Parent company accounts for: PARTNERSHIPS IN CARE MANAGEMENT 2 LIMITED
Registered number: 09489130
(note on page 37)

Priory Group UK 1 Limited

Annual report and consolidated financial statements for the year ended 31 December 2018

Registered number 09057543

MONDAY
A8ELVS7T
A21 23/09/2019 #12
COMPANIES HOUSE

Priory Group UK 1 Limited

Contents

	Page
Strategic report	1
Directors' report	4
Statement of directors' responsibilities	5
Independent auditors' report	6
Consolidated income statement for the year ended 31 December 2018	8
Consolidated statement of comprehensive income for the year ended 31 December 2018	9
Consolidated balance sheet at 31 December 2018	10
Consolidated statement of cash flows for the year ended 31 December 2018	11
Consolidated statement of changes in equity for the year ended 31 December 2018	12
Notes to the consolidated financial statements	13
Parent company balance sheet at 31 December 2018	39
Parent company statement of changes in equity for the year ended 31 December 2018	40
Notes to the parent company financial statements	41

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 2018.

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** segment provides day and residential schooling, care and assessment for children with emotional and behavioural difficulties or autistic spectrum disorders.
- The **Adult Care** segment provides specialist residential and supported living services for adults with a variety of learning difficulties and mental health illnesses and supports older people who require residential, nursing and dementia care in later life.

Business review

The results for the year are set out in the consolidated income statement on page 8 and the financial position of the Group as at 31 December 2018 is set out in the consolidated balance sheet on page 10. Group revenue for the year was £830.4m (2017: £796.6m) and Adjusted EBITDA was £136.5m (2017: £151.9m), which represents a margin of 16.4% (2017: 19.1%) of revenue. Operating loss for the year was £469.1m (2017: profit of £62.2m) and loss before tax was £553.5m (2017: loss of £21.1m).

Revenue has increased compared to the prior year due to a change in the mix of patients in the Group's facilities, annual fee increases and the full year impact of the Aspire acquisition. Despite this increase in Revenue, Adjusted EBITDA has fallen, due to cost pressures which have reduced the margin. The main cost increase has been in relation to wages. The national living wage and statutory pension increases impacted from April 2018 and agency usage increased to address the UK wide shortfall in nursing and care staff. Nursing wages were increased in response to NHS pay increases awarded in 2018 and one to one nursing usage increased in line with the number of high acuity patients within the Group's facilities. The operating loss of £469.1m in 2018 is a result of the exceptional items recognised in the year, in 2017 the group made an operating profit of £62.2m.

Net costs of £526.8m (2017: £10.3m) were recognised as exceptional items in the consolidated income statement. These costs primarily relate 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.

Included in exceptional items is £384.4m relating to the impairment of intangible assets. This includes £249.6m in relation to Healthcare goodwill, £127.5m in relation to Adult Care goodwill, £6.2m in relation to Adult Care customer contracts and £1.1m in relation to the Healthcare brand. The Education intangible assets were also reviewed but not found to be impaired with headroom of £92.4m. See note 10 for further details of the impairment review performed.

In addition to the impairment of intangible assets, property, plant and equipment was also impaired by £129.3m, £63.7m in relation to Healthcare assets and £65.6m in relation to Adult Care assets. This was a result of the impairment review performed above, see note 10 and 11 for further details. Other property impairments were performed during the year totalling £9.5m.

During the year 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 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 Dubai, 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., as determined by independent third party valuers. The net book value at 31 December 2018 of £1.215bn (2017: £1.353bn) 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 2018.

Financial risk management

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

Credit risk

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

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

Interest rate risk

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

Liquidity risk
The Group prepares annual 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 24 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 ADC 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 2018 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 2019.

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

Key performance indicators

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

Financial

Adjusted EBITDA reflects earnings before interest, tax, depreciation, amortisation and operating exceptional items. This measure is presented as part of the consolidated income statement and in note 3 to the consolidated financial statements. Adjusted EBITDA margin reflects Adjusted EBITDA divided by revenue and was 16.4% (2017: 19.1%) in the year. As discussed in the business review section adjusted EBITDA has fallen due to industry wide cost pressures which have reduced the margin in the current year.

Non-financial

During the year, the average number of available beds across the Group was 8,869 (2017: 8,750); excluding supported living rental beds the number of available beds was 8,822 (2017: 8,700). ADC (excluding supported living rental beds) was 7,404 (2017: 7,494) and occupancy was 83.9% (2017: 86.1%). 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 Adult Care sites which will be redeveloped for alternative uses. Occupancy has decreased compared to the prior year as although the number of available beds has increased, from new sites opening and the expansion of existing sites, ADC has increased at a slower rate largely due to the time it takes to fill these sites.

Principal risks and uncertainties

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

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

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

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. 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 'no deal' scenario. However, some of the risk areas are considered as follows:

The Group employs staff from across the EU. As a result there has already been a reduction in the level of applications from overseas candidates. Retention of existing EU staff is also 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.

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.

