

Turnstone Equityco 1 Limited
Annual report and consolidated financial
statements
Registered number 07496756
Year ended 31 March 2019

SATURDAY



A8D1PUMI

A19

31/08/2019

#26

COMPANIES HOUSE

Contents

	Page
Strategic report for the year ended 31 March 2019	i
Directors' report for the year ended 31 March 2019	11
Independent auditors' report to the members of Turnstone Equityco 1 Limited	14
Consolidated income statement	20
Consolidated statement of comprehensive income	21
Consolidated balance sheet	22
Company balance sheet	24
Consolidated statement of changes in equity	25
Company statement of changes in equity	27
Consolidated cash flow statement	28
Company cash flow statement	29
Notes to the consolidated financial statements	30

Strategic report for the year ended 31 March 2019

The directors present the Strategic report for the year ended 31 March 2019.

Principal activities

The principal activity of the company during the year was to act as a holding company. The principal activities of the group of companies owned by Turnstone Equityco 1 Limited ('the group') are the operation of dental practices and the provision of materials, services and equipment to dental practices.

The group provides a range of National Health Service ('NHS') and private dental services from practices throughout the United Kingdom along with support services to other third party dental practices and the wider healthcare sector.

Business ownership

The group is jointly owned by The Carlyle Group ('Carlyle') and Palamon Capital Partners ('Palamon').

Founded in 1987, Carlyle is one of the world's largest alternative asset managers. Palamon, founded in 1999, is an independent private equity partnership focused on providing equity for European growth services companies.

Carlyle and Palamon have joint control of Turnstone Equityco 1 Limited. Carlyle's majority holding is owned by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle. Palamon's ownership of the group is through its fund Palamon European Equity II, L.P. As at 31 March 2019, senior managers of the group held 24.6% of the equity interest in the company (2018: 24.6%).

The equity funding is split between preference and ordinary share capital, with the ordinary capital being designated 'A1', 'A2', 'B', 'E1' and 'E2' for ownership identification. 'A1' ordinary shares have a nominal value of £0.01, 'A2' and 'B' ordinary shares have a nominal value of £0.04, 'E1' ordinary shares have a nominal value of £0.10 and 'E2' ordinary shares have a nominal value of £0.001.

Ownership Structure of Turnstone Equityco 1 Limited

Number of shares (% of total)	Management		Carlyle		Palamon		Total	
'A1' Ordinary ('000)	-	-	1,282	57.5%	400	17.9%	1,682	75.4%
'A2' Ordinary ('000)	18	0.8%	-	-	-	-	18	0.8%
'B' Ordinary ('000)	300	13.5%	-	-	-	-	300	13.5%
'E1' Ordinary ('000)	82	3.7%	-	-	-	-	82	3.7%
'E2' Ordinary ('000)	147	6.6%	-	-	-	-	147	6.6%
Total	547	24.6%	1,282	57.5%	400	17.9%	2,229	100.0%

Business review

The results for the year show that the group has reversed the decline in financial performance experienced in recent years in the mydentist business, however this has been offset by tough trading conditions in the Dental Directory group:

mydentist

The group owns and manages a national chain of dental practices trading as "mydentist", with 603 sites at 31 March 2019 (2018: 643). The dental practices offer a broad range of primary care dental services, including dental examinations, fillings and extractions, as well as more specialised dental services such as cosmetic dentistry and orthodontics. The group offers both private and NHS services in the majority of practices and is the largest provider of NHS dentistry in the UK, with around 63% of group revenue coming from NHS contracts (2018: 64%).

The division's main trading entities are Petrie Tucker and Partners Limited, Whitecross Dental Care Limited and IDH Limited. The challenging trading environment in the NHS business has continued resulting in a reduction in the volume of Units of Dental Activity ("UDA") completed by the business in the year. The reduction in volume was due to:

- a reduction in the number of hours dentists provide for NHS work;
- a reduction in the volume of contracted UDA's held by individual dentists;
- a reduction in the number of eligible exempt patients resulting in changes in the UDA band mix; and
- the impact of our growth in private revenues.

The group has engaged external specialists to carry out an in depth review of dentist aspirations and determined that while dentists still appreciate the opportunities provided by NHS dentistry, as they progress in their career they wish to develop their skills by providing a wider range of treatments, some of which are not available on the NHS. In concentrating on NHS services, mydentist has not provided the opportunities for experienced dentists to develop their practice through offering additional private sessions and this has led to a decrease in the number of hours the group can make available to patients. Following clear feedback from dentists, the group has introduced a new affordable private treatment choice for patients which is branded as "{my}options".

Strategic report for the year ended 31 March 2019 *(continued)*

Business review *(continued)*

mydentist has also continued to recruit more dentists in order to increase the hours available to patients. During the year ended 31 March 2019, the business continued to develop its internal recruitment team and its strategy in order to accelerate dentist recruitment from both UK and overseas channels. Over the course of the year, a number of well attended resourcing days have been held both across the UK and overseas. As a result of these actions, the group has added a net additional 102 dentists over the course of the year. Significant progress has been made in building a pipeline of newly-qualified dentists from both UK and European dental schools to join the group during the year ending 31 March 2020.

The group has now completed its review of the portfolio of dental practices. The portfolio review sought to identify those which are no longer viable due to structural issues such as, for example, very low UDA contract values or where geographical isolation has made it difficult to recruit dentists. As a result of this review, a further 39 dental practices were sold or closed during the year. In total, the review led to the closure of 40 practices and sale of 31 practices over the last three financial years. The group continues to review on a practice by practice basis the portfolio of NHS contracts held by practices and the services available to be provided in the practice. Following the conclusion of the portfolio review, the group is preparing to re-start its acquisition strategy through a targeted process to add appropriate locations to the group, subject to funding requirements.

During the year to 31 March 2019, mydentist also merged 2 existing practices into one new practice. The table below sets out the movements in the number of dental practices owned by the group:

Movement in the number of dental practices	2019	2018
Year ended 31 March	No.	No.
Opening	643	674
Acquired	-	1
Merged into other existing practices	-	(2)
Merged into new practices	(1)	-
Closed	(21)	(17)
Sold	(18)	(13)
Closing	603	643

mydentist's revenue during the year was principally derived from long-term fixed value contracts with NHS regions and sub regions ('NHS Regions'). Provided the group achieves certain performance related criteria on an annual basis, the fixed-income nature of the contracts in England and Wales provides the group with stability and visibility over its revenue and profit streams. Payments under the framework contracts are made to us by NHS England, with payment of 1/12 of the contract value paid on the first working day of the following month. We collect patient contributions on behalf of the NHS, and typically remit such amounts to the NHS in arrears within two-to-six weeks thereafter. Three to six months following the contract year-end (31 March), we receive a statement detailing UDA performance under each contract. If, at the end of the contract year, a practice has not performed all the UDAs allocated under its contract, NHS England may seek to reclaim UDAs paid for but not performed. Any reclamation of payment must be made after the end of the contract year of underperformance, although repayment may be made in-year (referred to as a "handback") if both parties agree. In addition mydentist has variable income streams based on treatment provided to patients under private contract and to NHS patients in Scotland and Northern Ireland.

mydentist has four dental practices participating in the NHS's prototype trial process which commenced in April 2016 as the next stage in the proposed reform of the NHS dentistry contract. Under the proposed changes, NHS dentistry contracts could combine aspects of the existing UDA-based system with fixed payments for the number of patients treated. The prototype format also involves active performance management by NHS England, which includes monitoring of operational key performance indicators, such as clinical effectiveness, best practice, patient experience, safety and data quality.

Dental Directory

Dental Directory is a leading supplier of dental and other medical consumables, materials and services (including the installation and servicing of specialised dental equipment), selling dental supplies and services to at least 8,000 dental practices, including mydentist dental practices. Dental Directory has an estimated market share of 25% in the United Kingdom, by revenue.

The principal trading entities of The Dental Directory are Billericay Dental Supply Co. Limited trading as The Dental Directory, along with a number of smaller businesses including DBG (UK) Limited, Dolby Medical Limited, Med-FX Limited and BF Mulholland Limited.

Strategic report for the year ended 31 March 2019 (continued)

Business review (continued)

Dental Directory (continued)

Dental Directory has endured a tough year with a decline in external revenue particularly due to a slowdown in the high street independent dental practice sector along with issues in customer servicing. Gross margins have declined due to promotional discounting and pricing issues and the disposal of older stock items and EBITDA was impacted through increasing overheads for new developments in advance of sales generation. A new management team was introduced during the year and customer service has been radically overhauled to improve the order process and customer experience. Significant improvements have been made in back office processes to support the development of higher margin activities such as equipment installation and repairs and maintenance.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

Consolidated income statement

The group's results for the year are summarised below.

Summary Financial Results	2019	2018
Year ended 31 March	£m	£m
Revenue	571.9	580.5
Gross profit	254.2	252.7
Operating loss	(40.0)	(100.8)
Amortisation	30.9	32.1
Depreciation	21.1	21.7
Amortisation of grant income	(0.1)	(0.1)
Impairment of goodwill and intangible assets	16.3	66.3
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	24.2	29.8
Differences between contingent consideration paid and estimates initially recognised	(0.4)	2.9
Value of employee services arising from shares granted	1.1	0.8
Other non-underlying items	4.6	2.5
Foreign exchange	0.4	(0.1)
EBITDA before non-underlying items	58.1	55.1

Revenue from mydentist was £463.4 million (2018: £472.3 million) with £358.3 million (2018: £368.5 million) arising from NHS dentistry services and £103.7 million from private dentistry services (2018: £99.9 million). Revenue from NHS dentistry services comprised 62.7% (2018: 63.5%) of total group revenue with private dentistry services contributing 18.1% (2018: 17.2%). Non-dental practice revenue including revenue from Dental Directory, net of supplies to mydentist practices, was £109.8 million (2018: £112.1 million) or 19.2% of the group total (2018: 19.3%).

The group has continued to experience strong demand for private dentistry services within our existing practices, with like-for-like revenue having increased by 6.5% (2018: 5.0%). However this growth has been offset by a reduction in revenue from NHS dentistry services, where we have seen a reduction in the overall number of UDA's delivered by 0.9 million. Delivery percentage, after temporary and permanent handbacks decreased from 86.1% for the year ended 31 March 2018 to 85.7% for the year ended 31 March 2019. The decline in UDA delivery rates is the result of a combination of factors, including a reduction in the number of hours dentists provide for NHS work, a reduction in the volume of contracted UDA's held by dentists, and the impact of growth in private revenues. In addition, the improving UK economy has reduced the number of exempt patients being seen by mydentist, which has resulted in a change in UDA band mix away from higher value band 2 (3 UDAs) and 3 (12 UDAs) treatments.

Gross profit for the group increased by £1.5 million from £252.7 million for the year ended 31 March 2018 to £254.2 million for the year ended 31 March 2019. Gross margin improved from 43.5% for the year ended 31 March 2018 to 44.4% for the year ended 31 March 2019. In mydentist, gross margin improved from 47.5% for the year ended 31 March 2018 to 48.4% for the year ended 31 March 2019, principally due to savings in dentist fees. Locum costs in particular were £2.0 million lower than the year ended 31 March 2018 due to measures taken to increase locum productivity, as well as a reduction in the number of UDA's delivered by locums. Material costs were £1.0 million lower than the year ended 31 March 2018 and non-dental practice cost of sales also decreased by £1.1 million following the sale of the laboratory operated by PDS Dental Laboratory Leeds on 4 October 2018.

Strategic report for the year ended 31 March 2019 (continued)

Business review (continued)

Consolidated income statement (continued)

The gross margin in Dental Directory was 26.4%, a decrease of 0.4 percentage points from 26.8% for the year ended 31 March 2018 due to promotional discounting and customer service issues and the disposal of older stock items.

The group's key profit performance indicator is earnings before interest, tax, depreciation, amortisation and non-underlying items ('EBITDA before non-underlying items'). Management consider this the key operating indicator as it measures the underlying performance of the group and the ability of the group to service its debt.

	2019 £m	2018 £m
Operating loss	(40.0)	(100.8)
Net finance costs	(128.3)	(118.9)
Loss before income tax	(168.3)	(219.7)
Income tax credit	9.8	11.5
Loss for the year	(158.5)	(208.2)

Consolidated balance sheet

Goodwill and intangible assets amount to £555.3 million (2018: £620.6 million) and arose from the acquisition of the Integrated Dental Holdings ('IDH') and Associated Dental Practices ('ADP') groups in May 2011 together with the acquisition of further dental practices and businesses complementary to Dental Directory over the past eight years. Amounts ascribed to intangible assets acquired through business combinations are determined by using appropriate valuation techniques, including estimated discounted future cash flows. The principal intangible assets recognised by the group include contractual arrangements and relationships, customer relationships and brands or trademarks. During the year ended 31 March 2019, the group has recorded the following impairment charges, reflecting contract handbacks and the decisions taken to dispose of dental practices as a result of the portfolio review. Further details can be found in notes 15 and 16 to the financial statements:

- An impairment of £3.0 million was recorded against the carrying value of intangible assets arising from contractual arrangements within mydentist as a result of the permanent contract hand-backs agreed with NHS Regions during the year. The permanent contract cuts have affected a limited number of practices where delivery rates have been consistently difficult to maintain due to either dentist or patient shortages.
- Impairments and other costs or charges totalling £24.2 million have been recorded against the carrying value of goodwill, intangible assets, tangible assets and other current assets within mydentist, to write the carrying value of assets associated with practices which were identified for closure or sale through the portfolio review down to their estimated recoverable amounts. The portfolio review has now been concluded and there are no assets held for sale at 31 March 2019.
- An impairment of £13.3m was recorded against the carrying value of goodwill within Dental Directory. This impairment principally reflects the decline in performance experienced by Dental Directory in the current year, the expected recovery of the business and the impact this has on estimated discounted future cash flows.

Property, plant and equipment of £95.2 million (2018: £92.4 million) includes £26.0 million (2018: £18.6 million) of additions during the year resulting from upgrades to the group's dental practices, equipment and facilities.

Throughout the year ended 31 March 2019, the group had the following external borrowings, further details of which can be found in note 24 to the financial statements:

- £275 million 6.25% senior secured notes due 15 August 2022;
- £150 million LIBOR plus 6.00% senior secured floating rate notes due 15 August 2022;
- £130 million LIBOR plus 8.00% second lien notes due 15 August 2023, with LIBOR subject to a minimum floor of 1.00%; and
- £100 million Super Senior Revolving Credit Facility ('SSRCF') available until 5 August 2022 with interest payable in arrears at a rate of LIBOR plus 3.5% per annum. As at 31 March 2019, £25.0 million had been drawn against this facility, with a further £1.8 million committed against a letter of credit, leaving £73.2 million available to the group.

Strategic report for the year ended 31 March 2019 *(continued)*

Business review *(continued)*

Consolidated balance sheet (continued)

At 31 March 2019, borrowings, including shareholder debt, totalled £1,363.8 million (2018: £1,256.2 million). Borrowings comprise £545.2 million (2018: £542.6 million) of senior and second lien debt as detailed above, net of unamortised arrangement fees, and £25.0 million (2018: £5.0 million) drawn against the SSRCF, along with £736.7 million (2018: £657.8 million) of 12% loan notes and £56.9 million (2018: £50.8 million) of preference shares, which together include accrued interest and dividends of £455.5 million (2018: £370.4 million). During the year, the group's leading shareholders agreed to extend the repayment date of the loan notes and preference shares to the earlier of a sale of the business or May 2024.

Consolidated cash flow statement

Cash generated from operations of £40.8 million (2018: £65.9 million) reflects the strong cash generation properties of the group's business units offset by a reduction in amounts outstanding to the NHS for UDA performance shortfalls due to in-year repayments.

After the servicing of external finance costs, investments made in the practice estate and operational systems at Dental Directory and contingent consideration paid, there was a net cash outflow before financing transactions, of £27.3 million (2018: £1.4 million). The group also made net drawdowns of £20.0 million from the SSRCF during the year (2018: £5.0 million). As a result, cash decreased by £7.3 million (2018: increase of £3.6 million) to leave a closing cash balance of £9.0 million (2018: £16.3 million).

Subsequent events

A new greenfield practice was opened on 1 April 2019 at Shoreham. Dental Directory rebranded as 'DD' with effect from 1 June 2019 and launched a new simplified structure operating under one brand in England and Wales, to replace the acquired companies individual identities.

Principal risks and uncertainties

Regulatory risks

The results of the group are subject to the regulatory environment related to health and safety, quality of care, the storage and distribution of controlled drugs and medicines, the disposal of hazardous waste and data protection, principally through the costs related to compliance. The group's dental practices are subject to regular review by the Care Quality Commission ('CQC') and could be closed if compliance with CQC guidelines cannot be demonstrated. As the leading provider of dental services in the United Kingdom, the group is well placed to respond to and comply with regulatory changes through dedicated regulatory and compliance teams. Dental Directory is also subject to regulatory oversight from the Medical and Healthcare Products Regulatory Agency ('MHRA') in respect of the purchase, sale and storage of medicines.

The group receives, generates and stores significant volumes of personal data containing patients personal and medical information. The group is therefore subject to the privacy laws with respect to the use, transfer and disclosure of this data, including the European General Data Protection Regulation ('GDPR'), which was applicable from May 2018. During the course of the year, the group has reviewed the implementation of the regulations, ensured all staff are appropriately trained for their role and monitored operational application of internal safeguards. A failure to adequately safeguard confidential patient information could result in significant fines, penalties and litigation.

NHS contract

The NHS contract for the dentists in England and Wales, introduced in April 2006, provides clear benefits to the group, in terms of income stability and visibility. This is because the majority of the group's NHS dentistry contracts are General Dentistry Services ('GDS') contracts, which are evergreen contracts with no end date that automatically roll over upon the achievement of targeted UDA volumes. The group also has a small number of Personal Dentistry Services ('PDS') contracts, typically to deliver orthodontic dentistry services, which are for a fixed term, usually between three and five years.

However, as with any system, there are likely to be modifications to it, potentially through the introduction of a new contract structure. The extent of such modifications and the impact which they may have on the group, either in a favourable or adverse manner have not yet been drafted into legislation. However, the group maintains a close dialogue with the Government in developing the new contract and is participating in the prototype programme which commenced in October 2015 to ensure that the business is well prepared for future changes, if any.

Strategic report for the year ended 31 March 2019 *(continued)*

Principal risks and uncertainties *(continued)*

NHS contract (continued)

In addition, the NHS is currently in the process of competitively re-tendering the majority of its PDS contracts to deliver orthodontic dentistry services across England. The early tender results in the South of England identified a clear trend in terms of reductions in rate for orthodontic services and a smaller overall contract size as the NHS looks to increase the number of treatment locations. The group is currently preparing bids for tenders across the other regions of England with the aim to both retain the group's existing orthodontic dentistry contracts, as well as win additional orthodontic dentistry contracts. However, as the trend is for smaller contracts, there is a risk that overall our orthodontic practice contracts could reduce in size. In mitigation, the group is exploring options to provide more private orthodontics including using products such as clear aligners for the treatment of adults.

Clinicians and other qualified staff

The group requires skilled clinicians, hygienists and nurses in order to care for its patient base. The expansion of the European Union ('EU') over recent years and, until recently, the increased capacity of UK dental schools have increased the supply of clinicians available to the group. The group has also significantly invested in increasing the recruitment capabilities of the group in order to attract new and retain existing clinicians. The directors recognise the importance of quality clinicians and their self-employed status for ensuring the continued success of the group. The group manages the risk associated with the supply of clinicians through offering access and subscription to training and development programmes to enhance retention. Due to factors which have resulted in a decrease in UDA delivery rates over recent years, the group continues to work to recruit additional clinicians in order to deliver its NHS contracts and to develop the provision of private dentistry. In addition, the UK's decision to withdraw from membership of the EU may impact the supply of clinicians in future but could also open up alternative recruitment options through changes in visa regulations. The group continues to monitor developments.

