy is targeted in the region of 89%-92% and Craegmoor occupancy is expected to be between 92%-94%.

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 trusts

A substantial proportion of the Group's revenue derives from publicly funded bodies such as Local Authorities, Clinical Commissioning Groups (CCGs) and other NHS trusts. 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 2014 revenue from NHS England amounted to 19% of total revenue (2013: 15%). No other single publicly-funded body accounted for more than 5% of total revenue in 2014 or 2013. On a consolidated basis, 44% of revenue (2013: 46%) arose from Social Services and 43% (2013: 40%) 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

Funds managed and/or advised by Advent beneficially own and control (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 over 29 years and has invested in more than 30 health care companies worldwide across a broad range of sub-sectors, including pharmaceuticals, health care services and medical devices. Since 1984, Advent has raised $37bn in private equity capital and completed over 290 transactions in 40 countries.

By order of the Board

David Hall

David Hall

Company Secretary

80 Hammersmith Road
London
England
W14 8UD
30 March 2015

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 2014. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations (IFRS) 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).

This report should be read in conjunction with the strategic report set out from page 1, which contains, inter alia, disclosures regarding future developments and financial risk management.

Dividends

The directors do not recommend the payment of a dividend (2013: £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	
Humphrey Battcock	
Ian Fraser	(appointed 6 June 2014)
Michael Jeffries	(resigned 30 May 2014)
Jason Lock	
William Moyes	
Brian Murphy	
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.

Jason Lock has been Chief Financial Officer of the Priory Group since June 2008. He is a chartered accountant with over ten years experience in the sector, having previously worked for PwC. Jason is primarily responsible for the management of all financial and IT functions and has recently led project teams established for the integration of Craegmoor, as well as more recent quality initiatives. He has a wealth of experience of developing and implementing accounting systems, as well as the execution of acquisitions, their related financing and subsequent integration.

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.

Brian Murphy was appointed to the Priory Group Board on 27 February 2013 and is part of Advent's global Portfolio Support team having joined Advent in 2012. He has 16 years of private equity experience and 10 years of consulting experience. Prior to joining Advent, Brian spent 15 years with Bain Capital's portfolio group in the US and Asia. Brian has a BSc from Duke University and also obtained an MBA from the Harvard Business School.

Political and charitable contributions

The Group does not make political contributions. Donations to UK charities in the year amounted to £0.1m (2013: £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 £13.9m at 31 December 2014 (2013: £12.0m). At 31 December 2014 the Group's supplier payment period was 63 days (2013: 59 days).

Employees

The directors recognise that the continued position of the Group in the health & social care and specialist education 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:

	Men	Women
Company Directors	7	-
Other senior managers*	13	6
All employees	4,361	11,114

*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 2014 the liability was £0.3m (2013: £0.3m) based on 26,589 tonnes of CO_2 reported emissions (2013: 28,580 tonnes). The Group's efforts to reduce its carbon footprint continue with structured investment in its 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 2014 the Group has recycled some 48% of all trade waste as generated 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 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 Safety, Quality and Compliance team is led by Sian Wicks, Director of Corporate Assurance. The department provides leadership and direction to the Group and is split into three components under the direction of the Director of Safety, the Director of Compliance and four divisional Directors of Quality. The team is responsible for providing support to the Group in delivering the safety, quality and compliance agenda.

The ISO 9001 accreditation awarded to the Priory Corporate Office in 2008 and retained each year, is a worldwide recognised and highly respected accredited quality assurance programme. This demonstrates the robust quality assurance tools in place which set out clear quality and safety framework of standards that need to be in place to deliver quality and safety services. This underlines the Priory 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 that are acknowledged as high quality and consistent. They are subject to contract review under the Commissioning for Quality and Innovation ("CQUIN") standards and the Group has met 100% of quarterly contract reviews undertaken during the 2014/15 contract year, as at 31 December 2014.

Human Resources – single equality scheme

The Group is committed to challenging discrimination and promoting equality for all. Its single equality scheme outlines the Group's longstanding commitment to ensuring services are accessible and appropriate for the diverse patient, resident and student community served and that its employment practices are fair, and value the workforce employed. In choosing a single equalities approach, the Company is acknowledging that it has responsibilities to tackle discrimination and promote equality that go beyond the positive duties set out in legislation. The single equalities approach also enables the Company to effectively challenge multiple discrimination.

The single equality scheme is intended to inform the Group's employees, patients, residents, students and their carers, visitors, contractors and all other stakeholders, of how equality and diversity is part of carrying out its core business and the actions taken to ensure this happens. It is now the responsibility of all individuals in the Group to ensure they embrace the principles of the scheme and ensure they translate into the delivery of a truly inclusive service for communities and in the Group being recognised as an Employer of Choice.

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

Dave Hall

David Hall

Company Secretary

80 Hammersmith Road
London
England
W14 8UD
30 March 2015

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 have been followed, subject to any material departures disclosed and explained in the Group and parent financial statements respectively; and
- prepare the Group and parent company 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

Tom Riall	**Jason Lock**
Chief Executive Officer	**Chief Financial Officer**
30 March 2015	**30 March 2015**

Priory Group No. 1 Limited

Independent auditors' report - Group

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements (the "financial statements"), which are prepared by Priory Group No. 1 Limited comprise:

- The consolidated balance sheet as at 31 December 2014;
- 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; 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 their preparation 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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.

Priory Group No. 1 Limited

Independent auditors' report - Group

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 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 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.

Other matter

We have reported separately on the parent company financial statements of Priory Group No. 1 Limited for the year ended 31 December 2014.

RBunter

Richard Bunter (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Newcastle upon Tyne

30 March 2015

Priory Group No. 1 Limited

Consolidated income statement

£'000	Note	**Year ended 31 December 2014**	Year ended 31 December 2013
Revenue	2	**520,738**	480,836
Operating costs	3	**(446,593)**	(461,566)
Operating profit	2	**74,145**	19,270
Analysed as:			
Adjusted EBITDAR	2	**143,818**	138,353
Rental amounts currently payable		**(14,098)**	(11,994)
Adjusted EBITDA before future minimum rental increases		**129,720**	126,359
Future minimum rental increases		**(2,850)**	(3,132)
Adjusted EBITDA		**126,870**	123,227
Depreciation	3	**(43,989)**	(42,557)
Amortisation	3	**(6,203)**	(6,746)
Exceptional items	6	**(2,533)**	(54,654)
Operating profit		**74,145**	19,270
Finance costs (including exceptional items of £15.9m (2013: £nil))	7	**(109,468)**	(91,827)
Finance income	7	**229**	179
Loss before tax		**(35,094)**	(72,378)
Income tax	8	**22,231**	43,433
Loss for the year		**(12,863)**	(28,945)
Loss attributable to:			
Owners of the parent		**(12,863)**	(28,860)
Non-controlling interests		**-**	(85)
		(12,863)	(28,945)

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, and are discussed in more detail in note 1.