By order of the Board

David Hall
Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
19 July 2019

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 2018. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union (EU) and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), in particular FRS 101.

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

Dividends

The directors do not recommend the payment of a dividend (2017: £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
Trevor Torrington

Going concern

The Board reviews forecasts of the Group's liquidity requirements based on a range of scenarios to ensure it has sufficient cash to meet operational needs. The debt and interest in the group is due to Acadia, and no contractual payments are due until 2022. The Group is making a loss before tax, however this includes non-cash items such as amortisation, depreciation and the impact of recognising rent on a straight line basis. The Group generates sufficient cash to cover its liabilities and surplus balances are transferred to Acadia to reduce the accrued interest and loan capital balances ahead of their scheduled repayment dates. The Group has sought support from Acadia that interest repayments will not be extracted to the extent that they exceed free cash flow.

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

Employees

The directors recognise that the continued position of the Group in the behavioural care industry depends on the quality and motivation of its employees. Well trained, engaged and quality employees are crucial for the Group to ensure that service users receive the best quality care. The key quality performance indicators the Group uses to measure engagement and training are: the employee opinion survey, employee sickness levels and compliance with the Group e-learning programme. The Group has low levels of sickness and high levels of compliance with training programmes. Whilst monitoring these performance indicators, the Group continues to review its remuneration system to ensure it is fair, transparent, flexible and provides individual recognition. All employees have a personal development plan that is monitored, assessed and modified during the annual appraisal process.

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

The directors believe that it is important to recruit and retain capable and caring staff regardless of their gender, marital status, race or religion. It is the Group's policy to give full and fair consideration to applications for employment from people who are disabled, to continue wherever possible the employment of and to arrange appropriate training for, employees who become disabled and to provide equal opportunities for the career development, training and promotion of disabled employees.

Provision of information to auditors

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

By order of the Board

Dan Hall

David Hall

Company Secretary

Fifth Floor
80 Hammersmith Road
London
England
W14 8UD
19 July 2019

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
Chief Executive Officer
19 July 2019

Nigel Myers
Finance Director
19 July 2019

Priory Group UK 1 Limited

Independent auditors' report - Group

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 2018 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 8 pertaining to the parent company, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 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.

Other information

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

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

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

We have nothing to report in this regard.

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.

Priory Group UK 1 Limited

Independent auditors' report - Group

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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
Newcastle upon Tyne
19 July 2019

Priory Group UK 1 Limited

Consolidated income statement for the year ended 31 December 2018

£'000	Note	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	3	**830,412**	796,579
Operating costs	4	**(1,299,474)**	(734,426)
Operating (loss)/profit	3	**(469,062)**	62,153
Analysed as:			
Adjusted EBITDAR	3	**168,950**	183,699
Rent		**(32,401)**	(31,772)
Adjusted EBITDA		**136,549**	151,927
Depreciation	4	**(58,577)**	(55,877)
Amortisation	4	**(20,239)**	(23,615)
Exceptional items	7	**(526,795)**	(10,282)
Operating (loss)/profit		**(469,062)**	62,153
Finance costs	8	**(84,516)**	(85,634)
Finance income	8	**66**	2,429
Loss before tax		**(553,512)**	(21,052)
Income tax	9	**31,381**	5,435
Loss for the year		**(522,131)**	(15,617)

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 2018

£'000	Year ended 31 December 2018	Year ended 31 December 2017
Loss for the year	(522,131)	(15,617)
Actuarial gain on defined benefit scheme	1,515	2,964
Movement in deferred tax relating to actuarial gains	(258)	(503)
Other comprehensive income for the year	1,257	2,461
Total comprehensive expense for the year	(520,874)	(13,156)

Priory Group UK 1 Limited

Consolidated balance sheet at 31 December 2018

£'000	Note	31 December 2018	31 December 2017
Non-current assets			
Intangible assets	10	**143,387**	548,022
Property, plant and equipment	11	**1,214,787**	1,352,886
		1,358,174	1,900,908
Current assets			
Inventories	12	**519**	526
Trade and other receivables	13	**52,346**	53,281
Cash	14	**10,622**	12,749
		63,487	66,556
Assets held for sale	15	**6,820**	3,340
		70,307	69,896
Total assets		**1,428,481**	1,970,804
Current liabilities			
Trade and other payables	16	**(101,353)**	(93,900)
Corporation tax payable		**(2,000)**	(2,894)
Borrowings	17	**(2,367)**	(1,800)
Provisions for liabilities and charges	19	**(8,094)**	(11,677)
		(113,814)	(110,271)
Net current liabilities		**(43,507)**	(40,375)
Non-current liabilities			
Borrowings	17	**(1,155,238)**	(1,147,024)
Provisions for liabilities and charges	19	**(9,265)**	(8,712)
Deferred income tax	20	**(122,137)**	(152,813)
Pension liability	21	**(6,485)**	(9,568)
		(1,293,125)	(1,318,117)
Net assets		**21,542**	542,416
Equity attributable to the owners of the parent:			
Share capital	22	**74,984**	74,984
Share premium account		**647,240**	647,240
Accumulated losses		**(700,682)**	(179,808)
Total equity		**21,542**	542,416

