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**Turnstone Equityco 1 Limited**

**Annual report and consolidated financial  
statements**

**Registered number 07496756**

**Year ended 31 March 2017**



## Contents

Strategic report for the year ended 31 March 2017	1
Directors' report for the year ended 31 March 2017	8
Independent auditors' report to the members of Turnstone Equityco 1 Limited	10
Consolidated income statement	12
Consolidated statement of comprehensive expense	13
Consolidated balance sheet	14
Company balance sheet	16
Consolidated statement of changes in equity	17
Company statement of changes in equity	18
Consolidated cash flow statement	19
Reconciliation of net cashflow to movement in net debt	20
Company cash flow statement	21
Notes to the consolidated financial statements	22

## Strategic report for the year ended 31 March 2017

The directors present the Strategic report for the year ended 31 March 2017.

### 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 2017, senior managers of the group held 15.9% of the equity interest in the company (2016: 15.9%).

The equity funding is split between preference and ordinary share capital, with the ordinary capital being designated 'A1', 'A2' and 'B' 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.

#### Ownership Structure

Number of shares (% of total)	Management		Carlyle		Palamon		Total	
'A1' Ordinary ('000)	-	-	1,282	64.1%	400	20.0%	1,682	84.1%
'A2' Ordinary ('000)	18	0.9%	-	-	-	-	18	0.9%
'B' Ordinary ('000)	300	15.0%	-	-	-	-	300	15.0%
<b>Total</b>	<b>318</b>	<b>15.9%</b>	<b>1,282</b>	<b>64.1%</b>	<b>400</b>	<b>20.0%</b>	<b>2,000</b>	<b>100.0%</b>

### Business review

The group is organised into two distinct business units.

#### *mydentist (formerly Patient Services)*

Through mydentist, the group owns and manages a national chain of dental practices, with 674 sites at 31 March 2017 (2016: 672). The dental practices, operating mainly under the "mydentist" brand, 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. With around 66% of group revenue coming from NHS contracts (2016: 68%), the group is the largest provider of NHS dentistry in the UK.

The division's main trading entities are Petrie Tucker and Partners Limited, Whitecross Dental Care Limited and IDH Limited. mydentist has continued to grow its private dentistry revenues during the year, both organically and through acquisition. The NHS dentistry business has been negatively impacted compared to previous years by increased NHS scrutiny of claims and performance benchmarks, which have reduced dentist productivity by increasing appointment times as dentists spend more time recording notes detailing patient care and causing dentists to be more cautious in claiming Units of Dental Activity ("UDAs"). As a result, some dentists have decided to reduce the volume of UDAs they are willing to complete in a year, or to change their focus towards delivering more private treatments. In addition, the business has seen a decrease in the number of exempt patients seeking treatment as a result of the improving UK economy. Management are implementing a range of actions in order to improve UDA delivery performance, including the recruitment of additional clinicians, in order to enable mydentist to deliver the NHS contracts in future periods.

## **Strategic report for the year ended 31 March 2017 (continued)**

### **Business review (continued)**

During the year to 31 March 2017, mydentist acquired six practices, merged two practices into other existing practices and closed two practices.

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 at the beginning of each 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 a given level of care time, number of patients treated, clinical outcomes, patient experience and safety. The prototype format looks to balance the level of activity with providing quality care to patients along with improving access to dentistry. The prototype programme is at an early stage and the group does not expect any changes to be implemented until 2019/20 at the earliest, if at all, and anticipates that there would be little change to overall contracted values.

### **Dental Directory (formerly Practice Services)**

Dental Directory is a leading supplier of dental and other medical consumables and 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 Dental Directory are Billericay Dental Supply Co. Limited trading as Dental Directory, along with a number of smaller businesses including DBG (UK) Limited, Dolby Medical Limited, Med-FX Limited and PDS Dental Laboratory Leeds Limited. During the year ended 31 March 2017, Dental Directory has continued to grow organically and progress has been made in integrating the acquisitions of Dolby Medical Limited and PDS Dental Laboratory Leeds Limited, which were acquired in March 2016, and Med-FX Limited, acquired in August 2015.

## Strategic report for the year ended 31 March 2017 (continued)

### Business review (continued)

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	2017	2016
Year ended 31 March	£m	£m
Revenue	585.8	565.9
Gross profit	261.0	258.4
Operating (loss)/profit	(22.7)	11.6
Amortisation	32.8	31.6
Depreciation	20.7	18.8
Amortisation of grant income	(0.1)	(0.1)
Impairment of goodwill and intangible assets	30.0	-
Other non-underlying items	8.4	18.7
Foreign exchange	(0.3)	(0.4)
EBITDA before non-underlying items	68.8	80.2

Revenue from mydentist was £480.9 million (2016: £472.7 million) with £385.1 million (2016: £386.4 million) arising from NHS dentistry services and £95.8 million from private dentistry services (2016: £86.4 million). Revenue from NHS dentistry services comprised 65.7% (2016: 68.3%) of total group revenue with private dentistry services contributing 16.4% (2016: 15.3%). Revenue from Dental Directory, net of supplies to mydentist practices, was £104.9 million (2016: £93.1 million) or 17.9% of the group total (2016: 16.4%).

The group has continued to experience strong demand for private dentistry services within our existing practices, with like-for-like revenue having increased by 7.0% (2016: 11.6%). However this growth has been offset by a reduction in revenue from NHS dentistry services, where we have seen a reduction in the overall UDA delivery percentage, after temporary and permanent handbacks, to 90.4% for the year ended 31 March 2017 compared with 92.4% for the year ended 31 March 2016. The decrease in UDA delivery percentage reflects increased NHS scrutiny of claims and performance benchmarks, which has led to reduced productivity, through increased appointment times, as dentists spend more time recording notes detailing patient care, become more cautious in claiming UDA's and, in some cases, look to reduce the number of UDA's they are willing to complete in a year as a result. In addition, a decline in the number of exempt patients has led to a change in UDA band mix away from higher value band 2 (3 UDAs) and 3 (12 UDAs) treatments, and initiatives to increase the range of treatment options available to patients has had some adverse impact upon NHS revenues whilst contributing to the growth in private revenues. Management are implementing a range of actions to reverse the decline in NHS revenues, including the recruitment of additional clinicians to deliver these additional UDA's.

Gross profit for the group increased by £2.6 million from £258.4 million for the year ended 31 March 2016 to £261.0 million for the year ended 31 March 2017. Gross margin declined from 45.7% for the year ended 31 March 2016 to 44.6% for the year ended 31 March 2017. In mydentist, gross margin declined from 47.9% for the year ended 31 March 2016 to 46.8% for the year ended 31 March 2017, principally due to the increased usage of locums when compared to the year ended 31 March 2016 as management took action to deliver unallocated UDA's, however this was partially offset by savings in materials costs as the group benefits from VAT synergies and economies of scale. The gross margin in Dental Directory was 29.8%, a decrease of 0.7 percentage points from 30.5% for the year ended 31 March 2016. This reduction principally reflected volatility in the value of Sterling against both the Euro and US Dollar in the period following the EU referendum in June 2016. This has subsequently been mitigated through supply chain efficiencies and price increases to customers and gross margin is returning to longer term averages as a result.

Dental practice staff costs within mydentist have also increased as a result of both headcount and living wage increases, and Dental Directory has invested in headcount increases at its support centre to underpin future growth.

## Strategic report for the year ended 31 March 2017 (continued)

### Business review (continued)

#### Consolidated income statement (continued)

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.

	2017 £m	2016 £m
Operating (loss)/profit	(22.7)	11.6
Net finance costs	(122.2)	(98.2)
Loss before income tax	(144.9)	(86.6)
Income tax credit	11.2	7.8
Loss for the year	(133.7)	(78.8)

#### Consolidated balance sheet

Goodwill and intangible assets amount to £740.5 million (2016: £792.4 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 six 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 2017, the group has recorded impairment charges of £26.9 million and £3.1 million against the carrying value of goodwill and intangible assets within mydentist respectively. The impairments reflect the effects of recent UDA delivery performance and a small number of 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. See also note 15 to the financial statements.

Property, plant and equipment of £98.8 million (2016: £99.4 million) include £19.5 million (2016: £26.9 million) of additions during the year resulting from upgrades to the group's dental practices, equipment and facilities, including work performed as part of the rollout of the 'mydentist' brand.

On 5 August 2016, the group re-financed its existing senior secured notes, due 2018, and second lien notes, due 2019, with an aggregate par value of £500 million, along with its £100 million Super Senior Revolving Credit Facility ("SSRCF") against which £39 million was drawn at that date. The senior secured fixed rate notes were redeemed at 101.5, a premium of 1.5% to par, the senior secured floating rate notes were redeemed at par and the second lien notes were redeemed at 104.25, a premium of 4.25% to par. The redemption, along with the associated transaction fees and expenses, was financed through the issue of the following instruments by IDH Finance Plc:

- £275 million 6.25% senior secured notes due 15 August 2022;
- £150 million LIBOR plus 6.00% senior secured fixed rate notes due 15 August 2022; and
- £130 million LIBOR plus 8.00% second lien notes due 15 August 2023, with LIBOR subject to a minimum floor of 1.00%.

The 6.25% senior secured notes were issued at par, the senior secured floating rate notes were issued at 99.5, a discount of 0.5% to par, and the second lien notes were issued at 96.5, a discount of 3.5% to par.

On the same date, Turnstone Bidco 1 Limited entered into an agreement with a syndicate of banks for a new £100 million SSRCF, available until 25 July 2022.

At 31 March 2017, borrowings, including shareholder debt, totalled £1,172.8 million (2016: £1,096.7 million). Borrowings comprise £540.2 million (2016: £531.9 million) of senior and second lien debt as detailed above, net of unamortised arrangement fees, along with £587.3 million (2016: £524.4 million) of 12% loan notes and £45.3 million (2016: £40.5 million) of preference shares, which together include accrued interest and dividends of £294.5 million (2016: £226.7 million). The loan notes are not redeemable until May 2021.

## **Strategic report for the year ended 31 March 2017 (continued)**

### **Business review (continued)**

#### **Consolidated cash flow statement**

Cash generated from operations of £72.9 million (2016: £80.0 million) reflects the strong cash generation properties of the group's business units.

After the servicing of external finance costs, costs associated with the re-financing, investments made in the practice estate including the re-branding of additional practices under the trading name 'mydentist' and the acquisition of further dental practices during the year, cash reduced by £2.4 million to leave a closing cash balance of £12.7 million (2016: £15.1 million).

#### **Subsequent events**

To the date of this report, the group has acquired one additional dental practice and has closed one dental practice.

### **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. A failure to adequately safeguard confidential patient information could result in significant fines, penalties and litigation.

#### **NHS contract**

The NHS contract for the dentist in England and Wales, introduced in April 2006, provides clear benefits to the group, both in terms of income stability and visibility and therefore dentist retention. 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. The outcome of the General Election to be held on 8 June 2017 could alter the future direction of government policy in respect of NHS dentistry and the group continues to monitor developments.

