Parent company accounts for: Priory Healthcare Limited
Registered number: 06244860
(note on page 44)

Priory Group UK 1 Limited

Annual report and consolidated financial statements for the year ended 31 December 2019

Registered number 09057543

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Priory Group UK 1 Limited

Contents

Priory Group UK 1 Limited

Company information

Registered number:

09057543

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Christopher Howard
Trevor Torrington
Ryan Jervis

Company secretary:

David Hall

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Priory Group UK 1 Limited

Strategic report

The directors present their strategic report on Priory Group UK 1 Limited for the year ended 31 December 2019.

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

Principal activities

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

The Group is a leading provider of 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 and Children's Services** segment (hereafter referred to as "Education") 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 12 and the financial position of the Group as at 31 December 2019 is set out in the consolidated balance sheet on page 14. Group revenue for the year was £861.6m (2018: £830.4m) and Adjusted EBITDA was £162.9m (2018: £136.5m), which represents a margin of 18.9% (2018: 16.4%) of revenue. Operating profit for the year was £45.2m (2018: operating loss of £469.1m) and loss before tax was £66.3m (2018: £553.5m). Year on year trends are distorted by the adoption of IFRS 16 which reduces the rent expenses recognised for the current year in the income statement but increases depreciation and finance charges – further detail is given in note 12 of the financial statements.

Revenue has increased compared to the prior year due to a change in the mix of service users in the Group's facilities, annual fee increases and the reopening of a portion of our retooled and refurbished capacity. Despite this increase in revenue, Adjusted EBITDA has fallen from £136.5m to £128.7m (an Adjusted EBITDA margin of 16.4% and 14.9%, respectively), after removing the impact of IFRS 16, due to a number of factors including cost pressures and the further investment in our central functions. The main impact on margin relates to our wage costs, where we have seen elevated wage metrics during our retooling program, along with continued wage cost increases in line with the wider sector. The national living wage increases impacted from April 2019 and the Group has seen the full year impact of statutory pension increases mandated in the prior year. Agency usage remained high as a proportion of overall staffing costs when compared to historical trends, partly as a result of our retooling program, but also reflecting the UK-wide constraints in the availability of nursing and care staff. In addition, the Group has invested in people in a number of central functions in order to drive further improvements, future growth and best-in-class care.

Net costs of £25.4m were recognised as exceptional items in the consolidated income statement. These related to reorganisation and rationalisation costs, transaction related expenses, impairment of property, plant and equipment and loss on disposal of property, plant and equipment. This compared to net exceptional costs of £526.8m in 2018, which related to the impairment of intangible assets and property, plant and equipment, in addition to onerous lease and closure provisions. Further details of these exceptional charges are given in note 7 to the financial statements.

During 2018 the Group opened the first dedicated autism school in Abu Dhabi for Emirati students in partnership with The Abu Dhabi Department of Education and Knowledge (ADEK). The school is run by The Group on behalf of ADEK, who own the school and it operates as part of the Education segment, catering for up to 260 pupils and young people. The Group saw pupil numbers expand in 2019, and are exploring other opportunities in the Middle East.

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, Northern Ireland and Middle East, the 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. In Abu Dhabi the school is regulated by ADEK but is also subject to British School Overseas inspections.

Land and buildings of the Group (including fixtures and fittings) were recorded at fair values on the Group's acquisition by Acadia Healthcare Company Inc. ("Acadia Healthcare"), as determined by independent third party valuers. The net book value at 31 December 2019 of £1.179bn (2018: £1.208bn) is therefore considered to be approximate to market value.

As a subsidiary of a US-listed Group, the Group must comply with the Sarbanes Oxley Act. Under this Act, the Directors are responsible for maintaining a suitable control environment. In this respect, the Internal Audit department has worked closely with the business to embed process and control recommendations and enhancements. There were no matters of note reportable relating to the control environment for 2019.

The company's ultimate parent, Acadia Healthcare announced during the year that strategic options (including a potential divestment) for the UK Group were being explored. As at the date of this report, this process is ongoing but there is no certainty that a transaction will occur.

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. Direct debit arrangements are set up for 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 and monthly cash flow forecasts reflecting known commitments and anticipated projects. The Group has sufficient available facilities and cash flows from profits to fund current commitments.

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 23 to the consolidated financial statements.

Future developments and strategy

Management consider the Group to be in a good position to focus on recent growth in capacity and increase occupancy at existing sites. A number of new developments, expansions and small acquisitions have been undertaken in recent years and the Group is focusing on these sites and other forms of organic growth. During 2019 the Group redeveloped a number of services and changed the use of existing sites to match changes in NHS demand, primarily arising from the NHS Transforming Care Agenda. This will continue into 2020. The Group intends to explore value-accretive bolt-on acquisitions of smaller operations that will enable the Group to expand service provision in growth areas or expand its geographical footprint.

The 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 including mental health, eating disorders, addictions, 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.

The future developments and strategy of the Group may be impacted by the effects of the COVID-19 outbreak. Notes 2(b) and 25 set out additional information regarding the possible impacts on the Group and its financial performance and solvency.

Key performance indicators

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

Financial

Adjusted EBITDA reflects earnings before interest, tax, depreciation, amortisation and operating exceptional items. This measure is presented as part of the consolidated income statement and in note 3 to the consolidated financial statements. Adjusted EBITDA margin reflects Adjusted EBITDA divided by revenue and was 18.9% (2018: 16.4%) in the year.

Non-financial

During the year, the average number of available beds across the Group was 8,817 (2018: 8,869); excluding supported living rental beds the number of available beds was 8,771 (2018: 8,822). The moderate reduction in bed numbers is attributable to targeted closures of underperforming facilities primarily in our Adult Care division. ADC (excluding supported living rental beds) was 7,325 (2018: 7,404) and occupancy was 83.5% (2018: 83.9%). The Group aims to maximise available beds occupancy by increasing ADC across the divisions. ADC has fallen in the current year mainly due to the planned closure of a number of sites which will be redeveloped for alternative uses. Occupancy has decreased slightly compared to the prior year as reopened beds continue to be filled.

Principal risks and uncertainties

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

COVID-19

The recent global outbreak of COVID-19 represents a significant source of uncertainty within the wider macroeconomic environment, including the sectors in which we operate. Severe economic disruption is anticipated due to the measures adopted by government in response to the outbreak. The length of the pandemic, and the timing of the relaxation of the measures taken by government is highly uncertain, and the situation continues to evolve. Whilst the nature of the Group's business in terms of the provision of *essential care services, and the composition of our funder mix, provides some partial mitigation from the financial effects of the* outbreak, some impact on the Group's results and operations for at least the near-term future is anticipated.

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

There is a risk that a significant number of our employees are required to self-isolate during the crisis, resulting in additional costs in respect of agency staff, or operational difficulties in maintaining appropriate staffing levels in our facilities. There are risks associated with our supply chains, and it is likely that we will experience additional costs sourcing personal protective equipment.

The Group has modelled a number of different scenarios quantifying the impact on the business of the above risk factors, in order to adequately plan for the future and manage our financial resources. There are a number of actions being taken to minimise the financial impact. These mitigating actions include a comprehensive review of discretionary capital expenditure programmes, targeted consolidation of capacity and staffing, revisions to staff patterns where necessary and possible, reductions in non-essential travel, *the postponement of non-mandatory staff training and a freeze on all non-essential recruitment activities. We may also seek to* engage with our landlords to share the financial losses expected at a number of our facilities. We do not however expect any material impact on our ability to collect receivables from our customers as they fall due.

Note 2(b) sets out the detailed considerations in relation to modelling the potential impact of the COVID-19 situation on the business with regard to going concern.

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

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

Failure to comply with regulation and increased regulatory costs

All of the Group's services are subject to an increasingly high level of regulation by various regulatory bodies. New 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. The team are independent of the operating divisions and report directly to the board. Homes are regularly audited by the team to ensure compliance with care standards and action plans are drawn up in appropriate cases. Risks are mitigated by investing in the legal and compliance team, and in recruitment and training. Where changes in legislation can be predicted, the Group models the impact the changes will have in advance of the legislation being implemented.

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.

Brexit

The result of the EU referendum in 2016 increased the level of macroeconomic uncertainty, with the Group considering the impact of what could be a 'no deal' scenario. Whilst a transitional withdrawal agreement has been reached, there continues to be uncertainty *regarding the long term trading and political relationships between the EU and the UK. Group wide business continuity plans have* been drawn up in order to mitigate potential risks and the Directors believe that the Group is well positioned to contend with any reasonably likely scenario. However, some of the risk areas are considered as follows:

The Group employs staff from across the EU, albeit as a relatively low proportion of our overall workforce. Retention of existing EU staff is a risk due to the current uncertainty of the status of EU nationals in the UK and potential changes in employment legislation. The Group continues to address this as part of its ongoing recruitment and retention strategies and is actively working with existing EU employees to ensure their continued employment with the Group under the EU Settlement Scheme. Where overseas recruitment is necessary, the Group focusses on professionals from across the Commonwealth due to the transferable nature of mental health qualifications and accreditations in those jurisdictions.