There is no difference between the loss for the current or prior year and the total comprehensive loss for the current or prior year attributable to owners of the parent, as such no separate statement of other comprehensive income has been presented.

All operations for the current and prior year are continuing.

Priory Group No. 1 Limited

Consolidated balance sheet

£'000	Note	31 December 2014	31 December 2013
Non-current assets			
Intangible assets	10	**215,452**	212,410
Property, plant and equipment	11	**1,088,360**	1,292,701
		1,303,812	1,505,111
Current assets			
Inventories	12	**49**	50
Trade and other receivables	13	**38,005**	30,265
Cash	14	**22,644**	44,414
		60,698	74,729
Assets held for sale	15	**10,808**	21,637
		71,506	96,366
Total assets		**1,375,318**	1,601,477
Current liabilities			
Trade and other payables	16	**(83,927)**	(76,497)
Borrowings	17	**(17,886)**	(24,193)
Provisions for liabilities and charges	18	**(4,760)**	(2,857)
		(106,573)	(103,547)
Net current liabilities		**(35,067)**	(7,181)
Non-current liabilities			
Borrowings	17	**(865,563)**	(1,061,454)
Deferred income tax	19	**(147,108)**	(167,037)
Provisions for liabilities and charges	18	**(21,986)**	(22,489)
		(1,034,657)	(1,250,980)
Net assets		**234,088**	246,950
Equity attributable to the owners of the parent:			
Share capital	21	**261,185**	261,184
Share premium account		**11,437**	11,437
Accumulated losses		**(38,534)**	(25,671)
Total equity		**234,088**	246,950

The consolidated financial statements of Priory Group No. 1 Limited (registered company number 07480152) on page 11 to 38 were approved by the board of directors and authorised for issue on 30 March 2015. They were signed on its behalf by:

Tom Riall
Chief Executive Officer

Jason Lock
Chief Financial Officer

Priory Group No. 1 Limited

Consolidated statement of cash flows

£'000	Note	Year ended 31 December 2014	Year ended 31 December 2013
Operating activities			
Operating profit		**74,145**	19,270
Profit on disposal of property, plant and equipment	6	**(7,897)**	(53)
Depreciation of property, plant and equipment	3	**43,989**	42,557
Amortisation of intangible assets	3	**6,203**	6,746
Impairment of property, plant and equipment	6	**-**	42,587
Decrease in inventories		**3**	5
Increase in trade and other receivables		**(6,129)**	(3,914)
Increase/(decrease) in trade and other payables		**5,008**	(7,254)
(Decrease)/increase in provisions		**(1,628)**	4,959
Provision for future minimum rental increases		**2,850**	3,132
		116,544	108,035
Taxation		**(366)**	(367)
Net cash generated from operating activities		**116,178**	107,668
Investing activities			
Interest received		**229**	179
Purchase of subsidiaries, net of cash acquired	9	**(18,181)**	(5,358)
Purchase of subsidiaries, deferred consideration		**-**	(450)
Purchase of non-controlling interest		**-**	(1,872)
Proceeds from disposal of property, plant and equipment	6	**239,952**	4,961
Purchases of property, plant and equipment		**(47,201)**	(44,714)
Net cash generated from/(used in) investing activities		**174,799**	(47,254)
Financing activities			
Proceeds from borrowings	17	**24,250**	5,500
Repayments of borrowings	17	**(10,500)**	-
Repayment of obligations under finance leases		**(2,011)**	(2,023)
Issue of ordinary shares		**-**	90
Repayment of high yield bonds	17	**(257,547)**	-
Interest paid		**(66,939)**	(62,576)
Net cash used in financing activities		**(312,747)**	(59,009)
Net (decrease)/increase in cash		**(21,770)**	1,405
Cash at the beginning of the year	14	**44,414**	43,009
Cash at the end of the year	14	**22,644**	44,414

Priory Group No. 1 Limited

Consolidated statement of changes in equity

£'000	Note	Share capital	Share premium account	Accumulated losses	Non-controlling interest	Total equity
At 1 January 2013		261,179	11,344	1,621	3,627	277,771
Loss for the year		-	-	(28,860)	(85)	(28,945)
Transactions with owners:						
Issue of shares		5	93	-	-	98
Distribution to non-controlling interest		-	-	-	(102)	(102)
Purchase of non-controlling interest		-	-	1,568	(3,440)	(1,872)
At 31 December 2013		**261,184**	**11,437**	**(25,671)**	**-**	**246,950**
Loss for the year		**-**	**-**	**(12,863)**	**-**	**(12,863)**
Transactions with owners:						
Issue of shares		**1**	**-**	**-**	**-**	**1**
At 31 December 2014		**261,185**	**11,437**	**(38,534)**	**-**	**234,088**

Priory Group No. 1 Limited

Notes to the consolidated financial statements

1. Significant accounting policies

a) Basis of preparation

The Company is a private limited company, incorporated and domiciled in the UK.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC 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).

The financial statements have been prepared on the going concern basis, and under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies set out below have been applied consistently. The Group has not adopted any new IFRS standards, amendments to standards or interpretations prior to their effective date.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the particular circumstance, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to the financial statements are discussed on page 18.

b) 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 2014. Subsidiary undertakings are entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are included within the consolidated financial statements from the date on which the Group obtains control and are excluded from the date on which 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.

c) 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.

d) 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 30 years. Customer contracts are amortised on an attrition basis over their useful economic lives of between 8 and 10 years. Attrition rates are calculated with reference to the average length of stay of service users.

e) 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 2 to the consolidated financial statements.

f) Revenue recognition

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

g) Borrowing costs and interest

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other 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.

h) 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 plan is closed to new members and all benefits accruing to current members are frozen. The Group recognises a liability in the financial statements representing the net obligation under the plan based on a valuation from an independent actuary which is updated at least annually, but does not recognise an asset. Movements in the net obligation are credited/charged to the income statement. Full IAS19 (revised) defined benefit disclosures are not given because the defined benefit obligation, plan assets and net surplus/deficit are not material.

i) 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.

j) 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.

k) Inventory

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

l) 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.