The most common method for a practice owner of engaging with clinicians in the dental industry is for the clinician to operate as a self-employed associate dentist. This enables dentists to retain their clinical freedom over the appropriate course of treatment for patients, to develop their interests in specific specialities by having the flexibility to work across different practices and to have control of the amount they can earn through the hours they make available for appointments. In return, they contribute to the running costs of the practice and are responsible for a share of the laboratory costs relating to their treatment plans. This method of engagement has been recognised historically as the normal approach for the industry through the use of a model contract developed by the BDA. HMRC have published guidance that confirms if an associate is engaged on the terms of the model contract and the terms are followed, then the associate can consider themselves to be self-employed.

In common with many industries where self-employed individuals are utilised widely, HMRC have undertaken an industry review of the engagement terms used and the way these terms are applied in practice. The group utilises the model contract developed by the BDA as its basis of engagement with dentists and has clear policies and procedures about how associates work with employed practice teams. The group, supported by external advisors, has engaged with HMRC in this review, including through discussions with senior operational management and practice teams. The group is aware that HMRC have approached a number of clinicians engaged by the group in order to discuss their self-employed status.

As of the date of this report, HMRC's findings from the review are not known, however they have notified the group that they are considering withdrawing or amending the guidance relating to the model contract with effect from 5 April 2020. HMRC have stated that their view is that they should not now be providing guidance on individual industry-specific contracts. Given the existence of the current guidance, the group considers that any changes will relate to prospective rather than retrospective engagements and that status will need to be considered against HMRC's general guidance for self-employment in the future. Any change this has on the nature of engagement with clinicians is also likely to affect the entire industry.

The group continues to invest in improving pay structures and incentivisation for nurses and other clinical staff and continues to monitor the impact of future increases to the National Living Wage and other potential regulatory future changes upon its staffing structures. During the year, the group introduced a defined career path for training nurses in order to improve retention of highly skilled nursing staff.

The group has also continued to invest in its own training resource, the mydentist Academy, along with the accompanying online training system.

Strategic report for the year ended 31 March 2019 (continued)

Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework. The group's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including currency and interest rate risk) and inflation risk.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls to monitor both the risks and adherence to limits set. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. Further details can be found in note 32 to the financial statements.

KPIs – financial and non-financial

The KPIs set out in the table below are fundamental to the business and reflect focus on the drivers of value that will enable and inform the management team to achieve the business plans, strategic aims and objectives.

KPIs	2019	2018
Year ended 31 March		
Revenue (£'m)	571.9	580.5
EBITDA before non-underlying items (£'m) ⁽¹⁾	58.1	55.1
Operating loss (£'m)	(40.0)	(100.8)
NHS dentistry services as a percentage of group revenue (%)	62.7%	63.5%
Private dentistry services as a percentage of group revenue (%)	18.1%	17.2%
Dental Directory revenue as a percentage of group revenue (%)	19.2%	19.3%
Like-for-like private revenue growth (%) ⁽²⁾	6.5%	5.0%
Like-for-like private revenue growth per working day (%) ⁽²⁾	5.7%	6.7%
UDA ⁽³⁾ delivery (% of total contract, after temporary and permanent handbacks)	85.7%	86.1%
Total number of UDAs ⁽³⁾ delivered (million)	10.8	11.7
Gross profit margin (%)	44.4%	43.5%
Overheads as a percentage of revenue (%) ⁽⁴⁾	34.6%	34.4%
EBITDA margin (%)	10.2%	9.5%
Number of dental practices	603	643
Proforma LTM EBITDA (£'m) ⁽⁵⁾	59.4	57.3
Net bank and bond debt (£'m)	561.2	531.3
Net debt to EBITDA	9.66	9.64
Net debt to Proforma LTM EBITDA	9.44	9.28
Cash generated from operations (£'m)	40.8	65.9
Cash generated from operations net of interest paid (£'m)	0.2	25.6

- (1) EBITDA before non-underlying items consists of operating profit before deducting interest, tax, depreciation and amortisation and non-underlying items. Non-underlying items are generally one-off charges not associated with ongoing operational activities of the group.
- (2) Like-for-like private revenue growth reflects true private revenue achieved at equivalent sites year on year. As such, this excludes the impact of newly acquired practices and disposed and closed sites.
- (3) UDA – Units of Dental Activity, measures set by the NHS Regions as part of the contract terms. The UDA delivery % shown above is stated after temporary and permanent handbacks agreed in-year. The UDA delivery % before handbacks for the year ended 31 March 2019 was 80.0% (2018: 82.7%).
- (4) Overheads as a percentage of revenue represents administrative expenses, plus distribution costs, less depreciation, amortisation and impairment of goodwill and intangible assets, and other non-underlying items.
- (5) Proforma EBITDA represents the estimated EBITDA of the group after annualising the result of acquisitions and adjusting for the actual EBITDA arising from disposals and closures completed during the year ended 31 March 2019.

Strategic report for the year ended 31 March 2019 *(continued)*

Social matters

The group owns a national chain of dental practices, operating principally under the 'mydentist' brand, with 603 sites throughout the UK as at 31 March 2019 (2018: 643). Our dental practices provide community dental services to more than 4 million patients throughout the UK and offer a broad range of, and choice between, NHS and private dental treatments. The UK Government has a long term goal of increasing access to NHS dentistry for the UK population. As at 31 March 2019, mydentist held contracts for approximately 14% of all units of dental activity ('UDA's') commissioned by the NHS in England and Wales. The group is the largest provider of NHS dentistry services in the UK and plays an important role towards the UK Government achieving its access target. The group recognises that NHS dentistry has limitations in both the range of treatments available and the type of materials used. At the same time, the wider range of treatments and higher cost materials used in private dentistry can be very expensive. In order to make high quality dentistry available to the widest possible group and to increase the choice for patients, the group has introduced a limited affordable private dentistry offering "access mydentist" which is available from over 250 of the group's practices. The demand for this service has led the group to develop a full service affordable offering, "{my}options", which offers patients the choice of private treatment with transparent pricing options. {my}options is currently available in 20 practices and is being rolled-out across the group.

The group has also used its scale to help raise awareness of the importance of dental hygiene, particularly amongst children. Tooth decay is nearly entirely preventable in around 90% of cases, however 25% of all five year olds have tooth decay, and it is currently the number one reason why a child aged between five and nine enters hospital in order to have a general anaesthetic, the point at which it is too late. Around 44,000 children up to the age of 19 were admitted to hospital with tooth decay in 2017/18 and it is also one of the main reasons for school absence. It can also have a longer term impact upon physical and mental health, development, confidence and educational achievement. mydentist kids' clubs, involving visits to schools, nurseries and other organisations throughout the UK, have provided expert advice to children and parents on subjects including brushing techniques and tooth-friendly foods, through interactive role-play and games. The group also has online information, resources, and an app, to assist parents in improving the dental hygiene of their children, which can be found at www.mydentist.co.uk/dental-health/dental-treatment/kids-club.

In addition, the group continues to work closely with our clinical charity partner, Bridge2Aid. Bridge2Aid take clinicians from the UK to some of the poorest areas of the developing world to provide emergency dental care, as well as training for local health workers to allow them to continue to provide vital treatment. Each year the group provides funding for two of our clinicians to go to Tanzania with the charity. In 2018, our clinicians returned to help train health workers in the Morogoro region to provide sustainable emergency dentistry to remote communities.

The group also has a charity committee, comprised of employees from across the business, who organise a range of fundraising events throughout the year to support the group's chosen charity, which is currently Cancer Research UK. All employees are encouraged to participate. During the year ended 31 March 2019, our employees' fundraising activities raised £43,000 for Cancer Research UK.

Environmental impact

The group aims to minimise the impact of all of its business activities upon the environment, in addition to complying with all relevant laws and regulations. As far as practicable, the group is aiming to:

- reduce consumption of electricity, gas and other fossil fuels;
- reduce the consumption of consumables and recycle equipment and other redundant items or waste;
- reduce travel and offset travel carbon emissions by enrolling in an approved programme;
- use, store, control and dispose of hazardous materials, in line with best environmental practices; and
- purchase items manufactured or produced from sustainable sources.

To achieve these aims, the group has an environmental committee, which comprises employees from across the business. The committee's objective is to identify and promote changes that will contribute towards the group's aims. Initiatives rolled-out across the business over the last two years continue to be successful in reducing overheads and the impact on the environment. These included reducing staff travel through the use of online meetings; increasing the use of low power LED lighting across the estate; and initiatives across our dental practices and in our support centre to reduce waste. In addition, the group contracts with a third party to manage the safe and responsible disposal of all of our clinical waste.

Strategic report for the year ended 31 March 2019 *(continued)*

People

People are essential to the success of the group and we look to create an environment where our employees and self employed dental clinicians are treated fairly, feel valued and are provided with training and opportunities to develop their careers. Our mydentist Academy in Manchester enables us to offer a wide range of learning and development opportunities to our dental nurses and self employed clinicians.

The group is an equal opportunities employer and is committed to the principle of equality regardless of race, religion, creed, colour, nationality, gender, disability, age, gender re-assignment or sexual orientation. Applications for employment from disabled persons are given full and fair consideration with regard paid only to the ability of candidates to carry out satisfactorily the duties of the job. Should an existing employee become disabled, every effort is made to ensure continuing employment with retraining arranged where necessary. Disabled persons share in the opportunities for career development and promotion while training takes account of any special needs.

The group is keen to ensure that our employees and self employed clinicians have a voice in how the group operates. As such, a number of initiatives are in place to enable us to engage with our people. These include 'town hall' meetings conducted regionally by our CEO with local practice staff and clinicians; regular online anonymised surveys; and a forum through which employee representatives can discuss issues openly with management. Additionally, the group regularly briefs employees on matters of concern to them, including the financial and economic performance of their business units. Strategy is cascaded through the business from an annual Leadership Conference of senior operational management down through regional sessions to practice level. In addition, an annual Clinical Conference provides the opportunity for senior management to engage with a cross-section of self-employed clinicians and understand the issues and concerns they face whilst also providing a programme of interesting and stimulating Continuing Professional Development lectures.

The nature of the group's business activities means that health and safety is an area of particular importance. The group therefore places great emphasis upon ensuring that we create a safe working environment for all of our people, patients and other visitors. For example, we are required to take care to prevent serious accidents and to eliminate from our facilities conditions that could lead to such accidents, including the risk of transmission of blood-borne and other infections. In addition, we continue to work closely with the Royal Society for Prevention of Accidents ('RoSPA'), implementing its Quality Safety Assessment ('QSA') management system audit across the company. The QSA process helps ensure measurable standards of performance are being constantly improved and maintained throughout the business. In 2018, mydentist was awarded the 'RoSPA Commended in the Healthcare Services Industry Sector Award'. This builds upon our previous three years of success where we achieved Gold Awards.

Human rights

The group is committed to respecting the rights and dignity of all of the people with whom we engage, including our patients, customers, self employed clinicians, employees, suppliers, and other stakeholders. The group's employee handbook sets out the group's expectations of all employees in this regard. The group has processes in place to mitigate the risk of slavery and human trafficking occurring in our supply chains and to protect whistle blowers. The group's whistle blowing policy has recently been updated to align to the NHS's 'Freedom to Speak Up' guidance. The group's full statement in respect of the Modern Slavery Act 2015 can be found on our website at www.mydentist.co.uk/customer-services/legal.

Anti-corruption and bribery

The group is committed to the highest standards of ethical conduct and integrity in its business activities. The group's senior management is committed to implementing effective measures to prevent, monitor and eliminate bribery by fostering a culture of integrity in which bribery is unacceptable. As such, the group will not tolerate any form of bribery by, or of, its employees, consultants or any person or body acting on its behalf. The group believes that a zero tolerance approach towards bribery will ultimately deliver benefits to the group in terms of maintaining our reputation and confidence in the group from its customers and business partners. The group has an anti-bribery policy and has provided training on the content of the policy to all employees.

Furthermore, the group is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. The group has procedures to verify the identity of parties with whom it transacts and training has been provided to all relevant employees.

Strategic report for the year ended 31 March 2019 *(continued)*

Future outlook and strategy

Whilst the market continues to be challenging for NHS dentistry in the UK with pressures on funding and resource, the directors believe that the group continues to be well positioned to take advantage of other opportunities in dentistry. In particular, the group will continue to develop patient access to new affordable and transparent private treatments. The group will also look to grow in each of our two business units through:

- continuing to deliver high quality care and promoting the highest clinical standards;
- recovering and optimising delivery of its existing NHS contracts;
- developing patient choice through rolling out affordable private treatments under the “{my}options” programme;
- increasing the number of clinician hours available to patients by recruiting additional dentists and working with existing clinicians to increase the choice they can provide patients;
- exploring opportunities to tender for new contracts, particularly through the ongoing orthodontic dentistry procurement programme;
- diversifying our revenues through new initiatives both in private dentistry and within Dental Directory;
- leveraging the investment in the mydentist brand to attract new customers, increase brand recognition and expand our dentistry offering;
- implementing improved systems and processes to increase productivity, efficiency and oversight;
- investing in the equipment and buildings of our practice estate; and
- using the size of our portfolio and systems to procure materials and services more efficiently and effectively.

On behalf of the Board



T Riall
Director
18 June 2019

Directors' report for the year ended 31 March 2019

The directors present their report and the audited consolidated financial statements of Turnstone Equityco 1 Limited for the year ended 31 March 2019.

Financial risk management

Please refer to the Strategic report for a description of the group's financial risk management processes.

Future developments

Please refer to the business review section of the Strategic report for a description of future developments.

Proposed dividend

The directors do not recommend the payment of a dividend for the year (2018: £nil).

Directors

The directors who held office during the year and to the date of this report were as follows:

J Bonnavion
A Bowkett
O Butler (appointed 29 March 2019)
B Cockcroft
L Elson
K Jayaraman
T Riall
O Shafi Khan
A Burgess (resigned 29 March 2019)

The directors benefitted from qualifying third party indemnification provisions in place during the financial year and to the date of this report. The group also provided qualifying third party indemnity provisions to certain directors of subsidiary companies during the financial year and to the date of this report.

O Shafi Khan resigned from his executive position as Chief Financial Officer on 5 April 2019 but has remained on the Board of Directors as a non-executive director.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Directors' report for the year ended 31 March 2019 *(continued)*

Employees

Please refer to the strategic report for further detail of the group's employment policies.

Political and charitable contributions

The group made charitable contributions totalling £53,795 during the year (2018: £41,224). The group made no political donations during the year (2018: £nil).

Policy and practice on the payment of creditors

It is the group's policy in respect of all suppliers, including self-employed dentists, to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

On 30 April 2019, Petrie Tucker and Partners Limited reported payments to creditors are on average made within 48 days, Billericay Dental Supply Co Limited reported payments to creditors within 41 days for the six month period ending 31 March 2019.

Subsequent events

A new greenfield practice was opened on 1 April 2019 at Shoreham. Dental Directory rebranded as 'DD' with effect from 1 June 2019 and launched a new simplified structure operating under one brand in England and Wales, to replace the acquired companies individual identities.

Going concern

The parent company and consolidated financial statements have been prepared on a going concern basis, which the directors consider to be appropriate, having given due consideration to current trading forecasts and the various facilities available to the group.

The group meets its day to day working capital requirements through cash generated from operations and its borrowing facilities. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group is able to operate within the level of its current facilities. The amount to be repaid to the local NHS teams for the shortfall on UDA delivery in the year ended 31 March 2019 of £51.7 million will be deducted from contract payments received across the next financial year. This therefore does not impact on the forecast headroom available to the group. At 31 March 2019, the group currently has £73.2 million of available headroom under its £100 million SSRCF, which is available until August 2022, with no significant covenant restrictions over drawdown. The group's other principal borrowing facilities, which comprise £150 million of senior secured fixed rate notes, £275 million of senior secured floating rate notes, and £130 million second lien notes, are fully drawn down and do not require repayment until 2022 or 2023.

The group's loan notes and redeemable preference shares, along with all interest and dividends accrued thereon, were originally not repayable until the earlier of a sale of the business or 2021. During the year, the group's leading shareholders agreed to extend the repayment date of these instruments to the earlier of a sale of the business or May 2024. Therefore, the group has no short term cash obligations in respect of these debt instruments.

Furthermore, the group remains cash generative at the operating level, with the reported operating loss and loss before tax arising principally from non-cash items, including the amortisation and impairment of goodwill and intangible assets, depreciation, and non-cash interest accrued on shareholder loan notes.

Further information on the group's available borrowing facilities and covenants can be found in notes 24 and 32 respectively to the financial statements.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report for the year ended 31 March 2019 *(continued)*

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

On behalf of the Board



T Riall
Director
18 June 2019

Europa House
Europa Trading Estate
Stoneclough Road
Kearsley
Manchester
M26 1GG

Independent auditors' report to the members of Turnstone Equityco 1 Limited

Report on the audit of the financial statements

Opinion

In our opinion, Turnstone Equityco 1 Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2019 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2019; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated and Company cash flow statements, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

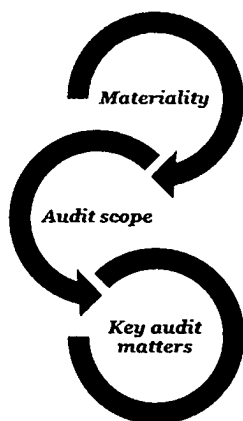
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall group materiality: £1.45 million (2018: £1.38 million), based on 2.5% of earnings before interest, taxes, depreciation and amortisation and before non-underlying items (EBITDA).
- Overall company materiality: £45,000 (2018: £41,000), based on 1% of total assets.
- The two divisions within the group are mydentist and Dental Directory. Within these divisions the significant components are the mydentist companies, Petrie Tucker and Partners Limited and Whitecross Dental Care Limited (mydentist) and Billericay Dental Supply Co. Limited (Dental Directory).
- Our audit scope addressed over 97% of group revenue and 97% of EBITDA
- In addition to the full scope components, we have audited specific financial statement line items being the borrowings within IDH Finance plc, and the Turnstone Equityco 1 Company.
- Impairment review of goodwill and intangible assets (group).
- Going concern (group and company).
- Uncertain tax positions (group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent auditors' report to the members of Turnstone Equityco 1 Limited (continued)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment review of goodwill and intangible assets	
Group	
Goodwill of £224.3 million (2018: £247.9 million) and intangible assets of £331.0 million (2018: £372.7 million) are material to the group financial statements.	We evaluated and assessed mydentist's and Dental Directory's future cash flow forecasts, discount rates and tested the underlying calculations.
Management have performed a full impairment review to compare the carrying value of the asset base, including goodwill and intangible assets, to the value of discounted future cash flows, using a five year perpetuity model which includes a number of assumptions.	During our testing we noted the following:
The impairment model is split into two cash generating units (CGUs), being mydentist and Dental Directory. The models incorporate a number of estimates, key ones being:	- We found the cash flow forecasts to be consistent with the Board approved strategic plan. We reviewed the proposed increase in private revenue and UDA delivery rate based on management's plans to increase the number of dentists working in the Group, and their enhanced review into the performance and staff levels of specific dental practices. We further reviewed the EBITDA forecasts by evaluating the impact of expected changes to the proportional delivery of public and private revenue and the impact of cost improvement plans; - We engaged with internal experts to review the reasonableness of the discount rates used by assessing the cost of capital calculations for the CGUs and comparing against comparable organisations; - The terminal growth rate is in line with long term NHS estimates of inflation but lower than long term UK inflation expectations. We consulted with our internal experts and concluded this was appropriate based on our understanding of the business and its services; - We assessed the current management team's ability to create accurate forecasts; and - We performed sensitivity analysis and found both of the models to be sensitive to small changes in all three of the key assumptions discussed above. As a result management have disclosed the sensitivity of the key assumptions within the financial statements (note 15). We have verified that these calculations have been performed correctly.
- Forecasted EBITDA for each of the next five years and then into perpetuity, including inflationary assumptions; and - Discount rates;	
An impairment charge of £16.3 million (2018: £66.3 million) has been recorded in the current year against goodwill and intangible assets. £13.3 million of this is specific to the Dental Directory CGU (2018: £nil). No impairment has been made against the mydentist CGU.	
Refer to note 15 to the financial statements.	We have performed the above procedures and concluded that the impairment charge of £16.3m is reasonable and supported by the evidence available.