#### **Clinicians and other qualified staff**

The group requires skilled clinicians, hygienists and nurses in order to care for its growing patient base. The expansion of the European Union ('EU') over recent years and the increased capacity of UK dental schools have increased the supply of clinicians available to the group. The improved supply, coupled with the nature of the dentist's contracts has improved the retention of dentists within the group. 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 the past two years, the group is currently working to recruit additional clinicians in order to deliver its NHS contracts. In addition, the UK's decision to withdraw from membership of the EU may impact the supply of clinicians in future and the group continues to monitor developments.

The group continues to invest in improving pay structures and incentivisation for nurses and other clinical staff and continues to review the impact of changes resulting from the introduction of the Apprenticeship Levy and future increases to the National Living Wage upon its staffing structures.

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

## Strategic report for the year ended 31 March 2017 (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 (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 30 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	2017	2016
<b>Year ended 31 March</b>		
Revenue (£'m)	585.8	565.9
EBITDA before non-underlying items (£'m)	68.8	80.2
Operating (loss)/profit (£'m)	(22.7)	11.6
NHS dentistry services as a percentage of group revenue (%)	65.7%	68.3%
Private dentistry services as a percentage of group revenue (%)	16.4%	15.3%
Dental Directory revenue as a percentage of group revenue (%)	17.9%	16.4%
Like-for-like private revenue growth (%)	7.0%	11.6%
UDA <sup>(1)</sup> delivery (% of total contract, after temporary and permanent handbacks)	90.4%	92.4%
Gross profit margin (%)	44.6%	45.7%
Overheads as a percentage of revenue (%) <sup>(2)</sup>	33.1%	31.8%
EBITDA margin (%)	11.7%	14.2%
Number of dental practices	674	672
Proforma LTM EBITDA (£'m) <sup>(3)</sup>	70.3	84.8
Net bank and bond debt (£'m)	527.4	516.8
Net debt to EBITDA	7.67	6.45
Net debt to Proforma LTM EBITDA	7.50	6.09
Cash generated from operations (£'m)	72.9	80.0
Cash generated from operations net of interest paid (£'m)	34.4	44.7

(1) 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 2017 was 88.0% (2016: 92.4%).

(2) Overheads as a percentage of revenue represents administrative expenses, plus distribution costs, less depreciation, amortisation and non-underlying items.

(3) Proforma EBITDA has been calculated in accordance with the methodology set out in IDH Finance Plc Offering Memorandum dated 22 July 2016 and represents the estimated EBITDA of the group after adjusting for the full year ownership effect of acquisitions and disposals completed during the year ended 31 March 2017.



## Strategic report for the year ended 31 March 2017 *(continued)*

### Future outlook and strategy

Whilst the market continues to be challenging for dentistry in the UK, with pressures on NHS funding and consumer spending, the directors believe that the group continues to be well positioned to take advantage of further opportunities. In particular, the group will continue to focus on delivering growth through:

- increasing the number of clinician hours available to patients;
- delivering high quality care and promoting the highest clinical standards;
- recovering and optimising delivery of its existing NHS contracts;
- exploring opportunities to tender for new contracts;
- 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;
- growing our portfolio through further complimentary acquisitions; and
- using the size of our portfolio and systems to procure materials and services more efficiently and effectively.

On behalf of the Board



**WHM Robson**  
*Director*  
31 May 2017

## Directors' report for the year ended 31 March 2017

The directors present their report and the audited consolidated financial statements of Turnstone Equityco 1 Limited for the year ended 31 March 2017.

### 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 (2016: £nil).

### Directors

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

#### J Bonnavion

A Bowkett (appointed 21 March 2017)

A Burgess (appointed 3 October 2016)

B Cockcroft

L Elson

K Jayaraman (appointed 3 October 2016)

T Riall (appointed 8 May 2017)

WHM Robson

E Kump (resigned 3 October 2016)

P Pindar (resigned 3 October 2016)

T Scicluna (resigned 31 March 2017)

A Stirling (resigned 3 October 2016)

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.

### Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs have been followed for the group and 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 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.

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 the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Directors' report for the year ended 31 March 2017 (continued)**

### **Employees**

The group is an equal opportunities employer and does not discriminate between employees on the grounds of race, ethnic origin, age, sex 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.

Briefing and consultative procedures exist throughout the group to inform employees on matters of concern to them, the financial and economic performance of their business units and to provide opportunities for comment and discussion.

### **Political and charitable contributions**

The group made charitable contributions totalling £6,654 during the year (2016: £16,540). The group made no political donations during the year (2016: £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.

### **Subsequent events**

To the date of this report, the group has acquired one additional dental practice and has closed one dental practice.

### **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. Further information on the group's available borrowing facilities can be found in note 24 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.

### **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



**WHM Robson**  
Director  
31 May 2017

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

### **Report on the financial statements**

#### **Our 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 2017 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### **What we have audited**

The financial statements, included within the Annual report and consolidated financial statements (the "Annual report"), comprise:

- the consolidated and company balance sheets as at 31 March 2017;
- the consolidated income statement and consolidated statement of comprehensive expense for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information (including the reconciliation of movement in net cashflow to movement in net debt on page 20).

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

#### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; 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.

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

### **Other matters on which we are required to report by exception *(continued)***

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

#### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and consolidated financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



**Randal Casson (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
31 May 2017

**Consolidated income statement**  
*for the year ended 31 March 2017*

	<i>Note</i>	<b>2017 £'000</b>	<b>2016 £'000</b>
Revenue	4	585,823	565,877
Cost of sales		(324,821)	(307,508)
<b>Gross profit</b>		<b>261,002</b>	<b>258,369</b>
Distribution costs		(16,562)	(15,211)
Administrative expenses		(269,359)	(233,908)
Other income	9	1,965	1,919
Other gains	10	261	424
<b>Operating (loss)/profit</b>		<b>(22,693)</b>	<b>11,593</b>
<b>Analysed as</b>			
<b>EBITDA before non-underlying items</b>		<b>68,809</b>	<b>80,154</b>
Amortisation of intangible assets	15	(32,784)	(31,647)
Depreciation	16	(20,702)	(18,750)
Amortisation of government grant income		60	154
Impairment of goodwill and intangible assets	15	(30,000)	-
Other non-underlying items	5	(8,337)	(18,742)
Foreign exchange gains	10	261	424
<b>Operating (loss)/profit</b>		<b>(22,693)</b>	<b>11,593</b>
Finance costs	11	(123,824)	(99,331)
Finance income	12	1,590	1,140
<b>Net finance costs</b>		<b>(122,234)</b>	<b>(98,191)</b>
<b>Loss before income tax</b>		<b>(144,927)</b>	<b>(86,598)</b>
Income tax credit	13	11,229	7,813
<b>Loss for the year</b>		<b>(133,698)</b>	<b>(78,785)</b>
<b>Attributable to:</b>			
Owners of the parent		(133,710)	(78,679)
Non-controlling interests		12	(106)
		<b>(133,698)</b>	<b>(78,785)</b>

All activities are derived from continuing operations.

The notes on pages 22 to 66 form part of these financial statements.

**Consolidated statement of comprehensive expense**  
*for the year ended 31 March 2017*

	2017 £'000	2016 £'000
<b>Loss for the year</b>	<b>(133,698)</b>	<b>(78,785)</b>
<b>Other comprehensive expense:</b>		
<i>Items that will not be reclassified to the income statement</i>		
Re-measurement (loss)/gain in respect of defined benefit pension scheme	(546)	649
Unrecognised re-measurement movement arising from movements on defined benefit scheme in surplus to which the group has no recourse	286	(290)
<b>Total comprehensive expense for the year</b>	<b>(133,958)</b>	<b>(78,426)</b>
<b>Attributable to:</b>		
Owners of the parent	(133,970)	(78,320)
Non-controlling interests	12	(106)
	<b>(133,958)</b>	<b>(78,426)</b>

Movements above are disclosed net of income tax.

The notes on pages 22 to 66 form part of these financial statements.

**Consolidated balance sheet**  
*at 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	15	317,664	339,020
Other intangible assets	15	422,843	453,361
Property, plant and equipment	16	98,796	99,352
Other receivables	19	-	958
Deferred income tax assets	26	12,753	9,731
		<b>852,056</b>	<b>902,422</b>
<b>Current assets</b>			
Inventories	18	19,709	20,550
Trade and other receivables	19	41,504	49,529
Derivative financial instruments	23	7	739
Cash and cash equivalents	21	12,717	15,066
		<b>73,937</b>	<b>85,884</b>
Assets classified as held for sale	20	265	440
<b>Total assets</b>		<b>926,258</b>	<b>988,746</b>
<b>Equity attributable to the owners of the parent</b>			
Share capital	27	30	30
Share premium	28	1,971	1,971
Accumulated losses	28	(424,634)	(290,664)
		<b>(422,633)</b>	<b>(288,663)</b>
Non-controlling interest		101	89
<b>Total equity</b>		<b>(422,532)</b>	<b>(288,574)</b>



**Consolidated balance sheet (continued)**  
*at 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	24	1,172,812	1,096,732
Other payables	22	1,237	3,186
Deferred income tax liabilities	26	43,801	51,052
Post employment benefits	31	321	-
Provisions	25	6,964	7,603
Derivative financial instruments	23	-	2,033
		<b>1,225,135</b>	<b>1,160,606</b>
<b>Current liabilities</b>			
Trade and other payables	22	121,246	114,418
Current income tax		237	418
Provisions	25	1,536	1,786
Derivative financial instruments	23	636	92
		<b>123,655</b>	<b>116,714</b>
<b>Total liabilities</b>		<b>1,348,790</b>	<b>1,277,320</b>
<b>Total equity and liabilities</b>		<b>926,258</b>	<b>988,746</b>

The notes on pages 22 to 66 form part of these financial statements.

The financial statements on pages 12 to 66 were approved by the Board of Directors on 31 May 2017 and were signed on its behalf by:



**WHM Robson**  
*Director*

**Company balance sheet**  
*at 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	17	-	-
Other receivables	19	<b>3,610</b>	3,223
		<hr/>	<hr/>
		<b>3,610</b>	3,223
<b>Current assets</b>			
Other receivables	19	<b>12</b>	12
Cash and cash equivalents	21	<b>40</b>	40
		<hr/>	<hr/>
		<b>52</b>	52
		<hr/>	<hr/>
<b>Total assets</b>		<b>3,662</b>	3,275
<b>Equity</b>			
Share capital	27	<b>30</b>	30
Share premium	28	<b>1,971</b>	1,971
Brought forward retained earnings	28	<b>1,274</b>	928
Current year earnings	14	<b>387</b>	346
		<hr/>	<hr/>
<b>Total equity</b>		<b>3,662</b>	3,275

The notes on pages 22 to 66 form part of these financial statements.