The consolidated financial statements of Priory Group UK 1 Limited (registered company number 09057543) on pages 8 to 38 were approved by the board of directors and authorised for issue on 19 July 2019. They were signed on its behalf by:

Trevor Torrington
Chief Executive Officer

Nigel Myers
Finance Director

Priory Group UK 1 Limited

Consolidated statement of cash flows for the year ended 31 December 2018

£'000	Note	Year ended 31 December 2018	Year ended 31 December 2017
Operating activities			
Operating (loss)/profit		**(469,062)**	62,153
(Profit)/loss on disposal of property, plant and equipment	7	**(92)**	3,700
Depreciation of property, plant and equipment	4	**58,577**	55,877
Amortisation of intangible assets	4	**20,239**	23,615
Impairment of intangibles and property, plant and equipment	7	**523,205**	-
Decrease in inventories		**7**	39
Decrease in trade and other receivables		**935**	16,926
Increase/(decrease) in trade and other payables		**3,007**	(14,420)
Provision for future minimum rental increases		**2,627**	3,451
		139,443	151,341
Taxation		**(445)**	904
Net cash generated from operating activities		**138,998**	152,245
Investing activities			
Interest income	8	**66**	2,429
Purchase of subsidiaries, net of cash acquired		**-**	(13,746)
Proceeds from disposal of property, plant and equipment		**2,369**	2,048
Purchases of property, plant and equipment		**(62,768)**	(66,781)
Net cash used in investing activities		**(60,333)**	(76,050)
Financing activities			
Repayment of acquired company director loans		**-**	1,052
Repayments of borrowings		**-**	(13,221)
Repayment of obligations under finance leases		**(2,363)**	(1,940)
Post-employment benefits		**(1,780)**	(600)
Interest paid		**(76,649)**	(80,237)
Net cash used in from financing activities		**(80,792)**	(94,946)
Net decrease in cash		**(2,127)**	(18,751)
Cash at the beginning of the year	14	**12,749**	31,500
Cash at the end of the year	14	**10,622**	12,749

Priory Group UK 1 Limited

Consolidated statement of changes in equity for the year ended 31 December 2018

£'000	Share capital	Share premium account	Accumulated losses	Total equity
At 1 January 2017	74,984	647,240	(166,652)	555,572
Loss for the year	-	-	(15,617)	(15,617)
Other comprehensive expense for the year	-	-	2,461	2,461
Total comprehensive expense for the year	-	-	(13,156)	(13,156)
At 31 December 2017	74,984	647,240	(179,808)	542,416
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**

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 16 and 17.

b) Going concern

The Board reviews forecasts of the Group's liquidity requirements based on a range of scenarios to ensure it has sufficient cash to meet operational needs. The debt and interest in the group is due to Acadia, and no contractual payments are due until 2022. The Group is making a loss before tax, however this includes non-cash items such as amortisation, depreciation and the impact of recognising rent on a straight line basis. The Group generates sufficient cash to cover its liabilities and surplus balances are transferred to Acadia to reduce the accrued interest and loan capital balances ahead of their scheduled repayment dates. The Group has sought support from Acadia that interest repayments will not be extracted to the extent that they exceed free cash flow.

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 2018. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The purchase method is used to account for the acquisition of subsidiaries and group reorganisations. Under the purchase method the cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred in exchange for the subsidiary. Identifiable assets, liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. All acquisition costs are expensed immediately.

Non-controlling interests are initially measured at fair value.

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

d) Non-current assets held for sale

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

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

e) Intangible assets

i) Goodwill

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

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

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

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

ii) Brands and customer contracts

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

f) Segment reporting

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 2018 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 or over the period of the lease
Fixtures and fittings	3 to 16 years
Motor vehicles	over the shorter of the lease term and 4 years

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

l) Inventory

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

m) Leases

i) Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Leased assets classified as property, plant and equipment are depreciated over the shorter of their useful economic life or the period of the lease. Lease payments made in respect of finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

ii) Operating leases

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

iii) Future minimum rental increases

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

n) Non derivative financial instruments

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

i) Trade and other receivables

Trade and other receivables are initially stated at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, and are assessed for indicators of impairment at each balance sheet date. Trade and other receivables are considered to be impaired where there is objective evidence that the estimated future cash flows associated with the asset have been affected. In addition, certain trade and other receivables that are not considered to be individually impaired, may be assessed for impairment on a collective basis. Objective evidence for impairment for a

portfolio of receivables could include the Group's past experience of collecting payment, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions.

ii) Cash

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

iii) Trade and other payables

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

iv) Borrowings

All borrowings are initially stated at the fair value of proceeds received after deduction of finance costs and are subsequently measured at amortised cost using the effective interest rate method. The issue costs are amortised over the life of the underlying borrowings at a constant rate on the carrying amount. On early repayment of the borrowings, the balance of the un-amortised issue costs, and any premium and discounts arising in the early repayment of borrowings are recognised in the income statement. Details of the Group's financial risk management policies are included in note 24.

