Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Annual report and consolidated financial statements for the year ended 31 December 2017

Registered number 09057543

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Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

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Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Strategic report

The directors present their strategic report on Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited) for the year ended 31 December 2017.

On 7 March 2018 the company changed its name from Partnerships in Care UK 1 Limited to Priory Group UK 1 Limited.

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

Principal activities

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

The Group is a leading provider of behavioural care in the United Kingdom, focusing on the provision of acute psychiatry, forensic and rehabilitation and recovery services, specialist education and children's services, older people care and specialist support for adults who have learning difficulties. The Group operates in three 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 **Adult Care** segment provides specialist residential and supported living services for adults with a variety of learning difficulties and mental health illnesses and supports older people who require residential, nursing and dementia care in later life.

Business review

The results for the year are set out in the consolidated income statement on page 8 and the financial position of the Group as at 31 December 2017 is set out in the consolidated balance sheet on page 10. Group revenue for the year was £796.6m (2016: £823.8m) and Adjusted EBITDA was £151.9m (2016: £176.9m), which represented a margin of 19.1% (2016: 21.5%) of revenue. Operating profit for the year was £62.2m (2016: £84.4m) and loss before tax was £21.1m (2016: loss of £175.2m).

Revenue and Adjusted EBITDA have decreased compared to the prior year as a result of the disposal of 22 Healthcare facilities in November 2016 in response to the UK Competition and Markets Authority review of the acquisition of the Priory Group by Acadia Healthcare Company Inc. ('Acadia'). Excluding the impact of the disposed sites, revenue increased by £86.9m and Adjusted EBITDA increased by £9.1m compared to the prior year. This is due primarily to the full year impact of the Priory Group acquisition, in addition to the Aspire acquisition (see note 10).

Net costs of £10.3m (2016: £14.0m) were recognised as exceptional items in the consolidated income statement. These costs primarily relate to the restructuring of the Group following the acquisition of the Priory Group in February 2016. Further details of these exceptional charges are given in note 7 to the financial statements.

The loss before tax for the year has reduced compared to 2016 as there is no loss on disposal of investments, which arose in 2016 from the disposed Healthcare facilities, and interest payable to Acadia is lower due to loan repayments made. Loan repayments are not required until 2022, however surplus cash has been used to repay accrued interest and loan capital, reducing the liability going forward.

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

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 Care Quality Commission ('CQC'), and, in Scotland, Wales and Northern Ireland, its local equivalent. Children's homes, residential schools and colleges in England are regulated by Ofsted, and in Scotland and Wales by their local equivalent. All schools must be licensed by the Department for Education.

Land and buildings of the Group (including fixtures and fittings) were recorded at fair values on acquisition, as determined by independent third party valuers. The net book value at 31 December 2017 of £1.4bn (2016: £1.3bn) is therefore considered to be approximate to market value.

Financial risk management

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

Credit risk

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

Credit risk is not considered to be significant given that over 90% of revenue is derived from publicly funded entities and payment is taken in advance for privately funded healthcare services. Credit evaluations are carried out on privately funded residents in the Adult Care business.

Interest rate risk

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

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

Further information on the Group's financial risk management objectives, policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in note 25 to the consolidated financial statements.

Future developments and strategy

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

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

Key performance indicators

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

Financial

Adjusted EBITDA reflects earnings before interest, tax, depreciation, amortisation and operating exceptional items. This measure is presented as part of the consolidated income statement and in note 3 to the consolidated financial statements. Adjusted EBITDA margin reflects Adjusted EBITDA divided by revenue and was 19.1% (2016: 21.5%) in the year.

Non-financial

During the year, the average number of available beds across the Group was 8,750 (2016: 9,369); excluding supported living rental beds the number of available beds was 8,700 (2016: 9,329). ADC (excluding supported living rental beds) was 7,494 (2016: 8,228) and occupancy was 86.1% (2016: 88.2%). The Group aims to maximise available beds occupancy by increasing ADC across the divisions.

Principal risks and uncertainties

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

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

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

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Strategic report

Failure to comply with regulation and increased regulatory costs

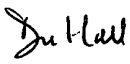
All of the Group's services are subject to an increasingly high level of regulation by various regulatory bodies. New laws and regulations are being introduced (and may be introduced in the future) that could impose increased costs on the Group's operations. The Group is unable to predict the content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

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

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

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

By order of the Board



David Hall

Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
12 April 2018

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Directors' report

The directors present their annual report and the audited consolidated and company financial statements of Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited) for the year ended 31 December 2016. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union (EU) and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), in particular FRS 101.

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

Dividends

The directors do not recommend the payment of a dividend (2016: £nil).

Directors

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

Christopher Howard	
Joey Jacobs	
Nigel Myers	(appointed 19 July 2017)
Trevor Torrington	(appointed 19 July 2017)

Going concern

The Board reviews forecasts of the Group's liquidity requirements based on a range of scenarios to ensure it has sufficient cash to meet operational needs. The debt and interest in the group is due to Acadia, and no contractual payments are due until 2022. The Group is making a loss before tax, however this includes non-cash items such as amortisation, depreciation and the impact of recognising rent on a straight line basis. The Group generates sufficient cash to cover its liabilities and surplus balances are transferred to Acadia to reduce the accrued interest and loan capital balances ahead of their scheduled repayment dates.

After making appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties, the directors are satisfied that the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. They have done this by comparing the trading forecasts and financing requirements (for a period of 12 months from the date of approval of these financial statements) to the likelihood of availability of ongoing financial support from shareholders. The directors are satisfied that the going concern basis of preparation for these financial statements is appropriate. Accordingly, the financial statements have been prepared on a going concern basis.

Employees

The directors recognise that the continued position of the Group in the behavioural care industry depends on the quality and motivation of its employees. Well trained, engaged and quality employees are crucial for the Group to ensure that service users receive the best quality care. The key quality performance indicators the Group uses to measure engagement and training are: the employee opinion survey, employee sickness levels and compliance with the Group e-learning programme. The Group has low levels of sickness and high levels of compliance with training programmes. Whilst monitoring these performance indicators, the Group continues to review its remuneration system to ensure it is fair, transparent, flexible and provides individual recognition. 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 the "Your Say" forum. 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 gender, marital status, race or religion. It is the Group's policy to give full and fair consideration to applications for employment from people who are disabled, to continue wherever possible the employment of and to arrange appropriate training for, employees who become disabled and to provide equal opportunities for the career development, training and promotion of disabled employees.

Provision of information to auditors

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

By order of the Board

Dan Hall

David Hall

Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
12 April 2018

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Statement of directors' responsibilities

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

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

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

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

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

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

On behalf of the Board

Trevor Torrington
Chief Executive Officer
12 April 2018

Nigel Myers
Finance Director
12 April 2018

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Independent auditors' report - Group

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRIORY GROUP UK 1 LIMITED (FORMERLY PARTNERSHIPS IN CARE UK 1 LIMITED)

Opinion

We have audited the financial statements of Priory Group UK 1 Limited (formerly Partnership in Care UK 1 Limited) ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and parent company balance sheet, consolidated statement of cash flows, consolidated and parent company statement of changes in equity and notes 1 to 28 pertaining to the group and notes 1 to 8 pertaining to the parent company, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance in with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 1-5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Independent auditors' report - Group

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Ernst & Young LLP

Catherine Reid (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne
12 April 2018

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Consolidated income statement for the year ended 31 December 2017

£'000	Note	**Year ended 31 December 2017**	Year ended 31 December 2016
Revenue	3	**796,579**	823,792
Operating costs	4	**(734,426)**	(739,392)
Operating profit	3	**62,153**	84,400
Analysed as:			
Adjusted EBITDAR	3	**183,699**	202,778
Rent		**(31,772)**	(25,859)
Adjusted EBITDA		**151,927**	176,919
Depreciation	4	**(55,877)**	(54,059)
Amortisation	4	**(23,615)**	(24,438)
Exceptional items	7	**(10,282)**	(14,022)
Operating profit		**62,153**	84,400
Loss on disposal of investments		**-**	(167,150)
Finance costs	8	**(85,634)**	(92,517)
Finance income	8	**2,429**	109
Loss before tax		**(21,052)**	(175,158)
Income tax	9	**5,435**	60,730
Loss for the year		**(15,617)**	(114,428)

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

All operations for the current and prior year are continuing.