The financial statements on pages 12 to 66 were approved by the Board of Directors on 31 May 2017 and were signed on its behalf by:



**WHM Robson**  
*Director*

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

	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 2015	30	1,971	(212,030)	(210,029)	(119)	(210,148)
<b>Comprehensive expense for the year</b>						
Loss for the year	-	-	(78,679)	(78,679)	(106)	(78,785)
<b>Other comprehensive income</b>						
Items that will not be reclassified to the income statement	-	-	359	359	-	359
Total comprehensive expense for the year	-	-	(78,320)	(78,320)	(106)	(78,426)
<b>Changes in ownership interests</b>						
Minority interests arising / acquired through business combinations	-	-	(314)	(314)	314	-
Balance at 31 March 2016	30	1,971	(290,664)	(288,663)	89	(288,574)
<b>Comprehensive (expense)/income for the year</b>						
Loss for the year	-	-	(133,710)	(133,710)	12	(133,698)
<b>Other comprehensive expense</b>						
Items that will not be reclassified to the income statement	-	-	(260)	(260)	-	(260)
Total comprehensive (expense)/income for the year	-	-	(133,970)	(133,970)	12	(133,958)
Balance at 31 March 2017	30	1,971	(424,634)	(422,633)	101	(422,532)

The notes on pages 22 to 66 form part of these financial statements.

**Company statement of changes in equity**  
*for the year ended 31 March 2017*

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2015	30	1,971	928	2,929
<b>Comprehensive income for the year</b>				
Profit and total comprehensive income for the year	-	-	346	346
Balance at 31 March 2016	30	1,971	1,274	3,275
<b>Comprehensive income for the year</b>				
Profit and total comprehensive income for the year	-	-	387	387
<b>Balance at 31 March 2017</b>	<b>30</b>	<b>1,971</b>	<b>1,661</b>	<b>3,662</b>

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 22 to 66 form part of these financial statements.

**Consolidated cash flow statement**  
*for the year ended 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	33	72,936	79,980
Income tax received		-	550
<b>Net cash inflow from operating activities</b>		<b>72,936</b>	<b>80,530</b>
<b>Cash flows from investing activities</b>			
Acquisitions (net of cash acquired)		(9,924)	(42,909)
Contingent consideration paid		(1,577)	(935)
Unpaid contingent consideration returned to the group from escrow arrangements		1,044	-
Purchase of property, plant and equipment		(19,986)	(26,868)
Purchase of freehold property held for sale		(741)	-
Proceeds from business and asset disposals		1,024	2,694
Government grants received		2	11
Interest received		38	70
<b>Net cash outflow from investing activities</b>		<b>(30,120)</b>	<b>(67,937)</b>
<b>Cash flows from financing activities</b>			
Drawdown of bank loans		7,000	8,500
Repayment of bank loans		(46,000)	-
Proceeds from the issue of senior secured and second lien notes		549,700	-
Redemption of existing senior secured and second lien notes including early redemption fees		(506,188)	-
Arrangement fees and associated professional costs		(11,143)	-
Bank and bond interest paid		(38,534)	(35,268)
<b>Net cash outflow from financing activities</b>		<b>(45,165)</b>	<b>(26,768)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2,349)</b>	<b>(14,175)</b>
Cash and cash equivalents at the start of the year		15,066	29,241
<b>Cash and cash equivalents at the end of the year</b>		<b>12,717</b>	<b>15,066</b>

The notes on pages 22 to 66 form part of these financial statements.

**Reconciliation of movement in net cashflow to movement in net debt**  
*for the year ended 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Decrease in cash for the year		<b>(2,349)</b>	(14,175)
Drawdown of bank loans		<b>(7,000)</b>	(8,500)
Repayment of bank loans		<b>46,000</b>	-
Issue of senior secured and second lien notes		<b>(549,700)</b>	-
Redemption of existing senior secured and second lien notes		<b>500,000</b>	-
Arrangement fees and associated professional costs		<b>11,143</b>	-
<b>Total cash movement in net debt</b>		<b>(1,906)</b>	(22,675)
Release of unamortised arrangement fees upon redemption of existing notes	<i>11</i>	<b>(6,941)</b>	-
Amortisation of debt issue costs and related fees	<i>11</i>	<b>(2,025)</b>	(2,805)
Other non-cash movements in net debt		<b>225</b>	278
<b>Total non-cash movement in net debt excluding loan notes and preference shares</b>		<b>(8,741)</b>	(2,527)
<b>Movement in net debt excluding loan notes and preference shares</b>		<b>(10,647)</b>	(25,202)
Net bank and bond debt at the start of the year		<b>(516,802)</b>	(491,600)
<b>Net bank and bond debt at the end of the year</b>	<i>30</i>	<b>(527,449)</b>	(516,802)
Total non-cash movement in net debt excluding loan notes and preference shares		<b>(8,741)</b>	(2,527)
Loan note interest accrued	<i>11</i>	<b>(62,925)</b>	(56,323)
Preference share dividends accrued	<i>11</i>	<b>(4,857)</b>	(4,348)
<b>Total non-cash movement in net debt</b>		<b>(76,523)</b>	(63,198)
<b>Total movement in net debt</b>		<b>(78,429)</b>	(85,873)
Net debt at the start of the year		<b>(1,081,666)</b>	(995,793)
<b>Net debt at the end of the year</b>		<b>(1,160,095)</b>	(1,081,666)

The notes on pages 22 to 66 form part of these financial statements.

**Company cash flow statement**  
*for the year ended 31 March 2017*

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flows from operating activities</b>		
Profit before income tax	<b>387</b>	346
Increase in finance costs receivable	<b>(387)</b>	(346)
	-	-
<b>Net cash inflow from operating activities</b>	-	-
	-	-
<b>Net increase in cash and cash equivalents</b>	-	-
Cash and cash equivalents at the start of the year	<b>40</b>	40
	-	-
<b>Cash and cash equivalents at the end of the year</b>	<b>40</b>	40

The notes on pages 22 to 66 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. Further information on the group's available borrowing facilities can be found in note 24.

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. The group has applied IFRS 10 – Consolidated Financial Statements ('IFRS 10') retrospectively in accordance with the transitional provisions of IFRS 10.

##### *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.



## Notes to the consolidated financial statements (continued)

### 2 Accounting policies (continued)

#### (c) New standards, amendments and interpretations

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

The accounting policies adopted in the presentation of the consolidated historical financial information reflect the adoption of the following standards:

Annual improvements 2012-2014

Amendments to IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets, on depreciation and amortisation

Amendments to IAS 1 – Presentation of financial statements, disclosure initiative

The above standards have been applied to each of the periods presented in these financial statements.

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

The following new standards, interpretations and amendments, which have not been applied in these financial statements, may have an effect on the group's future financial statements:

	EU endorsement status	Effective date (periods beginning)
IFRS 9 – Financial Instruments	Endorsed on 22 November 2016	1 January 2018
IFRS 15 – Revenue from Contracts With Customers	Endorsed on 22 September 2016	1 January 2018
IFRS 16 – Leases	Not yet endorsed	1 January 2019

##### **IFRS 9 – Financial Instruments**

IFRS 9 will replace IAS 39 in its entirety, and will become effective for accounting periods commencing on or after 1 January 2018. The new standard will be applicable to the group for the year ending 31 March 2019 onwards and covers three principal areas:

- **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 will be determined by the business model and contractual cash flow characteristics of the instruments.
- **Expected credit losses (ECL):** The requirement to recognise impairment losses based on ECL methodology is a change to the current requirements whereby losses are only recognised once an impairment event has happened.
- **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 currently anticipate that IFRS 9 will have a significant impact upon the financial statements of the group however is working to assess the impact of any differences that may arise.

##### **IFRS 15 – Revenue from Contracts With Customers**

IFRS 15 will become effective for accounting periods commencing on or after 1 January 2018 and will replace IAS 18 – Revenue, in addition to a number of other interpretations. The new standard, which will be applicable to the group for the year ending 31 March 2019 onwards, introduces a five-step approach to revenue recognition, based principally upon performance obligations contained within customer contracts.

The group does not anticipate that IFRS 15 will significantly change the way in which the group accounts for the majority of its revenue streams, however a small number of revenue streams, principally relating to the sale of services within Dental Directory, may be impacted by IFRS 15. The group is currently working to understand and quantify the extent to which IFRS 15 will impact the timing of revenue recognition, if at all, on these revenue streams.

## Notes to the consolidated financial statements *(continued)*

### 2 Accounting policies *(continued)*

#### *(c) New standards, amendments and interpretations*

##### **IFRS 16 – Leases**

IFRS 16 is due to become effective for accounting periods commencing on or after 1 January 2019, subject to EU endorsement, and is therefore due to 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 group anticipates that its existing accounting treatment in respect of property leases in particular is likely to be impacted by IFRS 16, with the group being required to recognise a significant 'right of use' asset, along with an equivalent lease liability. It is also likely that there will be an impact upon the classification of lease related expenditure within the income statement. The group is working to assess the precise nature and quantum of any adjustments that will be required.

No other new standards, interpretations and amendments, which have not been adopted early, are expected to have a material effect on the group's future financial statements.

#### *(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 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.

## Notes to the consolidated financial statements (continued)

### 2 Accounting policies (continued)

#### (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.

#### (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.

## Notes to the consolidated financial statements *(continued)*

### 2 Accounting policies *(continued)*

#### *(g) Impairment of non-financial assets (continued)*

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 each accounting reference date.

#### *(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 provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables and is measured as the difference between carrying value and present value of estimated future cash flows. 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 include freehold properties that the group has acquired as part of the acquisition of dental practices. The group only acquires these properties where necessary to facilitate the acquisition of dental practices and looks to dispose of these properties as soon as an appropriate lease and sale price can be negotiated.

#### *(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 draw-down 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 uses derivative financial instruments (interest rate swaps) to hedge a proportion of its exposure to floating interest rate fluctuations. 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 30 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 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 on the volume of dental activity delivered in the financial year. 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 on 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, dividends on redeemable preference shares and fair value movements on hedging arrangements. 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. 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 and the group currently makes no contributions in respect of current or past service. However, the group 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)*

### 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*

##### *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 during the period and at the reporting date, which have resulted in impairment charges totalling £30 million being recognised within non-underlying items in the income statement for the year ended 31 March 2017. More details, including carrying values and the outcomes of the reviews conducted are included in note 15.

##### *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*

##### *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.

### 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 674 sites at 31 March 2017 (2016: 672).

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.

All services are provided in the United Kingdom.