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.

m) 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 24.

n) 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.

o) 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.

p) 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 recognised in accordance with 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 6.

q) 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. These judgements are described below:

(i) Deferred tax

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 19 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 10 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.

r) Changes in accounting policy and disclosure

From 1 January 2014 the following interpretations became effective and were adopted by the Group:

- IFRS 10: 'Consolidated financial statements'
- IFRS 11: 'Joint arrangements'
- IFRS 12: 'Disclosures of interests in other entities'
- IAS 27 (revised 2011): 'Separate financial statements'
- IAS 28 (revised 2011): 'Associates and joint ventures'
- Amendments to IFRS 10: 'Consolidated financial statements', IFRS 12 and IAS 27 on consolidation for investment entities
- Amendments to IFRS 10, 11 and 12 on transition guidance
- Amendments to IAS 32 on financial instruments asset and liability offsetting
- Amendments to IAS 36: 'Impairment of assets' on recoverable amount disclosures
- Amendments to IAS 39: 'Financial instruments: recognition and measurement' on novation of derivatives and hedge accounting
- IFRIC 21: 'Levies'

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
Annual improvements 2011-13	1 July 2014
Amendment to IAS 19 (revised 2011): 'Employee benefits' regarding defined benefit plans	1 July 2014

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
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 but will increase the level of disclosure to be made in the financial statements.

2. Segmental information

The Group is organised into the following operating segments:

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

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

Segment revenues and results

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. 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 2014

£'000	Healthcare	Education	Amore Care	Craegmoor	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 3)						**(43,989)**
Amortisation (note 3)						**(6,203)**
Exceptional items (note 6)						**(2,533)**
Operating profit						**74,145**
Net finance costs (note 7)						**(109,239)**
Loss before tax						**(35,094)**

Year ended 31 December 2013

£'000	Healthcare	Education	Amore Care	Craegmoor	Central	Total
Revenue	230,353	91,050	66,225	93,208	-	480,836
Adjusted EBITDAR	75,919	30,641	11,047	31,414	(10,668)	138,353
Rent	(225)	(3,818)	(7,253)	(698)	-	(11,994)
Adjusted EBITDA before future minimum rental increases	75,694	26,823	3,794	30,716	(10,668)	126,359
Future minimum rental increases						(3,132)
Adjusted EBITDA						123,227
Depreciation (note 3)						(42,557)
Amortisation (note 3)						(6,746)
Exceptional items (note 6)						(54,654)
Operating profit						19,270
Net finance costs (note 7)						(91,648)
Loss before tax						(72,378)

Segment assets

£'000	2014	2013
Healthcare	**693,022**	901,517
Education	**243,834**	243,440
Amore Care	**85,284**	88,372
Craegmoor	**282,387**	274,320
Central	**48,147**	49,414
Total segment assets	**1,352,674**	1,557,063
Unallocated assets:		
Cash	**22,644**	44,414
Total assets	**1,375,318**	1,601,477
Included in total assets above:		
Intangible assets		
Healthcare	**101,173**	101,908
Education	**51,096**	46,591
Amore Care	**12,001**	12,010
Craegmoor	**51,182**	51,901
	215,452	212,410
Assets held for sale		
Healthcare	**200**	-
Education	**1,143**	1,417
Amore Care	**-**	3,999
Craegmoor	**9,465**	16,221
	10,808	21,637

£'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**
Amore Care	**9**	**3,765**	**5,809**
Craegmoor	**3,774**	**6,503**	**14,881**
Central	**-**	**3,514**	**2,257**
Total	**6,203**	**43,989**	**48,781**

£'000	Amortisation 2013	Depreciation 2013	Additions to property, plant and equipment 2013
Healthcare	732	22,296	12,729
Education	2,440	7,257	9,965
Amore Care	-	4,178	7,167
Craegmoor	3,574	5,460	11,708
Central	-	3,366	3,232
Total	6,746	42,557	44,801

Information about major customers

In 2014 revenue from NHS England amounted to 19% of total revenue (2013: 15%). No other single publicly-funded body accounted for more than 5% of total revenue in 2014 or 2013. On a consolidated basis, revenue of £230.6m (2013: £221.0m) and £224.2m (2013: £192.4m) arose from Social Services and the NHS respectively, which each represent more than 10% of the Group's total revenue. Of this revenue £215.6m (2013: £184.0m) arose in the Healthcare segment, £88.2m (2013: £89.6m) arose in the Education segment, £95.3m (2013: £87.9m) arose in the Craegmoor segment and £55.7m (2013: £51.9m) in the Amore Care segment.

3. Operating costs

£'000	2014	2013
Staff costs (note 5)	**296,198**	268,314
Other operating costs	**80,335**	73,609
Depreciation of property, plant and equipment (note 11)		
Owned	**42,195**	40,548
Leased	**1,794**	2,009
Amortisation of intangible assets (note 10)	**6,203**	6,746
Rentals under operating leases		
Property leases	**14,098**	11,994
Other operating leases	**387**	560
Future minimum rental increases	**2,850**	3,132
Exceptional items (note 6)	**2,533**	54,654
	446,593	461,566

4. Auditors' remuneration

£'000	2014	2013
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements	**193**	170
	193	170
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	**71**	30
Services relating to information technology	**55**	62
Services relating to corporate finance transactions	**244**	-
All other services	**256**	126
Total other fees	**626**	218
	819	388

Auditors' remuneration is stated net of value added tax.

5. Employee numbers and costs

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

Number	2014	2013
Healthcare	**5,545**	5,040
Education	**2,183**	2,066
Amore Care	**3,131**	3,037
Craegmoor	**3,440**	3,059
Central	**413**	381
	14,712	13,583

Their aggregate remuneration comprised:

£'000	2014	2013
Wages and salaries	**270,502**	244,663
Social security costs	**21,051**	19,280
Other pension costs	**4,645**	4,371
	296,198	268,314

Further information relating to Directors' remuneration is disclosed in note 25.

6. Exceptional items

£'000	2014	2013
Reorganisation and rationalisation costs	**7,660**	12,093
Acquisition costs	**2,770**	27
Impairment of property, plant and equipment	**-**	42,587
Profit on disposal of property, plant and equipment	**(7,897)**	(53)
	2,533	54,654

Reorganisation and rationalisation costs include £2.6m for senior management redundancy and restructuring with the remainder due to the closure and restructuring of a number of sites. The prior year included £5.9m in respect of onerous contracts relating to leasehold properties.

Acquisition costs relate principally to legal and professional fees incurred as a result of the acquisitions explained in note 9, in addition to £2.4m of aborted acquisition costs incurred in 2014.

Impairment of property, plant and equipment in 2013 related to a number of properties and associated assets that the Group identified, following a strategic review of its property portfolio, as being extraneous to its ongoing operations, and consequently wrote down to their net recoverable value through disposal. The charge related to sites that were closed prior to 31 December 2013.

The profit on disposal of property plant and equipment in 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.

7. Net finance costs

£'000	2014	2013
Interest on bank facilities and associated costs	**2,099**	1,802
High yield bond interest and associated costs	**58,258**	60,108
Loan note interest	**29,925**	26,718
Amortisation of issue costs	**2,981**	2,868
Exceptional bond redemption premium	**12,847**	-
Exceptional amortisation of issue costs	**3,137**	-
Release of premium on issue of high yield bonds	**(300)**	(301)
Interest on obligations under finance leases	**343**	329
Provisions: unwinding of discount	**178**	303
Total finance costs	**109,468**	91,827
Interest receivable on bank deposits	**(229)**	(179)
Net finance costs	**109,239**	91,648

The exceptional bond redemption costs include the premium paid on redemption of £12.8m and accelerated amortisation of issue costs of £3.1m.