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Consolidated statement of comprehensive income for the year ended 31 December 2017

£'000	**Year ended 31 December 2017**	Year ended 31 December 2016
Loss for the year	**(15,617)**	(114,428)
Actuarial gain/(loss) on defined benefit scheme	**2,964**	(6,172)
Movement in deferred tax relating to pension losses	**(503)**	1,029
Other comprehensive income/(expense) for the year	**2,461**	(5,143)
Total comprehensive expense for the year	**(13,156)**	(119,571)

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Consolidated balance sheet at 31 December 2017

£'000	Note	31 December 2017	31 December 2016
Non-current assets			
Intangible assets	11	**548,022**	558,327
Property, plant and equipment	12	**1,352,886**	1,340,085
		1,900,908	1,898,412
Current assets			
Inventories	13	**526**	560
Trade and other receivables	14	**53,281**	69,420
Cash	15	**12,749**	31,500
		66,556	101,480
Assets held for sale	16	**3,340**	3,940
		69,896	105,420
Total assets		**1,970,804**	2,003,832
Current liabilities			
Trade and other payables	17	**(93,900)**	(100,756)
Corporation tax payable		**(2,894)**	(2,200)
Borrowings	18	**(1,800)**	(1,599)
Provisions for liabilities and charges	20	**(11,677)**	(13,319)
		(110,271)	(117,874)
Net current liabilities		**(40,375)**	(12,454)
Non-current liabilities			
Borrowings	18	**(1,147,024)**	(1,154,180)
Provisions for liabilities and charges	20	**(8,712)**	(6,821)
Deferred income tax	21	**(152,813)**	(156,584)
Pension liability	22	**(9,568)**	(12,801)
		(1,318,117)	(1,330,386)
Net assets		**542,416**	555,572
Equity attributable to the owners of the parent:			
Share capital	23	**74,984**	74,984
Share premium account		**647,240**	647,240
Accumulated losses		**(179,808)**	(166,652)
Total equity		**542,416**	555,572

The consolidated financial statements of Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited) (registered company number 09057543) on pages 8 to 41 were approved by the board of directors and authorised for issue on 12 April 2018. *They were signed on its behalf by:*

Trevor Torrington
Chief Executive Officer

Nigel Myers
Finance Director

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Consolidated statement of cash flows for the year ended 31 December 2017

£'000	Note	Year ended 31 December 2017	Year ended 31 December 2016
Operating activities			
Operating profit		**62,153**	84,400
Loss/(profit) on disposal of property, plant and equipment	7	**3,700**	(38)
Depreciation of property, plant and equipment	4	**55,877**	54,059
Amortisation of intangible assets	4	**23,615**	24,438
Impairment of property, plant and equipment	7	**-**	2,403
Decrease in inventories		**39**	94
Decrease/(increase) in trade and other receivables		**16,926**	(4,192)
Decrease in trade and other payables		**(14,420)**	(7,404)
Provision for future minimum rental increases		**3,451**	2,000
		151,341	155,760
Taxation		**904**	(6,863)
Net cash generated from operating activities		**152,245**	148,897
Investing activities			
Interest income	8	**2,429**	109
Purchase of subsidiaries, net of cash acquired	10	**(13,746)**	(1,466,192)
Proceeds from disposal of property, plant and equipment		**2,048**	1,111
Purchases of property, plant and equipment		**(66,781)**	(92,564)
Proceeds from disposal of subsidiaries, net of cash disposed		**-**	296,320
Net cash used in investing activities		**(76,050)**	(1,261,216)
Financing activities			
Proceeds from borrowings		**-**	992,203
Repayment of acquired company director loans		**1,052**	-
Repayments of borrowings		**(13,221)**	(234,813)
Repayment of obligations under finance leases		**(1,940)**	(1,473)
Post-employment benefits		**(600)**	-
Proceeds from issue of ordinary shares		**-**	501,272
Interest paid		**(80,237)**	(118,905)
Net cash (used in)/generated from financing activities		**(94,946)**	1,138,284
Net (decrease)/increase in cash		**(18,751)**	25,965
Cash at the beginning of the year	15	**31,500**	5,535
Cash at the end of the year	15	**12,749**	31,500

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Consolidated statement of changes in equity for the year ended 31 December 2017

£'000	Note	Share capital	Share premium account	Accumulated losses	Total equity
At 1 January 2016		73,651	147,301	(47,081)	173,871
Loss for the year		-	-	(114,428)	(114,428)
Other comprehensive expense for the year	22	-	-	(5,143)	(5,143)
Total comprehensive expense for the year		-	-	(119,571)	(119,571)
Issue of shares	23	1,333	499,939	-	501,272
Total transactions with owners		1,333	499,939	-	501,272
At 31 December 2016		74,984	647,240	(166,652)	555,572
Loss for the year		-	-	(15,617)	(15,617)
Other comprehensive income for the year	22	-	-	2,461	2,461
Total comprehensive expense for the year		-	-	(13,156)	(13,156)
At 31 December 2017		**74,984**	**647,240**	**(179,808)**	**542,416**

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Notes to the consolidated financial statements

1. General information

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

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

2. Significant accounting policies

a) Basis of preparation

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

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

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the particular circumstance, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of complexity, or areas where assumptions and estimates are significant to the financial statements are discussed on pages 16 and 17.

b) Going concern

The Board reviews forecasts of the Group's liquidity requirements based on a range of scenarios to ensure it has sufficient cash to meet operational needs. The debt and interest in the group is due to Acadia, and no contractual payments are due until 2022. The Group is making a loss before tax, however this includes non-cash items such as amortisation, depreciation and the impact of recognising rent on a straight line basis. The Group generates sufficient cash to cover its liabilities and surplus balances are transferred to Acadia to reduce the accrued interest and loan capital balances ahead of their scheduled repayment dates.

After making appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties, the directors are satisfied that the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. They have done this by comparing the trading forecasts and financing requirements (for a period of 12 months from the date of approval of these financial statements) to the likelihood of availability of ongoing financial support from shareholders. The directors are satisfied that the going concern basis of preparation for these financial statements is appropriate. Accordingly, the financial statements have been prepared on a going concern basis.

c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to 31 December 2017. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The purchase method is used to account for the acquisition of subsidiaries and group reorganisations. Under the purchase method the cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred in exchange for the subsidiary. Identifiable assets, liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. All acquisition costs are expensed immediately.

Non-controlling interests are initially measured at fair value.

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

d) Non-current assets held for sale

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

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

e) Intangible assets

i) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently where circumstances suggest an impairment may have occurred. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

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

ii) Brands and customer contracts

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

f) Segment reporting

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

g) Revenue recognition

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

h) Borrowing costs and interest

All borrowing costs are recognised in the income statement in the period in which they are incurred. Interest income is recognised in the income statement as it accrues, using the effective interest method.

The Group has no borrowing costs directly attributable to the acquisition, construction or production of specific qualifying assets.

i) Retirement benefit costs

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

The Group, through one of its subsidiaries, Partnerships in Care Limited, operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee with receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at 31 December 2017 less the fair value of the plan assets.

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

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

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

j) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit can differ from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, or that are never taxable

or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

k) Property, plant and equipment

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

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

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

Buildings	50 years or over the period of the lease
Fixtures and fittings	*3 to 16 years*
Motor vehicles	over the shorter of the lease term and 4 years

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

l) Inventory

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

m) Leases

i) Finance leases

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

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

ii) Operating leases

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

iii) Future minimum rental increases

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

n) Non derivative financial instruments

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

i) Trade and other receivables

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

ii) Cash

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

iii) Trade and other payables

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

iv) Borrowings

All borrowings are initially stated at the fair value of proceeds received after deduction of finance costs and are subsequently measured at amortised cost using the effective interest rate method. The issue costs are amortised over the life of the underlying borrowings at a constant rate on the carrying amount. On early repayment of the borrowings, the balance of the un-amortised issue costs, and any premium and discounts arising in the early repayment of borrowings are recognised in the income statement. Details of the Group's financial risk management policies are included in note 25.

o) Classification of financial instruments issued by the Group

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

p) Provisions

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

q) Reserves

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

r) Non-GAAP measures and exceptional items

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

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

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

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

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

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

(i) Valuation of deferred tax assets

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

(ii) Impairment of goodwill

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

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

In accounting for each acquisition, the Group considers whether there are acquired intangible assets that qualify for separate recognition. In respect of acquisitions completed in the years ended 31 December 2016 and 31 December 2017, the Group has concluded that two classes of intangibles qualify under certain circumstances: brands and customer contracts. The valuation method used to value the customer contracts is a multi-period excess earnings method, based on an estimate of the amount of earnings attributable to those contracts. The intangible asset is then amortised on an attrition basis. The valuation method used to value acquired brands is the royalty relief method, with subsequent amortisation charged on a straight line basis. Estimating excess earnings, appropriate royalty rates and the useful economic life of customer contracts and brands requires management judgement and discretion.

t) Changes in accounting policy and disclosure

From 1 January 2017 the following interpretations became effective and were adopted by the Group:

IAS 12: 'Income taxes' on Recognition of deferred tax assets for unrealised losses
IAS 7: 'Statement of cash flows'
Annual improvements 2014-2016 – IFRS 12

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

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

	Effective for periods commencing on or after
IFRS 4: amendments regarding implementation of IFRS 9	1 January 2018
Annual improvements 2014-2016	1 January 2018
IFRS 15: 'Revenue from contracts with customers'	1 January 2018
IFRS 9: 'Financial instruments'	1 January 2018
IFRS 2: 'Share based payments' classification and measurement	1 January 2018
IAS 40: 'Investment property' transfer of property	1 January 2018
IFRS 15: 'Revenue from contracts with customers' - clarifications	1 January 2018
IFRIC 22: 'Foreign currency transactions and advance consideration'	1 January 2018
IFRS 9: 'Financial instruments' amendment relating to prepayment features with negative compensation	1 January 2019
IFRS 16: 'Leases'	1 January 2019
IAS 28: amendments clarifying use of IFRS 9	1 January 2019
IFRIC 23: 'Uncertainty over income tax treatment'	1 January 2019
IFRS 17: 'Insurance contracts'	1 January 2021

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group in 2017, with the exception of IFRS 16: 'Leases'. The Group is assessing the impact of the above standards, amendments and interpretations in future years and will adopt them in the period they become effective.

It is considered that the adoption of IFRS 16 will have a significant impact on the results and financial position of the Group. The Group has material commitments under non-cancellable operating leases, principally relating to property, which under IFRS 16 will require capitalisation as a "right of use" asset along with a corresponding "right of use" obligation. Vehicles currently recognised in the balance sheet as being held under finance leases will be reclassified as right of use assets and obligations. Onerous lease provisions will no longer be recognised within "provisions" but will be reclassified so as to have the effect of impairing the right of use asset. It is expected that EBITDA will increase, however this will be more than offset by an increase in depreciation charges and interest expense incurred as the right of use obligation unwinds.