o) Classification of financial instruments issued by the Group

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

p) Provisions

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

q) Reserves

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

r) Non-GAAP measures and exceptional items

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

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

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

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

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

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

(i) 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. An impairment of £377,053,000 has been recognised in the current year. 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 acquisitions completed in the years ended 31 December 2017 and 31 December 2018, 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 2018 the following interpretations became effective and were adopted by the Group:

IFRS 4: amendments regarding implementation of IFRS 9
Annual Improvements 2014-2016
IFRS 15: 'Revenue from contracts with customers'
IFRS 9: 'Financial instruments'
IFRS 2: 'Share based payments' classification and measurement
IAS 40: 'Investment property' transfer of property
IFRS 15: 'Revenue from contracts with customers' - clarifications
IFRIC 22: 'Foreign currency transactions and advance consideration'
IFRS 9: 'Financial instruments'- amendments regarding general hedge accounting
IFRS 1: 'First-Time Adoption of IFRS' amendments regarding short term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10
IAS 28: 'Investments in associates and joint ventures' amendments regarding measuring their investments in associates or joint ventures at fair value through profit or loss

The adoption of these interpretations has had no impact on the Group's profit for the year or equity. The impact of IFRS 15 on the Group's revenue recognition policies and processes has been reviewed. The Directors have followed the five-step revenue recognition considerations under this standard and concluded that revenue is recognised in accordance with this standard.

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

	Effective for periods commencing on or after
IFRS 9: 'Financial instruments' amendment relating to prepayment features with negative compensation	1 January 2019
IFRS 16: 'Leases'	1 January 2019
IAS 28: 'Investments in associates' on long term interests in associates and joint ventures	1 January 2019
IFRIC 23: 'Uncertainty over income tax treatment'	1 January 2019
IAS 19: 'Employee benefits' plan amendment, curtailment and settlement	1 January 2019
Annual Improvements 2015-2017	1 January 2019
IFRS 3: 'Business combinations' amendments	1 January 2019
IAS 1 and IAS 8 amendments regarding the definition of materiality	1 January 2019
IFRS 17: 'Insurance contracts'	1 January 2021

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group in 2018, with the exception of IFRS 16: 'Leases'. The Group is assessing the impact of the above standards, amendments and interpretations in future years and will adopt them in the period they become effective.

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

The Group estimates that had IFRS 16 been adopted as at 31 December 2018, and making use of all practical expediencies and transitional arrangements set out in the Standard, right of use assets totalling approximately £436m, and right of use obligations totalling approximately £439m would be recognised in the consolidated balance sheet. An adjustment to opening reserves amounting to approximately £8.1m would be recognised which relates to the de-recognition of the provision for future minimum rental increases.

For the first year after adoption, additional depreciation and interest charges would be recognised, amounting to approximately £23m and £25m, respectively; however rental costs would be around £32m lower. The net impact on profit before tax would therefore be a reduction of approximately £16m.

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.

Segment revenues and results

The measure of segment profit is adjusted earnings before interest, tax, depreciation, amortisation, rent and exceptional items (Adjusted EBITDAR), being EBITDAR before exceptional items. Adjusted EBITDAR is reported to the 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 2018

£'000	Healthcare	Education	Adult Care	Central	Total
Revenue	461,730	143,926	224,756	-	830,412
Adjusted EBITDAR	96,560	43,889	42,507	(14,006)	168,950
Rent	(14,866)	(5,394)	(12,121)	(20)	(32,401)
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 loss					(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 which is split between the segments as follows:

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

Year ended 31 December 2017

£'000	Healthcare	Education	Adult Care	Central	Total
Revenue	443,214	132,287	221,078	-	796,579
Adjusted EBITDAR	106,454	39,235	49,410	(11,400)	183,699
Rent	(14,049)	(5,404)	(12,319)	-	(31,772)
Adjusted EBITDA	92,405	33,831	37,091	(11,400)	151,927
Depreciation (note 4)					(55,877)
Amortisation (note 4)					(23,615)
Exceptional items (note 7)					(10,282)
Operating profit					62,153
Net finance costs (note 8)					(83,205)
Loss before tax					(21,052)

Segment assets

Information regarding segmental assets is reviewed by the board annually.

£'000	2018	2017
Healthcare	**14,721**	264,503
Education	**108,944**	116,204
Adult Care	**26,542**	170,655
Total segment assets	**150,207**	551,362
Unallocated assets:		
Property plant and equipment	**1,214,787**	1,352,886
Inventories	**519**	526
Trade and other receivables	**52,346**	53,281
Cash	**10,622**	12,749
Total assets	**1,428,481**	1,970,804
Included in total segment assets above:		
Intangible assets		
Healthcare	**12,421**	263,673
Education	**107,896**	116,204
Adult Care	**23,070**	168,145
	143,387	548,022
Assets held for sale		
Healthcare	**2,300**	830
Education	**1,048**	-
Adult Care	**3,472**	2,510
	6,820	3,340

Information about major customers

In 2018 revenue from NHS England amounted to 22% (2017: 22%) of total revenue and no other single customer accounted for more than 10% of total revenue. On a consolidated basis, revenue of £319.0m (2017: £302.1m) and £431.3m (2017: £417.8m) arose from Social Services and the NHS respectively, which each represent more than 10% of the Group's total revenue. Of this revenue, £407.4m (2017: £390.2m) arose in the Healthcare segment, £140.7m (2017: £130.4m) arose in the Education segment and £202.2m (2017: £199.3m) in the Adult Care segment.