8. Income tax

£'000	2014	2013
Current tax:		
UK corporation tax	-	-
Adjustments in respect of prior years	-	-
	-	-
Deferred tax (note 19):		
Origination and reversal of temporary differences	**(21,445)**	(39,581)
Adjustments in respect of prior years	**(786)**	(3,852)
	(22,231)	(43,433)
Taxation	**(22,231)**	(43,433)

Corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated taxable profit or loss for the year. The expected tax credit for the year can be reconciled to the credit per the income statement as follows:

£'000	2014	2013
Loss before tax	**(35,094)**	(72,378)
Tax at the UK corporation tax rate of 21.5% (2013: 23.25%)	**(7,545)**	(16,828)
Non deductible expenses	**765**	209
Movement in tax base of fixed assets	**(11,873)**	1,077
Effect of change in tax rate	**(1,031)**	(24,039)
Recognition of deferred tax assets	**(1,761)**	-
Adjustments in respect of prior years	**(786)**	(3,852)
Tax credit for the year	**(22,231)**	(43,433)

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 21.5% (2013: 23.25%).

In his budget speech on 20 March 2013, the Chancellor announced that the main rate of corporation tax would change from 21% to 20% from 1 April 2015. This change was substantively enacted in July 2013, as such the Group's deferred tax balances have been restated to reflect their expected unwind at 20% rather than the main rate of 21%.

9. Business combinations

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 Craegmoor 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. 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

If acquired on 1 January 2014, the business would have contributed £2.7m revenue and £1.1m Adjusted EBITDA before future minimum rental increases 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. 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

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

Helden Homes Limited

On 23 July 2013 the Group acquired 100% of the share capital of Helden Homes Limited, an operator of a care home within the Healthcare division for cash consideration of £5.5m.

£'000	
Cash consideration	5,460
Fair value of net assets acquired	(4,443)
Goodwill	**1,017**

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

£'000	
Property, plant and equipment	5,440
Trade and other receivables	165
Cash	102
Deferred tax	(1,052)
Trade and other payables	(212)
Net assets	**4,443**

From the date of acquisition to 31 December 2013, the contribution of the home to the Group results was as follows:

£'000	
Revenue	935
Adjusted EBITDA before future minimum rental increases	303

If acquired on 1 January 2013, the home would have contributed £2.1m revenue and £0.7m Adjusted EBITDA before future minimum rental increases to the Group results for the year ended 31 December 2013.

10. Intangible assets

£'000	Goodwill	Brand	Customer contracts	Total
Cost				
At 1 January 2013	172,903	22,049	35,168	230,120
Arising on business combinations	1,467	-	-	1,467
Additions	-	171	-	171
At 31 December 2013	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**
Accumulated amortisation				
At 1 January 2013	-	1,348	11,254	12,602
Amortisation charge	-	732	6,014	6,746
At 31 December 2013	-	2,080	17,268	19,348
Amortisation charge	-	744	5,459	6,203
At 31 December 2014	**-**	**2,824**	**22,727**	**25,551**
Net book value				
At 31 December 2014	**180,606**	**19,396**	**15,450**	**215,452**
At 31 December 2013	174,370	20,140	17,900	212,410

The brand intangible asset includes an amount with a carrying value of £19.2m (2013: £19.9m), relating to the Priory Brand with a remaining amortisation period of 26.2 years (2013: 27.2 years), as well as an amount with a carrying value of £0.2m (2013: £0.2m) relating to a rebranding of the Amore Care division with a remaining amortisation period of 19 years (2013: 20 years).

Customer contracts arising from the Priory Investments Holdings Limited business combination relate to the Education division and have a carrying value of £2.8m (2013: £4.4m) and a remaining amortisation period of 6.2 years (2013: 7.2 years).

Customer contracts arising from the Craegmoor Group acquisition relate to the Craegmoor division and have a carrying value of £6.3m (2013: £8.3m) and a remaining amortisation period of 4.3 years (2013: 5.3 years).

Customer contracts arising from the Harbour Care, PASS and HQL acquisitions relate to the Craegmoor division and have carrying values of £1.9m (2013: £2.7m), £0.7m (2013: £0.9m) and £1.2m (2013: £1.6m) respectively and remaining amortisation periods of 4 years (2013: 5 years), 4.3 years (2013: 5.3 years) and 4.7 years (2013: 5.7 years) respectively.

Customer contracts arising on business combinations in the year relate to New Directions (Craegmoor division) and Castlecare (Education division) and have a carrying values of £1.7m and £0.9m and remaining amortisation periods of 7.1 years and 2.9 years respectively.

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. The Group's cash generating units are the same as its reportable segments, and goodwill is allocated as follows:

£'000	**2014**	2013
Healthcare	**81,941**	81,941
Education	**47,476**	42,186
Amore Care	**11,840**	11,840
Craegmoor	**39,349**	38,403
	180,606	174,370

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

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

Management estimates discount rates using rates that reflect current market assessments of the time value of money. There is no significant difference in the risks associated with each individual CGU, therefore the same discount rate is applied to the cash flows of all units. This is consistent with the assumptions applied in 2013.

The key assumptions used were as follows:

	2014	2013
Pre tax discount rate	**8.3%**	8.3%
Growth rate	**1.5%-2.75%**	2.0%-2.5%

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. For each CGU no reasonably likely reduction in cash flow or long term growth rate would result in a material impairment charge. Should all other assumptions remain constant, an increase in the pre tax discount rate of between 1.1% and 3.7% would be required in order to eliminate the headroom on an individual CGU.

11. Property, plant and equipment

£'000	Land and buildings	Assets in the course of construction	Fixtures and fittings	Motor vehicles	Total
Cost					
At 1 January 2013	1,253,243	5,083	102,023	6,063	1,366,412
Arising on business combinations	5,186	-	238	16	5,440
Additions	8,349	12,639	22,207	1,606	44,801
Disposals	(293)	(362)	(454)	(565)	(1,674)
Transfers between classifications	2,407	(2,823)	409	7	-
Transferred to current assets (note 15)	(36,901)	-	(4,708)	-	(41,609)
At 31 December 2013	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 15)	1,729	-	587	-	2,316
At 31 December 2014	**1,013,535**	**5,937**	**155,444**	**5,894**	**1,180,810**
Accumulated depreciation					
At 1 January 2013	10,551	-	20,251	1,003	31,805
Charge for the year	23,060	-	17,273	2,224	42,557
Impairment (note 6)	40,004	-	1,433	-	41,437
Disposals	(2)	-	(271)	(551)	(824)
Transferred to current assets (note 15)	(30,276)	-	(4,030)	-	(34,306)
At 31 December 2013	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 15)	1,058	-	284	-	1,342
At 31 December 2014	**40,316**	**-**	**50,083**	**2,051**	**92,450**
Net book value					
At 31 December 2014	**973,219**	**5,937**	**105,361**	**3,843**	**1,088,360**
At 31 December 2013	1,188,654	14,537	85,059	4,451	1,292,701

Substantially all of the Group's freehold land and buildings is pledged as security against certain of the Group's borrowings (note 17). At 31 December 2014, the carrying amount of assets (motor vehicles) held under finance lease was £3.1m (2013: £3.8m). The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

At 31 December 2014, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.3m (2013: £3.0m).