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

There is uncertainty about the impact that Brexit will have on publicly funded bodies such as the NHS as any significant reduction in funding may impact the volume of referrals and fees. There is currently no reason to believe that there will be any such significant reduction in funding but the Group will continue to monitor the situation and enter into discussions with all key stakeholders. Budgets and forecasts will be amended to reflect any changes as clarity is gained.

The Board's statement on Section 172(1)

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

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

Key stakeholders

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

Service users and their families

Our service users and their families are central to everything we do – the Group aims to make a real and lasting difference for every individual we provide services to in our hospitals, care homes and schools. The board receives regular updates around quality and compliance metrics so that the quality of the services provided can be closely monitored. Where necessary, the board may take the decision to temporarily close a service or suspend new admissions where this is deemed to be in the best interests of existing service users. Dialogue is maintained with clinical experts and service commissioners so that the services provided in a particular location are able to respond appropriately to local needs. The Group recognises that the families of our service users are also important stakeholders (particularly where services users are unable to give informed consent), and transparent and honest communication is vital - this is especially the case in 2020 given the anxieties created by, and the ameliorating actions taken in response to, the COVID-19 outbreak.

Workforce

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

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

Investors

Our owners, Acadia Healthcare, are a publicly listed incorporation in the US, and the UK group makes up a sizeable portion of Acadia Healthcare's global activities. The Board engages regularly with senior Acadia Healthcare management and directors in order to, *inter alia*, develop long-term and short-term business strategy, decide upon resource allocation and enable Acadia Healthcare to inform their shareholders and analysts about the UK group's financial performance and wider industry factors. Our direct investors have financed the UK Group through intercompany loan funding, and the board discuss with Acadia Healthcare suitable amounts that can be paid down against the loan interest and capital.

Regulators

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

Commissioners

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

Suppliers

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

Communities

The Group operates nationally and many of our facilities are embedded within the wider community. It is therefore important that the impact of our operations on the communities we operate in are taken into consideration, particularly with regard to the readjustment of service users back into community settings. We are also cognisant of the need to consider the overall environment when contracting with suppliers, or considering any significant development projects, for example.

Principal decisions

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

Approval of the 2020 budget and business plan

The board approved the final budget for 2020 in December 2019, subject to final approval from our owners. The budget includes business plans for each existing facility as well as central functions in order to arrive at an aggregated business plan. The key stakeholder groups affected are our investors and our workforce. Some of the key considerations taken into account included the need to safely maximise shareholder return, the need to recruit, motivate and retain our staff (including assessing appropriate pay increases and incentive schemes) and the likely impact on our cost base of increases in supply costs, balancing value for money with the interests of our suppliers.

Facility refurbishments, expansions and retoolings

As part of the 2020 budget and looking ahead into the medium term, the board approved a number of significant capital expenditure projects in order to refurbish and/or expand existing facilities, retool locations to better reflect demand for services or offer higher value services, and consider selective additional property acquisitions to expand certain service lines. The key stakeholder groups affected are our investors, our commissioners and current and future service users. Some of the key considerations taken into account included the likely return on investment of such projects, the ability of a project to meet the requirements of commissioners in providing a particular service, and our ability to safely and effective operate the service.

Centralisation of business development and human resources functions

During the year, the board decided to centralise a number of functions (human resources and business development being of prime importance) that were previously embedded within the Group's operating divisions in order to maximise the efficient and effective operation of those functions. The key stakeholder groups affected are our workforce and our commissioners. Some of the key considerations taken into account included how to structure the new centralised departments, the ability of a centralised human resources function to recruit, retain and motivate employees, and the ability of a centralised business development function to increase referrals from commissioners and to enable a smooth transition from various service lines and divisions in delivering the care pathway for individual service users.

By order of the Board

Dave Hall

David Hall

Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
1 July 2020

Priory Group UK 1 Limited

Directors' report

The directors present their annual report and the audited consolidated and company financial statements of Priory Group UK 1 Limited for the year ended 31 December 2019. 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 2. The Group has chosen in accordance with Section 414C(ii) of the Companies Act 2006 to set out in the strategic report the following which the directors believe to be of strategic importance:

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

Dividends

The directors do not recommend the payment of a dividend (2018: £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	
Debra Osteen	(appointed 11 January 2019)
Joey Jacobs	(resigned 11 January 2019)
Nigel Myers	(resigned 17 December 2019)
Trevor Torrington	
Ryan Jervis	(appointed 17 December 2019)

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 Healthcare, and no contractual payments are due until 2022. The Group made a loss before tax of £66.3m for the year ended 31 December 2019 and is forecast to make a further loss during the going concern period. This loss is stated after accrued interest and also includes non-cash items such as amortisation, depreciation, certain non-cash exceptional items (for example, impairments) and the impact of recognising financing charges on IFRS 16 right of use liabilities. The Group generates sufficient cash to cover its liabilities and surplus balances are transferred to Acadia Healthcare to reduce the accrued interest and loan capital balances ahead of their scheduled repayment dates. At 31 December 2019 the Group had debt (including accrued interest) of £1.163bn due to Acadia Healthcare. Under the severe but plausible downside scenarios prepared by the Directors, the forecast cash flows indicate that operating cash flows may not be sufficient to meet interest payments as they accrue. The Group has received confirmation that Acadia Healthcare will provide financial support to the extent that monies are not otherwise available to meet their liabilities. On that basis the Directors have concluded that interest repayments will not be extracted to the extent that they exceed forecast free cash flow.

The directors have adopted the going concern basis (notwithstanding the net liabilities as at 31 December 2019 of £32.5m) in preparing these accounts after assessing the principal risks and having considered the impact of a severe but plausible scenario potentially precipitated by macroeconomic and business-specific consequences of the COVID-19 pandemic. The major variables are the depth and length of the economic disruption caused by the outbreak; and whilst the situation continues to evolve, scenario planning is made difficult, and necessarily subjective in nature. The directors considered the impact of the current environment and various forward-looking scenarios on the business for the next 12 months and beyond into the medium term.

We have assumed that our operations remain substantially open for business – given the nature of our facilities, our customer base and the vulnerable nature of the people we support. Whilst the virus may impact across many functions of the business from supply chain to the ability to source and retain sufficient and safe staffing levels, it would most likely manifest itself in a softening (albeit temporary) of occupancy and therefore revenue, and/or an increased cost associated with maintaining adequate staffing, as well as increased costs associated with the sourcing of personal protective equipment and other specialist supplies over and above that typically consumed by the business. Specifically, the severe but plausible downside scenario assumes:

- the core pandemic lasts until September 2020, with only a gradual macroeconomic and societal recovery beyond that date;
- ADC across the group is reduced by 4.6% across the whole of 2020 compared to the levels previously budgeted, which equates to a 2.9% reduction on the prior year;
- In addition, the recovery back to "normal" volume levels is gradual, with ADC not returning to pre-COVID-19 levels until Q1 2021 for our Healthcare and specialist Adult Care divisions, and a more sustained longer term impact for our Elderly Care business where volumes do not return to prior levels even by the end of 2021;
- The directors have considered various recovery scenarios specific to each business line and the prudence of the assumptions adopted reflect the uncertainty of the timing and speed of recovery;
- Up to 10,000 of our employees will have to self-isolate at some point during the outbreak, with additional recourse to agency staff and therefore increased employee costs;
- An additional expense in relation to personal protective equipment amounting to some £2.8m in 2020; and
- Limited growth from our immature sites until the latter half of 2021.

We do not consider that COVID-19 will have a material impact on the ability of our customers to continue to pay us for services, nor on our ability to collect those receivables. This is due to the nature of our customer base and the agreements in place with them.

of discretionary capital expenditure programmes, targeted consolidation of capacity and staffing, potential revisions to staff patterns where necessary and possible, reductions in non-essential travel and the postponement of non-mandatory staff training and a freeze on all non-essential recruitment activities. The Group has been prudent in the quantification of the effects of these mitigating actions, and those included in such a scenario do not represent the maximum mitigations available should an extended downside scenario materialise.

In addition, the above scenario does not include any funding assistance or reimbursement for COVID-19 related costs from central and local government for providers in the health and social care market. The Group is in active discussions with the authorities and customers in this regard and believe further mitigations to the above scenario will be available in due course, although they cannot be reliably quantified at this time.

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. Employees have a personal development plan that is monitored, assessed and modified during the annual appraisal process.

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

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

Dave Hall

David Hall

Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
1 July 2020

Priory Group UK 1 Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with 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	**Ryan Jervis**
Chief Executive Officer	**Chief Financial Officer**
1 July 2020	**1 July 2020**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRIORY GROUP UK 1 LIMITED

Opinion

We have audited the financial statements of Priory Group UK 1 Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 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 27 pertaining to the group and notes 1 to 9 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 2019 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.

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.

Emphasis of matter

We draw attention to Notes 2 and 25 of the financial statements, which describe the economic and social disruption the company is facing as a result of COVID-19. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report set out on pages 1-9, 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.

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 9, 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.

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.