Independent auditors' report to the members of Turnstone Equityco 1 Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Going concern	
Group and company	
The group and company financial statements have been prepared on the going concern basis. The directors believe that the group and company will have the cash resources it requires to service and settle its liabilities for the period extending beyond 12 months from the date of approval of the financial statements. Whilst the group generates positive EBITDA, the group has made a significant loss before tax in both the prior and current year. Furthermore, the group is in a significant current and overall net liability position, which is largely due to borrowings of £1.4 billion (2018: £1.3 billion). The borrowings are not due for repayment prior to August 2022. Interest is paid in cash on £555 million (2018: £555 million) of these borrowings, amounting in 2019 to £40.5 million (2018: £40.3 million). The group has an external financing facility agreement, the £100 million Super Senior Revolving Credit Facility (SSRCF), which is available until August 2022. Covenant compliance in relation to the SSRCF is monitored, including an assessment of the drawn super senior gross leverage ratio, which cannot exceed 2.3:1. There are no other financial covenants on any of the other borrowings. At the year end the group has drawdown £25 million (2018: £5 million) plus £1.8 million committed against a letter of credit. The going concern status of the company is intrinsically linked to the success of the group.	Our testing focused on the key judgements and assumptions as follows: • We evaluated and challenged the group's future cash flow forecasts and the process by which they were drawn up. We compared the group's forecasts to the latest Board approved budget and found them to be consistent; • We have completed downside scenario analysis of the cash flow within the business and the potential utilisation of the revolving credit facility to see if enough liquidity is available on a short term basis; • We have reviewed the terms of the group's financing facility and confirmed that there are no restrictions to draw down outside of the control of the group, other than covenant compliance. We have reviewed the covenants in relation to this facility and confirmed that the group is in compliance with all covenant conditions in the current year. In addition, we have compared forecasted cash flows by assessing their impact on the covenant conditions, including on the downside case scenarios considered; • We have assessed management's ability to produce reliable forecasts by reviewing the accuracy of previous forecasts; and • We have reviewed results post year end and confirmed there are no significant variations from management's initial expectations which should change their conclusions over going concern. Considering the test results above we noted no other factors that would impact the going concern status of the company, and therefore, we concur with management's assessment that the group and company accounts should be prepared on a going concern basis.

Independent auditors' report to the members of Turnstone Equityco 1 Limited (continued)

Key audit matter	How our audit addressed the key audit matter
Uncertain tax positions Group There are three ongoing tax inquires with HMRC. These are: • Self-employed status of dentists; • Deductibility of goodwill in Whitecross Dental Care Limited; and • VAT supplies in Whitecross Dental Care Limited. Management have concluded that the deductability of goodwill in Whitecross and the VAT supplies within Whitecross are both contingent liabilities, in that the risk of a successful HMRC challenge is considered stronger than "remote" but not "more likely than not" to succeed. The risk of a retrospective claim succeeding in relation to the self-employed status of dentists is considered to be less than remote. In reaching this conclusion, management have considered the advice from its tax and legal advisors. Refer to note 31 to the financial statements.	In assessing the potential impact of the three tax cases that the Group are in discussions with HMRC about, we performed the following procedures: • Inspected correspondence between the Group and HMRC, updating our evidence from prior audits; • Inspected advice that management has received from its external tax and legal advisors; • Discussed with management the advice and action that they have taken with regards to these cases and inspected any associated documents; and • Discussed the matter with our internal tax experts to get their view on the different cases and the likelihood of any settlement or successful HMRC challenge occurring. We found that the position adopted in the financial statements was reasonable based on the work we performed and in particular: • Management's view that no provision for each of the tax cases should be made at this time; and • The adequacy of the disclosure in the Annual Report in relation to the three matters.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The divisions within the group are mydentist and Dental Directory. Within these divisions the significant components are the mydentist companies, Petrie Tucker and Partners Limited and Whitecross Dental Care Limited, and Billericay Dental Supply Co. Limited. Components have been scoped based upon EBITDA contribution to the group, this is consistent with our approach to materiality.

Additionally, we performed work on specific financial statement line items that we regarded to be significant to the consolidated financial statements. This included the borrowings within IDH Finance Plc.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£1.45 million (2018: £1.38 million).	£45,000 (2018: £41,000).
How we determined it	2.5% of earnings before interest, taxes, depreciation and amortisation and before non-underlying items (EBITDA).	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, EBITDA before non-underlying items is the primary measure used by shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that total assets is the appropriate benchmark as the entity is a holding company.

Independent auditors' report to the members of Turnstone Equityco 1 Limited *(continued)*

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £372,000 and £1.4 million, and the Turnstone Equityco 1 Limited company materiality was £45,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £70,000 (Group audit) (2018: £68,500) and £2,250 (Company audit) (2018: £2,050) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the 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 and 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Turnstone Equityco 1 Limited *(continued)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
18 June 2019

Consolidated income statement
for the year ended 31 March 2019

	<i>Note</i>	2019 £'000	2018 £'000
Revenue	4	571,889	580,490
Cost of sales		(317,693)	(327,772)
Gross profit		254,196	252,718
Distribution costs		(17,299)	(17,567)
Administrative expenses		(278,475)	(337,996)
Other income	9	1,993	2,010
Other net (losses)/gains	10	(375)	75
Operating loss		(39,960)	(100,760)
Analysed as			
EBITDA before non-underlying items		58,105	55,115
Amortisation of intangible assets	15	(30,941)	(32,079)
Depreciation	16	(21,116)	(21,745)
Amortisation of government grant income		56	55
Impairment of intangible assets	15	(16,296)	(66,276)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	5	(24,245)	(29,754)
Differences between contingent consideration paid and estimates initially recognised	5	485	(2,889)
Value of employee services arising from shares granted	29	(1,077)	(808)
Other non-underlying items	5	(4,556)	(2,454)
Net foreign exchange (losses)/gains	10	(375)	75
Operating loss		(39,960)	(100,760)
Finance costs	11	(128,359)	(119,429)
Finance income	12	39	509
Net finance costs		(128,320)	(118,920)
Loss before income tax		(168,280)	(219,680)
Income tax credit	13	9,733	11,435
Loss for the year		(158,547)	(208,245)
Attributable to:			
Owners of the parent		(158,574)	(208,266)
Non-controlling interests		27	21
		(158,547)	(208,245)

All activities are derived from continuing operations.

The notes on pages 30 to 79 form part of these financial statements.

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

	2019 £'000	2018 £'000
Loss for the year	(158,547)	(208,245)
Other comprehensive expense:		
<i>Items that will not be reclassified to the income statement</i>		
Re-measurement loss in respect of defined benefit pension scheme	(97)	(138)
Total comprehensive expense for the year	(158,644)	(208,383)
Attributable to:		
Owners of the parent	(158,671)	(208,404)
Non-controlling interests	27	21
	(158,644)	(208,383)

Movements above are disclosed net of income tax.

The notes on pages 30 to 79 form part of these financial statements.

Consolidated balance sheet
at 31 March 2019

	<i>Note</i>	2019 £'000	2018 Restated £'000
Assets			
Non-current assets			
Goodwill	15	224,285	247,909
Other intangible assets	15	330,966	372,721
Property, plant and equipment	16	95,175	92,433
Deferred income tax assets	26,38	20,118	16,496
		670,544	729,559
Current assets			
Inventories	18	28,400	21,270
Trade and other receivables	19,38	39,762	41,244
Current income tax		40	104
Cash and cash equivalents	21,36	8,984	16,315
		77,186	78,933
Assets classified as held for sale	20	-	3,343
Total assets		747,730	811,835
Equity attributable to the owners of the parent			
Share capital	27	38	38
Share premium	28	1,974	1,974
Accumulated losses	28	(790,022)	(632,405)
		(788,010)	(630,393)
Non-controlling interest		-	133
Total equity		(788,010)	(630,260)

Consolidated balance sheet *(continued)*
at 31 March 2019

	<i>Note</i>	2019 £'000	2018 Restated £'000
Liabilities			
Non-current liabilities			
Borrowings	24,36	1,363,768	1,256,205
Other payables	22	229	2,462
Deferred income tax liabilities	26	30,751	36,686
Post employment benefits	33	593	517
Provisions	25	7,757	7,022
		1,403,098	1,302,892
Current liabilities			
Trade and other payables	22	130,369	137,031
Current income tax		-	24
Provisions	25	1,794	1,981
Derivative financial instruments	23	479	167
		132,642	139,203
Total liabilities		1,535,740	1,442,095
Total equity and liabilities		747,730	811,835

The notes on pages 30 to 79 form part of these financial statements.

The financial statements on pages 20 to 79 were approved by the Board of Directors on 18 June 2019 and were signed on its behalf by:



T Riall
Director

Company balance sheet
at 31 March 2019

	<i>Note</i>	2019 £'000	2018 £'000
Assets			
Non-current assets			
Investments	17	2	2
Other receivables	19	4,528	4,043
		4,530	4,045
Current assets			
Other receivables	19	23	23
Cash and cash equivalents	21	40	40
		63	63
Total assets			
		4,593	4,108
Equity			
Share capital	27	38	38
Share premium	28	1,974	1,974
Brought forward retained earnings	28	2,094	1,661
Current year earnings	14	485	433
Total equity		4,591	4,106
Liabilities			
Current liabilities			
Other payables	22	2	2
Total equity and liabilities		4,593	4,108

The notes on pages 30 to 79 form part of these financial statements.

The financial statements on pages 20 to 79 were approved by the Board of Directors on 18 June 2019 and were signed on its behalf by:



T Riall
Director

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

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity attributable to owners of the parent £'000	Non- controlling interest £'000	Total equity £'000
Balance at 1 April 2017 (Restated – note 38)	30	1,971	(424,661)	(422,660)	101	(422,559)
Comprehensive (expense)/income for the year						
(Loss)/profit for the year	-	-	(208,266)	(208,266)	21	(208,245)
Other comprehensive expense						
Items that will not be reclassified to the income statement	-	-	(138)	(138)	-	(138)
Total comprehensive (expense)/income for the year	-	-	(208,404)	(208,404)	21	(208,383)
Transactions with owners recognised directly in equity						
Value of employee services arising from shares granted to directors and employees (note 29)	-	-	808	808	-	808
Deferred tax in relation to the above	-	-	(137)	(137)	-	(137)
Issue of ordinary share capital	8	3	-	11	-	11
Total transactions with owners	8	3	671	682	-	682
Changes in ownership interests						
Minority interests acquired through business combinations	-	-	(11)	(11)	11	-
Balance at 31 March 2018 (Restated – note 38)	38	1,974	(632,405)	(630,393)	133	(630,260)

The notes on pages 30 to 79 form part of these financial statements.

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

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity attributable to owners of the parent £'000	Non- controlling interest £'000	Total equity £'000
Balance at 1 April 2018 (Restated – note 38)	38	1,974	(632,405)	(630,393)	133	(630,260)
Comprehensive (expense)/income for the year						
(Loss)/profit for the year	-	-	(158,574)	(158,574)	27	(158,547)
Other comprehensive expense						
Items that will not be reclassified to the income statement	-	-	(97)	(97)	-	(97)
Total comprehensive (expense)/income for the year	-	-	(158,671)	(158,671)	27	(158,644)
Transactions with owners recognised directly in equity						
Value of employee services arising from shares granted to directors and employees (note 29)	-	-	1,077	1,077	-	1,077
Deferred tax in relation to the above	-	-	(183)	(183)	-	(183)
Total transactions with owners	-	-	894	894	-	894
Changes in ownership interests						
Minority interests acquired through business combinations	-	-	160	160	(160)	-
Balance at 31 March 2019	38	1,974	(790,022)	(788,010)	-	(788,010)

The notes on pages 30 to 79 form part of these financial statements.

Company statement of changes in equity
for the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2017	30	1,971	1,661	3,662
Comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	433	433
Transactions with owners recognised directly in equity				
Issue of ordinary share capital	8	3	-	11
Balance at 31 March 2018	38	1,974	2,094	4,106
Comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	485	485
Balance at 31 March 2019	38	1,974	2,579	4,591

The company has no items of comprehensive income during either the current or previous year, other than the profit for the year.

The notes on pages 30 to 79 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 March 2019

	<i>Note</i>	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash generated from operations	35	40,827	65,934
Net cash inflow from operating activities		40,827	65,934
Cash flows from investing activities			
Acquisitions (net of cash acquired)		(174)	(6,709)
Purchase of property, plant and equipment		(24,251)	(19,101)
Proceeds from business and asset disposals		378	1,184
Interest received		38	16
Net cash outflow from investing activities		(24,009)	(24,610)
Cash flows from financing activities			
Drawdown of bank loans		20,000	15,000
Repayment of bank loans		-	(10,000)
Bank and bond interest paid		(40,590)	(40,347)
Contingent consideration paid		(3,559)	(2,379)
Net cash outflow from financing activities		(24,149)	(37,726)
Net (decrease)/increase in cash and cash equivalents		(7,331)	3,598
Cash and cash equivalents at the start of the year		16,315	12,717
Cash and cash equivalents at the end of the year		8,984	16,315

The notes on pages 30 to 79 form part of these financial statements.

Company cash flow statement
for the year ended 31 March 2019

	2019	2018
	£'000	£'000
Cash flows from operating activities		
Profit before income tax	485	433
Increase in finance income receivable	(485)	(433)
Net cash inflow from operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the start of the year	40	40
Cash and cash equivalents at the end of the year	40	40

The notes on pages 30 to 79 form part of these financial statements.

Notes to the consolidated financial statements

1 Company information

Turnstone Equityco 1 Limited (the 'company') is a private company, limited by shares, incorporated and domiciled in England. The address of the registered office is: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester M26 1GG.

The company is the holding company of Turnstone Midco 1 Limited and its subsidiaries (collectively, the 'group'). The principal activity of the company during the year was to act as a holding company. The principal activities of the group are the operation of dental practices and the provision of materials, services and equipment to dental practices.

The group provides a range of National Health Service ('NHS') and private dental services from practices located in England, Wales, Scotland and Northern Ireland along with support services to other third party dental practices and the wider healthcare sector.

2 Accounting policies

(a) Basis of preparation

The parent company and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The parent company and consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain financial instruments including derivatives and contingent consideration. The consolidated financial statements are presented in Sterling (£). Sterling is the company's functional currency, being the currency of the primary economic environment in which it operates. All amounts in these financial statements are presented in thousands of pounds Sterling (£'000), unless otherwise stated.

The parent company and consolidated financial statements have been prepared on a going concern basis, which the directors consider to be appropriate, having given due consideration to current trading forecasts and the various facilities available to the group.

The group meets its day to day working capital requirements through cash generated from operations and its borrowing facilities. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group is able to operate within the level of its current facilities. The amount to be repaid to the local NHS teams for the shortfall on UDA delivery in the year ended 31 March 2019 of £51.7 million will be deducted from contract payments received across the next financial year. This therefore does not impact on the forecast headroom available to the group. At 31 March 2019, the group currently has £73.2 million of available headroom under its £100 million SSRCF, which is available until August 2022, with no significant covenant restrictions over drawdown. The group's other principal borrowing facilities, which comprise £150 million of senior secured fixed rate notes, £275 million of senior secured floating rate notes, and £130 million second lien notes, are fully drawn down and do not require repayment until 2022 or 2023.

The group's loan notes and redeemable preference shares, along with all interest and dividends accrued thereon, are not repayable until the earlier of a sale of the business or 2024. Therefore, the group has no short term cash obligations in respect of these debt instruments.

Furthermore, the group remains cash generative at the operating level, with the reported operating loss and loss before tax arising principally from non-cash items, including the amortisation and impairment of goodwill and intangible assets, depreciation, and non-cash interest accrued on shareholder loan notes.

Further information on the group's available borrowing facilities and covenants can be found in notes 24 and 32 respectively to the financial statements.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied unless otherwise stated.

(b) Basis of consolidation

Subsidiaries

The group controls an entity when the group has power over that entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these 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.

Notes to the consolidated financial statements (*continued*)

2 Accounting policies (*continued*)

(b) Basis of consolidation (*continued*)

Partnerships

Certain members of the group management team act as partners on behalf of group companies in a number of dental practice partnerships. These partnerships are held on trust on behalf of a number of group companies. All profits arising from partnership activity are transferred to a group trading company.

As a result, the group considers that it has control of these partnerships and consequently the results of the partnerships are consolidated into the group's financial statements. The partnerships are accounted for in accordance with the group's accounting policies.

Transactions eliminated on consolidation

Intragroup balances, and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information. Losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

(c) New standards, amendments and interpretations

Standards, amendments and interpretations effective and adopted by the group:

For the financial year ended 31 March 2019, the group has adopted IFRS 15 "*Revenue from Contracts With Customers*" and IFRS 9 "*Financial Instruments*" for the first time. The nature and effect of these changes are described in note 38. Several other amendments or interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the group. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

Standards, amendments and interpretations which are not effective or early adopted by the group:

A number of new, revised and amended accounting standards and interpretations are currently endorsed but are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated financial statements. The only one of these standards expected to have a material impact on the consolidated financial statements of the group is IFRS 16 "*Leases*". A description of the change and expected impact on the group is disclosed below.

IFRS 16 – Leases

IFRS 16 will become effective for accounting periods commencing on or after 1 January 2019, and will be applicable to the group for the year ending 31 March 2020 onwards. IFRS 16 replaces IAS 17 and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or unless the underlying asset has a low value.

The impact of adopting IFRS 16 will be significant for the group due to the number of short leasehold properties, principally in respect of the group's dental practice estate, and leased motor vehicles used by the group. IFRS 16 will require the group to recognise a 'right of use' asset in respect of these leases, along with an equivalent lease liability. IFRS 16 will also impact the classification of lease related expenditure within the income statement. This will result in an increase to reported operating profit and a more substantial increase to EBITDA before non-underlying items, as lease related costs which are currently charged within administrative expenses will, under IFRS 16, be split between amortisation and finance costs. The presentation of lease related cashflows within the cash flow statement will also change. Presently, payments under operating leases are included within cash generated from operations. Under IFRS 16, these payments will be presented as cashflows from financing activities, representing repayments of debt.

The group expects to apply the 'cumulative catch up' approach upon initial adoption of IFRS 16. Under the cumulative catch up approach, the cumulative effect of adopting the standard is recognised at the date of initial application which, for the group will be 1 April 2019, and there is no restatement of comparative information. The group intends to use the incremental cost of borrowing to determine the discount rate for both property and vehicle leases. Since the cost of borrowing must reflect the lease term, the group intends to take the approach of grouping the leases of similar terms and applying a single borrowing rate to all such leases.

The group has substantially completed its review of leasing arrangements in the light of the new accounting standard and is in the process of finalising the review of the transition adjustments and judgements. Based on current calculations, the group expects to recognise an opening right of use asset and lease liability in the region of £93.0 million respectively at 1 April 2019. Operating profit and EBITDA are expected to increase by circa £3.0 million and £15.0 million. Interest charges are also expected to increase by £4.0 million due to the unwinding of the discount on the lease liability.

Notes to the consolidated financial statements (continued)

2 Accounting policies (continued)

(d) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency of each subsidiary or partnership using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, including realised gains and losses arising from foreign exchange forward contracts and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Unrealised gains and losses arising from derivative financial instruments used to hedge against movements in foreign exchange rates (principally foreign exchange forward contracts) are recognised in the income statement within other net (losses)/gains. See note 2(q).

(e) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The fair value of consideration of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control over the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations (Revised) ('IFRS 3') are recognised at their fair values at the acquisition date. All acquisition costs are expensed as incurred and included within administrative expenses.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised at fair value through profit or loss.

Upon transition to IFRS, the group applied IFRS 3 to all previous business combinations, including the acquisitions of both Pearl Topco Limited and ADP Healthcare Services Limited on 11 May 2011.

(f) Intangible assets

Goodwill

Goodwill represents the excess of the fair value of consideration paid on acquisition of a business over the fair value of assets, including any intangible assets identified, liabilities and contingent liabilities acquired. Goodwill is tested for impairment at least annually. See note 2(g).