## Notes to the consolidated financial statements (continued)

### 4 Segmental analysis (continued)

Year ended 31 March 2017

	mydentist £'000	Dental Directory £'000	Central costs, and intra- segment eliminations £'000	Total £'000
<b>Revenue</b>				
NHS dentistry	385,060	-	-	385,060
Private dentistry	95,827	-	-	95,827
Dental Directory	-	134,980	(30,044)	104,936
<b>Total revenue</b>	<b>480,887</b>	<b>134,980</b>	<b>(30,044)</b>	<b>585,823</b>
Gross profit	225,098	40,182	(4,278)	261,002
Gross margin	46.8%	29.8%		44.6%
Overheads	(166,895)	(30,667)	3,404	(194,158)
Overheads as % revenue	34.7%	22.7%		33.1%
Other income	1,965	-	-	1,965
<b>EBITDA before non-underlying items</b>	<b>60,168</b>	<b>9,515</b>	<b>(874)</b>	<b>68,809</b>
EBITDA margin	12.5%	7.0%		11.7%
Amortisation of intangible assets	(29,452)	(3,332)	-	(32,784)
Depreciation	(18,918)	(2,002)	218	(20,702)
Amortisation of government grant income	60	-	-	60
Impairment of goodwill and intangible assets	(30,000)	-	-	(30,000)
Other non-underlying items	(7,481)	(856)	-	(8,337)
Unrealised gains on derivative financial instruments	-	261	-	261
<b>Segment operating (loss)/profit</b>	<b>(25,623)</b>	<b>3,586</b>	<b>(656)</b>	<b>(22,693)</b>
Net finance costs				(122,234)
<b>Loss before income tax</b>				<b>(144,927)</b>
<b>Segment assets</b>	<b>818,580</b>	<b>110,632</b>	<b>(2,954)</b>	<b>926,258</b>
<b>Segment liabilities</b>	<b>(153,499)</b>	<b>(109,056)</b>	<b>(1,086,235)</b>	<b>(1,348,790)</b>
<b>Additions</b>				
Goodwill	5,734	135	-	5,869
Other intangible assets	6,233	-	-	6,233
Property, plant and equipment	19,013	2,166	(849)	20,330

## Notes to the consolidated financial statements (continued)

### 4 Segmental analysis (continued)

Year ended 31 March 2016

	mydentist £'000	Dental Directory £'000	Central costs, and intra- segment eliminations £'000	Total £'000
<b>Revenue</b>				
NHS dentistry	386,377	-	-	386,377
Private dentistry	86,356	-	-	86,356
Dental Directory	-	117,536	(24,392)	93,144
<b>Total revenue</b>	<b>472,733</b>	<b>117,536</b>	<b>(24,392)</b>	<b>565,877</b>
Gross profit	226,223	35,839	(3,693)	258,369
Gross margin	47.9%	30.5%		45.7%
Overheads	(158,311)	(24,598)	2,775	(180,134)
Overheads as % revenue	33.5%	20.9%		31.8%
Other income	1,919	-	-	1,919
<b>EBITDA before non-underlying items</b>	<b>69,831</b>	<b>11,241</b>	<b>(918)</b>	<b>80,154</b>
EBITDA margin	14.8%	9.6%		14.2%
Amortisation of intangible assets	(28,647)	(3,000)	-	(31,647)
Depreciation	(17,554)	(1,331)	135	(18,750)
Amortisation of government grant income	154	-	-	154
Other non-underlying items	(17,539)	(1,203)	-	(18,742)
Unrealised gains on derivative financial instruments	-	424	-	424
<b>Segment operating profit/(loss)</b>	<b>6,245</b>	<b>6,131</b>	<b>(783)</b>	<b>11,593</b>
Net finance costs				(98,191)
<b>Loss before income tax</b>				<b>(86,598)</b>
<b>Segment assets</b>	<b>877,081</b>	<b>119,805</b>	<b>(8,140)</b>	<b>988,746</b>
<b>Segment liabilities</b>	<b>(155,217)</b>	<b>(116,932)</b>	<b>(1,005,171)</b>	<b>(1,277,320)</b>
<b>Additions</b>				
Goodwill	15,851	752	-	16,603
Other intangible assets	27,218	4,915	-	32,133
Property, plant and equipment	28,077	2,429	(678)	29,828

Revenue is analysed by category as follows:

	2017 £'000	2016 £'000
Provision of services	493,095	479,359
Sale of goods	92,728	86,518
<b>Total revenue</b>	<b>585,823</b>	<b>565,877</b>

## 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)/profit.

	Group 2017 £'000	Group 2016 £'000
Restructuring costs	5,910	5,712
Rebranding costs	2,475	10,617
Acquisition related professional fees and expenses	665	1,937
Differences between contingent consideration paid and estimates initially recognised	(2,152)	(2,158)
Profit on disposal of freehold properties	(241)	(579)
Loss arising from the disposal/closure of dental practices and restructuring within Dental Directory	1,667	2,515
(Profit)/loss on disposal of property, plant and equipment	(7)	678
Expenses in respect of defined benefit pension scheme (note 31)	20	20
	<b>8,337</b>	<b>18,742</b>

#### **Restructuring costs**

Costs incurred during the year ended 31 March 2017 principally relate to senior management changes, and other staff and business restructuring, including related professional fees. Costs incurred during the year ended 31 March 2016 principally relate to the restructuring and integration of Dental Directory operations, redundancy payments to staff across both divisions, costs associated with the review of strategic options and associated legal and professional fees.

#### **Rebranding**

Costs recognised during the years ended 31 March 2017 and 31 March 2016 reflect the cost of rolling out the mydentist brand and includes expenditure on signage, decoration and uniforms. A total of 534 sites were operating under the mydentist brand as of 31 March 2017 (2016: 418).

#### **Acquisition related professional fees and expenses**

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

#### **Differences between contingent consideration paid and estimates initially recognised**

During the years ended 31 March 2017 and 31 March 2016, 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 £2,152,000 (2016: £2,158,000) was released to the income statement.

#### **Profit on disposal of freehold properties**

During the year, the group disposed of its freehold interest in four dental practices (2016: 12) under sale and lease-back arrangements.

#### **Loss arising from the disposal/closure of dental practices and restructuring within Dental Directory**

During the year ended 31 March 2017, the group closed two dental practices, and announced the closure of a third practice with effect from 30 April 2017, with total closure related costs of £1,667,000.

During the year ended 31 March 2016, the group closed the dbg head office in Winsford and merged the administrative functions with those of Dental Directory in Witham, creating a single support function for the division. The group also closed two dental practices and merged five others, resulting in total closure related costs of £2,515,000.

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

The profit on disposal of property, plant and equipment arose from the sale of a motor vehicles and certain other IT assets at amounts in excess of their carrying values. The loss for the year ended 31 March 2016 arose principally from assets which were scrapped following the closure or merger of dental practices.

## Notes to the consolidated financial statements (continued)

### 6 Auditor's remuneration

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

	2017 £'000	2016 £'000
<b>Audit services</b>		
Audit of the parent company and the consolidated financial statements*	45	31
Audit of the company's subsidiaries	237	323
	<hr/>	<hr/>
	282	354
<b>Other services</b>		
Tax advisory services	111	40
Other advisory services	272	776
	<hr/>	<hr/>
<b>Total remuneration payable to PricewaterhouseCoopers LLP</b>	<b>665</b>	<b>1,170</b>

\* The audit fee in respect of the consolidated and parent company financial statements for the year ended 31 March 2017 has been borne by a subsidiary company.

During the year ended 31 March 2017, other advisory services relate to work conducted as part of the group's re-financing and the review of strategic options. During the year ended 31 March 2016, other advisory services relate to work conducted as part of the review of strategic options.

### 7 Employees

The company has no employees (2016: None).

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

	Group 2017 No of employees	Group 2016 No of employees
<b>Business unit</b>		
mydentist - surgery staff	4,294	4,160
mydentist - administration staff	2,684	2,601
Dental Directory	543	384
	<hr/>	<hr/>
	7,521	7,145

The staff costs of these persons were as follows:

	Group 2017 £'000	Group 2016 £'000
<b>Wages and salaries</b>	<b>118,678</b>	<b>115,675</b>
<b>Social security costs</b>	<b>8,211</b>	<b>8,330</b>
<b>Other pension costs</b>	<b>836</b>	<b>814</b>
	<hr/>	<hr/>
	127,726	124,819

## Notes to the consolidated financial statements *(continued)*

### 8 Directors' remuneration

The directors received no emoluments from the company for their services during the year (2016: £nil).

	Group 2017 £'000	Group 2016 £'000
Aggregate emoluments including benefits	3,284	833

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 for the highest paid director was £2,894,000 (2016: £428,000), which included compensation for loss of office of £2,415,000 (2016: £nil) and benefits in kind of £7,000 (2016: £16,000).

### 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 gains

	Group 2017 £'000	Group 2016 £'000
Unrealised (losses)/gains at fair value through profit or loss on foreign exchange forward contracts	(823)	741
Realised foreign exchange gains/(losses)	1,044	(317)
Unrealised gains at fair value through profit or loss on option contracts	40	-
	<b>261</b>	<b>424</b>

## Notes to the consolidated financial statements (continued)

### 11 Finance costs

	Group 2017 £'000	Group 2016 £'000
<i>Recurring finance costs</i>		
Senior secured fixed rate notes	15,867	12,000
Senior secured floating rate notes	10,446	12,249
Second lien notes	10,506	6,375
Bank loans and overdrafts	644	1,629
Fixed rate interest swap charges	1,811	1,683
Amortisation of debt issue costs and related fees	2,025	2,805
Loan note interest	62,925	56,323
Preference share dividends	4,857	4,348
Other interest payable – unwinding of discount (notes 25 and 30)	373	760
Syndicate charges	1,241	1,146
Finance expense in respect of defined benefit pension scheme (note 31)	-	13
<b>Total recurring finance costs</b>	<b>110,695</b>	<b>99,331</b>
<i>Non-recurring finance costs</i>		
Release of unamortised arrangement fees upon redemption of borrowings	6,941	-
Fees payable in respect of the early redemption of senior secured fixed rate notes and second lien notes	6,188	-
<b>Total non-recurring finance costs</b>	<b>13,129</b>	<b>-</b>
	<b>123,824</b>	<b>99,331</b>

### 12 Finance income

	Group 2017 £'000	Group 2016 £'000
Bank deposit interest	38	70
Finance income in respect of defined benefit pension scheme (note 31)	12	-
Change in the fair value of interest rate swap classified at fair value through profit or loss	1,540	1,070
	<b>1,590</b>	<b>1,140</b>

## Notes to the consolidated financial statements (continued)

### 13 Income tax credit

	Group 2017 £'000	Group 2016 £'000
<b>Current income tax</b>		
Current income tax for the year	-	-
Adjustments in respect of previous years	84	-
<b>Total current income tax</b>	<b>84</b>	<b>-</b>
<b>Deferred income tax</b>		
Origin and reversal of temporary differences	(7,831)	(5,121)
Adjustments in respect of previous years	(1,256)	1,942
Effect of change in income tax rate	(2,226)	(4,634)
<b>Total deferred income tax (note 26)</b>	<b>(11,313)</b>	<b>(7,813)</b>
<b>Total income tax credit</b>	<b>(11,229)</b>	<b>(7,813)</b>

The income tax charge for the financial year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2017 of 20% (2016: 20%). The differences are explained below:

	Group 2017 £'000	Group 2016 £'000
Loss before income tax	(144,927)	(86,598)
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	(28,985)	(17,320)
<b>Effects of:</b>		
Expenses not deductible for tax	20,486	12,187
Utilisation of losses not previously recognised	(50)	12
Effect of rate changes on opening balances	(2,226)	(4,634)
Adjustments in respect of previous years	(1,173)	1,942
Unrelieved losses carried forwards	719	-
<b>Total income tax credit for the year</b>	<b>(11,229)</b>	<b>(7,813)</b>

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 reduces 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 re-measured accordingly.