4. Operating costs

£'000	2018	2017
Staff costs (note 6)	**480,936**	454,217
Other operating costs	**179,820**	158,020
Depreciation of property, plant and equipment (note 11)		
Owned	**56,297**	53,952
Leased	**2,280**	1,925
Amortisation of intangible assets (note 10)	**20,239**	23,615
Rentals under operating leases		
Property leases	**32,401**	31,772
Other operating leases	**706**	643
Exceptional items (note 7)	**526,795**	10,282
	1,299,474	734,426

5. Auditors' remuneration

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

6. Employee numbers and costs

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

Number	2018	2017
Medical, care and nursing	**16,564**	16,488
Administrative and ancillary	**4,277**	4,219
	20,841	20,707

Their aggregate remuneration comprised:

£'000	2018	2017
Wages and salaries	**436,941**	412,304
Social security costs	**36,462**	34,783
Other pension costs	**7,533**	7,130
	480,936	454,217

7. Exceptional items

£'000	2018	2017
Reorganisation and rationalisation costs	**3,682**	6,412
Transaction related costs	**-**	170
Impairment of intangible and tangible assets	**523,205**	-
(Profit)/loss on disposal of property, plant and equipment	**(92)**	3,700
	526,795	10,282

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	2018	2017
Finance costs		
Interest on bank facilities and associated costs	**9**	298
Interest payable on intercompany loans	**83,771**	84,569
Interest on obligations under finance leases	**487**	399
Provisions: unwinding of discount	**37**	37
Net cost on post employment benefit	**212**	331
	84,516	85,634
Finance income		
Interest income	**(66)**	(60)
Interest income on intercompany loans	**-**	(2,369)
	(66)	(2,429)
Net finance costs	**84,450**	83,205

9. Income tax

£'000	2018	2017
Current tax		
Current tax on profits for the year	**2,616**	(71)
Adjustments in respect of prior periods	**(3,063)**	(230)
	(447)	(301)
Deferred tax (note 20):		
Origination and reversal of temporary differences	**(29,716)**	(4,094)
Adjustments in respect of prior periods	**(1,218)**	(1,040)
	(30,934)	(5,134)
Taxation	**(31,381)**	(5,435)

Corporation tax is calculated at 19% (2017: 19.25%) of the estimated taxable profit or loss for the year. The expected tax credit for the year can be reconciled to the credit per the income statement as follows:

£'000	2018	2017
Loss before tax	**(553,512)**	(21,052)
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	**(105,167)**	(4,053)
Non-deductible expenses	**74,522**	1,664
Income not taxable	**-**	(454)
Adjustments in respect of prior years	**(4,281)**	(1,270)
Deferred tax not recognised	**-**	(47)
Other differences	**52**	(1,145)
Changes in tax rates	**3,493**	653
Movement in tax base of fixed assets	**-**	(783)
Tax credit for the year	**(31,381)**	(5,435)

The Group's losses for this accounting year are taxed at an effective rate of 19% (2017: 19.25%).

A reduction in the main rate of corporation tax to 17% with effect from 1 April 2020 was substantively enacted on 6 September 2016. As such the Group's deferred tax balances are calculated at 17%, to reflect the rate at which they are expected to unwind.

10. Intangible assets

£'000	Goodwill	Brands	Customer contracts	Total
Cost				
At 1 January 2017	469,341	15,059	98,365	582,765
Arising on business combinations	9,247	-	4,063	13,310
At 31 December 2017 and 31 December 2018	**478,588**	**15,059**	**102,428**	**596,075**
Accumulated amortisation and impairment				
At 1 January 2017	-	466	23,972	24,438
Amortisation charge	-	533	23,082	23,615
At 31 December 2017	-	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**
Net book value				
At 31 December 2018	**101,535**	**12,421**	**29,431**	**143,387**
At 31 December 2017	478,588	14,060	55,374	548,022

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	2018	2017
Healthcare	-	249,613
Education	**101,535**	101,535
Adult Care	-	127,440
	101,535	478,588

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:

	2018	2017
Pre-tax discount rate	**11.25%**	7.40%
Long term net cash flow growth rate	**2.00%**	2.00%

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

£'000	2018
Healthcare	723,127
Education	435,364
Adult Care	259,994

The above impairment test identified a total intangible asset impairment of £384.4m, of which £249.6m relates to Healthcare goodwill, £127.5m to Adult Care goodwill, £6.2m to Adult Care customer contracts and £1.1m to the Healthcare brand. Education intangible assets were included in the review and found not to be impaired with headroom of £92.4m.