Ernst & Young LLP

Catherine Hackney (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
1 July 2020

Priory Group UK 1 Limited

Consolidated income statement for the year ended 31 December 2019

£'000	Note	**Year ended 31 December 2019**	Year ended 31 December 2018
Revenue	3	**861,581**	830,412
Operating costs	4	**(816,706)**	(1,299,474)
Other operating income	12	**277**	-
Operating profit/(loss)	3	**45,152**	(469,062)
Analysed as:			
Adjusted EBITDA		**162,866**	136,549
Depreciation	4	**(79,550)**	(58,577)
Amortisation	4	**(12,735)**	(20,239)
Exceptional items	7	**(25,429)**	(526,795)
Operating profit/(loss)		**45,152**	(469,062)
Finance costs	8	**(111,501)**	(84,516)
Finance income	8	**64**	66
Loss before tax		**(66,285)**	(553,512)
Income tax	9	**6,914**	31,381
Loss for the year		**(59,371)**	(522,131)

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

Consolidated statement of comprehensive income for the year ended 31 December 2019

£'000	**Year ended 31 December 2019**	Year ended 31 December 2018
Loss for the year	**(59,371)**	(522,131)
Actuarial (loss)/gain on defined benefit scheme	**(1,582)**	1,515
Movement in deferred tax relating to actuarial losses/(gains)	**269**	(258)
Other comprehensive (expense)/income for the year	**(1,313)**	1,257
Total comprehensive expense for the year	**(60,684)**	(520,874)

Priory Group UK 1 Limited

Consolidated balance sheet at 31 December 2019

£'000	Note	31 December 2019	31 December 2018
Non-current assets			
Intangible assets	10	**130,652**	143,387
Property, plant and equipment	11	**1,178,659**	1,214,787
Right of use assets	12	**404,989**	-
		1,714,300	1,358,174
Current assets			
Net investment in finance leases	12	**633**	-
Inventories	13	**519**	519
Trade and other receivables	14	**49,617**	52,346
Corporation tax recoverable		**601**	-
Cash	15	**14,408**	10,622
		65,778	63,487
Assets held for sale	16	**4,181**	6,820
		69,959	70,307
Total assets		**1,784,259**	1,428,481
Current liabilities			
Trade and other payables	17	**(106,587)**	(101,353)
Corporation tax payable		**-**	(2,000)
Right of use liabilities	12	**(33,891)**	-
Borrowings	18	**-**	(2,367)
Provisions for liabilities and charges	19	**(6,103)**	(8,094)
		(146,581)	(113,814)
Net current liabilities		**(76,622)**	(43,507)
Non-current liabilities			
Right of use liabilities	12	**(384,421)**	-
Borrowings	18	**(1,163,149)**	(1,155,238)
Provisions for liabilities and charges	19	**-**	(9,265)
Deferred income tax	20	**(116,168)**	(122,137)
Pension liability	21	**(6,393)**	(6,485)
		(1,670,131)	(1,293,125)
Net (liabilities)/assets		**(32,453)**	21,542
Equity attributable to the owners of the parent:			
Share capital	22	**74,984**	74,984
Share premium account		**647,240**	647,240
Accumulated losses		**(754,677)**	(700,682)
Total equity		**(32,453)**	21,542

The consolidated financial statements of Priory Group UK 1 Limited (registered company number 09057543) on pages 12 to 45 were approved by the board of directors and authorised for issue on 1 July 2020. They were signed on its behalf by:

Trevor Torrington
Chief Executive Officer

Ryan Jervis
Chief Financial Officer

Priory Group UK 1 Limited

Consolidated statement of cash flows for the year ended 31 December 2019

£'000	Note	**Year ended 31 December 2019**	Year ended 31 December 2018
Operating activities			
Operating profit/(loss)		**45,152**	(469,062)
Loss/(profit) on disposal of property, plant and equipment	7	**99**	(92)
Depreciation of property, plant and equipment and right of use assets	4	**79,550**	58,577
Amortisation of intangible assets	4	**12,735**	20,239
Impairment of intangibles and property, plant and equipment	7	**20,734**	523,205
Non-cash exceptional items (transaction costs)	7	**1,710**	-
Decrease in inventories		**-**	7
(Increase)/decrease in trade and other receivables		**(2,629)**	935
(Decrease)/increase in trade and other payables		**(242)**	3,007
Provision for future minimum rental increases		**-**	2,627
		157,109	139,443
Taxation		**(2,757)**	(445)
Net cash generated from operating activities		**154,352**	138,998
Investing activities			
Interest income	8	**64**	66
Proceeds from disposal of property, plant and equipment		**4,945**	2,369
Purchases of property, plant and equipment		**(46,228)**	(62,768)
Net cash used in investing activities		**(41,219)**	(60,333)
Financing activities			
Repayment of obligations under finance leases		**-**	(2,363)
Repayment of obligations under right of use liabilities		**(7,349)**	-
Post-employment benefits		**(1,830)**	(1,780)
Interest paid on right of use liabilities		**(27,560)**	-
Interest paid on borrowings		**(72,608)**	(76,649)
Net cash used in from financing activities		**(109,347)**	(80,792)
Net increase/(decrease) in cash		**3,786**	(2,127)
Cash at the beginning of the year	15	**10,622**	12,749
Cash at the end of the year	15	**14,408**	10,622

Priory Group UK 1 Limited

Consolidated statement of changes in equity for the year ended 31 December 2019

£'000	Share capital	Share premium account	Accumulated losses	Total equity
At 1 January 2018	74,984	647,240	(179,808)	542,416
Loss for the year	-	-	(522,131)	(522,131)
Other comprehensive income for the year	-	-	1,257	1,257
Total comprehensive expense for the year	-	-	(520,874)	(520,874)
At 31 December 2018	74,984	647,240	(700,682)	21,542
At 1 January 2019, as previously reported	74,984	647,240	(700,682)	21,542
Impact of change in accounting policy – note 12	-	-	6,689	6,689
Adjusted balances at 1 January 2019	74,984	647,240	(693,993)	28,231
Loss for the year	-	-	(59,371)	(59,371)
Other comprehensive expense for the year	-	-	(1,313)	(1,313)
Total comprehensive expense for the year	-	-	(60,684)	(60,684)
At 31 December 2019	**74,984**	**647,240**	**(754,677)**	**(32,453)**

Priory Group UK 1 Limited

Notes to the consolidated financial statements

1. General information

The Company is a private limited company, limited by shares and incorporated and domiciled in the UK. The Company is the holding company of Whitewell UK Holding Company 1 Limited and its subsidiaries, whose principal activity is the provision of behavioural care in the United Kingdom, focusing on the provision of acute psychiatry, forensic and rehabilitation and recovery services, 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 22 and 23.

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 Healthcare, and no contractual payments are due until 2022. The Group made a loss before tax of £66.3m for the year ended 31 December 2019 and is forecast to make a further loss during the going concern period. This loss is stated after accrued interest and also includes non-cash items such as amortisation, depreciation, certain non-cash exceptional items (for example, impairments) and the impact of recognising financing charges on IFRS 16 right of use liabilities. The Group generates sufficient cash to cover its liabilities and surplus balances are transferred to Acadia Healthcare to reduce the accrued interest and loan capital balances ahead of their scheduled repayment dates. At 31 December 2019 the Group had debt (including accrued interest) of £1.163bn due to Acadia Healthcare. Under the severe but plausible downside scenarios prepared by the Directors, the forecast cash flows indicate that operating cash flows may not be sufficient to meet interest payments as they accrue. The Group has received confirmation that Acadia Healthcare will provide financial support to the extent that monies are not otherwise available to meet their liabilities. On that basis the Directors have concluded that interest repayments will not be extracted to the extent that they exceed forecast free cash flow.

The directors have adopted the going concern basis in preparing these accounts (notwithstanding the net liabilities at 31 December 2019 of £32.5m) after assessing the principal risks and having considered the impact of a severe but plausible scenario potentially precipitated by macroeconomic and business-specific consequences of the COVID-19 pandemic. The major variables are the depth and length of the economic disruption caused by the outbreak; and whilst the situation continues to evolve, scenario planning is made difficult, and necessarily subjective in nature. The directors considered the impact of the current environment and various forward-looking scenarios on the business for the next 12 months and beyond into the medium term.

We have assumed that our operations remain substantially open for business – given the nature of our facilities, our customer base and the vulnerable nature of the people we support. Whilst the virus may impact across many functions of the business from supply chain to the ability to source and retain sufficient and safe staffing levels, it would most likely manifest itself in a softening (albeit temporary) of occupancy and therefore revenue, and/or an increased cost associated with maintaining adequate staffing, as well as increased costs associated with the sourcing of personal protective equipment and other specialist supplies over and above that typically consumed by the business. Specifically, the severe but plausible downside scenario assumes:

- the core pandemic lasts until September 2020, with only a gradual macroeconomic and societal recovery beyond that date;
- ADC across the group is reduced by 4.6% across the whole of 2020 compared to the levels previously budgeted, which equates to a 2.9% reduction on the prior year;
- In addition, the recovery back to "normal" volume levels is gradual, with ADC not returning to pre-COVID-19 levels until Q1 2021 for our Healthcare and specialist Adult Care divisions, and a more sustained longer term impact for our Elderly Care business where volumes do not return to prior levels even by the end of 2021;
- The directors have considered various recovery scenarios specific to each business line and the prudence of the assumptions adopted reflect the uncertainty of the timing and speed of recovery;
- Up to 10,000 of our employees will have to self-isolate at some point during the outbreak, with additional recourse to agency staff and therefore increased employee costs;
- An additional expense in relation to personal protective equipment amounting to some £2.8m in 2020; and
- Limited growth from our immature sites until the latter half of 2021.