### 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 £387,000 (2016: £346,000) 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
<b>Cost</b>					
At 1 April 2015	322,515	462,414	60,364	23,777	869,070
Acquired through business combinations	17,169	22,869	7,968	1,296	49,302
Re-measurement of provisional amounts from prior year business combinations	(566)	-	-	-	(566)
Disposals	(98)	(237)	(63)	-	(398)
<b>At 31 March 2016</b>	<b>339,020</b>	<b>485,046</b>	<b>68,269</b>	<b>25,073</b>	<b>917,408</b>
<b>Accumulated amortisation</b>					
At 1 April 2015	-	76,673	14,872	1,858	93,403
Charge for the year	-	23,837	6,200	1,610	31,647
Disposals	-	(15)	(8)	-	(23)
<b>At 31 March 2016</b>	<b>-</b>	<b>100,495</b>	<b>21,064</b>	<b>3,468</b>	<b>125,027</b>
<b>Net book value</b>					
At 31 March 2016	339,020	384,551	47,205	21,605	792,381
	Goodwill £'000	Contractual arrangements £'000	Customer relationships £'000	Brands and trademarks £'000	Total £'000
<b>Cost</b>					
At 1 April 2016	339,020	485,046	68,269	25,073	917,408
Acquired through business combinations (note 34)	6,712	6,012	221	-	12,945
Re-measurement of provisional amounts from prior year business combinations	(843)	-	-	-	(843)
Impairment charge	(26,935)	(3,065)	-	-	(30,000)
Disposals	(290)	(1,092)	(120)	-	(1,502)
<b>At 31 March 2017</b>	<b>317,664</b>	<b>486,901</b>	<b>68,370</b>	<b>25,073</b>	<b>898,008</b>
<b>Accumulated amortisation</b>					
At 1 April 2016	-	100,495	21,064	3,468	125,027
Charge for the year	-	24,436	6,676	1,672	32,784
Disposals	-	(268)	(42)	-	(310)
<b>At 31 March 2017</b>	<b>-</b>	<b>124,663</b>	<b>27,698</b>	<b>5,140</b>	<b>157,501</b>
<b>Net book value</b>					
At 31 March 2017	317,664	362,238	40,672	19,933	740,507

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 2017 was 14.3 years (2016: 15.2 years).



## Notes to the consolidated financial statements (continued)

### 15 Intangible assets (continued)

#### 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 2017 £'000	Group 2016 £'000
mydentist	286,183	306,790
Dental Directory	31,481	32,230
	<b>317,664</b>	<b>339,020</b>

#### 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 2017 %	Group 2016 %
<b>Long term growth rate</b>		
mydentist	1.50	1.50
Dental Directory	1.50	1.50
<b>Discount rate</b>		
mydentist	9.54	9.01
Dental Directory	11.23	10.47

## 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 recoverable amount of each CGU with its carrying amount, including goodwill. At 31 March 2016, no impairment was identified. In light of recent UDA delivery performance, management conducted an additional impairment review at 31 December 2016. This identified impairments totalling £17 million to the carrying value of goodwill and other intangible assets within the mydentist CGU. Management have then conducted a further impairment review at 31 March 2017, which in light of slightly lower than anticipated UDA delivery during the last quarter of the year together with an adverse movement in the calculated WACC, has resulted in further impairments to the carrying value of goodwill and other intangible assets within the mydentist CGU totalling £13 million, bringing the total charge recognised during the year ended 31 March 2017 to £30 million.

Of this, £3.1 million has been recorded against the carrying value of contractual arrangements as a result of a number of small permanent contract hand-backs which have been negotiated by management with the relevant NHS Regions. These handbacks will reduce the level of revenue that the group can generate from these contracts in future years and therefore management have reduced the carrying value of the associated intangible assets to reflect this reduced earning potential.

The remaining £26.9 million impairment has been recorded against the carrying value of goodwill allocated to the mydentist CGU as a result of comparing the carrying value of the mydentist CGU with its estimated recoverable amount. The impairment reviews were conducted based upon management's budgeted UDA delivery percentage for the year ended 31 March 2018 and management's current five year plan which shows the UDA delivery percentage recovering to the group's long term average of approximately 96%. For the year ended 31 March 2017, the UDA delivery percentage, before handbacks, was 88.0%.

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 2017, a change of 1.0% to the assumed long term average UDA delivery rate, which equates to approximately £1.8 million of annual EBITDA before non-underlying items, would change the calculated value in use by approximately £22 million. A change of 0.25% in the assumed WACC would change the calculated value in use by approximately £31 million.

The review did not identify any impairment to the carrying value of assets within the Dental Directory CGU. As at 31 March 2017, a change of £0.5m to the assumed annual pre-tax cashflows generated from the Dental Directory CGU would change the calculated value in use by approximately £5.1 million. A change of 0.25% in the assumed WACC would change the calculated value in use by approximately £3.0 million.

For 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 impairment noted above in respect of permanent contract handbacks, no indicators of impairment have been identified.

#### Company

The company does not own any intangible assets (2016: none).

## Notes to the consolidated financial statements *(continued)*

### 16 Property, plant and equipment

#### Group

	<b>Fixtures, fittings and equipment £'000</b>
<b>Cost</b>	
At 1 April 2015	140,990
Acquired through business combinations	2,545
Re-measurement of provisional amounts from prior year business combinations	429
Additions	26,854
Disposals	(2,435)
Impairment charge	(545)
	<hr/>
At 31 March 2016	167,838
<b>Accumulated depreciation</b>	
At 1 April 2015	51,486
Charge for the year	18,750
Disposals	(1,750)
	<hr/>
At 31 March 2016	68,486
<b>Net book value</b>	
At 31 March 2016	99,352
	<b>Fixtures, fittings and equipment £'000</b>
<b>Cost</b>	
At 1 April 2016	167,838
Acquired through business combinations (note 34)	315
Re-measurement of provisional amounts from prior year business combinations	477
Additions	19,538
Transfer from assets held for sale	175
Disposals	(470)
	<hr/>
At 31 March 2017	187,873
<b>Accumulated depreciation</b>	
At 1 April 2016	68,486
Charge for the year	20,702
Disposals	(111)
	<hr/>
At 31 March 2017	89,077
<b>Net book value</b>	
At 31 March 2017	98,796

## Notes to the consolidated financial statements (continued)

### 16 Property, plant and equipment (continued)

As at 31 March 2017, no assets are held under finance leases or hire purchase contracts (2016: 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 £14,614,000 (2016: £13,758,000) and £1,305,000 (2016: £1,250,000) 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 (2016: none).

### 17 Investments

#### Company

£'000

Investment at cost in subsidiary undertaking at 1 April 2016 and 31 March 2017

-

The company owns 100% of its immediate subsidiary, Turnstone Midco 1 Limited. The cost and book value of its investment in that entity is £1.

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, with the exception of PDS Dental Laboratories Leeds Limited, A-List Dentistry Limited, Denture Excellence Limited and Denture Excellence (Franchising) Limited in which the group holds a 90% interest in the ordinary share capital (2016: 90%). Denture Excellence (Franchising) Limited was incorporated as a wholly owned subsidiary of Denture Excellence Limited on 7 February 2017. All companies are included in the consolidation.

The company has provided a guarantee to the members of certain subsidiary companies (marked <sup>1</sup> 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 2017 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 <sup>a</sup>
Turnstone Midco 2 Limited	Non-trading	England <sup>a</sup>
Turnstone Bidco 1 Limited	Non-trading	England <sup>a</sup>
IDH Finance Plc	Group financing	England <sup>a</sup>
<sup>2</sup> @TheDentist Ltd	Dormant	England <sup>a</sup>
<sup>1</sup> A Dental Practice Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> A-List Dentistry Limited (formerly Changing Faces (West Yorkshire) Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Adelstone Dental Care Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> ADP Ashford Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> ADP Healthcare Acquisitions Limited	Non-trading	England <sup>a</sup>
<sup>2</sup> ADP Healthcare Limited	Dormant	England <sup>a</sup>
<sup>1</sup> ADP Healthcare Services Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> ADP Holdings Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> ADP No.1 Limited	Non-trading	England <sup>a</sup>
<sup>2</sup> ADP Yorkshire Ltd	Dormant	England <sup>a</sup>
<sup>1</sup> Aesthetic Dental Care Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Aesthetix Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Alendent Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Alison Brett Dental Care LLP	Dental practices	England <sup>a</sup>
<sup>2</sup> A-Z Dental Holdings (Subsidiary Number 1) Limited	Dormant	England <sup>a</sup>

## Notes to the consolidated financial statements (continued)

### 17 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation
<sup>2</sup> A-Z Dental Holdings (Subsidiary Number 2) Limited	Dormant	England <sup>a</sup>
<sup>1</sup> A-Z Dental Holdings Limited	Non-trading	England <sup>a</sup>
Billerica Dental Supply Co. Limited	Healthcare goods and services	England <sup>a</sup>
<sup>1</sup> Bramora Limited	Dental practices	England <sup>a</sup>
<sup>2</sup> Butler and Finnigan Dental Practice Ltd	Dormant	England <sup>a</sup>
<sup>1</sup> Castle Hill Dental Practice Limited	Dental practices	England <sup>a</sup>
Chapel Road Orthodontics Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Church Street Dentists Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Clarendon Dental Practice Limited	Dental practices	England <sup>a</sup>
Community Dental Centres Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Confident Dental Practices Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Cromwell Dental Practice Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> D and L Jordan Limited	Dental practices	England <sup>a</sup>
DBG (UK) Limited	Healthcare goods and services	England <sup>a</sup>
DBG Acquisitions Limited	Non-trading	England <sup>a</sup>
<sup>2</sup> DBG Subsidiary Limited	Dormant	England <sup>a</sup>
DBG Topco Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> Dental Aesthetics Limited	Dental practices	Northern Ireland <sup>c</sup>
<sup>1</sup> Dental Excellence Group Limited	Non-trading	Northern Ireland <sup>c</sup>
<sup>1</sup> Dental Excellence Limited	Dental practices	Northern Ireland <sup>c</sup>
<sup>2</sup> Dental Health Care Limited	Dormant	England <sup>a</sup>
<sup>1</sup> Dental Talent Tree (Recruitment) Limited	Dental recruitment	England <sup>a</sup>
Denticare Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Denticare Properties Limited	Dormant	England <sup>a</sup>
Denture Excellence Limited	Dental practices	England <sup>a</sup>
<sup>2</sup> Denture Excellence (Franchising) Limited	Dormant	England <sup>a</sup>
<sup>1</sup> DH Dental Holdings Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> Diverse Acquisitions Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> Diverse Holdings Limited	Non-trading	England <sup>a</sup>
<sup>2</sup> Diverse Property Investments Limited	Dormant	England <sup>a</sup>
<sup>1</sup> DM and LJ Jordan Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> DM Jordan Limited	Dental practices	England <sup>a</sup>
DMJ Norwich Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Dolby Medical Limited	Equipment servicing	Scotland <sup>b</sup>
<sup>1</sup> Dolby Medical EBT Trustee Limited	Non-trading	Scotland <sup>b</sup>
<sup>1</sup> Du Toit and Burger Partnership (Harwich) Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> Du Toit and Burger Partnership (Ipswich) Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> Du Toit and Burger Partnership (Silvertown) Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> Du Toit and Burger Partnership (Stratford) Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> Du Toit and Burger Partnership (Sudbury) Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> Du Toit and Burger Partnership Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Durgan and Ashworth Dental Care Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Euxton (No 1) Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Falchion Orthodontics Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Fallowfield (No 1) Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Family Dental Care Limited	Dental practices	Scotland <sup>b</sup>
Ffolliott Bird Associates Limited	Dental practices	England <sup>a</sup>
First Choice Dental Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Flagstaff Dental Clinic Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Fleetwood Practice Limited	Dental practices	England <sup>a</sup>
<sup>2</sup> Hackremoo (No. 2637) Limited	Dormant	England <sup>a</sup>
<sup>1</sup> Halldent Limited	Dental practices	England <sup>a</sup>
<sup>2</sup> Handpiece Express Limited	Dormant	England <sup>a</sup>
<sup>1</sup> Hayle Dental Practice Limited	Dormant	England <sup>a</sup>
Healthcare Buying Group Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> Hessle Grange Dental Care Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Hillcrest Ionian Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Hirst and O'Donnell Ltd	Dental practices	England <sup>a</sup>
HM Logistics Limited	Healthcare goods and services	England <sup>a</sup>
<sup>1</sup> IDH 324 & 325 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 331 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 341 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 346 Ltd	Dental practices	England <sup>a</sup>