The Group estimates that had IFRS 16 been adopted as at 31 December 2017, and making use of all practical expediencies and transitional arrangements set out in the Standard, right of use assets totalling approximately £435m, and right of use obligations totalling approximately £438m would be recognised in the consolidated balance sheet. An adjustment to opening reserves amounting to approximately £5.5m would be recognised which relates to the de-recognition of the provision for future minimum rental increases.

For the first year after adoption, additional depreciation and interest charges would be recognised, amounting to approximately £23m and £31m, respectively; however rental costs would be around £31m lower. The net impact on profit before tax would therefore be a reduction of approximately £22m.

3. Segmental information

The Group is organised into the following operating segments:

- The **Healthcare** segment focuses on the treatment of patients with a variety of psychiatric conditions which are treated in both open and secure environments. This segment also provides neuro-rehabilitation services.
- The **Education** segment provides day and residential schooling, care and assessment for children with emotional and behavioural difficulties or autistic spectrum disorders.
- The **Adult Care** segment provides specialist residential and supported living services for adults with a variety of learning difficulties and mental health illnesses and supports older people who require residential, nursing and dementia care in later life.

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

Segment revenues and results

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

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

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

Year ended 31 December 2017

£'000	Healthcare	Education	Adult Care	Central	Total
Revenue	**443,214**	**132,287**	**221,078**	**-**	**796,579**
Adjusted EBITDAR	**106,454**	**39,235**	**49,410**	**(11,400)**	**183,699**
Rent	**(14,032)**	**(4,979)**	**(11,457)**	**(1,304)**	**(31,772)**
Adjusted EBITDA	**92,422**	**34,256**	**37,953**	**(12,704)**	**151,927**
Depreciation (note 4)					**(55,877)**
Amortisation (note 4)					**(23,615)**
Exceptional items (note 7)					**(10,282)**
Operating profit					**62,153**
Loss on disposal of investments					**-**
Net finance costs (note 8)					**(83,205)**
Loss before tax					**(21,052)**

Year ended 31 December 2016

£'000	Healthcare	Education	Adult Care	Central	Total
Revenue	523,901	109,258	190,633	-	823,792
Adjusted EBITDAR	156,015	31,683	48,700	(33,620)	202,778
Rent	(11,900)	(4,326)	(9,633)	-	(25,859)
Adjusted EBITDA	144,115	27,357	39,067	(33,620)	176,919
Depreciation (note 4)					(54,059)
Amortisation (note 4)					(24,438)
Exceptional items (note 7)					(14,022)
Operating profit					84,400
Loss on disposal of investments					(167,150)
Net finance costs (note 8)					(92,408)
Loss before tax					(175,158)

Segment assets

Information regarding segmental assets is reviewed by the CODM annually.

£'000	2017	2016
Healthcare	**264,503**	265,036
Education	**116,204**	113,318
Adult Care	**170,655**	183,913
Total segment assets	**551,362**	562,267
Unallocated assets:		
Property plant and equipment	**1,352,886**	1,340,085
Inventories	**526**	560
Trade and other receivables	**53,281**	69,420
Cash	**12,749**	31,500
Total assets	**1,970,804**	2,003,832
Included in total segment assets above:		
Intangible assets		
Healthcare	**263,673**	264,206
Education	**116,204**	112,718
Adult Care	**168,145**	181,403
	548,022	558,327
Assets held for sale		
Healthcare	**830**	830
Education	**-**	600
Adult Care	**2,510**	2,510
	3,340	3,940

Information about major customers

In 2017 revenue from NHS England amounted to 22% (2016: 27%) of total revenue and no other single customer accounted for more than 10% of total revenue. On a consolidated basis, revenue of £302.1m (2016: £250.2m) and £417.8m (2016: £505.5m) arose from Social Services and the NHS respectively, which each represent more than 10% of the Group's total revenue. Of this revenue, £390.2m (2016: £480.2m) arose in the Healthcare segment, £130.4m (2016: £106.9m) arose in the Education segment and £199.3m (2016: £168.6m) in the Adult Care segment.

4. Operating costs

£'000	2017	2016
Staff costs (note 6)	**454,217**	482,506
Other operating costs	**158,020**	137,731
Depreciation of property, plant and equipment (note 12)		
Owned	**53,952**	52,460
Leased	**1,925**	1,599
Amortisation of intangible assets (note 11)	**23,615**	24,438
Rentals under operating leases		
Property leases	**31,772**	25,859
Other operating leases	**643**	777
Exceptional items (note 7)	**10,282**	14,022
	734,426	739,392

5. Auditors' remuneration

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

6. Employee numbers and costs

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

Number	2017	2016
Medical, care and nursing	**16,488**	17,314
Administrative and ancillary	**4,219**	4,102
	20,707	21,415

Their aggregate remuneration comprised:

£'000	2017	2016
Wages and salaries	**412,304**	439,648
Social security costs	**34,783**	34,830
Other pension costs	**7,130**	8,028
	454,217	482,506

7. Exceptional items

£'000	2017	2016
Reorganisation and rationalisation costs	**6,412**	5,008
Transaction related costs	**170**	6,649
Impairment	**-**	2,403
Loss/(profit) on disposal of property, plant and equipment	**3,700**	(38)
	10,282	14,022

Reorganisation and rationalisation costs primarily relate to the restructuring of the Group following the acquisition of the Priory Group in February 2016. Transaction related costs for the period relate to the Aspire acquisition and in the prior period to the acquisition of the Priory Group, see note 10.

8. Finance income and costs

£'000	2017	2016
Finance costs		
Interest on bank facilities and associated costs	**298**	257
Interest payable on intercompany loans	**84,569**	91,615
Interest on obligations under finance leases	**399**	348
Provisions: unwinding of discount	**37**	47
Net cost on post employment benefit	**331**	250
	85,634	92,517
Finance income		
Interest income	**(60)**	(109)
Interest income on intercompany loans	**(2,369)**	-
	(2,429)	(109)
Net finance costs	**83,205**	92,408

9. Income tax

£'000	2017	2016
Current tax		
Current tax on profits for the year	**(71)**	800
Adjustments in respect of prior periods	**(230)**	(692)
	(301)	108
Deferred tax (note 21):		
Origination and reversal of temporary differences	**(4,094)**	(58,097)
Adjustments in respect of prior periods	**(1,040)**	(113)
Changes in tax rates	**-**	(2,628)
	(5,134)	(60,838)
Taxation	**(5,435)**	(60,730)

Corporation tax is calculated at 19.25% (2016: 20%) 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	2017	2016
Loss before tax	**(21,052)**	(175,158)
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	**(4,053)**	(35,032)
Non-deductible expenses	**1,664**	3,001
Income not taxable	**(454)**	-
Adjustments in respect of prior years	**(1,270)**	(805)
Deferred tax not recognised	**(47)**	(128)
Other differences	**(1,145)**	(575)
Changes in tax rates	**653**	(2,512)
Movement in tax base of fixed assets	**(783)**	-
Disposal of subsidiaries	**-**	(24,679)
Tax credit for the year	**(5,435)**	(60,730)

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the Group's losses for this accounting year are taxed at an effective rate of 19.25% (2016: 20%).

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

10. Business combinations

Aspire

On 13 November 2017, Priory Education Services Limited, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Aspire Scotland Holdings Limited for total consideration of £16,475,000. The Aspire Group provides care, accommodation and education services for children and young people with specific needs. The acquisition gives the Group a presence in central Scotland and creates a platform for further growth.

£'000	
Cash consideration	16,475
Fair value of net assets acquired	(7,228)
Goodwill	**9,247**

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

£'000	Fair value
Intangible assets	4,063
Property, plant and equipment	1,764
Inventories	5
Trade and other receivables	788
Loan receivable	1,052
Cash	2,498
Deferred tax	(860)
Finance lease liabilities	(37)
Trade and other payables	(967)
Bank loan	(928)
Provisions	(150)
Net assets	**7,228**

Included in other payables is deferred consideration of £231,000 due to the vendors at the year end.

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.

The intangible asset recognised relates to customer contracts in the Education segment, see note 11 for further details. Goodwill recognised on acquisition is attributable to the synergies expected to be achieved through integration of the business with the rest of the Group, the skills and talent of the assembled workforce and the potential benefits to the wider business in respect of increasing the Group's presence in Scotland.

From the date of acquisition to 31 December 2017, the business contributed revenue of £1.0m and profit before tax of £0.4m to the Group results.

If acquired on 1 January 2017, the business would have contributed £6.5m revenue and £2.5m profit before tax to the Group results for the year ended 31 December 2017.

Priory Group

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

£'000	
Cash consideration	1,486,634
Fair value of net assets acquired	(1,024,556)
Goodwill	**462,078**

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

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

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

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

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

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

11. Intangible assets

£'000	Goodwill	Brands	Customer contracts	Total
Cost				
At 1 January 2016	111,223	-	-	111,223
Arising on business combinations	462,078	16,000	98,365	576,443
Disposals	(103,960)	(941)	-	(104,901)
At 31 December 2016	469,341	15,059	98,365	582,765
Arising on business combinations	9,247	-	4,063	13,310
At 31 December 2017	**478,588**	**15,059**	**102,428**	**596,075**
Accumulated amortisation and impairment				
At 1 January 2016	-	-	-	-
Amortisation charge	-	466	23,972	24,438
At 31 December 2016	-	466	23,972	24,438
Amortisation charge	-	533	23,082	23,615
At 31 December 2017	**-**	**999**	**47,054**	**48,053**
Net book value				
At 31 December 2017	**478,588**	**14,060**	**55,374**	**548,022**
At 31 December 2016	469,341	14,593	74,393	558,327

Goodwill

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

£'000	2017	2016
Healthcare	**249,613**	249,613
Education	**101,535**	92,288
Adult Care	**127,440**	127,440
	478,588	469,341

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

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

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

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

	2017	2016
Pre-tax discount rate	**7.4%**	7.5%
Long term net cash flow growth rate	**2.0%**	1.5% - 2.0%

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. For each CGU no reasonably likely reduction in cash flow or long term growth rate would result in a material impairment charge. Should all other assumptions remain constant, an increase in the pre-tax discount rate of between 2.1% and 4.3% would be required in order to eliminate the headroom on an individual CGU.