We do not consider that COVID-19 will have a material impact on the ability of our customers to continue to pay us for services, nor on our ability to collect those receivables. This is due to the nature of our customer base and the agreements in place with them.

The revenue and cost impact of such a scenario would have a major negative impact on the Group's profitability for 2020, however there are a number of actions being taken to minimise the financial impact. These mitigating actions include a comprehensive review of discretionary capital expenditure programmes, targeted consolidation of capacity and staffing, potential revisions to staff patterns where necessary and possible, reductions in non-essential travel and the postponement of staff training other than that required for regulatory purposes and a freeze on all non-essential recruitment activities. The Group has been prudent in the quantification of the effects of these mitigating actions, and those included in such a scenario do not represent the maximum mitigations available should an extended downside scenario materialise.

In addition, the above scenario does not include any funding assistance or reimbursement for COVID-19 related costs from central and local government for providers in the health and social care market. The Group is in active discussions with the authorities and customers in this regard and believe further mitigations to the above scenario will be available in due course, although they cannot be reliably quantified at this time.

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 2019. 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, the asset or disposal group is available for immediate sale in its present condition and when the asset or disposal group is being actively marketed. Management must be committed to the sale and expect the sale to complete within one year from the date of classification or the reporting date.

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

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

ii) Brands and customer contracts

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

Priory Group UK 1 Limited

Notes to the consolidated financial statements

f) Segment reporting

Substantially all of the Group's operations are 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 2019 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 "Priory Central Services Pension and Life Assurance Scheme" for staff at one of its homes. The defined benefit obligation, plan assets and net surplus are not material, and are therefore not separately recognised in the consolidated financial statements.

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
Fixtures and fittings	3 to 16 years
Motor vehicles	4 years

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

l) Inventory

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

m) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 14. The details of accounting policies under IAS 17 and IFRIC 14 are disclosed separately if they are different from those under IFRS 16 and the impact of changes in disclosed in Note 12.

i) Accounting policy prior to 1 January 2019

Prior to 1 January 2019, the Group's accounting policy was as follows:

1) 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.

2) 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.

3) 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.

ii) Accounting policy from 1 January 2019

From 1 January 2019, the Group's accounting policy was as follows:

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

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

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

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

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

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

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

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

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

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

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

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

1) Short-term leases

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

2) Leases of low-value assets

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

3) Portfolio approach to discount rates

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

4) Impairment review on initial application

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

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

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

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

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

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

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

ii) Cash

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

iii) Trade and other payables

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

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 23.

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 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) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows and growth rates expected to arise from the cash-generating unit and select a suitable discount rate in order to calculate present value. Changes to the assumptions regarding discount rates, growth rates and expected changes to revenues and costs used in making these forecasts could significantly alter the assessment of the carrying value of goodwill. Refer to note 10 for details of the impairment review performed.

(ii) Valuation of deferred tax assets

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. Refer to note 20 for further detail of deferred tax assets recognised.

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

t) Changes in accounting policy and disclosure

From 1 January 2019 the following interpretations became effective and were adopted by the Group:

IFRS 9: 'Financial instruments' amendment relating to prepayment features with negative compensation;
IFRS 16: 'Leases';
IAS 28: 'Investments in associates' on long term interests in associates and joint ventures;
IFRIC 23: 'Uncertainty over income tax treatment';
IAS 19: 'Employee benefits' plan amendment, curtailment and settlement;
Annual improvements 2015 – 2018;
IFRS 3: 'Business combinations' amendments;
IFRS 11: 'Joint arrangements' amendments;
IAS 12: 'Income taxes' amendments;
IAS 23 'Borrowing costs' amendments

The adoption of these interpretations has had no impact on the Group's profit for the year or equity, with the exception of IFRS 16. Note 2 (m) sets out the Group's accounting policy in respect of leases under IFRS 16, and Note 12 details the impact of the change in accounting policy.

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
Definition of a business – amendments to IFRS 3	1 January 2020
Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Definition of materiality – amendments to IAS 1 and IAS 8	1 January 2020
The conceptual framework for financial reporting	1 January 2020
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 2019. 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.

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. Substantially 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. Substantially all of the Group's assets are domiciled in the UK.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

Segment revenues and results

The measure of segment profit is adjusted earnings before interest, tax, depreciation, amortisation and exceptional items (Adjusted EBITDA), being EBITDA before exceptional items. Adjusted EBITDA is reported to the board in their Capacity as 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 2019

£'000	Healthcare	Education	Adult Care	Central	Total
Revenue	**476,532**	**142,906**	**242,143**	**-**	**861,581**
Adjusted EBITDA	**91,443**	**38,056**	**51,031**	**(17,664)**	**162,866**
Depreciation (note 4)					**(79,550)**
Amortisation (note 4)					**(12,735)**
Exceptional items (note 7)					**(25,429)**
Operating profit					**45,152**
Net finance costs (note 8)					**(111,437)**
Loss before tax					**(66,285)**

Included in the above exceptional item is a total impairment charge of £20,734,000 in respect of property, plant and equipment which is split between the segments as follows:

£'000	Healthcare	Education	Adult Care	Central	Total
Impairment	15,178	3,282	2,274	-	20,734

Year ended 31 December 2018

£'000	Healthcare	Education	Adult Care	Central	Total
Revenue	461,730	143,926	224,756	-	830,412
Adjusted EBITDA	81,694	38,495	30,386	(14,026)	136,549
Depreciation (note 4)					(58,577)
Amortisation (note 4)					(20,239)
Exceptional items (note 7)					(526,795)
Operating profit					(469,062)
Net finance costs (note 8)					(84,450)
Loss before tax					(553,512)

Included in the above exceptional item is a total impairment charge of £523,205,000 in respect of intangibles and property, plant and equipment which is split between the segments as follows:

£'000	Healthcare	Education	Adult Care	Central	Total
Impairment	321,923	844	200,438	-	523,205

Information about major customers

In 2019 revenue from NHS England amounted to 21% (2018: 22%) of total revenue and no other single customer accounted for more than 10% of total revenue. On a consolidated basis, revenue of £320.3m (2018: £319.0m) and £456.3m (2018: £431.3m) arose from Social Services and the NHS respectively, which each represent more than 10% of the Group's total revenue. Of this revenue, £416.2m (2018: £401.4m) arose in the Healthcare segment, £141.1m (2018: £140.7m) arose in the Education segment and £219.3m (2018: £202.2m) in the Adult Care segment.

Segment assets

Information regarding segmental assets is reviewed by the board annually.

£'000	2019	2018
Healthcare	**12,931**	14,721
Education	**103,150**	108,944
Adult Care	**18,752**	26,542
Total segment assets	**134,833**	150,207
Unallocated assets:		
Property plant and equipment	**1,178,659**	1,214,787
Right of use assets	**404,989**	-
Net investment in finance leases	**633**	-
Inventories	**519**	519
Corporation tax recoverable	**601**	-
Trade and other receivables	**49,617**	52,346
Cash	**14,408**	10,622
Total assets	**1,784,259**	1,428,481
Included in total segment assets above:		
Intangible assets		
Healthcare	**11,956**	12,421
Education	**103,150**	107,896
Adult Care	**15,546**	23,070
	130,652	143,387
Assets held for sale		
Healthcare	**975**	2,300
Education	-	1,048
Adult Care	**3,206**	3,472
	4,181	6,820

4. Operating costs

£'000	2019	2018
Staff costs (note 6)	**502,790**	480,936
Other operating costs	**195,102**	179,820
Depreciation of property, plant and equipment (note 11)		
Owned	**54,616**	56,297
Leased	-	2,280
Depreciation of right of use assets (note 12)	**24,934**	-
Amortisation of intangible assets (note 10)	**12,735**	20,239
Rentals under operating leases		
Property leases	-	32,401
Other operating leases	-	706
Sundry lease expenses	**1,100**	-
Exceptional items (note 7)	**25,429**	526,795
	816,706	1,299,474

5. Auditors' remuneration

Audit fees in the current and prior year are borne by Acadia Healthcare.

6. Employee numbers and costs

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

Number	2019	2018
Medical, care and nursing	**17,155**	16,564
Administrative and ancillary	**4,560**	4,277
	21,715	20,841

Their aggregate remuneration comprised:

£'000	2019	2018
Wages and salaries	**454,950**	436,941
Social security costs	**36,933**	36,462
Other pension costs	**10,907**	7,533
	502,790	480,936

7. Exceptional items

£'000	2019	2018
Reorganisation and rationalisation costs	**2,886**	3,682
Professional fees in relation to sale of business	**1,710**	-
Impairment of intangible and tangible assets	**20,734**	523,205
Loss/(profit) on disposal of property, plant and equipment	**99**	(92)
	25,429	526,795

Reorganisation and rationalisation costs primarily relate to onerous lease and closure provisions. Impairment costs relate to the impairment of intangible assets and property, plant and equipment, see notes 10 and 11.