## Notes to the consolidated financial statements (continued)

### 17 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation
<sup>1</sup> IDH 363 Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 403 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 406 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 418 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 437 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 441 to 444 Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 449 Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 450 Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 474 Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 476 Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 477 Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH 622 Limited	Dental practices	England <sup>a</sup>
IDH Acquisitions Limited	Non-trading	England <sup>a</sup>
IDH Group Limited	Non-trading	England <sup>a</sup>
IDH Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> IDH Mansfield Ltd	Dental practices	England <sup>a</sup>
Integrated Dental Holdings Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> Jackro Healthcare Services Limited	Dental practices	England <sup>a</sup>
KH&GW Limited	Dental practices	England <sup>a</sup>
M C Dentistry Limited	Dental practices	England <sup>a</sup>
<sup>1,5</sup> Maidwell Dental Practice Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Mainstone Health Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Manchester Orthodontists Limited	Dental practices	England <sup>a</sup>
Med-FX Limited	Distributor of facial aesthetics products	England <sup>a</sup>
<sup>1</sup> Mi-Tec Limited	Equipment repair	England <sup>a</sup>
<sup>1</sup> Mintek UK Limited	Healthcare goods and services	England <sup>a</sup>
<sup>1</sup> Murgelas Practice Management Limited	Dental practices	England <sup>a</sup>
<sup>2</sup> My Dental Holdings Limited	Non-trading	England <sup>a</sup>
<sup>2</sup> MyDentist Limited	Dormant	England <sup>a</sup>
<sup>1</sup> Natural Management Ltd	Non-trading	England <sup>a</sup>
<sup>1,5</sup> NS Dental Limited	Dental practices	Scotland <sup>b</sup>
<sup>1</sup> Offerton Fold Dental Practice Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> Olivers Dental Studio Limited	Dental practices	England <sup>a</sup>
Orthocentres Limited	Dental practices	England <sup>a</sup>
Orthodontic Centre (UK) Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Orthodontic Services Limited	Dental practices	Northern Ireland <sup>c</sup>
Orthoworld 2000 Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Orthoworld Limited	Non-trading	England <sup>a</sup>
<sup>2</sup> OurDentist Ltd	Dormant	England <sup>a</sup>
<sup>1</sup> Padgate (No 1) Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Palmerston Precinct Practice Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> PDS Dental Laboratories Leeds Limited	Dental laboratory	England <sup>a</sup>
<sup>1</sup> Pearl Bidco Limited	Non-trading	England <sup>a</sup>
<sup>3</sup> Pearl Cayman 1 Limited	Non-trading	Cayman Islands <sup>e</sup>
<sup>3</sup> Pearl Cayman 2 Limited	Non-trading	Cayman Islands <sup>e</sup>
<sup>1</sup> Pearl Topco Limited	Non-trading	England <sup>a</sup>
Petrie Tucker and Partners Limited	Dental practices	Scotland <sup>a,b</sup>
<sup>1</sup> Phoenix Dental Practice Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Phoenix Dental Limited	Dental practices	England <sup>a</sup>
<sup>1,5</sup> Pierce & Geddes Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> PJ Burrbridge Ltd	Dental practices	England <sup>a</sup>
<sup>1</sup> Premier Dental Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Priory House Dental Care Limited	Dental practices	England <sup>a</sup>
Q Dental Care Limited	Dental practices	England <sup>a</sup>
<sup>2</sup> Q Dental Surgeries Limited	Dormant	England <sup>a</sup>
<sup>1</sup> Queensferry Dental Surgery Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Richmond House Practice Limited	Dental practices	England <sup>a</sup>
Richard Flanagan & Associates Limited	Dental practices	England <sup>a</sup>
Romford Orthodontics Centre Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> S L S Dental Care Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Salcombe Dental Practice Limited	Dental practices	England <sup>a</sup>
<sup>1</sup> Shadeshire Limited	Non-trading	England <sup>a</sup>
<sup>1</sup> Silverdale Dental Care Ltd	Dental practices	England <sup>a</sup>

## Notes to the consolidated financial statements (continued)

### 17 Investments (continued)

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

<sup>1</sup> Company exempt from audit under section 479A of the Companies Act 2006

<sup>2</sup> Company exempt from audit under section 480 of the Companies Act 2006

<sup>3</sup> Company exempt from audit by virtue of the legislation in the country of incorporation.

<sup>4</sup> Countries of operation are England, Scotland and Wales

<sup>5</sup> Company acquired during the year ended 31 March 2017

<sup>a</sup> Registered office address: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester, M26 1GG

<sup>b</sup> Registered office address: 1 Johnston Street, Paisley, Renfrewshire, Scotland, PA1 1XQ

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

<sup>d</sup> Registered office address: PO Box 771, Ground Floor, Colomberie Close, St Helier, Jersey, JE4 0RX

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

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 Dental Practice Partnership	Red Rose Dental Group
1A Group Dental Practice Partnership	Rhos Road Dental Practice Partnership
Abercromby Health Centre Partnership	Rhyl and Abergele Elwy Dental Partnership
Amit Rai and Fizan Tahir Partnership	Ripponden Road Dental Practice Partnership
Ardent Dental Care Practice Partnership	Risley Hill Dental Centre Partnership
Armley Dental Practice Partnership	River Wye Dental Practice Partnership
Aspire Dental Practice Partnership	*Roe Lane Family Dental Practice Partnership
Avante Dental Care Practice Partnership	Saint Andrews Dental Practice Partnership
Avondale Dental Practice Partnership	Severn Street Dental Practice Partnership
Bank House Dental Practice	Sevenside Dental Practice Partnership
Barber Road Dental Practice Partnership	*Shaw Family Dental Practice Partnership
Berwick Dental Practice Partnership	Shelldrake 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
*Brighton Hill Dental Practice Partnership	Spittal Hill Dental Surgery Practice Partnership
Brinsworth Lane Dental Care Partnership	Stanhope Road Dental Practice Partnership

## Notes to the consolidated financial statements (continued)

### 17 Investments (continued)

#### Name of partnership

Brixton Hill Dental Practice Partnership  
Broadwalk Dental Partnership  
Caldy Road Dental Practice Partnership  
Carcroft Dental Practice Partnership  
Castle View House Dental Practice Partnership  
Castlegate 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  
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  
Gairloch House Dental Practice Partnership  
Green Lane Dental Practice Partnership  
Hampton Court Dental Centre Partnership  
Harbour Dental Practice Partnership  
Hartlepool 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

Horncastle 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  
Olivers Dental Studio Partnership  
Ormesby Dental Practice Partnership  
Picton Road Dental Practice Partnership  
Railway Road Dental Practice Partnership

#### Name of partnership

\*Stanford Road Dental Practice Partnership,  
The Birley Moor Dental Practice Partnership  
The Boulevard Dental Practice Partnership  
The Burnby Dental Practice Partnership  
The Burnham Dental Practice Partnership  
The Bury 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 Fern 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 Heiston 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 Llangeferri Dental Practice Partnership  
The Loddon Dental Practice Partnership  
The London Road Dental Practice Partnership  
The Lypard Dental Centre Practice Partnership  
The Marden House Dental Practice Partnership  
The Nelson Street Dental Practice Partnership  
The Newcastle Dental Care 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 Queen Street Dental Practice Partnership  
The Sea Road Dental Practice Partnership  
The Southwick and Whitburn Dental Practice Partnership  
The Trewherie Dental Practice Partnership  
The Victoria Road Dental Practice Partnership  
The Warner Street Dental Practice Partnership  
The White House Dental Practice Partnership  
The Yeading Lane 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  
William Shardlow Dental Practice Partnership  
Woodview Dental Health Practice Partnership

\* Denotes partnership acquired during the year ended 31 March 2017

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



## Notes to the consolidated financial statements (continued)

### 17 Investments (continued)

#### Group

The group does not own any investments (2016: none).

### 18 Inventories

	Group 2017 £'000	Group 2016 £'000
Dental practice consumables	5,539	6,992
Goods for resale	14,170	13,558
	<b>19,709</b>	<b>20,550</b>

The cost of inventories recognised as an expense within cost of sales during the year amounted to £91.4 million (2016: £84.3 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 £999,000 (2016: £2,975,000).

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

#### Company

The company has no inventories (2016: £nil).

### 19 Trade and other receivables

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
<b>Current</b>				
Trade receivables	19,358	-	19,292	-
Amounts owed by group undertakings	-	12	-	12
Amounts owed by related undertakings	283	-	272	-
Other assets	1,847	-	4,821	-
Prepayments	7,937	-	8,260	-
Accrued income	12,079	-	16,884	-
	<b>41,504</b>	<b>12</b>	<b>49,529</b>	<b>12</b>
<b>Non-current</b>				
Amounts owed by group undertakings	-	3,610	-	3,223
Other assets	-	-	958	-
	-	<b>3,610</b>	<b>958</b>	<b>3,223</b>

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 2017 includes accrued interest of £1,760,000 (2016: £1,373,000).

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.

## Notes to the consolidated financial statements (continued)

### 19 Trade and other receivables (continued)

Other assets include funds held in ring-fenced escrow accounts for the settlement of contingent consideration obligations arising from acquisitions. Amounts included within non-current assets at 31 March 2016 were due for settlement after more than one year.