In addition to the intangible asset impairment, property, plant and equipment was impaired by £129.3m, of which £65.6m relates to Adult Care assets and £63.7m relates to Healthcare assets.

These impairments have been recognised in the income statement, within exceptional items.

A sensitivity analysis on the impairment test of each remaining CGU's carrying value shows an increase of 2.5% in pre-tax discount rate would result in the headroom being eliminated in Education.

Brands

The brand intangible arose on the acquisition of the Priory Group and has a remaining amortisation period of 27.1 years (2017: 28.1 years).

Customer contracts

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

	2018		2017	
	Carrying value	**Amortisation period remaining**	Carrying value	Amortisation period remaining
	£'000	**years**	£'000	years
Priory Group – Adult Care	**23,070**	**5.1**	40,705	6.1
Priory Group - Education	**3,923**	**1.1**	10,606	2.1
Aspire - Education	**2,438**	**3.0**	4,063	4.0
	29,431		55,374	

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 2017	1,232,071	10,113	157,606	7,628	1,407,418
Arising on business combinations	1,501	-	184	79	1,764
Additions	26,888	1,710	41,089	2,441	72,128
Disposals	(7,617)	(296)	(9,049)	(1,447)	(18,409)
Transfers between classifications	2,185	(2,354)	169	-	-
Transferred from current assets	2,821	-	-	-	2,821
At 31 December 2017	1,257,849	9,173	189,999	8,701	1,465,722
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**
Accumulated depreciation					
At 1 January 2017	35,590	-	29,577	2,166	67,333
Charge for the year	34,381	-	19,690	1,806	55,877
Disposals	(3,574)	-	(7,574)	(1,447)	(12,595)
Transferred from current assets	2,221	-	-	-	2,221
At 31 December 2017	68,618	-	41,693	2,525	112,836
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**
Net book value					
At 31 December 2018	**1,057,053**	**11,022**	**140,088**	**6,624**	**1,214,787**
At 31 December 2017	1,189,231	9,173	148,306	6,176	1,352,886

Property, plant and equipment was impaired by £138.8m, £9.5m relates to property impairments identified during the year and £129.3m is a result of the intangible asset impairment review performed, see note 10.

At 31 December 2018, the carrying amount of assets (motor vehicles) held under finance lease was £5.9m (2017: £4.6m). The Group's obligations under finance leases are secured by the lessors' title to the leased assets. At 31 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £3.6m (2017: £4.1m).

12. Inventories

£'000	2018	2017
Consumable supplies	**519**	526

13. Trade and other receivables

£'000	2018	2017
Trade receivables	**36,303**	36,679
Allowance for doubtful debts	**(1,407)**	(1,093)
	34,896	35,586
Other receivables	**5,437**	4,709
Prepayments and accrued income	**12,013**	12,986
	52,346	53,281

14. Cash

£'000	2018	2017
Cash	**10,622**	12,749

15. Assets held for sale

£'000	Land and buildings	Fixtures and fittings	Total
Cost and net book value			
At 1 January 2017	3,940	-	3,940
Transferred to property, plant and equipment (note 11)	(600)	-	(600)
At 31 December 2017	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**

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.

16. Trade and other payables

£'000	2018	2017
Trade payables	**10,931**	9,628
Amounts owed to group undertakings	**6,929**	5,418
Other taxes and social security	**10,950**	10,992
Accruals and deferred income	**61,558**	60,944
Other payables	**10,985**	6,918
	101,353	93,900

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

17. Borrowings

£'000	2018	2017
Borrowings due less than one year		
Finance lease liabilities	**2,367**	1,800
	2,367	1,800
Borrowings due greater than one year		
Loans from related party	**1,132,024**	1,132,144
Accrued interest	**19,962**	12,222
Finance lease liabilities	**3,252**	2,658
	1,155,238	1,147,024
Total borrowings	**1,157,605**	1,148,824

Loans from related parties undertakings comprise unsecured loans from Acadia Healthcare Company Inc. of £152,234,000 (2017: £152,234,000) and £979,790,000 (2017: £979,910,000) 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.

18. *Obligations under finance leases*

£'000	Present value of minimum lease payments 2018	Present value of minimum lease payments 2017
Amounts payable under finance leases:		
Within one year	**2,367**	1,800
In one to five years inclusive	**3,252**	2,658
Present value of lease obligations	**5,619**	4,458

The Group's finance leases relate to leased vehicles. The average lease term is 4 years and interest rates are fixed at the contract date. All lease obligations are denominated in Sterling. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations is approximately equal to their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 11.

19. Provisions for liabilities and charges

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

Analysis of provisions:

£'000	2018	2017
Current	**8,094**	11,677
Non – current	**9,265**	8,712
Total provisions	**17,359**	20,389

Dilapidations

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

Onerous contracts and legal costs

Provisions have been recorded for the onerous payments on certain lease arrangements totalling £2.3m (2017: £3.6m). 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 30 years. These have been discounted and the provisions are expected to be utilised, with the discounts unwinding accordingly, over the remaining terms of the corresponding lease arrangements.