8. Finance income and costs

£'000	2019	2018
Finance costs		
Interest on bank facilities and associated costs	-	9
Interest payable on intercompany loans	**83,771**	83,771
Interest on obligations under finance leases	-	487
Interest on right of use liabilities	**27,560**	-
Provisions: unwinding of discount	**14**	37
Net cost on post employment benefit	**156**	212
	111,501	84,516
Finance income		
Interest received on finance leases	**(25)**	-
Interest income	**(39)**	(66)
	(64)	(66)
Net finance costs	**111,437**	84,450

Priory Group UK 1 Limited

Notes to the consolidated financial statements

9. Income tax

£'000	2019	2018
Current tax		
Current tax on profits for the year	**1,212**	2,616
Adjustments in respect of prior periods	**(1,056)**	(3,063)
	156	(447)
Deferred tax (note 20):		
Origination and reversal of temporary differences	**(8,298)**	(29,716)
Adjustments in respect of prior periods	**1,228**	(1,218)
	(7,070)	(30,934)
Taxation	**(6,914)**	(31,381)

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit or loss for the year. The expected tax credit for the year can be reconciled to the credit per the income statement as follows:

£'000	2019	2018
Loss before tax	**(66,285)**	(553,512)
Tax at the UK corporation tax rate of 19% (2018: 19%)	**(12,594)**	(105,167)
Non-deductible expenses	**4,663**	74,522
Adjustments in respect of prior years	**172**	(4,281)
Other differences	**(107)**	52
Changes in tax rates	**952**	3,493
Tax credit for the year	**(6,914)**	(31,381)

The Group's losses for this accounting year are taxed at an effective rate of 19% (2018: 19%).

A reduction in the main rate of corporation tax to 17% with effect from 1 April 2020 was substantively enacted on 6 September 2016. Finance Bill 2020 reversed this proposed rate reduction but that legislation had not been substantively enacted at the balance sheet date. As such the Group's deferred tax balances continue to be calculated at 17%. The impact of the rate change back to 19% would be an increase of £13.6m to the closing deferred tax liability.

10. Intangible assets

£'000	Goodwill	Brands	Customer contracts	Total
Cost				
At 1 January 2018, 31 December 2018 and 31 December 2019	**478,588**	**15,059**	**102,428**	**596,075**
Accumulated amortisation and impairment				
At 1 January 2018	-	999	47,054	48,053
Amortisation charge	-	533	19,706	20,239
Impairment	377,053	1,106	6,237	384,396
At 31 December 2018	377,053	2,638	72,997	452,688
Amortisation charge	-	465	12,270	12,735
At 31 December 2019	**377,053**	**3,103**	**85,267**	**465,423**
Net book value				
At 31 December 2019	**101,535**	**11,956**	**17,161**	**130,652**
At 31 December 2018	101,535	12,421	29,431	143,387

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	2019	2018
Healthcare	-	-
Education	**101,535**	101,535
Adult Care	-	-
	101,535	101,535

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. These are prepared for 5 years, then taken 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:

	2019	2018
Pre-tax discount rate	**12.88%**	11.25%
Long term net cash flow growth rate	**2.00%**	2.00%

The value in use of the CGU's are as follows:

£'000	2019
Healthcare	n/a
Education	352,761
Adult Care	n/a

A sensitivity analysis on the impairment test of each remaining CGU's carrying value shows an increase of 0.84% in pre-tax discount rate would result in the headroom being eliminated in Education.

Further disclosure is set out in note 25 in respect of the potential impact of the COVID-19 outbreak.

Brands

The brand intangible arose on the acquisition of the Priory Group and has a remaining amortisation period of 26.1 years (2018: 27.1 years).

Customer contracts

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

	2019		2018	
	Carrying value	**Amortisation period remaining**	Carrying value	Amortisation period remaining
	£'000	**years**	£'000	years
Priory Group – Adult Care	**15,546**	**4.1**	23,070	5.1
Priory Group - Education	**397**	**0.1**	3,923	1.1
Aspire - Education	**1,218**	**2.0**	2,438	3.0
	17,161		29,431	

Priory Group UK 1 Limited

Notes to the consolidated financial statements

11. Property, plant and equipment

£'000	Land and buildings	Assets in the course of construction	Fixtures and fittings	Motor vehicles	Total
Cost					
At 1 January 2018	1,257,849	9,173	189,999	8,701	1,465,722
Additions	3,175	31,637	26,512	3,751	65,075
Disposals	(20)	(111)	(12,568)	(267)	(12,966)
Impairment	(205)	-	-	-	(205)
Transfers between classifications	32,942	(29,677)	(3,232)	(33)	-
Transferred to current assets	(13,252)	-	(1,756)	-	(15,008)
At 31 December 2018	1,280,489	11,022	198,955	12,152	1,502,618
Transferred to right of use assets	-	-	-	(10,656)	(10,656)
Additions	3,199	11,084	33,257	3	47,543
Disposals	-	(83)	(7,939)	(86)	(8,108)
Transfers between classifications	13,966	(16,891)	2,925	-	-
Transferred to current assets	(3,673)	-	(465)	-	(4,138)
At 31 December 2019	**1,293,981**	**5,132**	**226,733**	**1,413**	**1,527,259**
Accumulated depreciation					
At 1 January 2018	68,618	-	41,693	2,525	112,836
Charge for the year	25,541	-	30,413	2,623	58,577
Disposals	-	-	(12,288)	(187)	(12,475)
Impairment	137,273	-	1,331	-	138,604
Transfers between classifications	115	-	(682)	567	-
Transferred to current assets	(8,111)	-	(1,600)	-	(9,711)
At 31 December 2018	223,436	-	58,867	5,528	287,831
Transferred to right of use assets	-	-	-	(4,740)	(4,740)
Charge for the year	22,540	-	31,868	208	54,616
Disposals	-	-	(7,757)	354	(7,403)
Impairment	20,734	-	-	-	20,734
Transferred to current assets	(2,289)	-	(149)	-	(2,438)
At 31 December 2019	***264,421***	**-**	***82,829***	***1,350***	***348,600***
Net book value					
At 31 December 2019	**1,029,560**	**5,132**	**143,904**	**63**	**1,178,659**
At 31 December 2018	1,057,053	11,022	140,088	6,624	1,214,787

Property, plant and equipment was impaired by £20.7m in the year – this related to a number of closed facilities. Following the impairment, these properties were carried at fair value less costs to sell, amounting to £6.8m in total. The recoverable amount is deemed to be a Level One input in the fair value hierarchy, determined by third party valuations.

At 31 December 2018, the carrying amount of assets (motor vehicles) held under finance lease was £5.9m; the Group's obligations under finance leases are secured by the lessors' title to the leased assets. Following the adoption of IFRS 16, these vehicles are included within the right of use asset as at 31 December 2019 (refer to note 12).

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.6m (2018: £3.6m).

12. Leases and IFRS 16 right of use assets and liabilities

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

Right of use assets

Year ended 31 December 2019

£'000	Land and buildings	Office equipment	Motor vehicles	Total
Balance at 1 January	432,314	1,382	5,916	439,612
Balance at 31 December	397,943	986	6,060	404,989
Depreciation charge for the year	21,768	346	2,820	24,934
Additions during the year	255	-	2,633	2,888

Right of use liabilities

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

£'000	2019
Current	33,891
Non-current	384,421
	418,312

Amounts recognised in profit or loss

£'000	2019
Interest on lease liabilities	27,560
Variable lease payments	306
Expenses relating to short term leases	436
Expenses relating to leases of low-value assets	244

Amounts recognised in the statement of cash flows

£'000	2019
Operating activities (within operating profit):	
Variable lease payments	306
Payments on short term leases	436
Payments on leases of low-value assets	244
Financing activities:	
Repayment of obligations under right of use liabilities	7,349
Payment of interest on right of use liabilities	27,560
	35,895

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

The Group leases motor vehicles with lease terms generally of four years.

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

Sub-leases

Finance leases

The Group sublets an office facility under a finance lease arrangement, charging rent of £226,000 annually. Both the head lease and the sublease expire on 31 December 2022. Contractual lease payments are as follows:

£'000	2019
In less than one year	**226**
In more than one year but less than five years	**452**
	678
Finance income relating to future periods	**(45)**
Net investment in finance lease	**633**

The Group recognised £25,000 of finance income on the net investment in the lease; this is included within "finance income" in the income statement.

Operating leases

The Group subleases part of an operational facility within the Healthcare division under a series of operating lease arrangements. As at 31 December 2019, the remaining terms of the subleases were between 12 and 14 years.

Lease payments receivable under operating leases amounted to £277,000 in the year ended 31 December 2019; this is presented within "other operating income" in the income statement.