Brands

The brand intangible arose on the acquisition of the Priory Group and has a remaining amortisation period of 28.1 years (2016: 29.1 years).

Customer contracts

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

	2017		2016	
	Carrying value	**Amortisation period remaining**	Carrying value	Amortisation period remaining
	£'000	**years**	£'000	years
Priory Group – Adult Care	**40,705**	**6.1**	53,963	7.1
Priory Group - Education	**10,606**	**2.1**	20,430	3.1
Aspire - Education	**4,063**	**4.0**	-	-
	55,374		74,393	

12. Property, plant and equipment

£'000	Land and buildings	Assets in the course of construction	Fixtures and fittings	Motor vehicles	Total
Cost					
At 1 January 2016	550,478	-	31,107	1,304	582,889
Arising on business combinations	973,017	10,800	115,063	3,890	1,102,770
Additions	36,586	5,926	39,327	3,104	84,943
Disposals	(334,300)	-	(28,371)	(670)	(363,341)
Transfers between classifications	6,666	(6,613)	(53)	-	-
Transferred (to)/from current assets	(376)	-	533	-	157
At 31 December 2016	1,232,071	10,113	157,606	7,628	1,407,418
Arising on business combinations	1,501	-	184	79	1,764
Additions	26,888	1,710	41,089	2,441	72,128
Disposals	(7,617)	(296)	(9,049)	(1,447)	(18,409)
Transfers between classifications	2,185	(2,354)	169	-	-
Transferred from current assets	2,821	-	-	-	2,821
At 31 December 2017	**1,257,849**	**9,173**	**189,999**	**8,701**	**1,465,722**
Accumulated depreciation					
At 1 January 2016	13,657	-	5,769	394	19,820
Charge for the year	25,468	-	26,531	2,060	54,059
Disposals	(5,504)	-	(3,157)	(288)	(8,949)
Impairment	1,969	-	434	-	2,403
At 31 December 2016	35,590	-	29,577	2,166	67,333
Charge for the year	34,381	-	19,690	1,806	55,877
Disposals	(3,574)	-	(7,574)	(1,447)	(12,595)
Transferred from current assets	2,221	-	-	-	2,221
At 31 December 2017	**68,618**	-	**41,693**	**2,525**	**112,836**
Net book value					
At 31 December 2017	**1,189,231**	**9,173**	**148,306**	**6,176**	**1,352,886**
At 31 December 2016	1,196,481	10,113	128,029	5,462	1,340,085

At 31 December 2017, the carrying amount of assets (motor vehicles) held under finance lease was £4.6m (2016: £4.1m). The Group's obligations under finance leases are secured by the lessors' title to the leased assets. At 31 December 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.1m (2016: £10.6m).

13. Inventories

£'000	2017	2016
Consumable supplies	**526**	560

14. Trade and other receivables

£'000	2017	2016
Trade receivables	**36,679**	33,993
Allowance for doubtful debts	**(1,093)**	(946)
	35,586	33,047
Other receivables	**4,709**	21,546
Prepayments and accrued income	**12,986**	14,827
	53,281	69,420

15. Cash

£'000	2017	2016
Cash	**12,749**	31,500

16. Assets held for sale

£'000	Land and buildings	Fixtures and fittings	Total
Cost and net book value			
At 1 January 2016	-	-	-
Additions through business combinations	4,318	533	4,851
Transferred from/(to) property, plant and equipment (note 12)	376	(533)	(157)
Disposals	(754)	-	(754)
At 31 December 2016	3,940	-	3,940
Transferred to property, plant and equipment (note 12)	(600)	-	(600)
At 31 December 2017	**3,340**	**-**	**3,340**

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

17. Trade and other payables

£'000	2017	2016
Trade payables	**9,628**	9,577
Amounts owed to group undertakings	**5,418**	2,692
Other taxes and social security	**10,992**	12,100
Accruals and deferred income	**60,944**	66,555
Other payables	**6,918**	9,832
	93,900	100,756

18. Borrowings

£'000	2017	2016
Borrowings due less than one year		
Finance lease liabilities	**1,800**	1,599
	1,800	1,599
Borrowings due greater than one year		
Loans from related party	**1,132,144**	1,144,437
Accrued interest	**12,222**	7,193
Finance lease liabilities	**2,658**	2,550
	1,147,024	1,154,180
Total borrowings	**1,148,824**	1,155,779

Loans from related parties undertakings comprise unsecured loans from Acadia of £152,234,000 (2016: £152,234,000) and £979,910,000 (2016: £992,203,000) with interest at 7.4% pa which are repayable on 1 July 2022 and 16 February 2024 respectively. The directors have assessed the fair market value of the loans to be consistent with their book value.

19. Obligations under finance leases

£'000	Present value of minimum lease payments 2017	Present value of minimum lease payments 2016
Amounts payable under finance leases:		
Within one year	**1,800**	1,599
In one to five years inclusive	**2,658**	2,550
Present value of lease obligations	**4,458**	4,149

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

20. Provisions for liabilities and charges

£'000	Dilapidations	Onerous contracts and legal costs	Future minimum rent	Total
At 1 January 2016	-	-	-	-
Acquired from business combinations	1,920	20,000	-	21,920
Charged to income statement	-	-	2,000	2,000
Discount unwind	-	47	-	47
Used during year	(20)	(3,807)	-	(3,827)
At 31 December 2016	1,900	16,240	2,000	20,140
Acquired from business combinations	-	150	-	150
Charged to income statement	(1,900)	855	3,451	2,406
Discount unwind	-	37	-	37
Used during year	-	(2,344)	-	(2,344)
At 31 December 2017	**-**	**14,938**	**5,451**	**20,389**

Analysis of provisions:

£'000	2017	2016
Current	**11,677**	13,319
Non – current	**8,712**	6,821
Total provisions	**20,389**	20,140

Dilapidations

Provisions were recorded in relation to the cost to return properties held under operating leases to the state of repair at the inception of the lease.

Onerous contracts and legal costs

Provisions have been recorded for the onerous payments on certain lease arrangements totalling £3.6m (2016: £3.5m). They have been established on the basis of the expected onerous element of future lease payments over the remaining life of the relevant leases and agreements, which expire in between 6 and 20 years. These have been discounted and the provisions are expected to be utilised, with the discounts unwinding accordingly, over the remaining terms of the corresponding lease arrangements.

In light of a number of outstanding legal claims, provisions have been made which represent management's best estimate of the amounts required to settle the claims totalling £11.3m (2016: £12.7m). The directors anticipate that the majority will be settled over the next year.

Future minimum rent

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

21. Deferred tax

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

£'000	Tax losses	Interest	Other timing differences	Intangibles	Property, plant and equipment	Total
At 1 January 2016	(2,355)	-	(1,872)	-	77,239	73,012
Arising on business combinations	(12,099)	-	(9,754)	20,586	146,706	145,439
Charge/(credit) to income statement	3,955	-	8,398	(5,458)	(67,733)	(60,838)
Credit to other comprehensive income	-	-	(1,029)	-	-	(1,029)
At 31 December 2016	(10,499)	-	(4,257)	15,128	156,212	156,584
Arising on business combinations	-	-	(110)	691	279	860
Charge/(credit) to income statement	(926)	(3,761)	1,804	(4,014)	1,763	(5,134)
Charge to other comprehensive income	-	-	503	-	-	503
At 31 December 2017	**(11,425)**	**(3,761)**	**(2,060)**	**11,805**	**158,254**	**152,813**

The Group has tax losses of £69.6m (2016: £69.6m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset of £11.4m (2016: £10.5m) has been recognised in respect of such losses based on a forecast prepared to anticipate their use against future taxable profits of the companies in which they arose.

A deferred tax asset of £0.4m (2016: £1.6m) has not been recognised in respect of £2.4m (2016: £9.4m) of losses where there is insufficient certainty over their future use. These losses do not expire and if the Group were able to recognise these assets, profit would increase by £0.4m (2016: £1.6m).

A deferred tax asset of £3.8m (2016: £nil) has been recognised in respect of interest deductions, based on the expectation that these timing differences will reverse and reduce future taxable profits.

A deferred tax asset of £2.1m (2016: £4.3m) has been recognised in respect of other timing differences, based on the expectation that these timing differences will reverse and reduce future taxable profits.

There are no corporation tax consequences attaching to the payment of dividends in either 2017 or 2016 by the Group to its shareholders. Dividends received by Group parent companies from their subsidiaries are also not expected to be taxable.

22. Pension commitments

The group operates a defined contribution pension scheme. The scheme assets are held separately from these of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £7,130,000 (2016: £8,028,000).

The Group operates a defined benefit pension scheme in the UK, the Partnerships in Care Limited Pension and Life Assurance Plan. The plan was closed to future accrual from 1 May 2015; at this date, all members who were actively accruing benefits in the plan became deferred members. The disclosures set our below are based on calculations carried out as at 31 December 2017 by a qualified independent actuary.