In light of a number of outstanding legal claims, provisions have been made which represent management's best estimate of the amounts required to settle the claims totalling £7.0m (2017: £11.3m).

Future minimum rent

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

20. Deferred tax

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

£'000	Tax losses	Interest	Other timing differences	Intangibles	Property, plant and equipment	Total
At 1 January 2017	(10,499)	-	(4,257)	15,128	156,212	156,584
Arising on business combinations	-	-	*(110)*	*691*	*279*	*860*
Charge/(credit) to income statement	(926)	(3,761)	1,804	(4,014)	1,763	(5,134)
Credit to other comprehensive income	-	-	503	-	-	503
At 31 December 2017	(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**

The Group has tax losses of £63.5m (2017: £69.6m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset of £9.1m (2017: £11.4m) 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 (2017: £0.4m) has not been recognised in respect of £10.0m (2017: £2.4m) of losses where there is insufficient certainty over their future use. These losses do not expire and if the Group were able to recognise these assets, profit would increase by £1.7m (2017: £0.4m).

A deferred tax asset of £10.1m (2017: £3.8m) 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 £1.9m (2017: £2.1m) has been recognised in respect of other timing differences, based on the expectation that these timing differences will reverse and reduce future taxable profits.

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 £7,533,000 (2017: £7,130,000).

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 2018 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 2018. The results of the calculations and the assumptions adopted are shown below.

As at 31 December 2018, 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 2019 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	2018	2017
Fair value of scheme assets	**39,057**	40,308
Present value of future obligations	**(45,542)**	(49,876)
Net pension scheme liability	**(6,485)**	(9,568)

The amounts recognised in the income statement are as follows:

£'000	2018	2017
Net interest on net defined benefit liability	**212**	331

The amounts recognised in other comprehensive income are as follows:

£'000	2018	2017
Re-measurements:		
Return on scheme assets excluding interest income	**(2,236)**	1,654
Gain/(loss) from change in financial assumptions	**2,664**	(696)
Gain from change in demographic assumptions	**863**	508
Experience gains	**224**	1,498
Re-measurement gains recognised in other comprehensive income	**1,515**	2,964

Reconciliation of fair value of plan liabilities were as follows:

£'000	2018	2017
Opening defined benefit obligation	**49,876**	52,012
Interest cost	**1,200**	1,349
Actuarial gains	**(3,751)**	(1,310)
Benefits paid	**(1,783)**	(2,175)
Closing defined benefit obligation	**45,542**	49,876

Reconciliation of fair value of plan assets were as follows:

£'000	2018	2017
Opening fair value of scheme assets	**40,308**	39,211
Interest income on plan assets	**988**	1,018
Return on scheme assets excluding interest income	**(2,236)**	1,654
Contributions by employer	**1,780**	600
Benefits paid	**(1,783)**	(2,175)
Closing fair value of scheme assets	**39,057**	40,308

Actuarial assumptions

The principal assumptions at the balance sheet date were:

	2018	2017
Discount rate	**2.80%**	2.45%
Price inflation (RPI)	**3.25%**	3.25%
Price inflation (CPI)	**2.25%**	2.25%
Future increases in deferred pensions	**2.25%**	2.25%
Expected return on scheme assets	**2.80%**	2.45%
Commutation	**Lump sum such that 20% of pension at retirement is commuted**	75% of HMRC maximum

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:

	2018	2017
Retiring at the end of the reporting period:		
- Male	**22.3**	23.0
- Female	**24.3**	24.9
Retiring 20 years after the end of the reporting period:		
- Male	**23.7**	24.1
- Female	**25.8**	26.2

Asset breakdown

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

	2018	2017
Equities	7.2%	7.6%
Bonds	21.6%	23.4%
Real Return Fund	23.1%	20.5%
Real LDI	13.9%	13.8%
Insurance Policy	32.8%	34.0%
Cash	1.4%	0.7%

Sensitivity analysis

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

£'000	2018
0.25% decrease in discount rate	1,810
0.25% increase in inflation and related assumptions	1,167
1 year increase in life expectancy	1,658

22. Share capital

	2018		2017	
	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. Operating lease arrangements

£'000	2018	2017
Minimum lease payments under operating leases recognised as an expense in the year	33,107	32,415

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

£'000	Land and buildings	Other	2018 Total
Within one year	32,066	689	32,755
Two – five years inclusive	121,195	1,438	122,633
After five years	558,461	8	558,469

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

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

24. Financial instruments and risk management

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risks faced by the Group, which primarily relates to credit, interest and liquidity 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 £1.4m (2017: £1.1m) for doubtful receivables. The Group does not require collateral in respect of financial assets. Trade receivables are measured at amortised cost.

The average credit period taken at the year end on the provision of services is 16 days (2017: 17 days). Allowances against doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty. The majority of the Group's allowance for doubtful debts relates to specific trade receivables that are not considered to be recoverable, and management only considers it appropriate to create a collective provision based on the age of the trade receivable in respect of certain types of trade receivables.