Impact of adoption of IFRS 16

The Group has applied IFRS 16 with a date of initial application of 1 January 2019, using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Note 2(m) sets out the accounting policy for the two years presented herein, including the practical expedients used when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

On transition to IFRS 16, the Group recognised an additional £439,612,000 of right of use assets and £437,280,000 of right of use liabilities. The Group derecognised the provision for future minimum rental increases, resulting in a credit to retained earnings of £6,689,000, net of deferred tax.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 6.24%.

The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018:

£'000	
Operating lease commitments at 31 December 2018	**713,857**
Discounted using the incremental borrowing rate	**362,663**
Finance lease liabilities recognised at 31 December 2018	**5,619**
Short-term leases	**(193)**
Leases of low-value items	**(614)**
Variable lease payments based on an index or a rate	**64,965**
Other	**4,840**
Lease liabilities recognised at 1 January 2019	**437,280**

An analysis of undiscounted contractual cash flows is set out in note 23.

13. Inventories

£'000	2019	2018
Consumable supplies	**519**	519

14. Trade and other receivables

£'000	2019	2018
Trade receivables	**37,529**	36,303
Allowance for doubtful debts	**(1,533)**	(1,407)
	35,996	34,896
Other receivables	**5,124**	5,437
Prepayments and accrued income	**8,497**	12,013
	49,617	52,346

15. Cash

£'000	2019	2018
Cash	**14,408**	10,622

16. Assets held for sale

£'000	Land and buildings	Fixtures and fittings	Total
Cost and net book value			
At 1 January 2018	3,340	-	3,340
Transferred from property, plant and equipment (note 11)	5,141	156	5,297
Disposals	(1,817)	-	(1,817)
At 31 December 2018	6,664	156	6,820
Transferred from property, plant and equipment (note 11)	1,384	316	1,700
Disposals	(4,183)	(156)	(4,339)
At 31 December 2019	**3,865**	**316**	**4,181**

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	2019	2018
Trade payables	**10,840**	10,931
Amounts owed to group undertakings	**2,455**	6,929
Other taxes and social security	**11,625**	10,950
Accruals and deferred income	**72,371**	61,558
Other payables	**9,296**	10,985
	106,587	101,353

Amounts owed to group undertakings are unsecured, do not bear interest and have no fixed date of repayment.

18. Borrowings

£'000	2019	2018
Borrowings due less than one year		
Finance lease liabilities	-	2,367
	-	2,367
Borrowings due greater than one year		
Loans from related party	**1,132,024**	1,132,024
Accrued interest	**31,125**	19,962
Finance lease liabilities	-	3,252
	1,163,149	1,155,238
Total borrowings	**1,163,149**	1,157,605

Loans from related parties undertakings comprise unsecured loans from AHC-WW Jersey Ltd (a fully owned subsidiary of Acadia Healthcare) of £152,234,000 (2018: £152,234,000) and £979,790,000 (2018: £979,790,000) 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. Provisions for liabilities and charges

£'000	Onerous contracts and legal costs	Future minimum rent	Total
At 1 January 2018	14,938	5,451	20.389
(Credited)/charged to income statement	(1,813)	2,627	814
Discount unwind	37	-	37
Reclassifications	19	(19)	-
Used during year	(3,881)	-	(3,881)
At 31 December 2018	9,300	8,059	17,359
Derecognised upon change in accounting policy	(2,302)	(8,059)	(10,361)
Charged to income statement	2,063	-	2,063
Used during year	(2,958)	-	(2,958)
At 31 December 2019	**6,103**	**-**	**6,103**

Analysis of provisions:

£'000	2019	2018
Current	**6,103**	8,094
Non - current	-	9,265
Total provisions	**6,103**	17,359

Onerous contracts and legal costs

Provisions have been recorded for the onerous payments on certain lease arrangements totalling £nil (2018: £2.3m). 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 3 and 10 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. The provision was derecognised upon the adoption of IFRS 16.

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 £6.1m (2018: £7.0m).

Future minimum rent

Provisions had 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 were derecognised upon the adoption of IFRS 16.

20. Deferred tax

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

£'000	Tax losses	Interest	Other timing differences	Intangibles	Property, plant and equipment	Total
At 1 January 2018	(11,425)	(3,761)	(2,060)	11,805	158,254	152,813
Charge/(credit) to income statement	2,323	(6,361)	(49)	(4,691)	(22,156)	(30,934)
Charge to other comprehensive income	-	-	258	-	-	258
At 31 December 2018	(9,102)	(10,122)	(1,851)	7,114	136,098	122,137
Amounts recognised directly in equity	-	-	1,370	-	-	1,370
Charge/(credit) to income statement	1,899	(4,001)	290	(2,165)	(3,093)	(7,070)
Credit to other comprehensive income	-	-	(269)	-	-	(269)
At 31 December 2019	**(7,203)**	**(14,123)**	**(460)**	**4,949**	**133,005**	**116,168**

The Group has tax losses of £52.7m (2018: £63.5m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset of £7.2m (2018: £9.1m) has been recognised in respect of such losses based on a forecast prepared to anticipate their use against future taxable profits of the companies in which they arose.

A deferred tax asset of £1.7m (2018: £1.7m) has not been recognised in respect of £10.0m (2018: £10.0m) of losses where there is insufficient certainty over their future use. These losses do not expire and if the Group were able to recognise these assets, profit would increase by £1.7m (2018: £1.7m).

Priory Group UK 1 Limited

Notes to the consolidated financial statements

A deferred tax asset of £14.1m (2018: £10.1m) 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 £0.5m (2018: £1.9m) has been recognised in respect of other timing differences, based on the expectation that these timing differences will reverse.

21. Pension commitments

The group operates a defined contribution pension scheme. The scheme assets are held separately from these of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £10,907,000 (2018: £7,533,000).

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 2019 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 2019. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2019, 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 2020 consist of shortfall contributions amounting to £1.78m. 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	**2019**	2018
Fair value of scheme assets	**44,019**	39,057
Present value of future obligations	**(50,412)**	(45,542)
Net pension scheme liability	**(6,393)**	(6,485)

The amounts recognised in the income statement are as follows:

£'000	**2019**	2018
Net interest on net defined benefit liability	**156**	212

The amounts recognised in other comprehensive income are as follows:

£'000	**2019**	2018
Re-measurements:		
Return on scheme assets excluding interest income	**4,279**	(2,236)
(Loss)/gain from change in financial assumptions	**(4,652)**	2,664
(Loss)/gain from change in demographic assumptions	**(212)**	863
Experience (losses)/gains	**(997)**	224
Re-measurement (losses)/gains recognised in other comprehensive income	**(1,582)**	1,515

Reconciliation of fair value of plan liabilities were as follows:

£'000	**2019**	2018
Opening defined benefit obligation	**45,542**	49,876
Interest cost	**1,244**	1,200
Actuarial losses/(gains)	**5,861**	(3,751)
Benefits paid	**(2,235)**	(1,783)
Closing defined benefit obligation	**50,412**	45,542

Reconciliation of fair value of plan assets were as follows:

£'000	2019	2018
Opening fair value of scheme assets	**39,057**	40,308
Interest income on plan assets	**1,088**	988
Return on scheme assets excluding interest income	**4,279**	(2,236)
Contributions by employer	**1,830**	1,780
Benefits paid	**(2,235)**	(1,783)
Closing fair value of scheme assets	**44,019**	39,057

Actuarial assumptions

The principal assumptions at the balance sheet date were:

	2019	2018
Discount rate	**1.90%**	2.80%
Price inflation (RPI)	**2.85%**	3.25%
Price inflation (CPI)	**1.85%**	2.25%
Future increases in deferred pensions	**1.85%**	2.25%
Expected return on scheme assets	**1.85%**	2.80%
Commutation	**Lump sum such that 20% of pension at retirement is commuted**	Lump sum such that 20% of pension at retirement is commuted

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

	2019	2018
Retiring at the end of the reporting period:		
- Male	**22.4**	22.3
- Female	**23.8**	24.3
Retiring 20 years after the end of the reporting period:		
- Male	**24.4**	23.7
- Female	**25.9**	25.8

Asset breakdown

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

	2019	2018
Equities	**7.4%**	7.2%
Bonds	**24.3%**	21.6%
Real Return Fund	**23.0%**	23.1%
Real LDI	**13.4%**	13.9%
Insurance Policy	**30.4%**	32.8%
Cash	**1.5%**	1.4%

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	2019
0.25% decrease in discount rate	2,063
0.25% increase in inflation and related assumptions	1,412
1 year increase in life expectancy	1,830

22. Share capital

	2019		2018	
	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

23. 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 £1.5m (2018: £1.4m) for doubtful receivables. The Group measures those allowances at an amount equal to the lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience and forward looking information.

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

The average credit period taken at the year end on the provision of services is 15 days (2018: 16 days). Allowances against doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty. The majority of the Group's allowance for doubtful debts relates to specific trade receivables that are not considered to be recoverable, and management only considers it appropriate to create a collective provision based on the age of the trade receivable in respect of certain types of trade receivables.

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

£'000	**2019**	2018
Current	**29,038**	26,523
30-60 days	**5,707**	7,627
60-150 days	**1,080**	1,027
150 days +	**1,704**	1,126
	37,529	36,303

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	**2019**	2018
60 days +	**677**	789

The movement in allowance for doubtful debts is as follows:

£'000	**2019**	2018
Balance at 1 January	**1,407**	1,093
Charged to income statement	**126**	314
Balance at 31 December	**1,533**	1,407

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

There is no concern over the credit quality of amounts past due but 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.