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

The liabilities of the plan are measured by discounting the best estimate of future cash flows to be paid out of the Plan using the projected unit method. This amount is reflected in the shareholders' funds in the balance sheet. The projected unit method is an accrued benefits valuation method in which the Plan's liabilities make allowances for projected earnings. The liabilities set out in this note have been calculated based on the most recent full actuarial valuation at 31 December 2016, updated to 31 December 2017. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2017, contributions are payable to the Plan at the rates set out in the latest schedule of contributions. The total employer contributions expected to be made in the year commencing 1 January 2018 consist of shortfall contributions amounting to £1.8m. In addition, the employer will directly meet the administration expense of the Plan, including any levies payable to the Pensions Regulator and the Pension Protection Fund.

£'000	2017	2016
Fair value of scheme assets	**40,308**	39,211
Present value of future obligations	**(49,876)**	(52,012)
Net pension scheme liability	**(9,568)**	(12,801)

The amounts recognised in the income statement are as follows:

£'000	2017	2016
Net interest on net defined benefit liability	**331**	250

The amounts recognised in other comprehensive income are as follows:

£'000	2017	2016
Remeasurements:		
Return on scheme assets excluding interest income	**1,654**	6,372
Loss from change in financial assumptions	**(696)**	(12,544)
Gain from change in demographic assumptions	**508**	-
Experience gains	**1,498**	-
Remeasurement gains/(losses) recognised in other comprehensive income	**2,964**	(6,172)

Reconciliation of fair value of plan liabilities were as follows:

£'000	2017	2016
Opening defined benefit obligation	**52,012**	39,256
Interest cost	**1,349**	1,449
Actuarial (gains) and losses	**(1,310)**	12,544
Benefits paid	**(2,175)**	(1,237)
Closing defined benefit obligation	**49,876**	52,012

Reconciliation of fair value of plan assets were as follows:

£'000	2017	2016
Opening fair value of scheme assets	**39,211**	32,277
Interest income on plan assets	**1,018**	1,199
Return on scheme assets excluding interest income	**1,654**	6,372
Contributions by employer	**600**	600
Benefits paid	**(2,175)**	(1,237)
Closing fair value of scheme assets	**40,308**	39,211

Actuarial assumptions

The principal assumptions at the balance sheet date were:

	2017	2016
Discount rate	**2.45%**	2.65%
Price inflation (RPI)	**3.25%**	3.40%
Price inflation (CPI)	**2.25%**	2.40%
Retirement age	**65**	65
Expected return on scheme assets	**2.45%**	2.65%
Commutation	**75% of HMRC maximum**	75% of HMRC maximum
Mortality	**S2NA, -1 age rating; CMI 2016 tables, 1%**	S2NA, -1 age rating; CMI 2015 tables, 1%

Asset breakdown

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

	2017	2016
Equities	**7.6%**	6.5%
Bonds	**23.4%**	20.6%
Real Return Fund	**20.5%**	22.0%
Real LDI	**13.8%**	13.8%
Insurance Policy	**34.0%**	35.4%
Cash	**0.7%**	1.7%

Sensitivity analysis

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

£'000	2017
0.25% increase in discount rate	**(2,126)**
0.25% increase in inflation and related assumptions	**1,825**

23. Share capital

	2017		2016	
	Number	**Nominal value £'000**	Number	Nominal value £'000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**74,983,981**	**74,984**	74,983,981	74,984

24. Operating lease arrangements

£'000	2017	2016
Minimum lease payments under operating leases recognised as an expense in the year	**32,415**	26,636

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

£'000	Land and buildings	Other	2017 Total
Within one year	**30,937**	**589**	**31,526**
Two - five years inclusive	**119,577**	**1,616**	**121,193**
After five years	**568,994**	**2**	**568,996**

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

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

25. Financial instruments and risk management

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

Credit risk

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

Credit risk is not considered to be significant given that the vast majority of revenue is derived from publicly funded entities and payment is taken in advance for privately funded healthcare services. Credit evaluations are carried out on privately funded residents in the Adult Care business. The Group provides credit to customers in the normal course of business and the balance sheet is net of allowances of £1.1m (2016: £0.9m) 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 17 days (2016: 15 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	2017	2016
Current	**21,424**	19,138
30-60 days	**12,565**	9,461
60-150 days	**2,246**	3,099
150 days +	**444**	2,295
	36,679	33,993

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	2017	2016
60 days +	**1,640**	4,456

The movement in allowance for doubtful debts is as follows:

£'000	2017	2016
Balance at 1 January	**946**	-
Arising on business combinations	**-**	1,121
Charged to income statement	**147**	-
Amounts written off during the year as uncollectible	**-**	(133)
Disposals	**-**	(42)
Balance at 31 December	**1,093**	946

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

There is no concern over the credit quality of amounts past due but not impaired since the risk is spread over a number of unrelated counterparties which include central and local Government. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above and cash held by the Group.

Interest rate risk

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

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:

2017 £'000	Total	0-1 years	2-5 years	5 years and over
Trade and other payables	**60,069**	**60,069**	**-**	**-**
Loan from related party	**1,639,233**	**-**	**-**	**1,639,233**
Finance lease liabilities	**4,458**	**1,800**	**2,658**	**-**
	1,703,760	**61,869**	**2,658**	**1,639,233**

2016 £'000	Total	0-1 years	2-5 years	5 years and over
Trade and other payables	65,630	65,630	-	-
Loan from related party	1,736,958	-	-	1,736,958
Finance lease liabilities	4,149	1,599	2,550	-
	1,806,737	67,229	2,550	1,736,958

Capital risk management

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

£'000	2017	2016
Cash	**12,749**	31,500
Borrowings	**(1,148,824)**	(1,155,779)
Equity	**542,416**	555,572

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

Foreign currency risk

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

Fair values

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

26. Related party transactions

Ultimate parent and controlling party

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

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

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

The Group has loan balances with Acadia which accrue interest, see note 18 and 8 for further details. In addition £5,418,000 (2016: £2,692,000) is owed to Acadia at the year end, see note 17.

Remuneration of key management personnel

£'000	2017	2016
Short-term employee benefits	**372**	-
Post-employment benefits	**10**	-

The emoluments of the highest paid director of the Company were £243,000 (2016: £nil). In addition, the Group paid pension contributions of £5,000 in respect of the highest paid director (2016: £nil).

Nigel Myers and Trevor Torrington were appointed in July 2017 and as a result have no emoluments in the prior year and the current year emoluments are included only from the date of appointment.

Joey Jacobs and Christopher Howard are remunerated by Acadia as their services to the Company are incidental to their services to other companies.

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Notes to the consolidated financial statements

27. Subsidiaries

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

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Priory Group No. 2 Limited	Holding company	United Kingdom	100% ordinary
Priory Group No. 3 Limite	Holding company	United Kingdom	100% ordinary
Priory Investments Holdings Limited [1]	Holding company	Cayman Islands	100% ordinary
Priory Health No. 1 Limited [1]	Holding company	Cayman Islands	100% ordinary
Craegmoor Group Limited	Holding company	United Kingdom	100% ordinary
Priory Healthcare Holdings Limited	Holding company	United Kingdom	100% ordinary
Medical Imaging (Essex) Limited	Non trading	United Kingdom	100% ordinary
Nottcor 6 Limited	Non trading	United Kingdom	100% ordinary
Priory Pension Trustee Limited	Trustee company	United Kingdom	100% ordinary
Priory Healthcare Investments Trustee Limited	Investment trustee company	United Kingdom	100% ordinary
Priory Holdings Company No. 1 Limited [1]	Holding company	Cayman Islands	100% ordinary
Priory New Investments Limited	Holding company	United Kingdom	100% ordinary
Priory Services for Young People (IOM) Limited [4]	Non trading	Isle of Man	100% ordinary
Priory Health No. 2 Limited [1]	Holding company	Cayman Islands	100% ordinary
Priory Healthcare Investments Limited	Holding company	United Kingdom	100% ordinary
Priory Finance Company Limited [1]	Financing company	Cayman Islands	100% ordinary
Priory Finance Property Holdings No.1 Limited	Non trading	United Kingdom	100% ordinary
Priory Finance Property Holdings No.2 Limited	Non trading	United Kingdom	100% ordinary
Coxlease Holdings Limited	Holding company	United Kingdom	100% ordinary
Coxlease School Limited	Non trading	United Kingdom	100% ordinary
Priory Healthcare Finance Co Limited	Non trading	United Kingdom	100% ordinary
Priory Group Limited	Non trading	United Kingdom	100% ordinary
Priory Securitisation Holdings Limited	Non trading	United Kingdom	100% ordinary
Priory Behavioural Health Limited	Non trading	United Kingdom	100% ordinary
Employee Management Services Limited	Non trading	United Kingdom	100% ordinary
Care Continuums Limited	Non trading	United Kingdom	100% ordinary
Sturt House Clinic Limited	Non trading	United Kingdom	100% ordinary
Community Addiction Services Limited	Non trading	United Kingdom	100% ordinary
Public Health Solutions Limited	Non trading	United Kingdom	100% ordinary
Priory Healthcare Europe Limited	Non trading	United Kingdom	100% ordinary
Fanplate Limited	Non trading	United Kingdom	100% ordinary
Priory Securitisation Limited	Non trading	United Kingdom	100% ordinary
Priory Grange (Holdings) Limited	Non trading	United Kingdom	100% ordinary
Priory Grange (St Neots) Limited	Non trading	United Kingdom	100% ordinary
Priory Grange (Potters Bar) Limited	Non trading	United Kingdom	100% ordinary
Priory Old Acute Services Limited	Non trading	United Kingdom	100% ordinary
Priory Old Grange Services Limited	Non trading	United Kingdom	100% ordinary
Priory Old Forensic Services Limited	Non trading	United Kingdom	100% ordinary
Priory Old Schools Services Limited	Non trading	United Kingdom	100% ordinary
Libra Health Limited	Non trading	United Kingdom	100% ordinary
Priory Rehabilitation Services Holdings Limited	Non trading	United Kingdom	100% ordinary
Priory Specialist Health Limited	Non trading	United Kingdom	100% ordinary
Jacques Hall Developments Limited	Non trading	United Kingdom	100% ordinary
Blenheim Healthcare Limited	Non trading	United Kingdom	100% ordinary
Highbank Private Hospital Limited	Non trading	United Kingdom	100% ordinary
Jacques Hall Limited	Non trading	United Kingdom	100% ordinary
Robinson Kay House (Bury) Limited	Non trading	United Kingdom	100% ordinary
Farm Place Limited	Non trading	United Kingdom	100% ordinary