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

£'000	2018	2017
Current	**26,523**	21,424
30-60 days	**7,627**	12,565
60-150 days	**1,027**	2,246
150 days +	**1,126**	444
	36,303	36,679

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	2018	2017
60 days +	**789**	1,640

The movement in allowance for doubtful debts is as follows:

£'000	2018	2017
Balance at 1 January	**1,093**	946
Charged to income statement	**314**	147
Balance at 31 December	**1,407**	1,093

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.

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:

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**

2017 £'000	Total	0-1 years	2-5 years	5 years and over
Trade and other payables	60,069	60,069	-	-
Loan from related party	1,639,233	-	215,104	1,424,129
Finance lease liabilities	4,458	1,800	2,658	-
	1,703,760	61,869	217,762	1,424,129

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	2018	2017
Cash	**10,622**	12,749
Borrowings	**(1,157,605)**	(1,148,824)
Equity	**21,542**	542,416

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.

25. Related party transactions

Ultimate parent and controlling party

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

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

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

The Group has loan balances with Acadia which accrue interest, see note 17 and 8 for further details. In addition £6,929,000 (2017: £5,418,000) is owed to Acadia at the year end, see note 16.

Remuneration of key management personnel

£'000	2018	2017
Short-term employee benefits	**1,044**	372
Post-employment benefits	**20**	10

The emoluments of the highest paid director of the Company were £634,000 (2017: £243,000). In addition, the Group paid pension contributions of £10,000 in respect of the highest paid director (2017: £5,000).

Nigel Myers and Trevor Torrington were appointed in July 2017 and as a result emoluments in the prior year are included only from the date of appointment in 2017 compared to a full year in 2018.

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

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

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

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 27 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

Priory Group UK 1 Limited

Notes to the consolidated financial statements

Name of subsidiary	Registered number	Name of subsidiary	Registered number
Yorkshire Parkcare Company Limited	1915148	Partnerships in Care (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 26 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 2018

£'000	Note	31 December 2018	31 December 2017
Fixed assets			
Investments	3	1,561,495	1,561,495
Current assets			
Debtors	4	225,048	267,494
Creditors: amounts falling due within one year	5	(12,690)	(13,659)
Net current assets		212,358	253,835
Total assets less current liabilities		1,773,853	1,815,330
Creditors: amounts falling due after more than one year	6	(1,151,986)	(1,144,366)
Net assets		621,867	670,964
Capital and reserves			
Called up share capital	7	74,984	74,984
Share premium account		647,240	647,240
Profit and loss account		(100,357)	(51,260)
Total shareholders' funds		621,867	670,964

The financial statements of Priory Group UK 1 Limited (formerly Partnerships In Care UK 1 Limited) (registered company number 09057543) on pages 39 to 42 were approved by the board of directors and authorised for issue on 19 July 2019. They were signed on its behalf by:

Trevor Torrington
Chief Executive Officer

Nigel Myers
Finance Director

Priory Group UK 1 Limited

Parent company statement of changes in equity for the year ended 31 December 2018

£'000	Called up share capital	Share premium account	Profit and loss account	Total shareholders' funds
At 1 January 2017	74,984	647,240	34,000	756,224
Loss for the financial year	-	-	(85,260)	(85,260)
At 31 December 2017	74,984	647,240	(51,260)	670,964
Loss for the financial year	-	-	(49,097)	(49,097)
At 31 December 2018	**74,984**	**647,240**	**(100,357)**	**621,867**

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 25 of the consolidated financial statements gives details of the Company's ultimate parent. Its consolidated financial statements prepared in accordance with IFRS are set out on pages 1 to 38.

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 £49.1m (2017: loss of £85.3m). The auditors' remuneration was borne by the ultimate parent company. The Company had no employees during the year. Details of directors' emoluments are given in note 25 to the consolidated financial statements.

3. Investments

Cost and net book value	£'000
At 31 December 2017 and 31 December 2018	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.

Priory Group UK 1 Limited

Notes to the parent company financial statements

4. Debtors

£'000	2018	2017
Amounts owed by group undertakings	**214,798**	261,254
Group relief receivable	**130**	2,479
Deferred tax asset	**10,120**	3,761
	225,048	267,494

Amounts owed by group undertakings includes unsecured loans of US$192,307,000 (£151,019,000) (2017: US$193,599,000 (£143,502,000)) and US$72,873,000 (£57,227,000) (2017: US$143,316,000 (£106,231,000)) which incur interest at 7.4% pa and are repayable 1 July 2022 and 16 February 2024 respectively.

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

£'000	Deferred tax
At 1 January 2017	-
Credit for the year	3,761
At 31 December 2017	3,761
Credit for the year	6,359
At 31 December 2018	**10,120**

A deferred tax asset of £10.1m (2017: £3.8m) 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	2018	2017
Amounts owed to group undertakings	**12,690**	13,659

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

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

£'000	2018	2017
Amounts owed to group undertakings	**1,151,986**	1,144,366

Amounts owed to group undertakings include unsecured loans from Acadia, further details are given in note 17 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.