Expected credit losses

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

Interest rate risk

The Group finances its operations through 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:

2019

£'000	Total	0-1 years	2-5 years	5 years and over
Trade and other payables	**64,970**	**64,970**	-	-
Loan from related party	**1,490,620**	-	**1,490,620**	-
Right of use liabilities	**821,868**	**35,089**	**127,000**	**659,779**
	2,377,458	**100,059**	**1,617,620**	**659,779**

2018

£'000	Total	0-1 years	2-5 years	5 years and over
Trade and other payables	65,871	65,871	-	-
Loan from related party	1,563,028	-	198,331	1,364,697
Finance lease liabilities	5,619	2,367	3,252	-
	1,634,518	68,238	201,583	1,364,697

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	2019	2018
Cash	**14,408**	10,622
Right of use liabilities	**(417,847)**	-
Borrowings	**(1,163,149)**	(1,157,605)
Equity	**(32,453)**	21,542

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

Foreign currency risk

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

Fair values

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

24. 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 AHC-WW Jersey Ltd (a wholly owned subsidiary of Acadia Healthcare) which accrue interest, see note 18 and 8 for further details. In addition £2,455,000 (2018: £6,929,000) is owed to Acadia Healthcare at the year end, see note 17.

Remuneration of key management personnel

£'000	2019	2018 - restated
Short-term employee benefits	**1,379**	1,403
Post-employment benefits	**20**	30

The comparative figures in the table above have been restated in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" on the basis that the figures as originally presented did not include all key management personnel, and that such omission may be deemed qualitatively material. The figures presented in the financial statements for the year ended 31 December 2018 for short-term employee benefits and post-employment benefits were understated by £359,000 and £10,000 respectively. The correction is for disclosure purposes only, and no financial line items in the primary financial statements are affected.

The emoluments of the highest paid director of the Company were £548,000 (2018: £634,000). In addition, the Group paid pension contributions of £10,000 in respect of the highest paid director (2018: £10,000).

Company directors Joey Jacobs, Christopher Howard and Debra Osteen were and are remunerated by Acadia Healthcare as their services to the Company are incidental to their services to other companies.

25. Events after the reporting period

COVID-19

The evolving situation regarding the COVID-19 outbreak is regarded by the Group as a disclosable event occurring after the reporting date but prior to the issuance of these financial statements. The Group has determined that COVID-19 is a non-adjusting post balance sheet event as at 31 December 2019 on the basis that at that date the World Health Organisation had not declared a global health emergency, and there was no significant known presence of the virus outside China, a territory with minimal direct involvement with the Group.

As a non-adjusting event, no adjustment to the financial performance or position for the year has been made.

The impact of COVID-19 on the profitability, financial position and solvency of the Group is potentially significant, and the following information sets out some of the primary possible effects, based on the best information currently available to the Group.

The "principal risks" section of the strategic report on page 3 includes further detail on the potential impact of the pandemic on the business, as well as key actions taken by the Group in order to mitigate the effects of COVID-19.

Note 2(b) sets out the considerations made by the Group in determining that the going concern basis of preparation remains appropriate.

The annual goodwill impairment review (note 10) is predicated on the conditions prevailing as at 31 December 2019, and does not take into account any expected changes in forecast cash flows as a result of the COVID-19 outbreak. Should the financial impact be similar to that assumed for the severe downside scenario underpinning the Group's going concern assessment, it is likely that the remaining goodwill currently recognised by the Group would be impaired in full. Such a scenario may also result in further impairments to property, plant and equipment and right of use assets in future periods. In respect of other intangible assets, however, the Group does not consider there to be a significant risk that the nature of customer contracts would be materially altered or subject to premature cessation, nor that the Priory brand would impaired.

Included within property, plant and equipment is £5.1m of assets in the course of construction as at 31 December 2019. Whilst the Group has taken the decision to delay various discretionary capital expenditure projects, it expects that these projects will be completed in due course. Assets in the course of construction at the year-end included a number of developments that have subsequently been completed but are yet to formally open for business, however the Group expects these to be operational in the near future. The COVID-19 outbreak will not therefore directly lead to any impairment of these assets.

The Group continues to actively market those assets recorded as being held for sale, and remain confident that the disposal of these properties will complete and the carrying value of these assets remains appropriate.

The Group is party to a number of property leases (accounted for in 2019 under the requirements of IFRS 16 (note 12)), some of which relate to facilities which have been impacted by the COVID-19 outbreak either by way of targeted reductions in capacity or reductions in occupancy levels. Whilst the Group expects these facilities to return to more normal operating levels in due course, there is uncertainty regarding the timing and speed of such a recovery. There is a risk therefore that some of these lease arrangements will be onerous over the remaining lease term, which would result in an impairment charge made against the Group's right of use assets. However, the unknown length and severity of the temporary reductions in operating occupancy mean that the impact cannot as yet be reliably quantified.

In respect of the Group's defined benefit pension scheme deficit, the COVID-19 outbreak has led to significant market volatility and a significant fall in global equity capitalisation. However, government bonds have seen strong performance, pushing yields lower, as investors seek safer investments. Corporate bond yields, from which is derived the discount rate applied to scheme liabilities, have increased substantially. It is currently unclear how these factors will impact the overall pension deficit, and whether additional recovery payments will be required to be made to the scheme in future periods (the full actuarial review and funding strategy is currently ongoing), however the scheme is relatively well hedged which reduces the impact of the global market volatility.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

26. Subsidiaries

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

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

Notes to the consolidated financial statements

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
Priory (Thetford 2) Limited	Non trading	United Kingdom	100% ordinary
Thetford Trustee LLP	Non trading	United Kingdom	100% members' capital
Castlecare Group Limited	Non trading	United Kingdom	100% ordinary
Castlecare Holdings Limited	Non trading	United Kingdom	100% ordinary
Castle Homes Care Limited	Children's care homes	United Kingdom	100% ordinary
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 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
Burnside Care Limited	Care delivery	United Kingdom	100% ordinary
Craegmoor Healthcare Company Limited	Non trading	United Kingdom	100% ordinary
Craegmoor Supporting You Limited	Care delivery	United Kingdom	100% ordinary
Greymount Properties Limited	Care delivery	United Kingdom	100% ordinary
Parkcare Homes (No. 2) Limited	Care delivery	United Kingdom	100% ordinary

Priory Group UK 1 Limited

Notes to the consolidated financial statements

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

Priory Group UK 1 Limited

Notes to the consolidated financial statements

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

Name of subsidiary	Principal activities	Country of incorporation	Class and percentage of shares held
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 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 [2]	Children's care and education	United Kingdom	100% ordinary
Aspire Scotland (Holdings) Limited [2]	Holding company	United Kingdom	100% ordinary
Galaxy Cafe Limited [2]	Children's care and education	United Kingdom	100% ordinary
Galaxy UK Leisure Limited [2]	Children's care and education	United Kingdom	100% ordinary

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.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

27. Section 479A Companies Act exemption

The Company has provided a guarantee in respect of the outstanding liabilities of the subsidiary undertakings listed in note 26 in accordance with sections 479A - 479C of the Companies Act 2006, as these UK subsidiary companies of the Group are exempt from the requirements of the Companies Act 2006 relating to the audit of 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	Burnside Care Limited	5628124
Middleton St George Healthcare Limited	3864079	Craegmoor Learning (Holdings) Limited	3015539
Priory New Investments Limited	6997550	Strathmore College Limited	4147939
Priory New Investments No. 2 Limited	7102440	Specialised Courses Offering Purposeful Education Limited	2485984
Priory New Investments No. 3 Limited	7102547	Speciality Care Limited	2787609
Affinity Healthcare Holdings Limited	5305312	Speciality Care (Addison Court) Limited	3011310
Affinity Healthcare Limited	5236108	Speciality Care (EMI) Limited	2192205
Affinity Hospitals Group Limited	SC224907	Speciality Care (Rest Homes) Limited	3010116
Dunhall Property Limited	5771757	Speciality Care (UK Lease Homes) Limited	3071277
Priory (Troup House) Limited	SC287396	J C Care Limited	3251577
Amore (Ben Madigan) Limited	6715859	Lansdowne Road Limited	2115380
Amore (Cockermouth) Limited	6889688	Lothlorien Community Limited	2872249
Amore (Ings Road) Limited	6766727	R. J. Homes Limited	2980088
Amore (Prestwick) Limited	6715857	Heddfan Care Limited	2928647
Amore (Stoke 1) Limited	6866823	Sapphire Care Services Limited	4146017
Amore (Warrenpoint) Limited	6715869	Autism Tascc Services Limited	4744054
Amore (Watton) Limited	6773612	Craegmoor Homes Limited	4790588
Amore (Wednesfield 1) Limited	6882968	Johnston Care Limited	3381658
Priory Care Homes Holdings Limited	6660792	Cotswold Care Services Limited	3341447
Amore Elderly Care Limited	6660776	Treehome Limited	2776626
SP Cockermouth Limited	6485612	Strathmore Care Services Limited	4147864
CO Developments Limited	NI064937	Lambs Support Services Limited	5562543
Amore Elderly Care (Wednesfield) Limited	7318739	The Manor Clinic Limited	6084605
Positive Living Limited	5868343	Manor Hall Specialist Care Partnerships Limited	SC445897
Craegmoor Holdings Limited	3830300	Partnerships in Care (Meadow View) Limited	5075900
Ferguson Care Limited	2582268	Partnerships in Care (Cleveland) Limited	8671457
Speciality Care (Rehab) Limited	2965073	Partnerships in Care 1 Limited	1833385
Speciality Care (Learning Disabilities) Limited	2953416	Partnerships in Care (Rhondda) Limited	5715589