On disposal of a subsidiary, the attributable net book value of goodwill, based on relative fair value, is included in the determination of the profit or loss on disposal.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within administrative expenses in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual or legal rights. The amounts ascribed to such intangibles are determined by using appropriate valuation techniques (see note 3 for further details).

The significant intangible assets recognised by the group, their estimated useful economic lives and the methods used to determine the cost of intangible assets acquired through business combinations, are as follows:

Intangible asset	Estimated useful economic life	Valuation method
Contractual arrangements and relationships	20 years	Estimated discounted cash flow
Customer relationships	10-20 years	Estimated discounted cash flow
Brands and trademarks	15 years	Estimated royalty stream if the rights were to be licensed

Contractual arrangements reflect long term, fixed income, contracts with the NHS for the delivery of dentistry services. These contracts specify targeted annual volumes of units of dental activity ('UDA's') for a contracted dental practice or entity. The majority of these contracts have no fixed term and will roll over indefinitely provided that certain performance targets are achieved. The intangible assets arising from these contractual arrangements are amortised over a period of 20 years to reflect the potential for future changes to government policy in this area.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(g) Impairment of non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at the same time in each period.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to dispose. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit' or 'CGU'). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised through the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Property, plant and equipment

Owned assets

Items of 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 into its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement within administrative expenses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Fixtures, fittings and equipment: 4-10 years

Fixtures, fittings and equipment include short leasehold improvements.

The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each accounting period.

(i) Inventories

Inventory is stated at the lower of cost and net realisable value (net realisable value is the price at which inventories can be sold after allowing for costs of sale).

Dental practice consumables are valued at the weighted average purchase cost during the financial year. Average purchase cost is calculated to take account of trade discounts received and transport and handling costs incurred.

Goods for resale are valued at actual cost, including the value of any trade discounts received or transport and handling costs incurred.

Provision is made for obsolete, slow moving and defective inventory.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(j) Trade receivables and prepayments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less appropriate allowances for expected credit losses (provision for impairment).

In accordance with the accounting policy for impairment of financial assets, the group recognises an allowance for expected credit losses (ECL's) for customers and other receivables. As permitted by IFRS 9 the group applies the simplified approach which requires expected lifetime credit losses (ECL's that result from all possible default events over the expected life of the financial instrument) to be recognised from initial recognition of the receivables. An estimate is made of the ECL based on the groups historical default rates as well as forward looking estimates at the end of each reporting period. Subsequent recoveries of previously impaired trade receivables are recognised as a credit to the income statement as they are realised.

Accrued income includes amounts due from the NHS in England and Wales in respect of the group's long term fixed income contracts to deliver dentistry services.

(k) Assets classified as held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction, a sale is considered highly probable and the assets are available for immediate sale in their present condition. They are stated at the lower of carrying amount and fair value less costs to dispose.

Assets held for sale at 31 March 2018 included a small number of dental practices that were marketed for sale, having been identified for disposal through the portfolio review programme. All assets identified for disposal through this programme have now been sold and therefore there are no assets held for sale at 31 March 2019.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(m) Trade and other payables

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost.

(n) Government grants

Grants received to assist with the purchase of property, plant and equipment are credited to deferred income within trade and other payables and are amortised to the income statement over a period to match the useful life of the asset acquired. Revenue grants are recognised in the income statement through administrative expenses in the financial year in which the related service or obligation is performed.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fees are deferred until the drawdown occurs and are subsequently amortised through the income statement over the term of the facility.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as a finance cost.

(p) Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised within finance costs. Further details are provided in note 25.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(q) Derivative financial instruments

The group's activities expose it to the financial risks resulting from fluctuations in interest rates and foreign exchange rates.

The group has previously used derivative financial instruments (interest rate swaps) to hedge a proportion of its exposure to floating interest rate fluctuations, however these contracts expired in June 2017 and have not been renewed. Foreign exchange forward contracts are used to hedge a proportion of the group's exposure to fluctuations in foreign exchange rates.

Under the terms of the indenture to the group's senior secured fixed rate notes and floating rate notes, the group holds certain call options to re-purchase all or part of the notes at pre-determined amounts during certain periods.

In addition, in a very small number of instances, the group has entered into option contracts with the vendors of businesses in which the group has acquired a majority shareholding in order to enable the group to acquire the remaining equity interest at a pre-determined price, or by reference to a pre-determined earnings multiple, in the future.

The group does not hedge account for any derivative financial instruments.

The use of financial derivatives is governed by the group's policies approved by the Board of Directors, which provide written principles in the use of financial derivatives consistent with the group's risk management strategy. The group does not use derivative financial instruments for speculative purposes. See note 32 for further details.

(r) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

(s) Revenue

Revenue represents the income received in the ordinary course of business for dentistry or other goods or services provided to the extent that the group has completed the specific performance obligations and has therefore obtained the right to consideration. Amounts are stated net of discounts, returns and value added taxes. Revenue derived from NHS contracts in England and Wales is recognised based upon the volume of dental activity delivered in the financial year. Amounts received from the NHS in advance of dental activity delivered are held on the balance sheet within accruals. More information on this is provided in note 22. Revenue from all private dental work and NHS patients in Scotland is recognised based upon the completion of each piece of treatment carried out, with the exception of orthodontic treatment, which is recognised based upon the stage of completion reached during the course of treatment. Revenue generated from the sale of goods by Dental Directory is recognised upon despatch and revenue generated from the installation or repair of equipment, or from other services, is recognised upon completion of the service.

Deferred income

Where the group receives an amount upfront in respect of future income streams, the value of the receipt is amortised over the period of the contract as the services are delivered and the unexpired element is disclosed in trade and other payables as deferred income.

(t) Leases

The costs associated with operating leases are charged to the income statement on an accruals basis over the period of the lease. The benefit of any lease incentives is recognised in the income statement evenly over the period of the lease up to the lease expiry date.

(u) Net finance costs

Finance costs

Finance costs comprise interest payable on borrowings, associated transaction costs and dividends on redeemable preference shares. Finance costs are charged to the income statement on an accruals basis using the effective interest rate method.

Finance income

Finance income comprises interest receivable on cash and cash equivalents or other funds invested and fair value movements on hedging arrangements. Interest income is recognised in the income statement as it accrues using the effective interest method.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(v) Income tax

Income tax for the accounting periods presented comprises current and deferred income tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the expected tax payable or refundable on the taxable income or loss for the year, based upon the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of other assets or liabilities that affect neither accounting nor taxable profit; nor differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred income tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for on deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting of business performance to the Board of Directors and the Executive Management Team. The Executive Management team has been identified as the chief operating decision maker and consists of the Executive Directors and certain key management personnel.

(x) Employee benefits: pension obligations

The group makes contributions to a small number of defined contribution pension schemes on behalf of its employees, including the National Employment Savings Trust ('NEST'). Contributions are recognised in the income statement on an accruals basis. In addition, the group also operates a stakeholder defined contribution pension scheme, to which the group makes no contributions on behalf of its employees. The assets of both of these schemes are held separately from those of the group in independently administered funds. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

The group also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. The scheme is closed to new members and has no active members. The group makes contributions in respect of current or past service. The group also funds the administration costs of the scheme which are charged to administrative expenses within the income statement as incurred. The re-measurement loss arising from the actual return on assets and changes in demographic and financial assumptions underlying the present value of scheme liabilities is taken to other comprehensive income. The group has no recourse to recover any surplus funds held by the scheme once all liabilities have been settled. Accordingly, where the scheme is in a surplus position at the balance sheet date, this surplus is not recognised as an asset within the balance sheet.

Notes to the consolidated financial statements (*continued*)

2 Accounting policies (*continued*)

(v) *Share based payments*

As set out in more detail in note 29, certain employees of the group have been, or will be, gifted 'E1' or 'E2' ordinary shares in the company for nil consideration. The gift of shares for nil consideration is a share based payment. The fair value of the employee services received in exchange for the gift of the shares is recognised as an expense, within administrative expenses in the income statement.

The amount to be expensed is adjusted to reflect management's estimate of the number of leavers. At each balance sheet date, the group revises its estimate of the number of leavers when determining the charge to be recognised in the income statement.

3 Critical accounting judgements and estimates

The preparation of the group's consolidated financial information under IFRS requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the consolidated financial information.

(a) *Critical judgements*

Income tax

The current income tax provision directly relates to the actual tax payable on the group's profits. Assumptions and judgements are made in applying tax laws to the taxable profits in any given period in order to calculate the tax charge for that year, including any deferred income tax element. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, or where deferred tax estimates are revised, the difference will be charged or credited to the income statement in the period in which it is determined. See also note 13.

(b) *Critical estimates*

Impairment of goodwill and other intangibles

Determining whether goodwill or other intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires the group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Management have conducted impairment reviews at the reporting date, which have resulted in impairment charges totalling £16.3 million (2018: £66.3 million) being recognised within non-underlying items in the income statement for the year ended 31 March 2019. More details, including carrying values and the outcomes of the reviews conducted including sensitivity analysis are included in note 15.

Valuation of intangibles acquired in business combinations

Determining the fair value of contractual arrangements and customer relationships acquired in business combinations requires estimation of the value of the cash flows related to those arrangements or relationships and a suitable discount rate in order to calculate the present value.

Determining the fair value of brands or trademarks acquired in business combinations requires estimation of the discounted royalty payments that would have to be paid to acquire the brand or trademark if it had not been acquired as part of a business combination. More details, including carrying values, are included in note 15.

Useful economic lives of intangible assets

Intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue. Useful lives are periodically reviewed for their continued appropriateness. Changes to estimates can result in changes in the carrying values and hence change the amounts charged to the income statement in particular periods which could be significant. More details, including carrying values, are included in note 15.

Notes to the consolidated financial statements *(continued)*

3 Critical accounting judgements and estimates *(continued)*

(b) Critical estimates (continued)

Application of tax laws

The group is subject to complex tax laws. Changes in tax laws and their interpretation could adversely affect our tax position, including our effective tax rate or tax payments. We often rely on generally available interpretations of applicable tax laws and regulations including guidance specific to our industry published by HMRC on their website. Changes in NHS regulations and interpretations have in the past also required changes in the group structure which could subsequently lead to an adverse tax position. In certain instances we have secured clearance from HMRC on the application of tax law within the group.

We have regular, open, discussions with HMRC over issues that could affect either the group or the industry generally, such as the partnership acquisition model, the self-employed status of dentists under the model BDA contract and the VAT treatment of dental facilities. These discussions have highlighted differences in interpretation between HMRC on the one hand and the group and its external advisors on the other. In these circumstances we continue to provide additional information to HMRC to support our current tax positions.

HMRC have notified the group that they are considering withdrawing the industry-specific guidance related to the self-employment status of dentists with effect from 5 April 2020. Based on the application of the current guidance, we consider any change in the tax treatment of associates would be prospective rather than retrospective and that status will need to be considered against HMRC's general guidance for self-employment in the future. Any change this has on the nature of the group's engagement with clinicians is also likely to affect the entire industry.

We continue to discuss the substance and legal form of the bare trust partnership arrangements we have used to acquire 145 practices. This is a widely used industry specific method that allows practices to change hands while meeting the requirements of NHS regulations. Discussions have focussed on the corporation tax deduction allowed for the goodwill amortisation charge recognised on the acquisition of the trade and assets and the VAT treatment of dental facilities provided to the partnership and to associate dentists.

There cannot be certainty that HMRC will agree with our interpretation and application of these laws. If our tax positions are subject to a successful challenge by HMRC, the imposition of additional taxes could require us to pay taxes that we currently do not collect or pay, or increase the costs of our services to track and collect such taxes, which could increase our costs of operations or effective tax rate. In certain circumstances, it is possible for HMRC to require any tax they deem to be due to be paid before their interpretation can be challenged through appeal.

However the likelihood of any such challenge being successful is considered by management, after discussion with specialist advisors including legal counsel, as not probable and accordingly these accounts do not include any provision in relation to our ongoing tax discussions in these areas.

Notes to the consolidated financial statements *(continued)*

4 Segmental analysis

The directors have determined the operating segments based on the operating reports reviewed by both the Board of Directors and the Executive Management Team that are used to facilitate both performance and strategic decision making. The Executive Management Team is considered to be the chief operating decision maker in accordance with the requirements of IFRS 8 – Operating Segments.

The Executive Management Team considers the business to be split into two main operating segments being mydentist and Dental Directory.

Through mydentist, the group is the leading provider of dental services in the United Kingdom. mydentist owns and manages a national chain of dental practices with 603 sites at 31 March 2019 (2018: 643).

Dental Directory, which principally comprises Billericay Dental Supply Co. Limited, along with a number of smaller businesses, provides a range of products and services to the dental and wider healthcare sectors, including to mydentist. Sales to mydentist are carried out on an arms length basis.

From 1 April 2018, the management of the groups dental laboratories moved from the Dental Directory sector team to the mydentist team. The segmental analysis for the year ended 31 March 2018 has been restated to reflect this change in reporting to the Executive Management team and revenue from the laboratories is shown as non-dental practice revenue in the mydentist segment.

All services are provided in the United Kingdom.

Revenue is analysed by category as follows:

	2019 £'000	2018 £'000
Provision of services	470,796	477,783
Sale of goods	101,093	102,707
Total revenue	571,889	580,490

Notes to the consolidated financial statements (continued)

4 Segmental analysis (continued)

Year ended 31 March 2019

	mydentist £'000	Dental Directory £'000	Central costs, and intra- segment eliminations £'000	Total £'000
Revenue				
NHS dentistry	358,332	-	-	358,332
Private dentistry	103,734	-	-	103,734
Non-dental practice revenue	1,347	135,437	(26,961)	109,823
Total revenue	463,413	135,437	(26,961)	571,889
Gross profit	224,228	35,797	(5,829)	254,196
Gross margin	48.4%	26.4%		44.4%
Overheads	(170,878)	(31,942)	4,736	(198,084)
Overheads as % revenue	36.9%	23.6%		34.6%
Other income	1,993	-	-	1,993
EBITDA before non-underlying items	55,343	3,855	(1,093)	58,105
EBITDA margin	11.9%	2.8%		10.2%
Amortisation of intangible assets	(27,533)	(3,408)	-	(30,941)
Depreciation	(19,625)	(1,862)	371	(21,116)
Amortisation of government grant income	56	-	-	56
Impairment of goodwill and intangible assets	(3,016)	(13,280)	-	(16,296)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	(24,245)	-	-	(24,245)
Differences between contingent consideration paid and estimates initially recognised	485	-	-	485
Value of employee services arising from shares granted	-	-	(1,077)	(1,077)
Other non-underlying items	(2,081)	(2,475)	-	(4,556)
Unrealised losses on derivative financial instruments	-	(375)	-	(375)
Segment operating loss	(20,616)	(17,545)	(1,799)	(39,960)
Net finance costs				(128,320)
Loss before income tax				(168,280)
Segment assets	651,879	99,898	(4,047)	747,730
Segment liabilities	(147,845)	(126,710)	(1,261,185)	(1,535,740)
Additions				
Goodwill	126	158	-	284
Property, plant and equipment	24,683	2,449	(1,093)	26,039

Notes to the consolidated financial statements (continued)

4 Segmental analysis (continued)

Year ended 31 March 2018

	mydentist £'000	Dental Directory £'000	Central costs, and intra- segment eliminations £'000	Total £'000
Revenue				
NHS dentistry	368,498	-	-	368,498
Private dentistry	99,859	-	-	99,859
Non-dental practice revenue	3,913	137,501	(29,281)	112,133
Total revenue	472,270	137,501	(29,281)	580,490
Gross profit	224,123	36,861	(8,266)	252,718
Gross margin	47.5%	26.8%		43.5%
Overheads	(177,496)	(30,036)	7,919	(199,613)
Overheads as % revenue	37.6%	21.8%		34.4%
Other income	2,010	-	-	2,010
EBITDA before non-underlying items	48,637	6,825	(347)	55,115
EBITDA margin	10.3%	5.0%		9.5%
Amortisation of intangible assets	(28,861)	(3,218)	-	(32,079)
Depreciation	(19,659)	(2,364)	278	(21,745)
Amortisation of government grant income	55	-	-	55
Impairment of goodwill and intangible assets	(66,276)	-	-	(66,276)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	(29,754)	-	-	(29,754)
Differences between contingent consideration paid and estimates initially recognised	(2,889)	-	-	(2,889)
Value of employee services arising from shares granted	-	-	(808)	(808)
Other non-underlying items	(1,691)	(763)	-	(2,454)
Unrealised gains on derivative financial instruments	-	75	-	75
Segment operating (loss)/profit	(100,438)	555	(877)	(100,760)
Net finance costs				(118,920)
Loss before income tax				(219,680)
Segment assets	703,072	111,633	(2,870)	811,835
Segment liabilities	(162,314)	(116,841)	(1,162,940)	(1,442,095)
Additions				
Goodwill	1,082	3,522	-	4,604
Other intangible assets	817	1,994	-	2,811
Property, plant and equipment	17,668	1,737	(637)	18,768

Notes to the consolidated financial statements (*continued*)

5 Other non-underlying items

The following items, which are considered by the directors to be non-recurring or which do not form part of the underlying trading results of the group have been charged/(credited) in arriving at operating loss.

	Group 2019 £'000	Group 2018 £'000
Restructuring costs	3,570	2,518
Rebranding costs	9	-
Acquisition related professional fees and expenses	53	318
Legal and professional fees	560	-
Strategic review fees	560	-
Onerous lease provision release	(204)	-
Release of unutilised fair value provisions arising from business combinations	-	(422)
Loss on disposal of freehold properties	-	1
(Profit)/loss on disposal of property, plant and equipment	(13)	18
Expenses in respect of defined benefit pension scheme (note 33)	21	21
Other non-underlying items	4,556	2,454
Differences between contingent consideration paid and estimates initially recognised	(485)	2,889
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	24,245	29,754

Restructuring costs

Costs incurred during the year ended 31 March 2019 and the year ended 31 March 2018 principally relate to senior management changes, and other staff and business restructuring, including related professional fees.

Rebranding

Costs recognised during the year ended 31 March 2019 reflect the cost of rolling out the mydentist brand and includes expenditure on signage, decoration and uniforms.

Acquisition related professional fees and expenses

The group incurs certain professional fees and expenses in respect of practice and subsidiary acquisitions.

Legal and professional fees

Legal and professional fees for the year ended 31 March 2019 include advisory services in relation to the groups VAT processes. The balance also includes income from the settlement of a legal claim relating to the acquisition of shares in a subsidiary company.

Strategic review fees

Fees for the year ended 31 March 2019 relate to a business strategy review project that was carried out during the year.

Onerous lease provision release

During the year ended 31 March 2019, £204,000 was released from the onerous lease provision following the sublet of the Winsford premises.

Release of unutilised fair value provisions arising from business combinations

During the year ended 31 March 2018, the group released unutilised fair value provisions with a value of £422,000 that arose from business combinations completed in previous years.

Loss on disposal of freehold properties

The loss of £1,000 for the year ended 31 March 2018 relates to fees associated with a property sold in the previous year. No freehold properties were disposed of during the year ended 31 March 2019.

(Profit)/loss on disposal of property, plant and equipment

The profit for the year ended 31 March 2019 has resulted from the sale of dental equipment in mydentist along with the sale of three motor vehicles in Dental Directory, offset by the write off of old or scrapped assets. The loss on disposal for the year ended 31 March 2018 arose from the write off of old or scrapped assets.

Notes to the consolidated financial statements (continued)

5 Other non-underlying items (continued)

Differences between contingent consideration paid and estimates initially recognised

During the years ended 31 March 2019 and 31 March 2018, the group settled certain contingent consideration obligations for amounts which were different to the initial fair value estimates recognised in the balance sheet. The net difference of £485,000 was released (2018: £2,889,000 charged) to the income statement.

Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices

Starting in the latter part of the year ended 31 March 2017 and continuing throughout both the years ended 31 March 2018 and 2019, management conducted a thorough review of the group's portfolio of dental practices to identify those which were no longer viable due to structural issues such as, for example, very low UDA contract values or where geographical isolation has made it difficult to recruit dentists. As a result of this review, decisions were taken to close or sell 71 dental practices, all of which had been completed prior to 31 March 2019.