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Priory Healthcare Services Limited	Non trading	United Kingdom	100% ordinary
Farleigh Schools Limited	Non trading	United Kingdom	100% ordinary
Eastwood Grange Company Limited	Non trading	United Kingdom	100% ordinary
Chelfham Senior School Limited	Non trading	United Kingdom	100% ordinary
Rossendale School Limited	Non trading	United Kingdom	100% ordinary
Autism (GB) Limited	Non trading	United Kingdom	100% ordinary
ZR Builders (Derby) Limited	Non trading	United Kingdom	100% ordinary
Solutions (Ross) Limited	Non trading	United Kingdom	100% ordinary
Solutions (Llangarron) Limited	Non trading	United Kingdom	100% ordinary
Mark College Limited	Non trading	United Kingdom	100% ordinary
Priory Hospitals Limited	Non trading	United Kingdom	100% ordinary
North Hill House Limited	Non trading	United Kingdom	100% ordinary
Libra Nursing Homes Limited	Non trading	United Kingdom	100% ordinary
Ticehurst House Private Clinic Limited	Non trading	United Kingdom	100% ordinary
Priory Holdings Company No. 2 Limited [1]	Holding company	Cayman Islands	100% ordinary
Cockermouth Propco Limited	Property company	United Kingdom	100% ordinary
Fulford Grange Medical Centre Limited	Non trading	United Kingdom	50% ordinary
Priory Specialist Health Division Limited	Non trading	United Kingdom	100% ordinary
Priory Holdings Company No. 3 Limited [1]	Holding company	Cayman Islands	100% ordinary
Priory Bristol (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Chadwick Lodge (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Coach House (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Condover (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Coombe House (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Eastwood Grange (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Eden Grove (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Farm Place (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Hemel Grange (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Hove (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Jacques Hall (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Marchwood (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Mark College (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Nottingham (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Roehampton (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Sheridan House (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Sketchley Hall (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Solutions (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Sturt (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Tadley Court (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Unsted Park (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Widnes (Property) Limited [1]	Property company	Cayman Islands	100% ordinary
Priory Healthcare Limited	Specialist healthcare	United Kingdom	100% ordinary
Priory Rehabilitation Services Limited	Rehabilitation services	United Kingdom	100% ordinary
Priory Education Services Limited	Specialist education services	United Kingdom	100% ordinary
Priory Central Services Limited	Management services	United Kingdom	100% ordinary
Velocity Healthcare Limited	Specialist healthcare	United Kingdom	100% ordinary
Revona LLP	Trading	United Kingdom	100% members' capital
Priory (Thetford 1) Limited	Non trading	United Kingdom	100% ordinary
Priory (Thetford 2) Limited	Non trading	United Kingdom	100% ordinary
Thetford Trustee LLP	Non trading	United Kingdom	100% members' capital
Castlecare Group Limited	Non trading	United Kingdom	100% ordinary
Castlecare Holdings Limited	Non trading	United Kingdom	100% ordinary

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Notes to the consolidated financial statements

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Castle Homes Care Limited	Children's care homes	United Kingdom	100% ordinary
Castle Homes Limited	Children's care homes	United Kingdom	100% ordinary
Quantum Care (UK) Limited	Children's care homes	United Kingdom	100% ordinary
Castlecare Cymru Limited	Children's care homes	United Kingdom	100% ordinary
Castlecare Education Limited	Specialist education services	United Kingdom	100% ordinary
Rothcare Estates Limited	Property company	United Kingdom	100% ordinary
CO Developments Limited [3]	Property company	United Kingdom	100% ordinary
Priory Care Homes Holdings Limited	Non trading	United Kingdom	100% ordinary
Helden Homes Limited	Rehabilitation services	United Kingdom	100% ordinary
Priory New Investments No. 2 Limited	Holding company	United Kingdom	100% ordinary
Priory New Investments No. 3 Limited	Holding company	United Kingdom	100% ordinary
Affinity Healthcare Holdings Limited	Holding company	United Kingdom	100% ordinary
Priory New Education Services Limited	Education	United Kingdom	100% ordinary
Priory (Troup House) Limited [2]	Education	United Kingdom	100% ordinary
Dunhall Property Limited	Non trading	United Kingdom	100% ordinary
Affinity Healthcare Limited	Holding company	United Kingdom	100% ordinary
Affinity Hospitals Holding Limited [2]	Holding company	United Kingdom	100% ordinary
Affinity Hospitals Group Limited [2]	Holding company	United Kingdom	100% ordinary
Affinity Hospitals Limited	Holding company	United Kingdom	100% ordinary
Cheadle Royal Healthcare Limited	Private healthcare	United Kingdom	100% ordinary
Middleton St George Healthcare Limited	Private healthcare	United Kingdom	100% ordinary
Cheadle Royal Hospital Limited	Non trading	United Kingdom	100% ordinary
Cheadle Royal Residential Services Limited	Non trading	United Kingdom	100% ordinary
Craegmoor Group (No.1) Limited	Holding company	United Kingdom	Limited by guarantee
Craegmoor Group (No.2) Limited	Holding company	United Kingdom	100% ordinary
Craegmoor Group (No.3) Limited	Holding company	United Kingdom	100% ordinary
Amore Group (Holdings) Limited	Holding company	United Kingdom	100% ordinary
Craegmoor Group (No.5) Limited	Holding company	United Kingdom	100% ordinary
Craegmoor Group (No.6) Limited	Holding company	United Kingdom	100% ordinary
Craegmoor Limited	Holding company	United Kingdom	100% ordinary
Amore Care Holdings Limited	Holding company	United Kingdom	100% ordinary
Craegmoor Facilities Company Limited	Supply of services	United Kingdom	100% ordinary
Craegmoor Hospitals (Holdings) Limited	Holding company	United Kingdom	100% ordinary
Craegmoor Learning (Holdings) Limited	Holding company	United Kingdom	100% ordinary
Craegmoor Care (Holdings) Limited	Holding company	United Kingdom	100% ordinary
Speciality Care Limited	Holding company	United Kingdom	100% 10p ordinary shares, 100% cumulative redeemable preference shares
Craegmoor (Harbour Care) Limited	Holding company	United Kingdom	100% ordinary
Harbour Care (UK) Limited	Care delivery	United Kingdom	100% of total issued share capital (ordinary, A, B and cumulative preference)
Speciality Care (Rest Homes) Limited	Care delivery	United Kingdom	100% ordinary
Strathmore College Limited	Care delivery	United Kingdom	100% ordinary
Speciality Care (Medicare) Limited	Holding company	United Kingdom	100% ordinary
Specialised Courses Offering Purposeful Education Limited	Care delivery	United Kingdom	100% ordinary
Independent Community Living (Holdings) Limited	Holding company	United Kingdom	100% ordinary
Burnside Care Limited	Care delivery	United Kingdom	100% ordinary
Craegmoor Healthcare Company Limited	Non trading	United Kingdom	100% ordinary
Craegmoor Supporting You Limited	Care delivery	United Kingdom	100% ordinary