Name of subsidiary	Registered number	Name of subsidiary	Registered number
Yorkshire Parkcare Company Limited	1915148	Partnerships in Care (Cardiff) Limited	5722804
Conquest Care Homes (Norfolk) Limited	2894168	Partnerships in Care (Oak Vale) Limited	8135440
Conquest Care Homes (Soham) Limited	3934362	Partnerships in Care (Vancouver) Limited	6970725
Conquest Care Homes (Peterborough) Limited	2706124	Priory Group UK 2 Limited	9059930
Speciality Care (Rest Care) Limited	3257061	Partnerships in Care Management Limited	5401308
Health & Care Services (UK) Limited	2083074	Partnerships in Care Investments 1 Limited	7773948
Craegmoor (Harbour Care) Limited	7880338	Partnerships in Care Management 2 Limited	9489130
Harbour Care (UK) Limited	7838042	Partnerships in Care (Oak Vale) Holding Company Limited	8390458
Peninsula Autism Services & Support Limited	3804697	Partnerships in Care (Oak Vale) Property Holding Company Limited	7910544
High Quality Lifestyles Limited	2734700	Partnerships in Care (Vancouver) Holding Company Limited	8211574
Helden Homes Limited	4490949	Partnerships in Care (Vancouver) Property Holding Company Limited	6244563
New Directions (Bexhill) Limited	3884127	Partnerships in Care Property Holding Company Limited	5448019
New Directions (Hastings) Limited	5126487	Partnerships in Care Property 1 Limited	5403392
New Directions (Robertsbridge) Limited	3466259	Partnerships in Care Investments 2 Limited	7773953
New Directions (St. Leonards on Sea) Limited	6339063	Partnerships in Care Property 2 Limited	5406092
Castlecare Group Limited	5094462	Partnerships in Care Property 3 Limited	5406109
Castlecare Holdings Limited	2178870	Partnerships in Care Property 4 Limited	5406112
Castle Homes Care Limited	3124409	Partnerships in Care Property 6 Limited	5406120
Castlecare Cymru Limited	4766939	Partnerships in Care Property 7 Limited	5406122
Castle Homes Limited	2910603	Partnerships in Care Property 8 Limited	5406123
Rothcare Estates Limited	3941902	Partnerships in Care Property 9 Limited	5406127
Castlecare Education Limited	4525732	Partnerships in Care Property 10 Limited	5406132
Life Works Community Limited	4740254	Partnerships in Care Property 11 Limited	5406140
Progress Care (Holdings) Limited	3545347	Partnerships in Care Property 12 Limited	5406148
Progress Care and Education Limited	3162312	Partnerships in Care Property 14 Limited	5406163
Progress Adult Services Limited	3545816	Partnerships in Care Property 15 Limited	5406176
Whitewell UK Investments 1 Limited	9929374	Partnerships in Care Property 16 Limited	5510031
Whitewell UK Holding Company 1 Limited	9929366	Partnerships in Care Property 17 Limited	5613363
Priory New Education Services Limited	7221650	Partnerships in Care Property 19 Limited	5613394
Amore Elderly Care Holdings Limited	7009955	Partnerships in Care Property 20 Limited	5613407
Priory Group No. 2 Limited	7480437	Partnerships in Care Property 21 Limited	5613357
Quantum Care (UK) Limited	4258780	Partnerships in Care Property 22 Limited	5852397
Partnerships in Care Limited	2622784	Partnerships in Care Property 24 Limited	5852391
Partnerships in Care Scotland Limited	4727112	Partnerships in Care Property 31 Limited	7916205
Partnerships in Care (Oaktree) Limited	4785303	Partnerships in Care (Cleveland) Holding Company Limited	8917740
Partnerships in Care (Ivydene) Limited	7263526	Partnerships in Care (Cleveland) Property Holding Company Limited	8457596
Partnerships in Care (Albion) Limited	3671946	Aspire Scotland Limited	SC381536
Partnerships in Care (Brunswick) Limited	7507166	Aspire Scotland (Holdings) Limited	SC427594
Partnerships in Care (Beverley) Limited	7155722	Galaxy Cafe Limited	SC499541
Partnerships in Care (Nelson) Limited	7294608	Galaxy UK Leisure Limited	SC499605
Partnerships in Care (Pastoral) Limited	7224362	Libra Health Limited	1355923
Farleigh Schools Limited	3225255	Priory Old Schools Services Limited	2838284
Priory Grange (Holdings) Limited	5346419	Priory Old Acute Services Limited	1505382
Priory Healthcare Holdings Limited	3738107	Solutions (Llangarron) Limited	4961209

The subsidiary undertakings in note 25 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

Parent company balance sheet at 31 December 2019

£'000	Note	**31 December 2019**	31 December 2018
Fixed assets			
Investments	3	**1,561,495**	1,561,495
Current assets			
Debtors	4	**176,433**	225,048
Creditors: amounts falling due within one year	5	**(19,126)**	(12,690)
Net current assets		**157,307**	212,358
Total assets less current liabilities		**1,718,802**	1,773,853
Creditors: amounts falling due after more than one year	6	**(1,163,149)**	(1,151,986)
Net assets		**555,653**	621,867
Capital and reserves			
Called up share capital	7	**74,984**	74,984
Share premium account		**647,240**	647,240
Profit and loss account		**(166,571)**	(100,357)
Total shareholders' funds		**555,653**	621,867

The financial statements of Priory Group UK 1 Limited (registered company number 09057543) on pages 46 to 49 were approved by the board of directors and authorised for issue on 1 July 2020. They were signed on its behalf by:

Trevor Torrington
Chief Executive Officer

Ryan Jervis
Chief Financial Officer

Priory Group UK 1 Limited

Parent company statement of changes in equity for the year ended 31 December 2019

£'000	Called up share capital	Share premium account	Profit and loss account	Total shareholders' funds
At 1 January 2018	74,984	647,240	(51,260)	670,964
Loss for the financial year	-	-	(49,097)	(49,097)
At 31 December 2018	74,984	647,240	(100,357)	621,867
Loss for the financial year	-	-	(66,214)	(66,214)
At 31 December 2019	**74,984**	**647,240**	**(166,571)**	**555,653**

Priory Group UK 1 Limited

Notes to the parent company financial statements

1. Significant accounting policies

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

a) Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006 as applicable to companies using FRS 101. As permitted by that Act, the separate financial statements have been prepared in accordance with UK generally accepted accounting principles (UK GAAP). 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 24 of the consolidated financial statements gives details of the Company's ultimate parent. Its consolidated financial statements prepared in accordance with IFRS are set out on pages 1 to 45.

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

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

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

b) Investments in subsidiary undertakings

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

2. Profit and loss account

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 from the requirement to present its own profit and loss account. The loss for the financial year was £66.2m (2018: loss of £49.1m). The auditors' remuneration was borne by Acadia Healthcare. The Company had no employees during the year. Details of directors' emoluments are given in note 24 to the consolidated financial statements.

3. Investments

Cost and net book value	£'000
At 31 December 2018 and 31 December 2019	**1,561,495**

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

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

4. Debtors

£'000	2019	2018
Amounts owed by group undertakings	**154,287**	214,798
Group relief receivable	**8,025**	130
Deferred tax asset	**14,121**	10,120
	176,433	225,048

Amounts owed by group undertakings includes unsecured loans of US$192,307,000 (£145,853,000) (2018: US$192,307,000 (£151,019,000)) and US$nil (£nil) (2018: US$72,873,000 (£57,227,000)) 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 2018	3,761
Credit for the year	6,359
At 31 December 2018	10,120
Credit for the year	4,001
At 31 December 2019	**14,121**

A deferred tax asset of £14.1m (2018: £10.1m) has been recognised in respect of interest deductions, based on the expectation that these timing differences will reverse and reduce future taxable profits.

5. Creditors: amounts falling due within one year

£'000	2019	2018
Amounts owed to group undertakings	**19,126**	12,690

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

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

£'000	2019	2018
Amounts owed to group undertakings	**1,163,149**	1,151,986

Amounts owed to group undertakings include unsecured loans from Acadia Healthcare, 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 22 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.

9. Events after the reporting period

COVID-19

The company is an investment holding company and is not impacted operationally by the ongoing COVID-19 outbreak, however the impact on the Group which it heads may be potentially significant. Please refer to note 25 to the consolidated financial statements on page 38 for further details.