12. Inventories

£'000	2014	2013
Consumable supplies	**49**	50

13. Trade and other receivables

£'000	2014	2013
Trade receivables	**28,929**	24,137
Allowance for doubtful debts	**(1,155)**	(1,221)
	27,774	22,916
Other receivables	**2,389**	2,731
Corporation tax receivable	**28**	-
Prepayments and accrued income	**7,814**	4,618
	38,005	30,265

14. Cash

£'000	2014	2013
Cash	**22,644**	44,414

15. Assets held for sale

£'000	Land and buildings	Fixtures and fittings	Total
Cost			
At 1 January 2013	38,292	9,301	47,593
Transferred from property, plant and equipment (note 11)	36,901	4,708	41,609
Additions	2	195	197
Disposals	(14,218)	(3,925)	(18,143)
At 31 December 2013	60,977	10,279	71,256
Transferred from property, plant and equipment (note 11)	(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**
Impairment			
At 1 January 2013	22,005	6,245	28,250
Charge for the year (note 6)	1,076	74	1,150
Transferred from property, plant and equipment (note 11)	30,276	4,030	34,306
Disposals	(11,619)	(2,468)	(14,087)
At 31 December 2013	41,738	7,881	49,619
Transferred from property, plant and equipment (note 11)	(1,058)	(284)	(1,342)
Disposals	(9,107)	(2,841)	(11,948)
At 31 December 2014	**31,573**	**4,756**	**36,329**
Net book value			
At 31 December 2014	**9,675**	**1,133**	**10,808**
At 31 December 2013	19,239	2,398	21,637

The remaining properties are expected to realise net sales proceeds materially consistent with their net book value. A number of properties classified as held for sale at 31 December 2013 remain unsold at 31 December 2014 due to delays in the sales process. All properties held for sale are actively marketed and are expected to be sold within 12 months of the year end.

16. Trade and other payables

£'000	2014	2013
Trade payables	**13,866**	11,957
Corporation tax payable	**-**	188
Other taxes and social security	**6,856**	6,727
Accruals and deferred income	**56,359**	50,770
Other payables	**6,846**	6,855
	83,927	76,497

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. At 31 December 2014 the Group's supplier payment period was 63 days (2013: 59 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. Amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

17. Borrowings

£'000	2014	2013
Borrowings due less than one year		
Finance lease liabilities	**1,585**	1,651
Accrued interest - Bank loans	**255**	52
Accrued interest - Senior secured notes	**10,196**	16,640
Accrued interest - Senior unsecured notes	**5,850**	5,850
Total borrowings due less than one year	**17,886**	24,193
Unsecured borrowings due greater than one year		
Senior unsecured notes	**175,000**	175,000
Unamortised issue costs	**(3,315)**	(3,958)
Loan notes (including accrued interest)	**279,295**	249,372
	450,980	420,414
Secured borrowings due greater than one year		
Bank loans	**31,250**	17,500
Senior secured notes	**386,300**	631,000
Unamortised issue costs (including premium)	**(4,808)**	(9,983)
Finance lease liabilities	**1,841**	2,523
	414,583	641,040
Total borrowings due greater than one year	**865,563**	1,061,454
Total borrowings	**883,449**	1,085,647

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

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 will be amortised to the income statement over the term of the notes. The proceeds were used to repay existing Craegmoor bank debt on acquisition.

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 has been recognised in respect of the premium paid on redemption of £12.8m and the release of unamortised issue costs of £3.1m, see Note 7.

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

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 £8.4m, £7.5m and £6.7m in relation to the £51.5m loan notes was capitalised on 31 December 2014, 31 December 2013 and 31 December 2012 respectively by the issue of PIK notes on the same terms as the original loan notes. Accrued interest of £19.6m, £17.5m and £15.6m in relation to the £130.0m loan notes was settled on 3 March 2014, 10 April 2013 and 3 March 2012 respectively by the issue of PIK notes on the same terms as the original loan notes.

The £31.3m (2013: £17.5m) drawn down on the RCF is secured with an interest rate of LIBOR plus 4% 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.

The weighted average interest rates during the year were:

	2014	2013
Loan notes	**12.0%**	12.0%
Bank loans	**4.6%**	4.5%
High yield bonds	**7.4%**	7.4%

18. Provisions for liabilities and charges

£'000	Dilapidations	Onerous contracts and legal costs	Future minimum rent	Retirement benefit	Total
At 1 January 2014	2,409	12,029	10,861	47	25,346
(Released)/charged to income statement	(425)	-	2,850	-	2,425
Discount unwind	-	178	-	-	178
Used during year	(33)	(1,123)	-	(47)	(1,203)
At 31 December 2014	**1,951**	**11,084**	**13,711**	**-**	**26,746**

Analysis of provisions:

£'000	2014	2013
Current	**4,760**	2,857
Non - current	**21,986**	22,489
Total provisions	**26,746**	25,346

Dilapidation provisions

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 litigation matters

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. 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 these 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.

Retirement benefit

The retirement benefit provision held by the Group was to cover post-employment benefits accruing to certain employees of Health & Care Services (UK) Limited.

19. Deferred tax

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

£'000	Accelerated tax depreciation	Short term timing differences	Intangibles	Property, plant and equipment	Total
At 1 January 2013	(12,063)	(25,064)	9,901	236,644	209,418
Arising on business combinations	-	-	-	1,052	1,052
Charge/(credit) to income statement	2,681	(1,940)	(2,136)	(42,038)	(43,433)
At 31 December 2013	**(9,382)**	**(27,004)**	**7,765**	**195,658**	**167,037**
Arising on business combinations	-	-	538	1,764	2,302
Charge/(credit) to income statement	2,418	8,701	(1,333)	(32,017)	(22,231)
At 31 December 2014	**(6,964)**	**(18,303)**	**6,970**	**165,405**	**147,108**

At the balance sheet date, the Group has unused tax losses of £89.8m (2013: £121.3m) available for offset against future profits, representing a potential deferred tax asset on losses of £18.0m (2013: £24.7m). A deferred tax asset of £8.7m (2013: £13.8m) 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 2014, a potential deferred tax asset of £9.3m (2013: £10.9m) has not been recognised with respect to losses of £46.5m (2013: £55.0m) as it is not currently anticipated that such losses will be utilised in the foreseeable future. The Group expects to utilise approximately £7.1m (2013: £4.0m) of the overall deferred tax asset and £5.7m (2013: £7.9m) 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 £165.4m (2013: £195.7m) has been recognised in respect of the differences between the carrying values of property, plant and equipment and their tax base cost.