The charge of £24,245,000 for the year ended 31 March 2019 (2018: £29,754,000) includes realised gains and losses, including closure costs, associated with the 18 practices sold (2018: 13), and the 21 practices closed (2018: 17), during the year.

On 4 October 2018, the group also sold the laboratory operated by PDS Dental Laboratory Leeds.

6 Auditors' remuneration

The total remuneration payable by the group to its auditors, PricewaterhouseCoopers LLP, during the financial year is analysed below.

	2019 £'000	2018 £'000
Audit services		
Audit of the parent company and the consolidated financial statements*	63	58
Audit of the company's subsidiaries	335	298
	398	356
Other services		
Tax advisory services	-	90
Other advisory services	6	244
Total remuneration payable to PricewaterhouseCoopers LLP	404	690

* The audit fees in respect of the consolidated and parent company financial statements for the years ended 31 March 2019 and 31 March 2018 have been borne by a subsidiary company.

Fees for other advisory services during the year ended 31 March 2019 relate to work conducted on covenant reporting. During the year ended 31 March 2018, other advisory services relate to a review of the group's strategy.

Notes to the consolidated financial statements (continued)

7 Employees

The company has no employees (2018: none).

The average monthly number of persons employed by the group (including directors) during the financial year was as follows:

	Group 2019 No of employees	Group 2018 No of employees
Business unit		
mydentist - surgery staff	3,907	4,193
mydentist - administration staff	2,653	2,907
Dental Directory	580	556
	<u>7,140</u>	<u>7,656</u>

The staff costs of these persons were as follows:

	Group 2019 £'000	Group 2018 £'000
Wages and salaries	126,720	132,580
Social security costs	8,789	9,086
Other pension costs	1,503	879
	<u>137,012</u>	<u>142,545</u>

8 Directors' remuneration

The directors received no emoluments from the company for their services during the year (2018: £nil).

	Group 2019 £'000	Group 2018 £'000
Aggregate emoluments including benefits	<u>1,054</u>	<u>1,003</u>

No directors accrued retirement benefits under money purchase or defined benefit pension schemes. Certain directors received no emoluments from the group for their services.

The aggregate of remuneration, excluding share based payments, for the highest paid director was £562,000 (2018: £515,000), which included benefits in kind of £6,000 (2018: £5,000).

9 Other income

Other income principally represents amounts received from Scottish health boards to assist in the upkeep of premises and is based on the proportion of NHS treatment carried out by a dental practice. Income is also received from property rentals.

10 Other net (losses)/gains

	Group 2019 £'000	Group 2018 £'000
Unrealised losses at fair value through profit or loss on foreign exchange forward contracts	(312)	(42)
Realised foreign exchange gains	(63)	106
Unrealised gains at fair value through profit or loss on option contracts	-	11
	<u>(375)</u>	<u>75</u>

Notes to the consolidated financial statements *(continued)*

11 Finance costs

	Group 2019 £'000	Group 2018 £'000
<i>Recurring finance costs</i>		
Senior secured fixed rate notes	17,188	17,188
Senior secured floating rate notes	10,264	9,714
Second lien notes	12,350	12,350
Bank loans and overdrafts	411	117
Fixed rate interest swap charges	-	332
Amortisation of debt issue costs and related fees	1,761	1,700
Loan note interest	78,935	70,477
Preference share dividends	6,092	5,441
Other interest payable – unwinding of discount (notes 25, 32)	130	250
Syndicate charges	1,215	1,297
Finance expense in respect of defined benefit pension scheme (note 33)	13	9
Total recurring finance costs	128,359	118,875
<i>Non-recurring finance costs</i>		
Charge arising from change in discount rate applied to non-current liabilities (notes 25, 32)	-	554
Total non-recurring finance costs	-	554
	128,359	119,429

12 Finance income

	Group 2019 £'000	Group 2018 £'000
Bank deposit interest	(39)	(16)
Change in the fair value of interest rate swap classified at fair value through profit or loss	-	(493)
	(39)	(509)

Notes to the consolidated financial statements (continued)

13 Income tax credit

	Group 2019 £'000	Group 2018 £'000
Current income tax		
Adjustments in respect of previous years	-	4
Deferred income tax		
Origin and reversal of temporary differences	(8,173)	(10,913)
Adjustments in respect of previous years	(1,560)	(526)
Effect of change in income tax rate	-	-
Total deferred income tax (note 26)	(9,733)	(11,439)
Total income tax credit	(9,733)	(11,435)

The income tax charge for the financial year is higher (2018: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2019 of 19% (2018: 19%). The differences are explained below:

	Group 2019 £'000	Group 2018 £'000
Loss before income tax	(168,280)	(219,680)
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(31,973)	(41,739)
Effects of:		
Expenses not deductible for tax	23,643	30,284
Utilisation of losses not previously recognised	(2)	-
Effect of rate changes on opening balances	-	-
Adjustments in respect of previous years	(1,560)	(522)
Unrelieved losses carried forwards	159	542
Total income tax credit for the year	(9,733)	(11,435)

The permanent differences principally arise from an element of finance costs relating to the loan notes and preference shares and the impairment of goodwill which are not tax deductible.

The main rate of corporation tax reduced from 20% to 19% with effect from 1 April 2017. A further reduction in the main rate of corporation tax to 17% from 1 April 2020 was substantively enacted on 15 September 2016 and both the deferred tax asset and liability have been measured accordingly.

Please also refer to note 3(b) for further details of estimates that have been made in respect of the application of certain tax laws.

14 Parent company result

The company has taken advantage of Section 408(4) of the Companies Act 2006 and consequently an income statement for the company is not presented.

The company's profit of £485,000 (2018: £433,000) arises from interest on loans to group undertakings.

Notes to the consolidated financial statements (continued)

15 Intangible assets

Group

	Goodwill £'000	Contractual arrangements £'000	Customer relationships £'000	Brands and trademarks £'000	Total £'000
Cost					
At 1 April 2017	317,664	486,901	68,370	25,073	898,008
Acquired through business combinations	4,705	803	1,316	692	7,516
Re-measurement of provisional amounts from prior year business combinations	(101)	-	-	-	(101)
Disposals	(6,123)	(7,606)	(286)	-	(14,015)
Transfer to assets held for sale	(8,133)	(11,584)	(1,788)	-	(21,505)
At 31 March 2018	308,012	468,514	67,612	25,765	869,903
Accumulated amortisation					
At 1 April 2017	-	124,663	27,698	5,140	157,501
Charge for the year	-	23,789	6,592	1,698	32,079
Impairment charge	60,103	5,260	633	280	66,276
Disposals	-	(2,153)	(172)	-	(2,325)
Transfer to assets held for sale	-	(3,397)	(861)	-	(4,258)
At 31 March 2018	60,103	148,162	33,890	7,118	249,273
Net book value					
At 31 March 2018	247,909	320,352	33,722	18,647	620,630
	Goodwill £'000	Contractual arrangements £'000	Customer relationships £'000	Brands and trademarks £'000	Total £'000
Cost					
At 1 April 2018	308,012	468,514	67,612	25,765	869,903
Re-measurement of provisional amounts from prior year business combinations	284	-	-	-	284
Disposals	(10,628)	(10,844)	(1,247)	-	(22,719)
At 31 March 2019	297,668	457,670	66,365	25,765	847,468
Accumulated amortisation					
At 1 April 2018	60,103	148,162	33,890	7,118	249,273
Charge for the year	-	22,820	6,427	1,694	30,941
Impairment charge	13,280	3,016	-	-	16,296
Disposals	-	(3,643)	(650)	-	(4,293)
At 31 March 2019	73,383	170,355	39,667	8,812	292,217
Net book value					
At 31 March 2019	224,285	287,315	26,698	16,953	555,251

Notes to the consolidated financial statements (continued)

15 Intangible assets (continued)

All amortisation charges have been included within administrative expenses in the income statement.

The weighted average unamortised useful life of intangible assets at 31 March 2019 was 13.0 years (2018: 13.3 years).

Cash Generating Units ('CGUs')

After considering all the evidence available, including the activities from which the group generates cash inflows and how management monitors business performance, the directors have concluded that the group's two CGUs are mydentist and Dental Directory. An analysis of the net book value of goodwill by CGU is shown below:

Net book value of goodwill by CGU	Group 2019 £'000	Group 2018 £'000
mydentist	202,306	212,808
Dental Directory	21,979	35,101
	224,285	247,909

Annual impairment review

The annual impairment review for goodwill is based on an assessment of each CGU's value in use. Value in use is calculated from cash flow projections, based on budgets covering a minimum period of 12 months and a maximum period of 5 years which have been approved by the Board of Directors.

Cash flows outside of the budgeted period are estimated using the long-term growth rates stated below. Individual long-term growth rates are applied to each CGU. The long-term growth rates applied do not exceed the long-term average growth rate for the market in which the CGU operates.

The directors have assessed the appropriate discount rate for each individual CGU, using a Weighted Average Cost of Capital ('WACC') for comparable companies operating in similar markets to the group. This 'base' WACC has been adjusted to reflect risks specific to each CGU. The discount rates applied are as shown below.

Key assumptions (which are kept under constant review by management) made during the impairment review include the level of revenue contracted with the NHS and the associated UDA contract delivery percentage, anticipated growth in private revenues and revenues from Dental Directory and the associated cost of materials and dentist fees. These assumptions have been set by reference to historical trends. The cash flow projections also take account of the expected impact from committed efficiency initiatives and the stability and maturity of the markets in which each CGU operates.

Key assumptions by CGU	Group 2019 %	Group 2018 %
Long term growth rate		
mydentist	1.50	1.50
Dental Directory	1.50	1.50
Discount rate		
mydentist	9.52	9.72
Dental Directory	10.59	11.27

Notes to the consolidated financial statements *(continued)*

15 Intangible assets *(continued)*

Annual impairment review *(continued)*

At each reporting date an impairment review was performed by comparing the estimated recoverable amount of each CGU with its carrying amount, including goodwill. The impairment review at 31 March 2019 has identified an impairment to the carrying value of the goodwill in the Dental Directory CGU totalling £13.3 million. No impairment was identified against the carrying value of the goodwill in mydentist CGU for the year ended 31 March 2019 (2018: £60.2 million).

The impairment review performed at 31 March 2019 was based upon discounted cash flow forecasts, derived from management's strategic plan for the medium term. The plan includes assumptions on the recovery of UDA delivery to approximately 93%, below the group's long term average of approximately 96%. For the year ended 31 March 2019, the UDA delivery percentage before handbacks was 80.0%. The plan also includes forecasts for the roll out of {my}options to 450 practices over the medium term. The plan includes growth of between 10% and 15% for private dentistry and the recovery of Dental Directory EBITDA towards £10.0 million.

As part of the impairment review, management have considered the impact upon the value in use calculations from a range of sensitivities to the key assumptions. As at 31 March 2019, a change of £2.0 million in the assumed long term average annual pre-tax cashflows generated from the mydentist CGU, would change the calculated value in use by approximately £14.0 million. A change of 0.25% in the assumed WACC would change the calculated value in use by approximately £18.0 million.

As at 31 March 2019, a change of £0.5 million to the assumed annual pre-tax cashflows generated from the Dental Directory CGU would change the calculated value in use by approximately £3.0 million. A change of 0.25% in the assumed WACC would also change the calculated value in use by approximately £2.0 million.

During the year ended 31 March 2019, the group has agreed some further permanent contract hand-backs with the relevant NHS Regions, principally relating to dental practices which have consistently failed to deliver the contractual volumes due to structural issues such as a shortage of patients, or where there are persistent dentist shortages, making it difficult to recruit. Where we have agreed these permanent contract hand-backs, management have reduced the carrying value of the associated contractual arrangement intangible asset, to reflect this reduced earning potential. This has resulted in a total impairment charge of £3.0 million being recorded in the income statement for the year ended 31 March 2019 (2018: £5.3 million).

For other intangible assets with finite useful lives, the directors have considered whether any indicators of impairment of these assets were present at each balance sheet date. Other than the specific impairments noted above, no indicators of impairment have been identified.

Company

The company does not own any intangible assets (2018: none).

Notes to the consolidated financial statements *(continued)*

16 Property, plant and equipment

Group

	Fixtures, fittings and equipment £'000
Cost	
At 1 April 2017	187,873
Acquired through business combinations	190
Re-measurement of provisional amounts from prior year business combinations	(18)
Additions	18,596
Transfer from assets held for sale	265
Disposals	(2,588)
Transfer to assets held for sale	(4,997)
At 31 March 2018	199,321
Accumulated depreciation	
At 1 April 2017	89,077
Charge for the year	21,745
Disposals	(1,212)
Transfer to assets held for sale	(2,722)
At 31 March 2018	106,888
Net book value	
At 31 March 2018	92,433
	Fixtures, fittings and equipment £'000
Cost	
At 1 April 2018	199,321
Additions	26,039
Disposals	(4,354)
At 31 March 2019	221,006
Accumulated depreciation	
At 1 April 2018	106,888
Charge for the year	21,116
Disposals	(2,173)
At 31 March 2019	125,831
Net book value	
At 31 March 2019	95,175

Notes to the consolidated financial statements (continued)

16 Property, plant and equipment (continued)

As at 31 March 2019, no assets are held under finance leases or hire purchase contracts (2018: none).

All depreciation charges have been included within administrative expenses in the income statement.

Please refer to note 24 for more information about assets pledged as security in respect of group borrowings.

Operating lease charges of £14,061,000 (2018: £14,529,000) and £1,102,000 (2018: £1,367,000) relating to the lease of property, and vehicles, plant and equipment respectively, have been recognised within administrative expenses in the income statement.

Company

The company does not own any property, plant and equipment (2018: none).

17 Investments

Company

£'000

Investment at cost in subsidiary undertaking at 1 April 2018 and 31 March 2019

2

The company owns 100% of its immediate subsidiary, Turnstone Midco 1 Limited. On 12 June 2017, the company acquired 229,330 'E' ordinary shares in Turnstone Midco 1 Limited at their par value of £0.01 per share for a total consideration of £2,293. Following that transaction, the cost and book value of its investment in that entity at 31 March 2019 is £2,294 (2018: £2,294).

The table below provides details of the company's subsidiary undertakings. All companies are indirectly owned with the exception of Turnstone Midco 1 Limited. All of the non-trading entities are holding companies for investments in other group companies.

The group holds 100% of the ordinary share capital of all of the companies listed. During the year, the group acquired the remaining 10% interest in the ordinary share capital of Denture Excellence Limited for consideration of £57,030 to take its ownership in that company and its subsidiary, Denture Excellence (Franchising) Limited, to 100%. All companies are included in the consolidation.

The group disposed of 100% of the issued share capital of PDS Dental Laboratory Leeds Limited, along with its wholly owned subsidiary A-List Dentistry Limited, on 4 October 2018.

The group also disposed of 100% of the issued share capital of Salcombe Dental Practice Limited on 30 November 2018.

Turnstone Midco 2 Limited has provided a guarantee to the members of certain subsidiary companies (marked ¹ below), over all of their respective outstanding liabilities, under section 479C of the Companies Act 2006. As a result, having also received agreement from all members of each company, the companies identified below are exempt from audit of their individual company financial statements for the year ended 31 March 2019 by virtue of section 479A of the Companies Act 2006.

In the opinion of the directors the value of the company's investment in its subsidiaries is not less than the amount at which it is shown in the balance sheet.

Name of subsidiary	Principal activity	Country of incorporation
Turnstone Midco 1 Limited	Non-trading	England ^a
Turnstone Midco 2 Limited	Non-trading	England ^a
Turnstone Bidco 1 Limited	Non-trading	England ^a
IDH Finance Plc	Group financing	England ^a
² @TheDentist Ltd	Dormant	England ^a
1A Dental Practice Limited	Dental practices	England ^a
¹ Adelstone Dental Care Limited	Dental practices	England ^a
¹ ADP Ashford Ltd	Dental practices	England ^a
¹ ADP Healthcare Acquisitions Limited	Non-trading	England ^a
² ADP Healthcare Limited	Dormant	England ^a
¹ ADP Healthcare Services Limited	Non-trading	England ^a
¹ ADP Holdings Limited	Non-trading	England ^a
¹ ADP No.1 Limited	Non-trading	England ^a
² ADP Yorkshire Ltd	Dormant	England ^a
¹ Aesthetic Dental Care Limited	Dental practices	England ^a

Notes to the consolidated financial statements (continued)

17 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation
¹ Aesthetix Limited	Dental practices	England ^a
¹ Alemdent Limited	Dental practices	England ^a
¹ Alison Brett Dental Care LLP	Dental practices	England ^a
² A-Z Dental Holdings (Subsidiary Number1) Limited	Dormant	England ^a
² A-Z Dental Holdings (Subsidiary Number 2) Limited	Dormant	England ^a
¹ A-Z Dental Holdings Limited	Non-trading	England ^a
³ BF Mulholland Ire Limited	Dormant	Ireland ^f
¹ BF Mulholland Limited	Healthcare goods and services	Northern Ireland ^c
Billericay Dental Supply Co. Limited	Healthcare goods and services	England ^a
² Bramora Limited	Dormant	England ^a
² Butler and Finnigan Dental Practice Ltd	Dormant	England ^a
¹ Castle Hill Dental Practice Limited	Dental practices	England ^a
Chapel Road Orthodontics Limited	Dental practices	England ^a
¹ Church Street Dentists Limited	Dental practices	England ^a
¹ Clarendon Dental Practice Limited	Dental practices	England ^a
Community Dental Centres Limited	Dental practices	England ^a
¹ Confident Dental Practices Limited	Dental practices	England ^a
¹ Cromwell Dental Practice Limited	Dental practices	England ^a
¹ D and L Jordan Limited	Dental practices	England ^a
¹ D M Jordan Limited	Dental practices	England ^a
DBG (UK) Limited	Healthcare goods and services	England ^a
DBG Acquisitions Limited	Non-trading	England ^a
² DBG Subsidiary Limited	Dormant	England ^a
DBG Topco Limited	Non-trading	England ^a
¹ Dental Aesthetics Limited	Dental practices	Northern Ireland ^c
¹ Dental Excellence Group Ltd	Non-trading	Northern Ireland ^c
¹ Dental Excellence Ltd	Dental practices	Northern Ireland ^c
² Dental Health Care Limited	Dormant	England ^a
¹ Dental Talent Tree (Recruitment) Limited	Dormant	England ^a
Denticare Limited	Dental practices	England ^a
² Denticare Properties Limited	Dormant	England ^a
² Denture Excellence (Franchising) Limited	Dormant	England ^a
Denture Excellence Limited	Dental practices	England ^a
¹ DH Dental Holdings Limited	Non-trading	England ^a
¹ Diverse Acquisitions Limited	Non-trading	England ^a
¹ Diverse Holdings Limited	Non-trading	England ^a
² Diverse Property Investments Limited	Dormant	England ^a
¹ DM and LJ Jordan Limited	Dental practices	England ^a
DMJ Norwich Limited	Dental practices	England ^a
¹ Dolby Medical EBT Trustee Limited	Non-trading	Scotland ^b
¹ Dolby Medical Limited	Equipment servicing	Scotland ^b
¹ Du Toit and Burger Partnership (Harwich) Ltd	Dental practices	England ^a
¹ Du Toit and Burger Partnership (Ipswich) Ltd	Dental practices	England ^a
¹ Du Toit and Burger Partnership (Silvertown) Ltd	Dental practices	England ^a
¹ Du Toit and Burger Partnership (Stratford) Ltd	Dental practices	England ^a
¹ Du Toit and Burger Partnership (Sudbury) Ltd	Dental practices	England ^a
¹ Du Toit and Burger Partnership Limited	Dental practices	England ^a
¹ Durgan and Ashworth Dental Care Limited	Dental practices	England ^a
¹ Euxton (No 1) Limited	Dental practices	England ^a
¹ Falchion Orthodontics Limited	Dental practices	England ^a
¹ Fallowfield (No 1) Limited	Dental practices	England ^a
¹ Family Dental Care Limited	Dental practices	Scotland ^b
Ffolliot Bird Associates Limited	Dental practices	England ^a
First Choice Dental Limited	Dental practices	England ^a
¹ Flagstaff Dental Clinic Limited	Dental practices	England ^a
¹ Fleetwood Practice Limited	Dental practices	England ^a
H M Logistics Limited	Healthcare goods and services	England ^a
² Hackremco (No.2637) Limited	Dormant	England ^a
¹ Halldent Limited	Dental practices	England ^a
² Handpiece Express Limited	Dormant	England ^a
² Hayle Dental Practice Limited	Dormant	England ^a
Healthcare Buying Group Limited	Non-trading	England ^a
¹ Hessle Grange Dental Care Limited	Dental practices	England ^a