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Greymount Properties Limited	*Care delivery*	*United Kingdom*	100% ordinary
Parkcare Homes (No. 2) Limited	Care delivery	United Kingdom	100% ordinary
Autism TASCC Services Limited	Care delivery	United Kingdom	100% ordinary
Cotswold Care Services Limited	Care delivery	United Kingdom	100% ordinary
Craegmoor Holdings Limited	Care delivery	United Kingdom	100% ordinary
Craegmoor Homes Limited	Care delivery	United Kingdom	100% ordinary
J C Care Limited	Care delivery	United Kingdom	100% ordinary
Johnston Care Limited	Care delivery	United Kingdom	100% ordinary
Lambs Support Services Limited	Care delivery	United Kingdom	100% ordinary
Positive Living Limited	Care delivery	United Kingdom	100% ordinary
Sapphire Care Services Limited	Care delivery	United Kingdom	100% ordinary
Strathmore Care Services Limited	Care delivery	United Kingdom	100% ordinary
Treehome Limited	Care delivery	United Kingdom	100% ordinary
Grovedraft Limited	Non trading	United Kingdom	100% ordinary
Peninsula Autism Services and Support Limited	Care delivery	United Kingdom	100% ordinary
High Quality Lifestyles Limited	Care delivery	United Kingdom	100% ordinary
New Directions (Bexhill) Limited	Care delivery	United Kingdom	100% ordinary
New Directions (Hastings) Limited	Care delivery	United Kingdom	100% ordinary
New Directions (Robertsbridge) Limited	*Care delivery*	*United Kingdom*	100% ordinary
New Directions (St. Leonards on Sea) Limited	Care delivery	United Kingdom	100% ordinary
Lansdowne Road Limited	Care delivery	United Kingdom	100% ordinary
Lothlorien Community Limited	Care delivery	United Kingdom	100% ordinary
R.J. Homes Limited	Care delivery	United Kingdom	100% ordinary
Heddfan Care Limited	Care delivery	United Kingdom	100% ordinary
Conquest Care Homes (Norfolk) Limited	Care delivery	United Kingdom	100% ordinary
Conquest Care Homes (Peterborough) Limited	Care delivery	United Kingdom	100% ordinary
Conquest Care Homes (Soham) Limited	Care delivery	United Kingdom	100% ordinary
Ferguson Care Limited	Care delivery	United Kingdom	100% ordinary
Speciality Care (Learning Disabilities) Limited	Care delivery	United Kingdom	100% ordinary
Speciality Care (Rehab) Limited	Care delivery	United Kingdom	100% ordinary
Amore (Prestwick) Limited	Elderly care services	United Kingdom	100% ordinary
Amore Elderly Care Holdings Limited	Elderly care services	United Kingdom	100% ordinary
Amore Elderly Care (Wednesfield) Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Ben Madigan) Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Warrenpoint) Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Watton) Limited	Elderly care services	United Kingdom	100% ordinary
Amore Care Limited	Elderly care services	United Kingdom	100% ordinary
Speciality Healthcare Limited	Elderly care services	United Kingdom	100% ordinary
Health & Care Services (NW) Limited	Elderly care services	United Kingdom	100% ordinary
Speciality Care (Addison Court) Limited	Elderly care services	United Kingdom	100% ordinary
Speciality Care (EMI) Limited	Elderly care services	United Kingdom	100% ordinary and 100% preference
Speciality Care (UK Lease Homes) Limited	Elderly care services	United Kingdom	100% ordinary
Parkcare Homes Limited	Elderly care services	United Kingdom	100% ordinary
Health & Care Services (UK) Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Stoke 1) Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Wednesfield 1) Limited	Elderly care services	United Kingdom	100% ordinary
S P Cockermouth Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Coventry) Limited [4]	Elderly care services	Isle of Man	100% ordinary
Yorkshire Parkcare Company Limited	Elderly care services	United Kingdom	100% ordinary
Speciality Care (Rest Care) Limited	Non trading	United Kingdom	100% ordinary
Amore (Bourne) Limited	Non trading	United Kingdom	100% ordinary
Amore (Cockermouth) Limited	Non trading	United Kingdom	100% ordinary

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Amore (Ings Road) Limited	Non trading	United Kingdom	100% ordinary
Amore Elderly Care Limited	Elderly care services	United Kingdom	100% ordinary
Amore (Stoke 2) Limited	Non trading	United Kingdom	100% ordinary
Stoke 3 Limited	Non trading	United Kingdom	100% ordinary
Amore (Wednesfield 2) Limited	Non trading	United Kingdom	100% ordinary
Wednesfield 3 Limited	Non trading	United Kingdom	100% ordinary
Stoke Trustee (No 2) LLP	Non trading	United Kingdom	100% membership capital
Wednesfield Trustee LLP	Non trading	United Kingdom	100% membership capital
Wednesfield Trustee (No 2) LLP	Non trading	United Kingdom	100% membership capital
Stoke Trustee LLP	Non trading	United Kingdom	100% membership capital
Priory Finance Property LLP	Property company	United Kingdom	100% membership capital
Life Works Community Limited	Specialist healthcare	United Kingdom	100% ordinary
Progress Care (Holdings) Limited	Holding company	United Kingdom	100% ordinary
Progress Care and Education Limited	Children's homes	United Kingdom	100% ordinary
Progress Adult Services Limited	Care delivery	United Kingdom	100% ordinary
Whitewell UK Holding Company 1 Limited	Holding company	United Kingdom	100% ordinary
Whitewell UK Investments 1 Limited	Holding company	United Kingdom	100% ordinary
Priory Group No. 1 Limited	Holding company	United Kingdom	100% ordinary
Partnerships in Care Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care Scotland Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Oaktree) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Schools) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Ivydene) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Albion) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Brunswick) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Beverley) Limited	Mental health services	United Kingdom	100% ordinary
The Manor Clinic Limited	Mental health services	United Kingdom	100% ordinary
Manor Hall Specialist Care Partnerships Limited [5]	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Meadow View) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Cleveland) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care 1 Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Nelson) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Pastoral) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Rhondda) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Cardiff) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Oak Vale) Limited	Mental health services	United Kingdom	100% ordinary
Partnerships in Care (Vancouver) Limited	Mental health services	United Kingdom	100% ordinary
Priory Group UK 2 Limited (formerly Partnerships in Care UK 2 Limited)	Holding company	United Kingdom	100% ordinary
Partnerships in Care Management Limited	Holding company	United Kingdom	100% ordinary
Partnerships in Care Investments 1 Limited	Holding company	United Kingdom	100% ordinary
Partnerships in Care Management 2 Limited	Holding company	United Kingdom	100% ordinary
Partnerships in Care (Oak Vale) Holding Company Limited	Holding company	United Kingdom	100% ordinary
Partnerships in Care (Oak Vale) Property Holding Company Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care (Vancouver) Holding Company Limited	Holding company	United Kingdom	100% ordinary
Partnerships in Care (Vancouver) Property Holding Company Limited	Property holding company	United Kingdom	100% ordinary

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Partnerships in Care Property Holding Company Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 1 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Investments 2 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 2 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 3 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 4 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 6 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 7 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 8 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 9 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 10 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 11 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 12 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 14 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 15 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 16 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 17 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 19 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 20 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 21 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 22 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 24 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 26 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 27 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 28 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 29 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 30 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care Property 31 Limited	Property holding company	United Kingdom	100% ordinary
Partnerships in Care (Cleveland) Holding Company Limited	Holding company	United Kingdom	100% ordinary
Partnerships in Care (Cleveland) Property Holding Company Limited	Property holding company	United Kingdom	100% ordinary
Aspire Scotland Limited [6]	Children's care and education	United Kingdom	100% ordinary
Aspire Scotland (Holdings) Limited [6]	Holding company	United Kingdom	100% ordinary
Galaxy Cafe Limited [6]	Children's care and education	United Kingdom	100% ordinary
Galaxy UK Leisure Limited [6]	Children's care and education	United Kingdom	100% ordinary

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

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

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

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

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

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

[6] Company registered address is: 9 Royal Crescent, Glasgow, G3 7SP, United Kingdom.

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Notes to the consolidated financial statements

28. Section 479A Companies Act exemption

The Company has provided a guarantee in respect of the outstanding liabilities of the subsidiary undertakings listed in note 28 in accordance with sections 479A - 479C of the Companies Act 2006, as these UK subsidiary companies of the Group are exempt from the requirements of the Companies Act 2006 relating to the audit of accounts by virtue of section 479A of this Act.

Name of subsidiary	Registered number	Name of subsidiary	Registered number
Priory Education Services Limited	6244880	Priory Group No 3 Limited	7480550
Priory Healthcare Limited	6244860	Velocity Healthcare Limited	6485062
Priory Rehabilitation Services Limited	6244877	Revona LLP	OC341361
Cheadle Royal Healthcare Limited	3254624	Craegmoor Group Limited	6600023
Priory Finance Property LLP	OC315650	Craegmoor Group (No. 3) Limited	6628024
Priory Group No. 1 Limited	7480152	Amore Group (Holdings) Limited	6628016
Parkcare Homes (No. 2) Limited	4000281	Craegmoor Group (No. 5) Limited	4204571
Parkcare Homes Limited	2155276	Craegmoor Group (No. 6) Limited	4229516
Coxlease Holdings Limited	4427783	Craegmoor Limited	2825572
Fanplate Limited	5347672	Amore Care (Holdings) Limited	3517404
Priory Central Services Limited	4391278	Amore Care Limited	1825148
Priory Finance Property Holdings No 1 Limited	5590294	Speciality Healthcare Limited	2904221
Priory Finance Property Holdings No 2 Limited	5590103	Health & Care Services (NW) Limited	2847005
Priory Group Limited	4433255	Craegmoor Care (Holdings) Limited	4790555
Priory Healthcare Finance Co Limited	4433253	Greymount Properties Limited	3091645
Priory Healthcare Investments Limited	4433250	Craegmoor Healthcare Company Limited	3830455
Priory Securitisation Holdings Limited	4793915	Craegmoor Supporting You Limited	4955186
Priory Securitisation Limited	3982134	Craegmoor Facilities Company Limited	3656033
Affinity Hospitals Holding Limited	SC196089	Craegmoor Hospitals (Holdings) Limited	4675861
Affinity Hospitals Limited	3966451	Independent Community Living (Holdings) Limited	4226452
Middleton St George Healthcare Limited	3864079	Burnside Care Limited	5628124
Priory New Investments Limited	6997550	Craegmoor Learning (Holdings) Limited	3015539
Priory New Investments No. 2 Limited	7102440	Strathmore College Limited	4147939
Priory New Investments No. 3 Limited	7102547	Specialised Courses Offering Purposeful Education Limited	2485984
Affinity Healthcare Holdings Limited	5305312	Speciality Care Limited	2787609
Affinity Healthcare Limited	5236108	Speciality Care (Addison Court) Limited	3011310
Affinity Hospitals Group Limited	SC224907	Speciality Care (EMI) Limited	2192205
Dunhall Property Limited	5771757	Speciality Care (Rest Homes) Limited	3010116
Priory (Troup House) Limited	SC287396	Speciality Care (UK Lease Homes) Limited	3071277
Amore (Ben Madigan) Limited	6715859	J C Care Limited	3251577
Amore (Cockermouth) Limited	6889688	Lansdowne Road Limited	2115380
Amore (Ings Road) Limited	6766727	Lothlorien Community Limited	2872249
Amore (Prestwick) Limited	6715857	R. J. Homes Limited	2980088
Amore (Stoke 1) Limited	6866823	Heddfan Care Limited	2928647
Amore (Warrenpoint) Limited	6715869	Sapphire Care Services Limited	4146017
Amore (Watton) Limited	6773612	Autism Tascc Services Limited	4744054
Amore (Wednesfield 1) Limited	6882968	Craegmoor Homes Limited	4790588
Priory Care Homes Holdings Limited	6660792	Johnston Care Limited	3381658
Amore Elderly Care Limited	6660776	Cotswold Care Services Limited	3341447
SP Cockermouth Limited	6485612	Treehome Limited	2776626
CO Developments Limited	NI064937	Strathmore Care Services Limited	4147864
Amore Elderly Care (Wednesfield) Limited	7318739	Lambs Support Services Limited	5562543
Positive Living Limited	5868343	The Manor Clinic Limited	6084605
Craegmoor Holdings Limited	3830300	Manor Hall Specialist Care Partnerships Limited	SC445897
Ferguson Care Limited	2582268	Partnerships in Care (Meadow View) Limited	5075900
Speciality Care (Rehab) Limited	2965073	Partnerships in Care (Cleveland) Limited	8671457