20. Obligations under finance leases

£'000	**Present value of minimum lease payments 2014**	Present value of minimum lease payments 2013
Amounts payable under finance leases:		
Within one year	**1,585**	1,651
In one to five years inclusive	**1,841**	2,523
Present value of lease obligations	**3,426**	4,174

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 11.

21. Share capital

		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**

		2013
	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
Preference shares of £1 each	261,165,177	261,165,177
	277,564,046	**261,184,076**

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

During the prior year 11,875, 40,000 and 40,000 C ordinary shares were issued on 30 January, 16 September and 27 November respectively. On 30 May 2013 22,943 A ordinary shares were converted into C ordinary shares. On 30 May 5,442,263 D ordinary shares of £0.001 each were issued. On the same date 2,500,000 D ordinary shares of £0.001 each were consolidated into 5 D ordinary shares of £500 each.

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.

22. 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.

23. Operating lease arrangements

£'000	2014	2013
Minimum lease payments under operating leases recognised as an expense in the year	14,485	12,554

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:

			2014
£'000	Land and buildings	Other	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

£'000	Land and buildings	Other	2013 Total
Within one year	13,306	559	13,865
Two - five years inclusive	54,180	230	54,410
After five years	285,311	-	285,311

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.

24. Financial instruments and risk management

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

Credit risk

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

Credit risk is not considered to be significant given that the vast majority of revenue is derived from publicly funded entities and payment is taken in advance for privately funded healthcare services. Credit evaluations are carried out on privately funded residents in the Amore Care business.

The Group provides credit to customers in the normal course of business and the balance sheet is net of allowances of £1.2m (2013: £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 19 days (2013: 17 days). Allowances against doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty. The majority of the Group's allowance for doubtful debts relates to specific trade receivables that are not considered to be recoverable, and management only considers it appropriate to create a collective provision based on the age of the trade receivable in respect of certain types of trade receivables.

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

£'000	2014	2013
Current	**19,333**	15,667
30-60 days	**8,174**	6,518
60-150 days	**1,115**	944
150 days +	**307**	1,008
	28,929	24,137

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	2014	2013
60 days +	**282**	749

The movement in allowance for doubtful debts is as follows:

£'000	2014	2013
Balance at the beginning of the year	**1,221**	1,389
Amounts written off during the year as uncollectible	**(66)**	(86)
Decrease in provision	**-**	(82)
Balance at end of year	**1,155**	1,221

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 2014 the majority of the Group's borrowings were fixed rate debt, with the exception of £31.3m (2013: £17.5m) which was drawn down on the revolving credit facility at an interest rate of LIBOR plus 4%. 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 4.00% to 3.00% 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 £31.3m (2013: £17.5m) bank loan and as a result at 31 December 2014, a general increase of one percentage point in interest rates would not have a significant impact on the Group's profit 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:

2014 **£'000**	**Total**	**0-1 years**	**2-5 years**	**5 years and over**
Trade and other payables	**62,658**	**62,658**	**-**	**-**
High yield bonds	**733,600**	**42,572**	**691,028**	**-**
Bank loans	**34,555**	**1,469**	**33,086**	**-**
Finance lease liabilities	**3,426**	**1,585**	**1,841**	**-**
	834,239	**108,284**	**725,955**	**-**

2013 **£'000**	**Total**	**0-1 years**	**2-5 years**	**5 years and over**
Trade and other payables	51,692	51,692	-	-
High yield bonds	1,090,187	59,701	847,720	182,766
Bank loans	20,069	790	19,279	-
Finance lease liabilities	4,174	1,651	2,523	-
	1,166,122	113,834	869,522	182,766

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 £21.2m (2013: £24.6m) of deferred income as this is not a cash settled obligation.

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	**2014**	2013
Cash	**22,644**	44,414
Borrowings	**(883,449)**	(1,085,647)
Equity	**234,088**	246,950

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

	2014		2013	
£'000	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Receivables				
Cash and cash equivalents	**22,644**	**22,644**	44,414	44,414
Trade receivables	**27,774**	**27,774**	22,916	22,916
	50,418	**50,418**	67,330	67,330
Financial liabilities at amortised cost				
Trade and other payables	**(83,927)**	**(83,927)**	(76,309)	(76,309)
High yield bonds	**(577,346)**	**(601,156)**	(828,490)	(868,970)
Loan notes	**(279,295)**	**(279,295)**	(249,372)	(249,372)
Bank loans	**(31,505)**	**(31,505)**	(17,552)	(17,552)
Finance lease liabilities	**(3,426)**	**(3,426)**	(4,174)	(4,174)
	(975,499)	**(999,309)**	(1,175,897)	(1,216,377)

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

Financing facilities

The Group has the following undrawn borrowing facilities:

£'000	**2014**	2013
Secured revolving credit facility		
- floating rate expiring beyond one year	**66,081**	79,836

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, £31.3m was drawn down as at 31 December 2014 (2013: £17.5m) and £2.7m (2013: £2.7m) of the £100m 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.

25. Related party transactions

The Group's ultimate parent is 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 80 Hammersmith Road, London W14 8UD. Priory Group No. 1 Limited is beneficially owned by funds managed by Advent International Corporation which is considered by the directors to be the ultimate controlling party of the Company.

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	2014	2013
Short-term employee benefits (including employer's national insurance)	**1,966**	1,750
Compensation for loss of office (including employer's national insurance)	**627**	-
Post-employment benefits	**72**	82
	2,665	1,832

The emoluments of the highest paid director of the Company were £845,000 (2013: £1,486,000) (excluding employer's national insurance contributions of £115,000 (2013: £204,000)). The amount in 2013 included £1,219,000 of certain contractual bonuses and other non-recurring emoluments (including employer's national insurance contributions) which are excluded from short-term employee benefits in the table above. In addition, the Group paid pension contributions of £43,000 in respect of the highest paid director (2013: £38,000).

The loan notes issued by the Group are owned by funds managed by Advent International Corporation. See Note 17 for further details.

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 in the prior year 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 2014 is £147,943 (2013: £147,943), and bears interest at the higher of 4% per annum and the official rate of HM Revenue and Customs.