Notes to the consolidated financial statements (continued)

17 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation
¹ Hirst and O'Donnell Ltd	Dental practices	England ^a
¹ IDH 324 & 325 Ltd	Dental practices	England ^a
¹ IDH 331 Ltd	Dental practices	England ^a
² IDH 341 Ltd	Dormant	England ^a
¹ IDH 346 Ltd	Dental practices	England ^a
¹ IDH 363 Limited	Dental practices	England ^a
¹ IDH 403 Ltd	Dental practices	England ^a
¹ IDH 406 Ltd	Dental practices	England ^a
¹ IDH 418 Ltd	Dental practices	England ^a
¹ IDH 437 Ltd	Dental practices	England ^a
¹ IDH 441 to 444 Ltd	Dental practices	England ^a
¹ IDH 449 Limited	Dental practices	England ^a
¹ IDH 450 Limited	Dental practices	England ^a
¹ IDH 474 Limited	Dental practices	England ^a
¹ IDH 476 Limited	Dental practices	England ^a
¹ IDH 477 Limited	Dental practices	England ^a
¹ IDH 622 Limited	Dental practices	England ^a
IDH Acquisitions Limited	Non-trading	England ^a
IDH Group Limited	Non-trading	England ^a
IDH Limited	Dental practices	England ^a
¹ IDH Mansfield Ltd	Dental practices	England ^a
Integrated Dental Holdings Limited	Non-trading	England ^a
¹ Jackro Healthcare Services Limited	Dental practices	England ^a
KH&GW Limited	Dental practices	England ^a
M C Dentistry Limited	Dental practices	England ^a
¹ Maidwell Dental Practice Limited	Dental practices	England ^a
¹ Mainstone Health Limited	Dental practices	England ^a
¹ Manchester Orthodontists Limited	Dental practices	England ^a
Med-FX Ltd	Distributor of facial aesthetics products	England ^a
¹ Mi-Tec Ltd	Equipment repair	England ^a
¹ Mintek UK Ltd	Healthcare goods and services	England ^a
¹ Murgelas Practice Management Limited	Dental practices	England ^a
² My Dental Holdings Limited	Non-trading	England ^a
² MyDentist Limited	Dormant	England ^a
¹ N S Dental Limited	Dental practices	Scotland ^b
¹ Natural Management Ltd	Non-trading	England ^a
¹ Offerton Fold Dental Practice Ltd	Dental practices	England ^a
¹ Olivers Dental Studio Limited	Dental practices	England ^a
Orthocentres Limited	Dental practices	England ^a
Orthodontic Centre (UK) Limited	Dental practices	England ^a
¹ Orthodontic Services Limited	Dental practices	England ^a
Orthoworld 2000 Limited	Dental practices	Northern Ireland ^c
¹ Orthoworld Limited	Non-trading	England ^a
² OurDentist Ltd	Dormant	England ^a
¹ Padgate (No 1) Limited	Dental practices	England ^a
¹ Palmerston Precinct Practice Limited	Dental practices	England ^a
¹ Pearl Bidco Limited	Non-trading	England ^a
³ Pearl Cayman 1 Limited	Non-trading	Cayman Islands ^e
³ Pearl Cayman 2 Limited	Non-trading	Cayman Islands ^e
¹ Pearl Topco Limited	Non-trading	England ^a
Petrie Tucker and Partners Limited	Dental practices	Scotland ^{4,b}
¹ Phoenix Dental Limited	Dental practices	England ^a
¹ Phoenix Dental Practice Limited	Dental practices	England ^a
¹ Pierce & Geddes Limited	Dental practices	England ^a
¹ PJ Burrige Ltd	Dental practices	England ^a
¹ Premier Dental Limited	Dental practices	England ^a
¹ Priory House Dental Care Limited	Dental practices	England ^a
Q Dental Care Limited	Dental practices	England ^a
² Q Dental Surgeries Limited	Dormant	England ^a
¹ Queensferry Dental Surgery Limited	Dental practices	England ^a
Richard Flanagan & Associates Limited	Dental practices	England ^a
¹ Richmond House Practice Limited	Dental practices	England ^a

Notes to the consolidated financial statements (continued)

17 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation
Romford Orthodontics Centre Limited	Dental practices	England ^a
¹ S L S Dental Care Limited	Dental practices	England ^a
¹ Shadeshire Limited	Non-trading	England ^a
¹ Silverdale Dental Care Ltd	Dental practices	England ^a
² Smile Dental Practices Limited	Dormant	England ^a
¹ South Tyneside Smiles Limited	Dental practices	England ^a
² Speed 8599 Limited	Dormant	England ^a
² Speed 8600 Limited	Dormant	England ^a
SRDP Limited	Dental practices	England ^a
¹ Stalbridge Dental Practice Limited	Dental practices	England ^a
¹ Stunning Smiles Ltd	Dental practices	Northern Ireland ^c
¹ TAG Medical Limited	Medical equipment and testing	England ^a
¹ The Bristol Endodontic Clinic Limited	Dental practices	England ^a
The Crescent Specialist Dental Centre Ltd	Dental practices	England ^a
The Dental Directory Limited	Non-trading	England ^a
The Domiciliary Dental Practice Limited	Dental practices	England ^a
¹ The Plains' Dental Practice Limited	Dental practices	England ^a
¹ The Village Practice Ltd	Dental practices	England ^a
¹ The Visiting Dental Service Ltd	Dental practices	England ^a
¹ Tully Crine Limited	Dental practices	England ^a
¹ Unnati Limited	Dental practices	England ^a
² Unodent Limited	Dormant	England ^a
² Viren Patel and Associates Limited	Dormant	England ^a
¹ Westhoughton (No 1) Limited	Dental practices	England ^a
¹ Westpark Dental Practice Limited	Dental practices	England ^a
¹ White Dental Care Ltd	Dental practices	Northern Ireland ^c
Whitecross Dental Care Limited	Dental practices	England ^a
¹ Whitecross Group Limited	Non-trading	England ^a
¹ Whitecross Healthcare Limited	Non-trading	England ^a
² Whitecross Supplies Limited	Dormant	England ^a
¹ Wishaw Cross Dental Care Limited	Dental practices	Scotland ^b
³ X-Dent Limited	Healthcare goods and services	Jersey ^d

¹ Company exempt from audit under section 479A of the Companies Act 2006

² Company exempt from audit under section 480 of the Companies Act 2006

³ Company exempt from audit by virtue of the legislation in the country of incorporation.

⁴ Countries of operation are England, Scotland and Wales

^a Registered office address: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester, M26 1GG

^b Registered office address: 1 Johnston Street, Paisley, Renfrewshire, Scotland, PA1 1XQ

^c Registered office address: c/o A&L Goodbody Solicitors, 6th Floor, 42-46 Fountain Street, Belfast, BT1 5EF

^d Registered office address: PO Box 771, Ground Floor, Colomberie Close, St Helier, Jersey, JE4 0RX

^e Registered office address: c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands

^f Registered office address: The Black Church, St Mary's Place, Dublin 7, D07P4AX

In addition to the limited companies listed above, the company controls the following partnerships, all of which are engaged in dental practice activities, through the appointment of members of the management team as partners, acting on behalf of certain group companies:

Name of partnership	Name of partnership
1A Group Dental Practice Partnership	Rhos Road Dental Practice Partnership
Abercromby Health Centre Partnership	Rhyl and Abergele Elwy Dental Partnership
Ardent Dental Care Practice Partnership	Ripponden Road Dental Practice Partnership
Armley Dental Practice Partnership	Risley Hill Dental Centre Partnership
Aspire Dental Practice Partnership	River Wye Dental Practice Partnership
Avante Dental Care Practice Partnership	Roe Lane Family Dental Practice Partnership
Avondale Dental Practice Partnership	Severn Street Dental Practice Partnership
Bank House Dental Practice Partnership	Shaw Family Dental Practice Partnership
Berwick Dental Practice Partnership	Sheldrake Drive Dental Practice Partnership
Bolton and Bury Dental Practice Partnership	SK Dental Staines Road Dental Practice Partnership
Brassey Avenue Dental Practice Partnership	Sneyd Green Dental Practice Partnership

Notes to the consolidated financial statements (continued)

17 Investments (continued)

Name of partnership

Brighton Hill Dental Practice Partnership
Brinsworth Lane Dental Care Partnership
Brixton Hill Dental Practice Partnership
Broadwalk Dental Centre Partnership
Caldy Road Dental Practice Partnership
Carcroft Dental Practice Partnership
Castle View House Dental Practice Partnership
Central Dental Practice Partnership
Chantry Dental Practice Partnership
Chequer Hall Dental Practice Partnership
Cherry Orchard Dental Practice Partnership
Colne & Earby Dental Practice Partnership
Cottage Dental Practice Partnership

Crown Dental Practice Partnership

Dalton Dental Surgery Partnership
Dividy Road Dental Practice Partnership
Effingham Square Dental Practice Partnership
Fearnhead Dental Surgery Partnership

Feidr Fair Partnership Dental Practice
Filey Dental Care Centre Partnership
Finchley Dental Care Practice Partnership
Florence House Dental Practice Partnership
Front Street Dental Practice Partnership
Green Lane Dental Practice Partnership
Hampton Court Dental Centre Partnership
Harbour Dental Practice Partnership
Haslingden Dental Surgery Partnership
Hayle Dental Practice Partnership
Heaton Road and Blakelaw Dental Practice Partnership
Henfield Dental Practice Partnership
High Street Dental Practice Partnership
Hollinwood Dental Practice Partnership
Ingleby Meadow Dental Practice Partnership

Jefferies Reed and Associates
JF Scott Dental Surgeon Partnership
Kettering Central Dental Practice Partnership
Lambert Coutts & Associates Dental Practice Partnership
Low Fell Dental Practice Partnership
Lyme Dental Surgery Partnership
Mayo Dental Clinic Partnership
Mill Dental Practice Partnership
Mostyn House Dental Practice Partnership
Mount Folly Square Dental Practice Partnership
Narborough Road South Dental Practice Partnership
Newcastle and Wallsend Dental Practice Partnership
North Marine Road Dental Practice Partnership
Northgate Dental Health Practice Partnership
Old Brewery Yard Dental Practice Partnership

Old Mill Lane Dental Practice Partnership
Picton Road Dental Practice Partnership
Railway Road Dental Practice Partnership
Red Rose Dental Group

Name of partnership

South England Dental Practice Partnership
Spital Hill Dental Surgery Practice Partnership
Stanhope Road Dental Practice Partnership
The Bell Lane Practice
The Birley Moor Dental Practice Partnership
The Boulevard Dental Practice Partnership
The Burnby Dental Practice Partnership
The Burnham Dental Practice Partnership
The Caulfield Dental Surgery Partnership
The Church House Dental Practice Partnership
The Cornhill Dental Practice Partnership
The Cowpen and Waterloo Dental Practice Partnership
The Crab Tree Lane and Church Street Dental Practice Partnership
The Crossgates Lane and Chapeltown Road Dental Practice Partnership
The Dental Surgery Partnership
The Fairfield Dental Practice Partnership
The Gairloch House Dental Practice Partnership
The Grainger Stockton, Birtley and Stanley Dental Practice Partnership
The Gull Coppice Dental Practice Partnership
The Haverflatts Lane Dental Practice Partnership
The Helston Dental Practice Partnership
The Kandy Lodge Dental Practice Partnership
The Kenton Park Dental Practice Partnership
The Killingworth Dental Practice Partnership
The Kings Norton Dental Practice Partnership
The Lacey Dental Practice Partnership
The Llangefni Dental Practice Partnership
The Loddon Dental Practice Partnership
The London Road Dental Practice Partnership
The Lyppard Dental Centre Practice Partnership
The Marden House Dental Practice Partnership
The Nelson Street Dental Practice Partnership
The Newland Avenue and Castle Street Dental Practice Partnership
The Peterborough Dental Practice Partnership
The Peterlee Dental Practice Partnership
The Pon Dental Surgery Dental Practice Partnership
The Sea Road Dental Practice Partnership
The Severnside Dental Practice Partnership
The Southwick and Whitburn Dental Practice Partnership
The Trevergie Dental Practice Partnership
The Victoria Road Dental Practice Partnership
The Warner Street Dental Practice Partnership
Thomas Street Dental Practice Partnership
Tower Gardens Dental Practice Partnership
Trinity Terrace Dental Practice Partnership
VI Dental Centre Partnership
West Lodge Dental Practice Partnership
Westbury Park Dental Practice Partnership

Weymouth and the Bridges Dental Practice Partnership
Whiston Village Dental Practice Partnership
Woodview Dental Health Practice Partnership

All of the above partnerships have their registered office address at: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester, M26 1GG.

Group

The group does not own any investments (2018: none).

Notes to the consolidated financial statements *(continued)*

18 Inventories

	Group 2019 £'000	Group 2018 £'000
Dental practice consumables	5,000	5,075
Goods for resale	23,400	16,195
	28,400	21,270

Inventories are shown net of provisions of £1,586,000 at 31 March 2019 in respect of obsolete or slow moving items (2018: £2,367,000).

The cost of inventories recognised as an expense within cost of sales during the year amounted to £94.7 million (2018: £99.5 million).

The amount recognised within cost of sales during the year in respect of the change in the value of inventories of dental practice consumables and goods for resale was a credit of £7,130,000 (2018: £1,176,000).

The replacement cost of inventories are not materially different to its carrying value.

Company

The company has no inventories (2018: £nil).

Notes to the consolidated financial statements (continued)

19 Trade and other receivables

	Group	Company	Group Restated	Company
	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Current				
Trade receivables	17,961	-	19,597	-
Amounts owed by group undertakings	-	12	-	12
Amounts owed by related undertakings	306	11	305	11
Other assets	5,545	-	4,363	-
Prepayments	4,837	-	5,482	-
Accrued income	11,113	-	11,497	-
	<u>39,762</u>	<u>23</u>	<u>41,244</u>	<u>23</u>
Non-current				
Amounts owed by group undertakings	-	4,528	-	4,043
	<u>-</u>	<u>4,528</u>	<u>-</u>	<u>4,043</u>

Amounts owed by group undertakings included within non-current assets are in relation to loan notes issued by Turnstone Midco 1 Limited, the company's immediate subsidiary. The amounts are unsecured and are subject to an interest charge of 12% per annum. The amount receivable at 31 March 2019 includes accrued interest of £2,678,000 (2018: £2,193,000).

Amounts owed by group undertakings included within current assets are unsecured, are not subject to an interest charge and are repayable on demand.

Amounts owed by related undertakings comprise expenses paid on behalf of Turnstone Management Investments Limited, a company registered in England and which holds investments in Turnstone Equityco 1 Limited on behalf of group management, along with amounts due from the Employee Benefit Trust, which also holds investments in Turnstone Equityco 1 Limited on behalf of employees.

Accrued income includes amounts due from the NHS in England and Wales in respect of the group's long term fixed income contracts to deliver dentistry services.

The fair value of trade and other receivables is not considered to be materially different to the carrying values, with the majority of the balance being short term in nature. Trade and other receivables are considered to be past due once they have passed their contracted due date.

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	Group 2019	Group 2018 Restated
	£'000	£'000
Sterling	39,164	40,490
Euro	598	754
	<u>39,762</u>	<u>41,244</u>

All of the company's receivables are denominated in Sterling.

As at 31 March 2019, trade receivables of £2,516,000 were past due and partially impaired (2018: £1,316,000). An expected credit loss is established based on past default experience adjusted for forward looking estimates. The individually impaired receivables principally relate to businesses within Dental Directory. The allowance provision for impairment calculated previously under IAS 39 and that under IRFS 9 which became effective for periods commencing 1 January 2018 are not materially different. To calculate expected credit losses, trade receivables are grouped based on days past due.

Notes to the consolidated financial statements (continued)

19 Trade and other receivables (continued)

Trade receivables over 120 days old are categorised and provided for based on risk characteristics for example, balances passed to debt collectors, in dispute or on a payment plan have an expected loss rate of 100%, 50% and 25% respectively. A small adjustment was made on transition in order to reflect a historical write off percentage of 0.2% which was applied to the remaining receivables balance, not already impaired as shown in note 38. The ageing of these receivables is as follows:

	Group 2019 £'000	Group 2018 £'000
One month to six months overdue	1,317	825
Over six months overdue	1,199	491
	<u>2,516</u>	<u>1,316</u>

Movements on the provision for impairment of trade receivables during the year are as follows:

	2019 £'000	2018 Restated £'000
At 1 April	483	413
Amount written off on disposal	(33)	-
Impairment losses recognised	268	114
Amounts written off as uncollectable	(52)	(33)
Unused amounts reversed	(102)	(11)
	<u>564</u>	<u>483</u>
At 31 March		

The other classes within trade and other receivables do not contain any assets that are considered to be impaired.

20 Assets classified as held for sale

Assets classified as held for sale at 31 March 2018 comprise the expected recoverable amount of dental practices which had been identified for sale as part of the group's portfolio review. These practices were being actively marketed for sale and the directors had a reasonable expectation that these sales would complete within twelve months of the balance sheet date. All assets held for sale previously recognised had been sold by 31 March 2019 and therefore there are no remaining assets held for sale at the balance sheet date. All amounts are denominated in Sterling.

	Group 2019 £'000	Group 2018 £'000
Assets classified as held for sale	-	3,343

In accordance with IFRS 5 – Non-Current Assets Held For Sale And Discontinued Operations, the assets held for sale are recognised at their fair value less costs to dispose. This is a non-recurring fair value which has been measured using observable inputs, being the prices for recent sales of similar properties or dental practices, and is therefore within level 2 of the fair value hierarchy. Level 2 fair values of dental practice businesses and properties have been derived using the sales comparison approach. Sale prices of comparable assets in close proximity are adjusted for differences in key attributes such as size, profitability and condition. The most significant inputs into these valuations are revenue (including contracted NHS volumes) and estimated EBITDA in the case of dental practice businesses, and price per square foot in the case of freehold properties.

Company

The company has no assets classified as held for sale (2018: £nil).

Notes to the consolidated financial statements (continued)

21 Cash and cash equivalents

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Cash at bank and in hand	8,984	40	16,315	40

Cash deposits are principally held with institutions that hold a minimum credit rating meeting two of the following: BBB+ (Standard and Poor's or Fitch); or Baa1 (Moody's). Please also refer to note 32.

The carrying amounts of the group's cash and cash equivalents are denominated in the following currencies:

	Group 2019 £'000	Group 2018 £'000
Sterling	8,730	14,826
Euro	171	1,401
US Dollar	15	10
Other currencies	68	78
	8,984	16,315

All of the company's cash and cash equivalents are denominated in Sterling.

22 Trade and other payables

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Current				
Trade payables	25,382	-	22,861	-
Amounts owed to group undertakings	-	2	-	2
Accruals	98,206	-	104,080	-
Deferred income	1,115	-	1,238	-
Other taxation and social security	3,119	-	4,484	-
Contingent consideration	2,492	-	4,313	-
Government grants	55	-	55	-
	130,369	2	137,031	2
Non-current				
Contingent consideration	134	-	2,312	-
Government grants	95	-	150	-
	229	-	2,462	-

Amounts owed to group undertakings included within current liabilities are unsecured, are not subject to an interest charge and are repayable on demand.

Included within accruals is an amount due to the NHS of £51,690,000 in respect of UDA's not delivered (2018: £57,216,000), along with fees of £22,260,000 payable to self-employed dentists in respect of work completed (2018: £23,133,000).