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

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Name of subsidiary	Registered number	Name of subsidiary	Registered number
Speciality Care (Learning Disabilities) Limited	2953416	Partnerships in Care 1 Limited	1833385
Yorkshire Parkcare Company Limited	1915148	Partnerships in Care (Rhondda) Limited	5715589
Conquest Care Homes (Norfolk) Limited	2894168	Partnerships in Care (Cardiff) Limited	5722804
Conquest Care Homes (Soham) Limited	3934362	Partnerships in Care (Oak Vale) Limited	8135440
Conquest Care Homes (Peterborough) Limited	2706124	Partnerships in Care (Vancouver) Limited	6970725
Speciality Care (Rest Care) Limited	3257061	Priory Group UK 2 Limited (formerly Partnerships in Care UK 2 Limited)	9059930
Health & Care Services (UK) Limited	2083074	Partnerships in Care Management Limited	5401308
Craegmoor (Harbour Care) Limited	7880338	Partnerships in Care Investments 1 Limited	7773948
Harbour Care (UK) Limited	7838042	Partnerships in Care Management 2 Limited	9489130
Peninsula Autism Services & Support Limited	3804697	Partnerships in Care (Oak Vale) Holding	8390458
High Quality Lifestyles Limited	2734700	Partnerships in Care (Oak Vale) Property Holding Company Limited	7910544
Helden Homes Limited	4490949	Partnerships in Care (Vancouver) Holding Company Limited	8211574
New Directions (Bexhill) Limited	3884127	Partnerships in Care (Vancouver) Property Holding Company Limited	6244563
New Directions (Hastings) Limited	5126487	Partnerships in Care Property Holding Company Limited	5448019
New Directions (Robertsbridge) Limited	3466259	Partnerships in Care Property 1 Limited	5403392
New Directions (St. Leonards on Sea) Limited	6339063	Partnerships in Care Investments 2 Limited	7773953
Castlecare Group Limited	5094462	Partnerships in Care Property 2 Limited	5406092
Castlecare Holdings Limited	2178870	Partnerships in Care Property 3 Limited	5406109
Castle Homes Care Limited	3124409	Partnerships in Care Property 4 Limited	5406112
Castlecare Cymru Limited	4766939	Partnerships in Care Property 6 Limited	5406120
Castle Homes Limited	2910603	Partnerships in Care Property 7 Limited	5406122
Rothcare Estates Limited	3941902	Partnerships in Care Property 8 Limited	5406123
Castlecare Education Limited	4525732	Partnerships in Care Property 9 Limited	5406127
Life Works Community Limited	4740254	Partnerships in Care Property 10 Limited	5406132
Progress Care (Holdings) Limited	3545347	Partnerships in Care Property 11 Limited	5406140
Progress Care and Education Limited	3162312	Partnerships in Care Property 12 Limited	5406148
Progress Adult Services Limited	3545816	Partnerships in Care Property 14 Limited	5406163
Whitewell UK Investments 1 Limited	9929374	Partnerships in Care Property 15 Limited	5406176
Whitewell UK Holding Company 1 Limited	9929366	Partnerships in Care Property 16 Limited	5510031
Priory New Education Services Limited	7221650	Partnerships in Care Property 17 Limited	5613363
Amore Elderly Care Holdings Limited	7009955	Partnerships in Care Property 19 Limited	5613394
Priory Group No. 2 Limited	7480437	Partnerships in Care Property 20 Limited	5613407
Quantum Care (UK) Limited	4258780	Partnerships in Care Property 21 Limited	5613357
Partnerships in Care Limited	2622784	Partnerships in Care Property 22 Limited	5852397
Partnerships in Care Scotland Limited	4727112	Partnerships in Care Property 24 Limited	5852391
Partnerships in Care (Oaktree) Limited	4785303	Partnerships in Care Property 31 Limited	7916205
Partnerships in Care (Ivydene) Limited	7263526	Partnerships in Care (Cleveland) Holding	8917740
Partnerships in Care (Albion) Limited	3671946	Partnerships in Care (Cleveland) Property	8457596
Partnerships in Care (Brunswick) Limited	7507166	Aspire Scotland Limited	SC381536
Partnerships in Care (Beverley) Limited	7155722	Aspire Scotland (Holdings) Limited	SC427594
Partnerships in Care (Nelson) Limited	7294608	Galaxy Cafe Limited	SC499541
Partnerships in Care (Pastoral) Limited	7224362	Galaxy UK Leisure Limited	SC499605

The subsidiary undertakings in note 27 which are excluded from the above list are not required to prepare audited accounts either because they are dormant, registered outside of the United Kingdom or a small LLP.

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Parent company balance sheet at 31 December 2017

£'000	Note	31 December 2017	31 December 2016
Fixed assets			
Investments	3	**1,561,495**	1,561,495
Current assets			
Debtors	4	**267,494**	356,417
Creditors: amounts falling due within one year	5	**-**	(9,880)
Net current assets		**267,494**	346,537
Total assets less current liabilities		**1,828,989**	1,908,032
Creditors: amounts falling due after more than one year	6	**(1,158,025)**	(1,151,808)
Net assets		**670,964**	756,224
Capital and reserves			
Called up share capital	7	**74,984**	74,984
Share premium account		**647,240**	647,240
Profit and loss account		**(51,260)**	34,000
Total shareholders' funds		**670,964**	756,224

The financial statements of Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited) (registered company number 09057543) on pages 42 to 45 were approved by the board of directors and authorised for issue on 12 April 2018. They were signed on its behalf by:

Trevor Torrington
Chief Executive Officer

Nigel Myers
Finance Director

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Parent company statement of changes in equity for the year ended 31 December 2017

£'000	Called up share capital	Share premium account	Profit and loss account	Total shareholders' funds
At 1 January 2016	73,651	147,301	(3,751)	217,201
Profit for the financial year	-	-	37,751	37,751
Transactions with owners:				
Issue of shares	1,333	499,939	-	501,272
At 31 December 2016	74,984	647,240	34,000	756,224
Loss for the financial year	-	-	(85,260)	(85,260)
At 31 December 2017	**74,984**	**647,240**	**(51,260)**	**670,964**

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Notes to the parent company financial statements

1. Significant accounting policies

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

a) Basis of preparation

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

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

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

The Company is a qualifying entity for the purposes of FRS 101. Note 26 of the consolidated financial statements gives details of the Company's ultimate parent. Its consolidated financial statements prepared in accordance with IFRS are set out on pages 1 to 41.

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

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

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

b) Investments in subsidiary undertakings

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

2. Profit and loss account

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The loss for the financial year was £85.3m (2016: profit of £37.8m). The auditors' remuneration was borne by the ultimate parent company. The Company had no employees during the year. Details of directors' emoluments are given in note 26 to the consolidated financial statements.

3. Investments

Cost and net book value	£'000
At 31 December 2016 and 31 December 2017	1,561,495

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

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

Priory Group UK 1 Limited (formerly Partnerships in Care UK 1 Limited)

Notes to the parent company financial statements

4. Debtors

£'000	2017	2016
Amounts owed by group undertakings	**261,254**	356,417
Group relief receivable	**2,479**	-
Deferred tax asset	**3,761**	-
	267,494	356,417

Amounts owed by group undertakings includes unsecured loans of $193,599,000 (£156,938,000) (2016: $193,599,000 (£143,502,000)) and $143,316,000 (£106,231,000) (2016: $243,331,000 (£197,253,000)) which incur interest at 7.4% pa and are repayable 1 July 2022 and 16 February 2024 respectively.

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

£'000	Deferred tax
At 1 January 2017	-
Credit for the year	3,761
At 31 December 2017	**3,761**

Deferred tax assets relate to short term timing differences.

5. Creditors: amounts falling due within one year

£'000	2017	2016
Group relief payable	-	9,880

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

£'000	2017	2016
Amounts owed to group undertakings	**1,158,025**	1,151,808

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

7. Called up share capital

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

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

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

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