26. Subsidiaries

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

Subsidiary undertakings	Principal activities	Class and percentage Of shares held
Priory Group No. 2 Limited*	Intermediate holding company	100% ordinary
Priory Group No.3 plc	Intermediate holding company	100% ordinary
Priory Investments Holdings Limited	Intermediate holding company	100% ordinary
Priory Health No 1 Limited	Intermediate holding company	100% ordinary
Priory Health No 2 Limited	Intermediate holding company	100% ordinary
Priory Finance Property LLP	Property company	100% partnership capital
Priory Holdings Company No 1 Limited	Intermediate holding company	100% ordinary
Priory Holdings Company No 2 Limited	Intermediate holding company	100% ordinary
Priory Holdings Company No 3 Limited	Intermediate holding company	100% ordinary
Priory New Investments Limited	Intermediate holding company	100% ordinary and 100% preference
Priory New Investments No. 2 Limited	Intermediate holding company	100% ordinary
Priory New Investments No. 3 Limited	Intermediate holding company	100% ordinary
Priory Healthcare Investments Limited	Intermediate holding company	100% ordinary and 100% preference
Priory Healthcare Finance Co Limited	Intermediate holding company	100% ordinary
Priory Group Limited	Intermediate holding company	100% ordinary
Priory Finance Property Holdings No 1 Limited	Intermediate holding company	100% ordinary
Priory Finance Property Holdings No 2 Limited	Intermediate holding company	100% ordinary
Priory Securitisation Holdings Limited	Intermediate holding company	100% ordinary
Priory Securitisation Limited	Intermediate holding company	100% ordinary
Velocity Healthcare Limited	Intermediate holding company	100% ordinary
Affinity Healthcare Holdings Limited	Intermediate holding company	100% ordinary A, B, C and D
Affinity Healthcare Limited	Intermediate holding company	100% ordinary
Affinity Hospitals Holdings Limited	Intermediate holding company	100% ordinary
Affinity Hospitals Group Limited	Intermediate holding company	100% ordinary
Craegmoor Limited	Intermediate holding company	100% ordinary A, B and C
Amore Elderly Care Holdings Limited (formerly Priory Elderly Care Holdings Limited)	Intermediate holding company	100% ordinary
Craegmoor Group (No.1) Limited	Intermediate holding company	100% ordinary
Craegmoor Group (No.2) Limited	Intermediate holding company	100% ordinary
Craegmoor Group (No.3) Limited	Intermediate holding company	100% ordinary

Subsidiary undertakings	Principal activities	Class and percentage Of shares held
Craegmoor Group (No.4) Limited	Intermediate holding company	100% ordinary
Craegmoor Group (No.5) Limited	Intermediate holding company	100% ordinary and ordinary A
Craegmoor Group (No.6) Limited	Intermediate holding company	100% ordinary and ordinary A
Craegmoor Care (Holdings) Limited	Intermediate holding company	100% ordinary
Craegmoor Holdings Limited	Intermediate holding company	100% ordinary
Craegmoor Hospitals (Holdings) Limited	Intermediate holding company	100% ordinary
Craegmoor Learning (Holdings) Limited	Intermediate holding company	100% ordinary
Speciality Care Limited	Intermediate holding company	100% ordinary and 100% preference
Craegmoor (Harbour Care) Limited	Intermediate holding company	100% ordinary
Amore Care (Holdings) Limited (formerly Craegmoor Older People Care (Holdings) Limited)	Intermediate holding company	100% ordinary A, B, C and D
Priory Healthcare Limited	Specialist healthcare services	100% ordinary
Priory Rehabilitation Services Limited	Brain injury rehabilitation services	100% ordinary
Priory Secure Services Limited	Forensic psychiatric services	100% ordinary
Priory Education Services Limited	Schools for children with special needs	100% ordinary
Priory Central Services Limited	Management services	100% ordinary
Amore (Prestwick) Limited (formerly Priory (Prestwick) Limited)	Elderly care services	100% ordinary
Amore Elderly Care Limited (formerly Priory Elderly Care Limited)	Elderly care services	100% ordinary
Amore Elderly Care (Wednesfield) Limited (formerly Priory Elderly Care (Wednesfield) Limited)	Elderly care services	100% ordinary
Amore (Ben Madigan) Limited (formerly Priory (Ben Madigan) Limited)	Elderly care services	100% ordinary
Amore (Warrenpoint) limited (formerly Priory (Warrenpoint) Limited)	Elderly care services	100% ordinary
Amore (Watton) Limited (formerly Priory (Watton) Limited)	Elderly care services	100% ordinary
Revona LLP	Specialist healthcare services	100% partnership capital
Priory Finance Company Limited	Financing company	100% ordinary
Affinity Hospitals Limited	Management services	100% ordinary A & B
Cheadle Royal Healthcare Limited	Specialist healthcare services	100% ordinary
Middleton St George Healthcare Limited	Specialist healthcare services	100% ordinary
Priory Troup House Limited	Specialist education services	100% ordinary
Priory New Education Services Limited	Specialist education services	100% ordinary
Craegmoor Group Limited	Intermediate holding company	100% ordinary and 100% preference
Amore Care Limited (formerly Craegmoor Older People Care Limited)	Care delivery	100% ordinary
Speciality Healthcare Limited	Care delivery	100% ordinary
Health & Care Services (NW) Limited	Care delivery	100% ordinary
Parkcare Homes (No. 2) Limited	Care delivery	100% ordinary
Greymount Properties Limited	Care delivery	100% ordinary and 100% preference
Craegmoor Healthcare Company Limited	Care delivery	100% ordinary
Craegmoor Supporting You Limited	Care delivery	100% ordinary
Craegmoor Facilities Company Limited	Management services	100% ordinary
Craegmoor Hospitals Limited	Care delivery	100% ordinary
Burnside Care Limited	Care delivery	100% ordinary
Speciality Care (Care Homes) Limited	Care delivery	100% ordinary
Strathmore College Limited	Specialist education services	100% ordinary
Specialised Courses Offering Purposeful Education Limited	Specialist education services	100% ordinary
Speciality Care (Addison Court) Limited	Care delivery	100% ordinary
Speciality Care (EMI) Limited	Care delivery	100% ordinary and 100% preference
Speciality Care (Rest Homes) Limited	Care delivery	100% ordinary
Speciality Care (UK Lease Homes) Limited	Care delivery	100% ordinary
J C Care Limited	Care delivery	100% ordinary
Lansdowne Road Limited	Care delivery	100% ordinary