The fair value of the contingent consideration was estimated by assessing the probability that the performance based targets will be achieved and by discounting the probability weighted future cash flows. Target conditions can vary depending on the agreements made with individual sellers and may include revenue or EBITDA targets. The fair value estimates have been calculated using a discount rate of 2% (2018: 2%) which has been deemed the appropriate risk specific rate. This is a level 3 fair value measurement (see note 32).

Notes to the consolidated financial statements *(continued)*

22 Trade and other payables *(continued)*

The fair value of the remaining financial liabilities is not considered to be materially different from their carrying values, due to the short term to maturity.

The carrying amounts of the group's trade and other payables are denominated in the following currencies:

	Group 2019 £'000	Group 2018 £'000
Sterling	126,141	135,730
Euro	4,277	3,321
US Dollar	69	274
Other currencies	111	168
	<u>130,598</u>	<u>139,493</u>

All of the company's payables are denominated in Sterling.

23 Derivative financial instruments

Derivative financial liabilities

	Group 2019 £'000	Group 2018 £'000
Current liabilities		
Foreign exchange forward contracts	(479)	(167)
	<u>(479)</u>	<u>(167)</u>

Fair value of foreign exchange forward contracts

The group has policies and procedures in place to mitigate the impact of fluctuations in foreign exchange rates and, in particular, to provide reasonable certainty over the group's cash flows. As part of this strategy, the group routinely enters into foreign exchange forward contracts, which are negotiated in line with the group's anticipated commitments.

The fair value of the foreign exchange forward contracts is calculated as the present value of the estimated future cashflows when comparing the contracted forward rate against observable forward contract rates at the balance sheet date. This is a level 2 fair value measurement (see note 32).

Fair value of unquoted options

Under the terms of the indenture to the £275 million senior secured fixed rate notes and £150 million floating rate notes, the group holds certain call options to re-purchase all or part of the notes at pre-determined amounts during certain periods. Further details are contained within note 24.

Company

The company has no derivative financial instruments (2018: £nil).

Notes to the consolidated financial statements (continued)

24 Borrowings

	Group 2019 £'000	Group 2018 £'000
Non-current		
<i>Senior secured fixed rate, floating rate and second lien notes</i>		
Due between two and five years	551,766	424,458
Due after five years	-	126,533
	551,766	550,991
<i>Bank loans</i>		
Due between two and five years	25,000	5,000
	25,000	5,000
Less: unamortised arrangement fees and related costs	(6,589)	(8,350)
	570,177	547,641
Loan notes (due after five years)	736,722	657,788
Redeemable preference shares (due after five years)	56,869	50,776
	793,591	708,564
	1,363,768	1,256,205

All of the group's borrowings are denominated in Sterling and are secured by means of a floating charge against the assets of certain group subsidiary companies. See note 36 for a reconciliation of net debt.

Senior secured fixed rate, floating rate and second lien notes

Throughout the year ended 31 March 2019, the group had the following available borrowing facilities:

- £275 million of senior secured fixed rate notes. The notes were issued on 5 August 2016 at par, and mature at par on 15 August 2022. Interest is payable semi-annually in arrears on 15 February and 15 August each year, at a fixed coupon of 6.25% per annum.
- £150 million of senior secured floating rate notes. The notes were issued on 5 August 2016 at 99.5, a discount of 0.5% to par. The notes mature at par on 15 August 2022. Interest is payable quarterly in arrears on 15 February, 15 May, 15 August and 15 November each year, at a coupon of 3 month LIBOR plus 6.00%.
- £130 million of second lien notes. The notes were issued on 5 August 2016 at 96.5, a discount of 3.5% to par. The notes mature at par on 15 August 2023. Interest is payable quarterly in arrears on 15 February, 15 May, 15 August and 15 November each year, at a coupon of 3 month LIBOR plus 8.00%. 3 month LIBOR is subject to a 1.00% floor.
- £100 million Super Senior Revolving Credit Facility ('SSRCF'). £25 million had been drawn against the facility at 31 March 2019 (2018: £5 million), and a further £1.8 million committed against a letter of credit (see also note 31). Interest is payable in arrears at a rate of LIBOR plus 3.5% per annum. The facility is available until 5 August 2022.

Notes to the consolidated financial statements (*continued*)

24 Borrowings (*continued*)

The issue discount arising on the senior secured floating rate notes and the second lien notes is being amortised over the term to maturity, in accordance with the effective interest method.

The group is required to comply with certain financial and non-financial covenants under the terms of its various borrowing facilities. Further details of certain financial covenants can be found in note 32.

The market value of the senior secured fixed rate notes and the senior secured floating rate notes at 31 March 2019 was approximately £363 million (2018: £388 million). The directors do not consider the fair value of the group's other borrowings to be materially different from their carrying values.

Under the terms of the indenture to the £275 million senior secured fixed rate notes and £150 million floating rate notes, the group holds certain call options to re-purchase all or part of the notes at pre-determined amounts during certain periods.

The senior secured fixed rate notes may be called by the group at a price of 103.125% of par between 15 August 2018 and 14 August 2019; at 101.563% of par between 15 August 2019 and 14 August 2020; or at par between 15 August 2020 and 14 August 2021.

The senior secured floating rate notes may be called by the group at par from 15 August 2018. Between 15 August 2017 and 14 August 2018, the notes could be called at 101%.

The above call options are not considered by the directors to have any value at 31 March 2019. See also note 23.

Loan notes and redeemable preference shares

Loan stock of £314.51 million was issued on 11 May 2011 to fund the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited. Interest accrues on the principal amount at a rate of 12% per annum. Interest that remains unpaid on the anniversary of the note issue is capitalised. During the year, the group's leading shareholders agreed to extend the repayment date of these instruments to the earlier of a sale of the business or May 2024. At 31 March 2019, interest of £422.21 million was accrued on these notes (2018: £343.28 million).

A total of 23,627,422 £1 preference shares were issued at par on 11 May 2011 to fund the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited. The preference shares have a fixed, cumulative dividend of 12% per annum. During the year, the group's leading shareholders agreed to extend the repayment date of these instruments to the earlier of a sale of the business or May 2024. At 31 March 2019, 23,627,422 £1 preference shares were in issue (2018: 23,627,422). Preference share dividends of £33.24 million were accrued at 31 March 2019 (2018: £27.15 million).

Company

The company has no borrowings (2018: £nil).

Notes to the consolidated financial statements (continued)

25 Provisions

	Above market rental £'000	Vacant property and dilapidations £'000	Total £'000
At 1 April 2017	3,595	4,905	8,500
Arising through business combinations	-	33	33
Re-measurement of provisional amounts from prior year business combinations	-	(2)	(2)
(Credited)/charged to the income statement	(9)	1,210	1,201
Utilised in the financial year	(713)	(702)	(1,415)
Unwinding of discount	144	55	199
Charge to the income statement arising from change in discount rate	324	163	487
At 31 March 2018	3,341	5,662	9,003
	Above market rental £'000	Vacant property and dilapidations £'000	Total £'000
At 1 April 2018	3,341	5,662	9,003
(Credited)/charged to the income statement	(62)	1,775	1,713
Utilised in the financial year	(589)	(661)	(1,250)
Unwinding of discount	55	30	85
At 31 March 2019	2,745	6,806	9,551
		Group 2019 £'000	Group 2018 £'000
Current		1,794	1,981
Non-current		7,757	7,022
		9,551	9,003

Above market rental

The group has a number of properties where the rentals payable are in excess of the current market rents. Where such rental contracts are acquired as part of a business combination, provision has been made to recognise the liability arising from the 'above market rental' element of these leases.

The gross provision of £3.0 million (2018: £3.6 million) has been discounted to present value using a rate of 2% (2018: 2%). The discount rate of 2% was selected as an approximation to a 'risk free' rate of return.

Vacant property and dilapidations

The group has a number of vacant and partly sub-let leasehold properties arising from the closure of loss making practices. Provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant arrangements. It is not assumed that the properties will be able to be sublet beyond the periods in the present sub-lease agreements.

Provision has also been made for the costs associated with contractual obligations to return practices to their original condition at the end of the lease and the costs of compliance with existing regulations.

The provisions are expected to be substantially utilised over the next five years. An element of the provisions have been discounted to present value in the same manner as described above for the above market rental provision.

Company: The company has no provisions (2018: £nil).

Notes to the consolidated financial statements (continued)

26 Deferred income tax

Deferred income tax is provided in full on temporary differences using the liability method and a tax rate of 17% (2018: 17%). See also note 13. The movement on the deferred income tax account is as shown below:

	Arising on share based payments £'000	Arising on defined benefit pension obligation £'000	Accelerated capital allowances £'000	Arising on intangible assets £'000	Arising on financial assets £'000	Total £'000
At 1 April 2017 (Restated)	-	55	12,614	(43,801)	90	(31,042)
Recognised in income	137	5	3,788	7,593	(84)	11,439
Recognised in other comprehensive expense	-	28	-	-	-	28
Recognised directly in equity	(137)	-	-	-	-	(137)
Arising through business combinations	-	-	-	(478)	-	(478)
At 31 March 2018 (Restated)	-	88	16,402	(36,686)	6	(20,190)
Recognised in income	183	6	3,609	5,935	-	9,733
Recognised in other comprehensive expense	-	7	-	-	-	7
Recognised directly in equity	(183)	-	-	-	-	(183)
Arising through business combinations	-	-	-	-	-	-
At 31 March 2019	-	101	20,011	(30,751)	6	(10,633)

The group has estimated non-trade losses of £27.7 million (2018: £30.9 million) available for carry forward against future non-trade profits. A deferred income tax asset of £4.7 million (2018: £5.3 million) in respect of these losses has not been recognised as the future recoverability is uncertain or not currently anticipated.

Deferred income tax arising on intangible assets has arisen as a result of business combinations.

Based upon its latest available budgets and forecasts, the group has a reasonable expectation that it will generate sufficient future taxable profits to recover the recognised deferred income tax assets shown above.

Net deferred income tax of approximately £7.1 million is expected to unwind to the income statement during the year ending 31 March 2020.

Details of the deferred income tax assets and liabilities are as follows:

	Arising on share based payments £'000	Arising on defined benefit pension obligation £'000	Accelerated capital allowances £'000	Arising on intangible assets £'000	Arising on financial assets £'000	Total £'000
Assets						
At 31 March 2018 (Restated)	-	88	16,402	-	6	16,496
At 31 March 2019	-	101	20,011	-	6	20,118
Liabilities						
At 31 March 2018	-	-	-	(36,686)	-	(36,686)
At 31 March 2019	-	-	-	(30,751)	-	(30,751)

Company: The company has no deferred income tax (2018: £nil).

Notes to the consolidated financial statements *(continued)*

27 Share capital

Group and company	Number issued	2019 £'000	Number issued	2018 £'000
Allotted, called up and fully paid				
'A1' ordinary shares of £0.01	1,681,763	17	1,681,763	17
'A2' ordinary shares of £0.04	18,236	1	18,236	1
'B' ordinary shares of £0.04	300,000	12	300,000	12
'E1' ordinary shares of £0.10	82,559	8	82,559	8
'E2' ordinary shares of £0.001	146,771	-	146,771	-
	2,229,329	38	2,229,329	38

On 12 June 2017 the company issued:

- 57,333 'E1' ordinary shares at their par value of £0.10 per share;
- 25,226 'E1' ordinary shares at a price of £0.20 per share; and
- 146,771 'E2' ordinary shares at their par value of £0.001 per share.

The 'A1' and 'A2' ordinary shares rank pari-passu.

The 'B' ordinary shares retain the same voting rights as the 'A1' and 'A2' ordinary shares but with restrictions on distributions in the event of a sale of the company.

The 'E1' ordinary shares carry five percent of the total voting rights at a general meeting, subject to certain restrictions. The 'E1' ordinary shares are also subject to restrictions on distributions in the event of a sale of the company. See also note 29.

The 'E2' ordinary shares carry no voting rights and are also subject to restrictions on distributions in the event of a sale of the company. See also note 29.

28 Reserves

The following describes the nature and purpose of each reserve within equity attributable to owners of the parent:

Share premium

The amount subscribed for share capital in excess of nominal value less any costs directly attributable to the issue of new shares.

Retained earnings or accumulated losses

Cumulative net gains and losses recognised in the group or parent company income statement or through equity.

Notes to the consolidated financial statements *(continued)*

29 Share based payments

On 12 June 2017, the company issued a total of 82,559 'E1' ordinary shares of £0.10p and 146,771 'E2' ordinary shares of £0.01p. All of the 'E1' ordinary shares, and 28,666 of the 'E2' ordinary shares, were issued to members of the group's management team. The remaining 118,105 'E2' ordinary shares were issued to an Employee Benefit Trust, to be allocated to other employees of the group. 57,333 of the 'E1' ordinary shares and all of the 'E2' ordinary shares have been, or will be, gifted to employees of the group for nil consideration.

The 'E1' and 'E2' ordinary shares entitle the holders to a share of the equity value of the company above a defined hurdle enterprise value for the group, in the event of a sale of the business by the holders of the 'A1' ordinary shares.

Furthermore, holders of the 'E1' and 'E2' ordinary shares are subject to certain vesting conditions. 25% of the shares held will vest upon each anniversary from the commencement date of 1 July 2017, with vested shares entitling the holder to an amount equal to fair market value. Shares which have not yet vested entitle the holder to an amount equal to the lower of cost and fair market value. In the event of a sale of the business, all remaining shares held by current employees of the group at such a time will immediately vest.

The fair value of the shares issued during the previous year, determined using an expected value model, is £12.92 for each 'E1' and 'E2' ordinary share. The expected value model considered a range of probability weighted enterprise value outcomes in the event of a sale of the business.

The fair value of the shares issued is to be charged to the income statement over the expected life of the shares. As a result, a charge of £1,077,000 (2018: £808,000) has been recognised in the income statement.

Notes to the consolidated financial statements (continued)

30 Commitments

Group

Operating lease commitments

The group has a number of non-cancellable operating lease agreements, principally in relation to property. The majority of lease agreements would be renewable at the end of the lease period through negotiation of mutually acceptable terms with the lessor. The terms of the property leases vary, although they will typically contain provision for one or more upwards only rent reviews at intervals throughout the lease term, usually linked either to RPI or to market valuation. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group 2019 £'000	Group 2018 £'000
Land and buildings		
Within one year	13,939	13,679
Between one year and five years	46,507	47,195
After five years	59,207	59,401
	119,653	120,275
Motor vehicles, plant and equipment		
Within one year	801	904
Between one year and five years	537	964
After five years	-	5
	1,338	1,873

31 Contingencies

Taxation

The group has identified two contingent liabilities in respect of uncertain tax positions.

The group and HMRC are in discussion over technical tax positions related to the partnership acquisition model where the group considers that it is probable that the issues will be resolved in its favour and has therefore not recognised a provision in relation to these uncertain tax positions.

1) Goodwill deductions

The partnership acquisition process involves a group subsidiary company, usually Whitecross Dental Care Limited, purchasing the trade and assets of a target practice resulting in the recognition of goodwill for the excess of any consideration over the fair value of the trade and assets. Where the transaction completed before 8 July 2015, the company considers that a corporation tax deduction is available for the amortisation of this goodwill. HMRC disagree with the accounting treatment adopted by the company and have challenged the availability of the goodwill deductions claimed in the tax computations for the years ended 31 March 2011, 2012 and 2013. HMRC have raised assessments in respect of these periods to disallow the goodwill deducted but have then specified that the assessments should not be paid at this time while they continue their review. The assessments have been appealed by the company and are subject to ongoing discussions. The computations in the following tax years are open as HMRC have opened protective enquiries on the returns.

The estimated range of outcomes for disallowed deductions is £nil in the event of agreement on the current accounting treatment to £7.0 million if HMRC's view of the accounting is correct. There is no immediate cash tax impact as the company has sufficient unclaimed capital allowances which could be utilised to replace any disallowed deductions, although this would reduce the level of deferred tax assets held on the balance sheet.

Notes to the consolidated financial statements (*continued*)

31 Contingencies (*continued*)

2) VAT on dental facilities

Where a partnership holds the NHS dental contract, in order to enable the dentists to provide treatment to patients, dental facilities, including the chair, instruments and a nurse, are provided by a subsidiary. The company and its advisors, including Counsel, consider that this supply of dental facilities is not chargeable to VAT. HMRC argue that the supply should have been standard rated and VAT collected on the supply. Assessments have been raised by HMRC for VAT periods from 1 January 2014 but HMRC have confirmed that these should not be paid while they continue their review.

The estimated range of outcomes for the VAT charge is £nil if the supply is considered to be exempt from or outside of the scope of VAT, to £10.0 million should it be determined VAT should have been collected. In the event of a final assessment, the company will appeal. However, it is likely that the final assessment would need to be paid to HMRC before any appeal could be heard at tribunal.

The directors intend to defend their position on these two technical points and will challenge any notice for additional taxes to be paid. Both points continue to be under discussion with HMRC and the timing of any resolution remains uncertain.

Assigned leases

Upon disposal of dental practices, the group has typically assigned the associated leases to the purchaser. In the event that the purchaser defaults on their lease payments and should the landlord be unable to mitigate their losses sufficiently, then there is an obligation on the group to take on these lease commitments.

In the opinion of the directors such eventualities are unlikely, as dental practices have been disposed of as going concerns. As a result there is no such provision against such eventualities made in these financial statements. The group has no experience of any leases that it has assigned, in relation to dental practices, reverting back to it.

Partnership guarantees

A number of individuals in the management team have entered into partnerships as part of the group's acquisition of the trade and assets of those partnerships. The partners hold their interest in the partnership under a trust deed on behalf of one of the group companies. In order to indemnify the partners against specific risks in relation to this arrangement, a guarantee is in place supported by a letter of credit from the group's bank for £1.8 million (2018: £1.8 million).

Notes to the consolidated financial statements *(continued)*

32 Financial instruments

Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework. The group's activities expose it to a variety of financial risks including credit risk, liquidity risk, market (including currency and interest rate risk) and inflation risk.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls to monitor both the risks and adherence to limits set. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

Credit risk

Credit risk is the risk of financial loss to the group if a customer fails to meet its contractual obligations. The nature of the group's contracts with the NHS Regions means that credit risk is minimised for a significant proportion of group revenue. The patient's contribution to NHS charges is usually collected before treatment in order to minimise risk to the group, however a risk may arise if treatment plans change and additional charges are not collected at the time of the appointment. Payment is also requested in advance for major courses of private treatment. In Dental Directory, new customers are subject to external credit checks using the main agencies. Credit terms are negotiated individually and subsequently monitored closely by the credit control team. Cash deposits are principally held with institutions that hold a minimum credit rating meeting two of the following: BBB+ (Standard and Poor's or Fitch); or Baa1 (Moody's).

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the group's reputation.

The group regularly monitors its cash flow forecasts and currently maintains funds on demand to meet all operational expenses including the servicing of financial obligations. Further details of the group's bank facilities and other borrowings are set out in note 24 and the group's trade and other payables are set out in note 22.

Market risk

Market risk is the risk that changes in foreign exchange rates and interest rates will affect the group's income or costs. The group is exposed to currency risk as business units within Dental Directory routinely purchase goods in currencies other than Sterling (principally Euro and US Dollar). The group has policies and procedures in place to mitigate the impact of fluctuations in foreign exchange rates and, in particular, to provide reasonable certainty over the group's cash flows, through the use of, for example, derivative financial instruments such as foreign currency forward contracts or option contracts. This risk is also managed through competitive tendering for the group's significant supply contracts. All other operations are carried out in the United Kingdom and all income, other expenses and facilities are denominated in Sterling.

Until 1 June 2017, the group held two fixed interest rate contracts totalling £125 million. Following the expiry of these contracts on 1 June 2017 and with £275 million of the group's senior secured notes being of a fixed rate nature, interest charges are now fixed in respect of 48% of the group's total drawn debt (2018: 49%). Further details are set out in note 24.

Inflation risk

Inflation risk is the risk that the cost of key services and products procured by the group will rise with inflation and affect the group's income. The rates paid under the terms of the group's NHS contracts are reviewed on an annual basis and, over the course of the past few years, the annual uplifts have typically been lower than the rate of both RPI and CPI.