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 2017 £'000	Group 2016 £'000
Sterling	41,436	49,601
Euro	68	886
	<b>41,504</b>	<b>50,487</b>

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

As at 31 March 2017, trade receivables of £992,000 were past due and partially impaired (2016: £777,000). A provision for impairment is established based on historical experience. The individually impaired receivables principally relate to businesses within Dental Directory. The ageing of these receivables is as follows:

	Group 2017 £'000	Group 2016 £'000
Not overdue	-	64
One month to six months overdue	39	230
Over six months overdue	953	483
	<b>992</b>	<b>777</b>

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

	Group 2017 £'000	Group 2016 £'000
At 1 April	608	843
Acquired through business combinations	30	73
Impairment losses recognised	31	126
Amounts written off as uncollectable	(156)	(76)
Amounts collected	(2)	(26)
Unused amounts reversed	(131)	(332)
	<b>380</b>	<b>608</b>

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

## Notes to the consolidated financial statements *(continued)*

### 20 Assets classified as held for sale

Assets classified as held for sale comprise freehold and long leasehold properties which have been acquired as part of dental practice acquisitions. These are actively being marketed for sale and the directors have a reasonable expectation that a sale will be completed within twelve months of the balance sheet date. All amounts are denominated in Sterling.

	Group 2017 £'000	Group 2016 £'000
Assets classified as held for sale	265	440

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, and is therefore within level 2 of the fair value hierarchy. Level 2 fair values of land and buildings have been derived using the sales comparison approach. Sale prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

#### Company

The company has no assets classified as held for sale (2016: £nil).

### 21 Cash and cash equivalents

	Group 2017 £'000	Company 2017 £'000	Group 2016 £'000	Company 2016 £'000
Cash at bank and in hand	12,717	40	15,066	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 30.

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

	Group 2017 £'000	Group 2016 £'000
Sterling	11,832	13,369
Euro	760	1,086
US Dollar	88	432
Other currencies	37	179
	<b>12,717</b>	<b>15,066</b>

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

## Notes to the consolidated financial statements (continued)

### 22 Trade and other payables

	Group 2017 £'000	Group 2016 £'000
<b>Current</b>		
Trade payables	21,650	22,882
Accruals	90,716	79,858
Deferred income	1,302	1,271
Other taxation and social security	4,408	4,628
Contingent consideration	3,115	5,715
Government grants	55	64
	<b>121,246</b>	<b>114,418</b>
<b>Non-current</b>		
Contingent consideration	1,032	2,932
Government grants	205	254
	<b>1,237</b>	<b>3,186</b>

Included within accruals is an amount due to the NHS of £40,396,000 in respect of UDA's not delivered of (2016: £32,982,000) along with fees of £25,639,000 payable to self-employed dentists in respect of work completed (2016: £24,974,000).

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. The fair value estimates have been calculated using a discount rate of 5% (2016: 5%). The discount rate of 5% was selected as an approximation to a 'risk free' rate of return. This is a level 3 fair value measurement (see note 30).

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 2017 £'000	Group 2016 £'000
Sterling	118,844	113,280
Euro	3,451	3,856
US Dollar	120	332
Other currencies	68	136
	<b>122,483</b>	<b>117,604</b>

### Company

The company has no trade or other payables (2016: £nil).

## Notes to the consolidated financial statements (continued)

### 23 Derivative financial instruments

#### Derivative financial assets/(liabilities)

	Group 2017 £'000	Group 2016 £'000
<b>Current assets</b>		
Foreign exchange forward contracts	-	698
Unquoted options	7	41
	7	739
<b>Current liabilities</b>		
Interest rate swap contracts	(493)	-
Foreign exchange forward contracts	(125)	-
Unquoted options	(18)	(92)
	(636)	(92)
<b>Non-current liabilities</b>		
Interest rate swap contracts	-	(2,033)
	(629)	(1,386)

#### *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 30).

#### *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.

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 fair value of these unquoted options (which combine call options held by the group and put options written by the group) have been determined using appropriate option pricing models, including the Black Scholes model. This is a level 3 fair value measurement (see note 30).

#### *Fair value of interest rate swap contracts*

The group enters into fixed-to-floating interest rate swaps to hedge the interest rate risk arising where it has borrowed at floating rates. At 31 March 2017, the group holds two interest rate swap contracts to swap LIBOR for a fixed rate. One contract for a notional principal amount of £62.50 million matures on 1 June 2017 and interest is fixed at 1.9125%. The second contract, also for a notional principal amount of £62.50 million, matures on 1 June 2017 and interest is fixed at 1.9210%.

The fair value of the interest rate swap contracts is calculated as the present value of the estimated future cash flows based on observable yield curves. This is a level 2 fair value measurement (see note 30).

#### **Company**

The company has no derivative financial instruments (2016: £nil).

## Notes to the consolidated financial statements (continued)

### 24 Borrowings

	Group 2017 £'000	Group 2016 £'000
<b>Non-current</b>		
<i>Senior secured fixed rate, floating rate and second lien notes</i>		
Due between two and five years	-	500,741
Due after five years	550,216	-
	<b>550,216</b>	<b>500,741</b>
<i>Bank loans</i>		
Due between two and five years	-	39,000
Less: unamortised arrangement fees and related costs	(10,050)	(7,873)
	<b>540,166</b>	<b>531,868</b>
Loan notes (due after more than five years)	587,311	524,386
Redeemable preference shares (due after more than five years)	45,335	40,478
	<b>1,172,812</b>	<b>1,096,732</b>

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.

#### *Senior secured fixed rate, floating rate and second lien notes*

On 5 August 2016, the group re-financed its existing senior secured notes, due 2018, and second lien notes, due 2019, with an aggregate par value of £500 million, along with its £100 million Super Senior Revolving Credit Facility ("SSRCF") against which £39 million was drawn at that date. The senior secured fixed rate notes were redeemed at 101.5, a premium of 1.5% to par, the senior secured floating rate notes were redeemed at par and the second lien notes were redeemed at 104.25, a premium of 4.25% to par. The redemption, which extinguished all of the group's existing borrowings, was financed, along with the associated transaction fees and expenses, through the issue of £275 million of senior secured fixed rate notes, £150 million of senior secured floating rate notes and £130 million of second lien notes. On the same date, Turnstone Bidco 1 Limited entered into an agreement with a syndicate of banks for a new £100 million SSRCF, available until 25 July 2022.

As at 31 March 2017, the group has 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'). The facility was undrawn at 31 March 2017. Interest is payable in arrears at a rate of LIBOR plus 3.5% per annum.

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 30.

## Notes to the consolidated financial statements *(continued)*

### 24 Borrowings *(continued)*

The market value of the senior secured fixed rate notes and the senior secured floating rate notes at 31 March 2017 was approximately £408 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 a price of 101% of par between 15 August 2017 and 14 August 2018; or at par between 15 August 2018 and 14 August 2019.

The above call options are not considered by the directors to have any value at 31 March 2017. 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. The notes are redeemable in full on 11 May 2021. At 31 March 2017, interest of £272.80 million was accrued on these notes (2016: £209.88 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 and are repayable on the earlier of 11 May 2021 or an exit by majority shareholders. At 31 March 2017, 23,627,422 £1 preference shares were in issue (2016: 23,627,422). Preference share dividends of £21.71 million were accrued at 31 March 2017 (2016: £16.85 million).

#### **Company**

The company has no borrowings (2016: £nil).

## Notes to the consolidated financial statements (continued)

### 25 Provisions

Group	Above market rental £'000	Vacant property and dilapidations £'000	Total £'000
At 1 April 2015	5,103	4,165	9,268
Arising through business combinations	-	170	170
Re-measurement of provisional amounts from prior year business combinations	-	(162)	(162)
Charged to the income statement	-	1,213	1,213
Utilised in the financial year	(1,024)	(304)	(1,328)
Unwinding of discount	204	24	228
At 31 March 2016	4,283	5,106	9,389
	Above market rental £'000	Vacant property and dilapidations £'000	Total £'000
At 1 April 2016	4,283	5,106	9,389
Arising through business combinations (note 34)	-	30	30
Re-measurement of provisional amounts from prior year business combinations	-	(80)	(80)
(Credited)/charged to the income statement	(5)	259	254
Utilised in the financial year	(854)	(466)	(1,320)
Unwinding of discount	171	56	227
At 31 March 2017	3,595	4,905	8,500
		Group 2017 £'000	Group 2016 £'000
Current		1,536	1,786
Non-current		6,964	7,603
		8,500	9,389

#### **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 £4.3 million (2016: £5.2 million) has been discounted to present value using a rate of 5% (2016: 5%). The discount rate of 5% 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.

The provisions are expected to be substantially utilised over the next five years.

**Company:** The company has no provisions (2016: £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% (2016: 18%). See also note 13. The movement on the deferred income tax account is as shown below:

	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 2015	83	9,755	(54,785)	629	(44,318)
Recognised in income	6	941	2,558	(326)	3,179
Change of tax rate recognised in income	-	(976)	5,673	(63)	4,634
Recognised in other comprehensive expense	(89)	-	-	-	(89)
Arising through business combinations	-	(229)	(4,498)	-	(4,727)
At 31 March 2016	-	9,491	(51,052)	240	(41,321)
Recognised in income	1	3,707	5,522	(143)	9,087
Change of tax rate recognised in income	-	(550)	2,789	(13)	2,226
Recognised in other comprehensive expense	54	-	-	-	54
Arising through business combinations	-	(34)	(1,060)	-	(1,094)
At 31 March 2017	55	12,614	(43,801)	84	(31,048)

The group has estimated non-trade losses of £27.5 million (2016: £21.6 million) available for carry forward against future non-trade profits. A deferred income tax asset of £4.7 million (2016: £3.9 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 £5.0 million is expected to unwind to the income statement during the year ending 31 March 2018.

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

	Arising on defined benefit pension obligation £'000	Accelerated capital allowances £'000	Arising on intangible assets £'000	Arising on financial assets £'000	Total £'000
<b>Assets</b>					
At 31 March 2016	-	9,491	-	240	9,731
At 31 March 2017	55	12,614	-	84	12,753
<b>Liabilities</b>					
At 31 March 2016	-	-	(51,052)	-	(51,052)
At 31 March 2017	-	-	(43,801)	-	(43,801)

Company: The company has no deferred income tax (2016: £nil).

## Notes to the consolidated financial statements *(continued)*

### 27 Share capital

Group and company	Number issued	2017 £'000	Number issued	2016 £'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
	<hr/>		<hr/>	
	1,999,999	30	1,999,999	30

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.

### 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 Commitments and contingencies

#### Group

##### *(a) 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 2017 £'000	Group 2016 £'000
<b>Land and buildings</b>		
Within one year	13,817	13,071
Between one year and five years	48,850	47,909
After five years	65,989	67,515
	<hr/> 128,656	<hr/> 128,495
<b>Other</b>		
	Group 2017 £'000	Group 2016 £'000
Within one year	898	1,033
Between one year and five years	865	1,123
	<hr/> 1,763	<hr/> 2,156

##### *(b) Contingencies*

###### *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 (2016: £1.8 million).

#### Company

##### *Guarantee over the liabilities of subsidiaries*

The company has provided a guarantee to the members of certain subsidiary companies, as identified in note 17, 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 in note 17 are exempt from audit of their individual company financial statements for the year ended 31 March 2017 by virtue of section 479A of the Companies Act 2006.