Subsidiary undertakings	Principal activities	Class and percentage Of shares held
Lothlorien Community Limited	Care delivery	100% ordinary
R. J. Homes Limited	Care delivery	100% ordinary
Heddfan Care Limited	Care delivery	100% ordinary
Sapphire Care Services Limited	Care delivery	100% ordinary
Autism Tascc Services Limited	Care delivery	100% ordinary
Craegmoor Homes Limited	Care delivery	100% ordinary
Johnson Care Limited	Care delivery	100% ordinary
Cotswold Care Services Limited	Care delivery	100% ordinary
Treehome Limited	Care delivery	100% ordinary
Strathmore Care Services Limited	Care delivery	100% ordinary
Lambs Support Services Limited	Care delivery	100% ordinary
Positive Living Limited	Care delivery	100% ordinary
Ferguson Care Limited	Care delivery	100% ordinary
Speciality Care (Rehab) Limited	Care delivery	100% ordinary
Speciality Care (Learning Disabilities) Limited	Care delivery	100% ordinary
Yorkshire Parkcare Company Limited	Care delivery	100% ordinary
Conquest Care Homes (Norfolk) Limited	Care delivery	100% ordinary
Conquest Care Homes (Soham) Limited	Care delivery	100% ordinary
Conquest Care Homes (Peterborough) Limited	Care delivery	100% ordinary
Parkcare Homes Limited	Care delivery	100% ordinary
Health & Care Services (UK) Limited	Care delivery	100% ordinary
Amore (Stoke 1) Limited (formerly Priory (Stoke 1) Limited)	Care delivery	100% ordinary
Amore (Wednesfield 1) Limited (formerly Priory (Wednesfield 1) Limited)	Care delivery	100% ordinary
S P Cockermouth Limited	Care delivery	100% ordinary
Amore (Coventry) Limited) (formerly Priory (Coventry) Limited)	Care delivery	100% ordinary
Cheadle Royal Residential Services Limited	Care delivery	100% ordinary
Priory Condover (Property) Limited	Care delivery	100% ordinary
CO Developments Limited	Care delivery	100% ordinary
Priory (Farmfield) Limited	Care delivery	100% ordinary
Priory Care Homes Holdings Limited	Care delivery	100% ordinary
High Quality Lifestyle Limited	Care delivery	100% ordinary
Peninsular Autism Support and Services Limited	Care delivery	100% ordinary
Harbour Care (UK) Limited	Care delivery	100% ordinary and 100% preference
Helden Homes Limited	Care delivery	100% ordinary
New Directions (Hastings) Limited	Care delivery	100% ordinary
New Directions (Bexhill) Limited	Care delivery	100% ordinary
New Directions (Robertsbridge) Limited	Care delivery	100% ordinary
New Directions (St Leonards on Sea) Limited	Care delivery	100% ordinary
Castlecare Group Limited	Intermediate holding company	100% ordinary
Castlecare Holdings Limited	Intermediate holding company	100% ordinary
Castle Homes Care Limited	Children's care home	100% ordinary
Castle Homes Limited	Children's care home	100% ordinary
Quantum Care (UK) Limited	Children's care home	100% ordinary
Castlecare Cymru Limited	Children's care home	100% ordinary
Castlecare Education Limited	Specialist education services	100% ordinary
Rothcare Estates Limited	Property company	100% ordinary

• interests held directly by the Company. A full list of subsidiaries can be obtained by writing to the Company Secretary at 80 Hammersmith Road, London, W14 8UD.

All subsidiary and associated undertakings are registered in England and Wales with the following exceptions:

Priory Investments Holdings 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, Priory Finance Company Limited and Priory (Condover) Property Limited are registered in the Cayman Islands. Priory (Coventry) Limited is registered in the Isle of Man.

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 the financial statements, defined below:

- Give a true and fair view of the state of the parent company's affairs as at 31 December 2014;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The parent company financial statements (the "financial statements"), which are prepared by Priory Group No. 1 Limited comprise:

- The parent company balance sheet as at 31 December 2014;
- The parent company reconciliation of shareholders' funds 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 their preparation 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the strategic report and directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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.

Priory Group No. 1 Limited

Independent auditors' report – parent company

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 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 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.

Other matter

We have reported separately on the Group financial statements of Priory Group No. 1 Limited for the year ended 31 December 2014.

Richard Bunter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Newcastle upon Tyne

30 March 2015

Priory Group No. 1 Limited

Parent company balance sheet

Company balance sheet

£'000	Note	31 December 2014	31 December 2013
Fixed assets			
Investments	3	**453,488**	453,488
Current assets			
Debtors	4	**23,454**	17,474
Net current assets		**23,454**	17,474
Total assets less current liabilities		**476,942**	470,962
Creditors: amounts falling due after more than one year	5	**(279,295)**	(249,372)
Net assets		**197,647**	221,590
Capital and reserves			
Called up share capital	6	**261,185**	261,184
Share premium account		**11,437**	11,437
Profit and loss account		**(74,975)**	(51,031)
Total shareholders' funds		**197,647**	221,590

The financial statements of Priory Group No. 1 Limited on pages 41 to 44 were approved by the board of directors and authorised for issue on 30 March 2015. They were signed on its behalf by:

Tom Riall
Chief Executive Officer

Jason Lock
Chief Financial Officer

Priory Group No. 1 Limited

Parent company reconciliation of shareholders' funds

£'000	Called up share capital	Share premium account	Profit and loss account	Total shareholders' funds
At 1 January 2013	261,179	11,344	(30,431)	242,092
Loss for the financial year	-	-	(20,600)	(20,600)
Transactions with owners:				
Issue of shares	5	93	-	98
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**
As at 31 December 2014	**261,185**	**11,437**	**(74,975)**	**197,647**

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, incorporated and domiciled in the United Kingdom.

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

The company is a qualifying entity for the purposes of FRS 101. Note 25 of the consolidated financial statements gives details of the Company's ultimate parent. Its consolidated financial statements prepared in accordance with IFRS are set out on pages 1 to 38.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 1 January 2013. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

The impact of the amendments to the Company's previously adopted accounting policies in accordance with UK GAAP (excluding FRS 101) was not material to the shareholders' equity as at the date of transition or as at 31 December 2013 or as at 31 December 2014, nor on the profit or loss for the years ended 31 December 2013 and 31 December 2014.

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 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 £23.9m (2013: £20.6m). The auditors' remuneration for audit and other services was £10,000 (2013: £10,000). The Company had no employees during the year. Details of directors' emoluments are given in note 25 to the consolidated financial statements.

3. Fixed asset investments

Cost and net book value	£'000
At 31 December 2013 and 31 December 2014	**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	2014	2013
Amounts owed by group undertakings	**16,893**	10,865
Amounts owed by related parties	**148**	148
Group relief	**5,981**	6,119
Unpaid share capital	**432**	342
	23,454	17,474

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

Priory Group No. 1 Limited

Notes to the parent company financial statements

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

£'000	2014	2013
Accrued interest	**18,194**	16,245
Loan notes	**261,101**	233,127
	279,295	249,372

Details of loan notes are included in note 17 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 21 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 is beneficially owned by funds managed by Advent International Corporation which is 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 25 to the consolidated financial statements.