The group undergoes a regular review of key suppliers through its procurement programme to mitigate cost increases, using tendering processes where possible. In addition, the group seeks to rationalise its supplier base to benefit from its scale.

Notes to the consolidated financial statements (continued)

32 Financial instruments (continued)

Sensitivity analysis

Management have considered the risk of changes in interest rates upon the group's financial performance. 48% (2018: 49%) of the group's external debt is subject to fixed interest and therefore the impact of changes to interest rates upon the group's cash flows is significantly mitigated. However a 1% increase or decrease in the rate of LIBOR would have the effect of increasing or decreasing the group's annual cash interest costs by approximately £2.9 million or £1.8 million respectively, based upon the funding structure in place at 31 March 2019.

Capital management

The primary objective of the group's capital management of net debt (which includes cash and specifically excludes shareholder loan notes and redeemable preference shares) is to ensure that it maintains its capital ratios in order to support the business and maximise shareholder value. The group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the return of capital to shareholders or issue new shares and vary the maturity profile of its borrowings. The group monitors capital using the following key indicators:

Net debt to EBITDA

	Group 2019 £'000	Group 2018 £'000
EBITDA before non-underlying items	58,105	55,115
Net bank and bond debt	561,193	531,326
Net debt to EBITDA	9.66	9.64

Net bank and bond debt includes cash and cash equivalents, the senior secured fixed rate, floating rate and second lien notes, bank loans and unamortised arrangement fees but excludes loan notes and redeemable preference shares.

In addition, management monitors the ratio of net debt to EBITDA adjusted to reflect the estimated annualised impact of acquisitions and disposals ('Proforma EBITDA'). Net debt reflects the consideration paid for all acquisitions, however EBITDA will not reflect the full earnings benefit from these acquisitions until the year following acquisition. Furthermore, EBITDA includes losses generated by practices disposed of during the year. Therefore management considers using Proforma EBITDA gives a more accurate representation of the net indebtedness relative to earnings. Proforma EBITDA at 31 March 2019 was £59,436,000 (2018: £57,274,000).

As at 31 March 2019, the estimated ratio of net debt to Proforma EBITDA was 9.44 times (2018: 9.28 times)

EBITDA interest cover

	Group 2019 £'000	Group 2018 £'000
EBITDA before non-underlying items	58,105	55,115
Cash finance costs	41,428	40,998
EBITDA interest cover	1.40	1.34

Cash finance costs include interest charges in respect of the senior secured fixed rate notes, senior secured floating rate notes, second lien notes and bank loans and overdrafts, together with fixed rate interest swap charges and syndicate charges, but excludes loan note interest, preference share dividends, amortisation of debt issue costs and related fees, unwinding of provision discount, finance expense in respect of the defined benefit pension scheme, and all other non-recurring finance costs.

The group's principal loan covenant is in respect of the ratio of gross debt drawn under the SSRCF to Proforma LTM EBITDA ('Super Senior Gross Leverage Ratio'). However, under the terms of the group's SSRCF, this covenant is not required to be tested unless a minimum of 35% of the available £100 million facility has been drawn. Therefore, given that only £25 million was drawn against the facility at 31 March 2019 (25%), no covenant test was applicable. In the event that 35% or more of the facility has been drawn, the Super Senior Gross Leverage Ratio is required to be no more than 2.3 times.

Notes to the consolidated financial statements (continued)

32 Financial instruments (continued)

Non-derivative financial liabilities

The table below analyses the group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 March 2018

	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000
Loans and borrowings	-	-	1,138,022	126,533
Trade and other payables	131,309	2,261	192	9
	<u>131,309</u>	<u>2,261</u>	<u>1,138,214</u>	<u>126,542</u>

At 31 March 2019

	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000
Loans and borrowings	-	-	576,766	793,591
Trade and other payables	126,136	124	100	4
	<u>126,136</u>	<u>124</u>	<u>576,866</u>	<u>793,595</u>

Financial instruments measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the group's financial assets and liabilities that are measured at fair value. See note 20 for additional detail on assets held for sale, note 22 for additional details on contingent consideration arrangements and see note 23 for details of the group's derivative financial instruments.

Fair value measurements	At 31 March 2019			At 31 March 2018		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets						
Assets held for sale	-	-	-	-	3,343	-
Derivative financial instruments	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities						
Derivative financial instruments	-	(479)	-	-	(167)	-
Contingent consideration	-	-	(2,626)	-	-	(6,625)
	<u>-</u>	<u>(479)</u>	<u>(2,626)</u>	<u>-</u>	<u>(167)</u>	<u>(6,625)</u>

Notes to the consolidated financial statements (continued)

32 Financial instruments (continued)

Derivative financial liabilities and contingent consideration are measured at fair value at the end of each reporting period. A reconciliation of movements in contingent consideration has been included in the table below. Any gains or losses arising as a result of the measurement of contingent consideration are recognised through the income statement within administrative expenses.

There were no transfers between levels 1 and 2 or between levels 2 and 3 during the year (2018: none).

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments are as follows:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Financial instruments in level 3

The following tables present the changes in Level 3 financial instruments:

Contingent consideration

	Group 2019 £'000	Group 2018 £'000
At 1 April	6,625	4,147
Arising through business combinations	-	1,912
Short term retentions	-	12
Contingent consideration settled	(3,559)	(2,379)
Short term retentions settled	-	(74)
Differences between contingent consideration paid and estimates initially recognised	(485)	2,889
Unwinding of discount	45	51
Charge to the income statement arising from change in discount rate	-	67
At 31 March	2,626	6,625

Further information in respect of the valuation techniques used to determine the fair value of contingent consideration can be found within note 22.

Unquoted options

	Assets		Liabilities	
	Group 2019 £'000	Group 2018 £'000	Group 2019 £'000	Group 2018 £'000
At 1 April	-	7	-	(18)
Change in fair value through profit or loss	-	(7)	-	18
At 31 March	-	-	-	-

Further information in respect of the valuation techniques used to determine the fair value of unquoted options can be found within note 23.

Notes to the consolidated financial statements (continued)

33 Post employment benefits

The group makes contributions to a small number of defined contribution pension schemes on behalf of its employees, including the National Employment Savings Trust ('NEST'). The pension cost charge for the financial year represents contributions payable by the group to the schemes and amounted to £1,503,000 (2018: £879,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year (2018: £nil).

The group also operates a pension scheme providing benefits based on final pensionable pay. The scheme is closed to new members and has no active members.

During the year to 31 March 2019 the group contributed £62,000 directly into the scheme (2018: £nil) and the cost of insuring death in service benefits and other trustee expenses were paid by the group and amounted to £80,000 (2018: £60,000). The group expects to make contributions of £62,000 to the scheme and does not expect the costs of the scheme to change significantly in the next financial year.

The latest full actuarial valuation for which results are available, was carried out as at 6 April 2017 and was updated for disclosure purposes to 31 March 2018 and 31 March 2019 by a qualified independent actuary.

The significant actuarial assumptions were as follows:

	Group 2019 %	Group 2018 %
Rate of increase in pensions in payment and deferred pensions	3.40	3.30
Discount rate applied to scheme liabilities	2.40	2.60
Inflation assumption	3.40	3.30

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires at the age of 65 in 2019 will on average live for a further 22.6 years (2018: 22.7 years) after retirement if they are male and 24.9 years (2018: 24.9 years) if they are female.

It is also assumed that members retiring in 20 years' time will on average live for a further 24.0 years (2018: 24.1 years) after retirement if they are male and 26.3 years (2018: 26.4 years) if they are female.

The amounts recognised in the balance sheet are determined as follows:

	Group 2019 £'000	Group 2018 £'000
Present value of funded obligations	(5,259)	(5,075)
Fair value of plan assets	4,666	4,558
Deficit recognised in the balance sheet	(593)	(517)

The group has no recourse to recover any surplus funds held by the scheme once all liabilities have been settled. Accordingly, where the scheme is in a surplus position at the balance sheet date, this surplus is not recognised as an asset within the balance sheet.

Notes to the consolidated financial statements (continued)

33 Post employment benefits (continued)

The movement in the deficit (prior to de-recognition of any surplus) is as follows:

	2019			2018		
	Present value of funded obligations	Fair value of plan assets	Deficit	Present value of funded obligations	Fair value of plan assets	Deficit
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April	(5,075)	4,558	(517)	(5,410)	5,089	(321)
Scheme expenses paid out	-	(21)	(21)	-	(21)	(21)
Employer contributions	-	62	62	-	-	-
Interest (expense)/income	(129)	116	(13)	(134)	125	(9)
	(129)	157	28	(134)	104	(30)
Re-measurement:						
Return on plan assets excluding interest income	-	147	147	-	(118)	(118)
Re-measurement gain from changes in demographic assumptions	24	-	24	55	-	55
Re-measurement (loss)/gain from changes in financial assumptions	(242)	-	(242)	35	-	35
Experience loss	(33)	-	(33)	(138)	-	(138)
	(251)	147	(104)	(48)	(118)	(166)
Benefits paid	196	(196)	-	517	(517)	-
At 31 March	(5,259)	4,666	(593)	(5,075)	4,558	(517)

Plan assets are comprised as follows:

	2019		2018	
	Value	Percentage of plan assets	Value	Percentage of plan assets
	£'000	%	£'000	%
Equities	1,733	37%	2,178	48%
Bonds	2,780	60%	2,301	51%
Property	63	1%	63	1%
Cash	90	2%	16	-
Total market value of plan assets	4,666	100%	4,558	100%

The sensitivity of the defined benefit obligation to changes in the principal assumptions are as follows:

Assumption	Change in assumption	Change in liabilities
Discount rate	Decrease by 0.5%	Increase by 10%
Rate of inflation	Increase by 0.5%	Increase by 6%
Life expectancy	Increase by one year	Increase by 2%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions has been estimated, based on the average age and the normal retirement age of members and the duration of the liabilities of the scheme.

Notes to the consolidated financial statements *(continued)*

34 Related party transactions

Group

Shareholder loans

CEP III IHP S.a.r.l., an entity controlled by The Carlyle Group, and a related party due to common control, holds £254.95 million of loan notes in the company's subsidiary, Turnstone Midco 1 Limited (2018: £254.95 million). During the year to 31 March 2019, interest of £64.16 million was accrued (2018: £57.29 million). The total amount of accrued interest due at 31 March 2019 is £343.89 million (2018: £279.73 million).

ADP Primary Care Acquisitions Limited, an entity controlled by Palamon Capital Partners and a related party due to common control, holds £59.56 million of loan notes in the company's subsidiary, Turnstone Midco 1 Limited (2018: £59.56 million). During the year to 31 March 2019, interest of £14.77 million was accrued (2018: £13.19 million). The total amount of accrued interest due at 31 March 2019 is £78.32 million (2018: £63.55 million).

ADP Primary Care Acquisitions Limited also holds preference shares in Turnstone Midco 1 Limited with a par value of £20.00 million (2018: £20.00 million). During the year to 31 March 2019, dividends of £5.24 million were accrued (2018: £4.69 million). The total amount of accrued dividends due at 31 March 2019 is £28.95 million (2018: £23.71 million).

During the year, the group's leading shareholders agreed to extend the repayment date of these instruments to the earlier of a sale of the business or May 2024. The terms and conditions of these instruments are shown in note 24.

Company

Loan notes

The company holds £1.85 million of loan notes issued by the company's immediate subsidiary, Turnstone Midco 1 Limited (2018: £1.85 million). During the year to 31 March 2019, interest of £0.49 million was accrued (2018: £0.43 million). The total amount of accrued interest due to the company at 31 March 2019 is £2.68 million (2018: £2.19 million).

35 Cash generated from operations

	Group 2019 £'000	Group 2018 £'000
Loss before income tax	(168,281)	(219,680)
<i>Adjustments:</i>		
Depreciation of property, plant and equipment	21,116	21,745
Amortisation of government grants	(56)	(55)
Amortisation of intangible assets	30,941	32,079
Impairment of goodwill and intangible assets	16,296	66,276
Finance costs	128,360	119,429
Finance income	(39)	(509)
Loss on business and asset disposals	24,245	29,771
Differences between contingent consideration paid and estimates initially recognised	(485)	2,889
Defined benefit pension scheme expenses	21	21
Loss from derivative financial instruments at fair value through profit or loss	312	31
Value of employee services arising from shares granted to directors and employees	1,077	808
Pension contributions	(62)	-
Cash generated from operations before movements in working capital	53,445	52,805
<i>Movements in working capital:</i>		
Increase in inventories	(7,517)	(1,325)
Decrease in trade and other receivables	979	782
(Decrease)/increase in trade and other payables	(4,626)	15,145
Decrease in provisions	(1,454)	(1,473)
Total movements in working capital	(12,618)	13,129
Cash generated from operations	40,827	65,934

Notes to the consolidated financial statements (continued)

36 Net debt reconciliation

	Other assets	Liabilities from financing activities		
	Cash £'000	Bank and bond liabilities more than 1 year £'000	Shareholder debt £'000	Total £'000
Balance at 1 April 2017	12,717	(540,166)	(632,646)	(1,160,095)
Cash flows	3,598	(5,000)	-	(1,402)
Amortisation of debt issue costs	-	(1,700)	-	(1,700)
Other changes	-	(775)	-	(775)
Loan note interest accrual	-	-	(70,477)	(70,477)
Preference share dividends accrued	-	-	(5,441)	(5,441)
Balance at 31 March 2018	16,315	(547,641)	(708,564)	(1,239,890)
Cash flows	(7,331)	(20,000)	-	(27,331)
Amortisation of debt issue costs	-	(1,761)	-	(1,761)
Other changes	-	(775)	-	(775)
Loan note interest accrual	-	-	(78,935)	(78,935)
Preference share dividends accrued	-	-	(6,092)	(6,092)
Balance at 31 March 2019	8,984	(570,177)	(793,591)	(1,354,784)

Shareholder debt includes preference shares of £56.9 million and loan notes of £736.7 million.

37 Business combinations

During the year ended 31 March 2018 mydentist acquired one unincorporated dental practice and Dental Directory acquired the entire issued share capital of BF Mulholland Limited, a wholesaler of dental consumables, materials and equipment located in Northern Ireland, along with the trade, assets and liabilities of a small orthodontic appliances and materials supplier (Torque Orthodontics). No acquisitions took place during the year ended 31 March 2019.

Notes to the consolidated financial statements (continued)

38 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 and IFRS 15 on the group's financial statements.

Impact on the financial statements

As a result of the changes to the entity's accounting policies, prior year financial statements had to be restated. In accordance with the transition provisions in IFRS 9, the group has adopted the new rules retrospectively and has restated the comparatives for the 2018 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 April 2018) and the beginning of the earliest period presented (1 April 2017).

<i>Balance sheet (extract)</i>	31 March 2017 As originally presented £'000	IFRS 9 £'000	1 April 2017 Restated £'000
Assets			
Non-current assets			
Goodwill	317,664	-	317,664
Other intangible assets	422,843	-	422,843
Property, plant and equipment	98,796	-	98,796
Deferred income tax assets	12,753	6	12,759
	<u>852,056</u>	<u>6</u>	<u>852,062</u>
Current assets			
Inventories	19,709	-	19,709
Trade and other receivables	41,504	(33)	41,471
Current income tax	7	-	7
Cash and cash equivalents	12,717	-	12,717
	<u>73,937</u>	<u>(33)</u>	<u>73,904</u>
Assets classified as held for sale	<u>265</u>	<u>-</u>	<u>265</u>
Total assets	926,258	(27)	926,231
Equity attributable to the owners of the parent			
Share capital	30	-	30
Share premium	1,971	-	1,971
Accumulated losses	(424,634)	(27)	(424,661)
	<u>(422,633)</u>	<u>(27)</u>	<u>(422,660)</u>
Non-controlling interest	<u>101</u>	<u>-</u>	<u>101</u>
Total equity	(422,532)	(27)	(422,559)

Notes to the consolidated financial statements (*continued*)

38 Changes in accounting policies (*continued*)

<i>Balance sheet (extract)</i>	31 March 2018 As originally presented £'000	IFRS 9 £'000	1 April 2018 Restated £'000
Assets			
Non-current assets			
Goodwill	247,909	-	247,909
Other intangible assets	372,721	-	372,721
Property, plant and equipment	92,433	-	92,433
Deferred income tax assets	16,490	6	16,496
	<u>729,553</u>	<u>6</u>	<u>729,559</u>
Current assets			
Inventories	21,270	-	21,270
Trade and other receivables	41,277	(33)	41,244
Current income tax	104	-	104
Cash and cash equivalents	16,315	-	16,315
	<u>78,966</u>	<u>(33)</u>	<u>78,933</u>
Assets classified as held for sale	3,343	-	3,343
	<u>811,862</u>	<u>(27)</u>	<u>811,835</u>
Total assets			
Equity attributable to the owners of the parent			
Share capital	38	-	38
Share premium	1,974	-	1,974
Accumulated losses	(632,378)	(27)	(630,405)
	<u>(630,366)</u>	<u>(27)</u>	<u>(630,393)</u>
Non-controlling interest	133	-	133
	<u>(630,233)</u>	<u>(27)</u>	<u>(630,260)</u>
Total equity			

IFRS 9 – Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement: New classification and measurement criteria require financial instruments to be classified into one of the following three categories: amortised cost; fair value through other comprehensive income; or fair value. Classification is determined by the business model and contractual cash flow characteristics of the instruments. There were no changes to the classification or measurement of financial instruments following the adoption of IFRS 9.

Expected credit losses (ECL): The adoption of IFRS 9 has changed the group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach. The new methodology adopted by the group has not had a material impact on the level of provision held for impairment losses, however a small adjustment of £33,000 was made on transition. This was calculated by applying the historical default rates (debt write off percentage) of 0.20% to the total trade receivables in Dental Directory which are not already impaired. There is not considered to be a material impact on the change in impairment methodology to the mydentist business due to the nature of the NHS receivables which are paid monthly for 1/12th of the contract value, irrespective of UDA delivery.

Notes to the consolidated financial statements (*continued*)

38 Changes in accounting policies (*continued*)

IFRS 9 – Financial Instruments (continued)

Hedge accounting: The general hedge accounting mechanisms of IAS 39 have been retained, however greater flexibility has been introduced over the instruments eligible for hedge accounting and effectiveness testing has been more closely aligned with the underlying risk management practices of the entity. The group does not apply hedge accounting rules and therefore the changes described have not resulted in any measurement differences on adoption of IFRS 9.

IFRS 15 – Revenue from Contracts With Customers

IFRS 15 became effective for accounting periods commencing on or after 1 January 2018 and replaced IAS 18 – Revenue, in addition to a number of other interpretations. The new standard introduces a five-step approach to revenue recognition, based principally upon performance obligations contained within customer contracts.

The group has carried out a detailed review of the impact of IFRS 15 upon each of the group's revenue streams by identifying each type of contractual arrangement with its customers to identify the point of recognition across all revenue streams. On an annual basis, the group's revenue recognition policies and procedures are in line with IFRS 15 and there are no changes required to the previously reported annual revenue.

The review did identify however that revenue arising from contracts for NHS orthodontic treatment would be recognised at the point the claim for payment is made rather than over the course of treatment. An adjustment was therefore made to adjust the timing of revenue recognition within the year, predominantly moving from the first two quarters of the year to the second two quarters of the year.

39 Subsequent events

A new greenfield practice was opened on 1 April 2019 at Shoreham. Dental Directory rebranded as 'DD' with effect from 1 June 2019 and launched a new simplified structure operating under one brand in England and Wales, to replace the acquired companies individual identities.

40 Controlling party

At 31 March 2019 the immediate parent undertaking of Turnstone Equityco 1 Limited was CEP III IHP S.a.r.l., a company registered in Luxembourg.

No other financial statements consolidate the results of the group. Turnstone Equityco 1 Limited is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Carlyle and Palamon have joint control of Turnstone Equityco 1 Limited. Carlyle's majority holding is owned by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle. Palamon's ownership of the group is through its fund Palamon European Equity II, L.P. At 31 March 2019 and throughout the year, the ultimate controlling party of Turnstone Equityco 1 Limited is considered by the directors to be CEP III Participations S.a.r.l. SICAR.