## Notes to the consolidated financial statements *(continued)*

### 30 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.

#### *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.

During the year the group held two fixed interest rate contracts totalling £125 million. This, in addition to the fixed rate nature of a further £275 million of the group's senior secured and second lien notes, means that interest charges are fixed in respect of 72% of the group's total drawn debt (2016: 74%). 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)*

### 30 Financial instruments *(continued)*

#### Sensitivity analysis

Management have considered the risk of changes in interest rates upon the group's financial performance. The majority (72%; 2016: 74%) of the group's external debt is subject to fixed interest rates or is hedged through interest rate swap contracts 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 £0.7 million or £0.3 million respectively, based upon the funding structure in place at 31 March 2017.

#### 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 2017 £'000	Group 2016 £'000
EBITDA before non-underlying items	68,809	80,154
Net bank and bond debt	527,449	516,802
Net debt to EBITDA	7.67	6.45

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 ('Proforma LTM EBITDA'). Since 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, management considers that this more accurately represents the net indebtedness relative to earnings.

As at 31 March 2017, the estimated ratio of net debt to Proforma LTM EBITDA was 7.50 times (2016: 6.09 times)

#### EBITDA interest cover

	Group 2017 £'000	Group 2016 £'000
EBITDA before non-underlying items	68,809	80,154
Cash finance costs	40,515	35,082
EBITDA interest cover	1.70	2.28

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 new 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 the facility was undrawn at 31 March 2017, 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)

### 30 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 2016

	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000
Loans and borrowings	-	-	539,741	564,864
Trade and other payables	108,519	1,959	1,053	69
	<u>108,519</u>	<u>1,959</u>	<u>540,794</u>	<u>564,933</u>

#### At 31 March 2017

	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000
Loans and borrowings	-	-	-	1,182,862
Trade and other payables	115,536	747	470	20
	<u>115,536</u>	<u>747</u>	<u>470</u>	<u>1,182,882</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 2017			At 31 March 2016		
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Financial assets</b>						
Assets held for sale	-	265	-	-	440	-
Derivative financial instruments	-	-	7	-	698	41
<b>Financial liabilities</b>						
Derivative financial instruments	-	(618)	(18)	-	(2,033)	(92)
Contingent consideration	-	-	(4,147)	-	-	(8,647)

## Notes to the consolidated financial statements (continued)

### 30 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 (2016: 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 2017 £'000	Group 2016 £'000
At 1 April	8,647	10,027
Arising through business combinations	1,000	2,528
Re-measurement of provisional amounts from prior year business combinations	(297)	-
Short term retentions	358	1,041
Contingent consideration settled	(859)	(935)
Contingent consideration settled from escrow funds	(1,978)	(1,309)
Short term retentions settled	(718)	(1,079)
Differences between contingent consideration paid and estimates initially recognised	(2,152)	(2,158)
Unwinding of discount	146	532
<b>At 31 March</b>	<b>4,147</b>	<b>8,647</b>

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 2017 £'000	Group 2016 £'000	Group 2017 £'000	Group 2016 £'000
At 1 April	41	-	(92)	-
Arising through business combinations	-	41	-	(92)
Change in fair value through profit or loss	(34)	-	74	-
<b>At 31 March</b>	<b>7</b>	<b>41</b>	<b>(18)</b>	<b>(92)</b>

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)*

### 31 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 £836,000 (2016: £814,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year (2016: £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 2017 the group did not contribute directly to the scheme, however, the cost of insuring death in service benefits and other trustee expenses were paid by the group and amounted to £51,000 (2016: £39,000). The group does not expect to make contributions to the scheme or for 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 2014 and was updated for disclosure purposes to 31 March 2016 and 31 March 2017 by a qualified independent actuary.

The significant actuarial assumptions were as follows:

	Group 2017 %	Group 2016 %
Rate of increase in pensions in payment and deferred pensions	3.40	3.10
Discount rate applied to scheme liabilities	2.60	3.80
Inflation assumption	3.40	3.10

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 2017 will on average live for a further 22.9 years (2016: 22.8 years) after retirement if they are male and 25.3 years (2016: 25.2 years) if they are female.

It is also assumed that members retiring in 20 years' time will on average live for a further 24.2 years (2016: 24.1 years) after retirement if they are male and 26.7 years (2016: 26.6 years) if they are female.

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

	Group 2017 £'000	Group 2016 £'000
Present value of funded obligations	(5,410)	(4,293)
Fair value of plan assets	5,089	4,638
(Deficit)/surplus in the scheme	(321)	345
Less: surplus not recognised	.	(345)
<b>Deficit recognised in the balance sheet</b>	<b>(321)</b>	

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)

### 31 Post employment benefits (continued)

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

	Present value of funded obligations	2017 Fair value of plan assets	Surplus/ (deficit)	Present value of funded obligations	2016 Fair value of plan assets	Surplus/ (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April	(4,293)	4,638	345	(5,134)	4,720	(414)
Scheme expenses paid out	-	(20)	(20)	-	(20)	(20)
Interest (expense)/income	(159)	171	12	(158)	145	(13)
	(159)	151	(8)	(158)	125	(33)
Re-measurement:						
Return on plan assets excluding interest income	-	539	539	-	(129)	(129)
Re-measurement gain from changes in demographic assumptions	-	-	-	232	-	232
Re-measurement (loss)/gain from changes in financial assumptions	(1,249)	-	(1,249)	704	-	704
Experience gain/(loss)	52	-	52	(15)	-	(15)
	(1,197)	539	(658)	921	(129)	792
Benefits paid	239	(239)	-	78	(78)	-
At 31 March	(5,410)	5,089	(321)	(4,293)	4,638	345

Plan assets are comprised as follows:

	Value	2017 Percentage of plan assets	Value	2016 Percentage of plan assets
	£'000	%	£'000	%
Equities	2,382	47%	1,937	42%
Bonds	2,615	52%	2,476	53%
Property	66	1%	214	5%
Cash	26	-	11	-
<b>Total market value of plan assets</b>	<b>5,089</b>	<b>100%</b>	<b>4,638</b>	<b>100%</b>

The sensitivity of the 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 13%
Rate of inflation	Increase by 0.5%	Increase by 7%
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)

### 32 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 (2016: £254.95 million). During the year to 31 March 2017, interest of £51.15 million was accrued (2016: £45.78 million). The total amount of accrued interest due at 31 March 2017 is £222.44 million (2016: £171.29 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 (2016: £59.56 million). During the year to 31 March 2017, interest of £11.78 million was accrued (2016: £10.54 million). The total amount of accrued interest due at 31 March 2017 is £50.36 million (2016: £38.58 million).

ADP Primary Care Acquisitions Limited also holds preference shares in Turnstone Midco 1 Limited with a par value of £20.00 million (2016: £20.00 million). During the year to 31 March 2017, dividends of £4.18 million were accrued (2016: £3.74 million). The total amount of accrued dividends due at 31 March 2017 is £19.02 million (2016: £14.84 million).

#### Company

##### Loan notes

The company holds £1.85 million of loan notes issued by the company's immediate subsidiary, Turnstone Midco 1 Limited (2016: £1.85 million). During the year to 31 March 2017, interest of £0.39 million was accrued (2016: £0.35 million). The total amount of accrued interest due to the company at 31 March 2017 is £1.76 million (2016: £1.37 million).

### 33 Cash generated from operations

	Group 2017 £'000	Group 2016 £'000
Loss before income tax	(144,927)	(86,598)
<i>Adjustments:</i>		
Depreciation of property, plant and equipment	20,702	18,750
Amortisation of government grants	(60)	(154)
Amortisation of intangible assets	32,784	31,647
Impairment of goodwill and intangible assets	30,000	
Finance costs	123,824	99,331
Finance income	(1,590)	(1,140)
Loss on business and asset disposals	1,419	2,614
Differences between contingent consideration paid and estimates initially recognised	(2,152)	(2,158)
Defined benefit pension scheme expenses paid	20	20
Loss/(gain) from derivative financial instruments at fair value through profit or loss	783	(424)
<b>Cash generated from operations before movements in working capital</b>	<b>60,803</b>	<b>61,888</b>
<i>Movements in working capital:</i>		
Decrease in inventories	682	2,157
Decrease/(increase) in trade and other receivables	5,078	(6,526)
Increase in trade and other payables	7,676	23,848
Decrease in provisions	(1,303)	(1,387)
<b>Total movements in working capital</b>	<b>12,133</b>	<b>18,092</b>
<b>Cash generated from operations</b>	<b>72,936</b>	<b>79,980</b>

## Notes to the consolidated financial statements (continued)

### 34 Business combinations

#### *mydentist*

During the year mydentist acquired the entire issued share capital of three companies incorporating three dental practices. The group also acquired the businesses of a further three unincorporated dental practices. The directors consider each of these acquisitions to be individually immaterial to the group having considered a range of qualitative and quantitative factors. Therefore, these acquisitions have been aggregated for disclosure purposes. Details of the companies and partnerships acquired are set out in note 17.

	£'000
<b>Consideration</b>	
Cash	10,658
Contingent consideration	1,000
	<hr/>
<b>Total consideration</b>	<b>11,658</b>
	<hr/>
<b>Fair value of assets and liabilities acquired</b>	
Intangible assets	6,233
Property, plant and equipment	315
Inventories	2
Trade and other payables	(480)
Deferred income tax	(1,094)
Provisions	(30)
	<hr/>
<b>Total identifiable net assets</b>	<b>4,946</b>
	<hr/>
<b>Goodwill</b>	<b>6,712</b>
	<hr/>
<b>Total</b>	<b>11,658</b>

Included within the cash consideration are loans made by the acquiring entities to the acquired company in order to settle vendor shareholder loans of £0.1 million.

In addition to the consideration shown above, acquisition related fees and expenses of £0.7 million were incurred. All fees and expenses have been expensed to administrative expenses within the income statement and are shown separately in note 5.

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. The fair value estimates have been calculated using a discount rate of 5%. The discount rate of 5% was selected as an approximation to a 'risk free' rate of return. This is a level 3 fair value measurement (see note 30).

Goodwill represents additional synergies and benefits that the group expects to derive from the businesses acquired.

During the year ended 31 March 2017, the above acquisitions contributed revenue of £2.9 million and EBITDA before non-underlying items of £0.8 million to the group results. If the above acquisitions had all been completed on 1 April 2017, their contribution to group revenue and EBITDA before non-underlying items would have been approximately £5.7 million and £1.7 million respectively.

## **Notes to the consolidated financial statements *(continued)***

### **35 Subsequent events**

Since 31 March 2017, the group has acquired one additional dental practice for a total consideration of £1.6 million and has closed one dental practice.

### **36 Controlling party**

At 31 March 2017 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.

At 31 March 2017 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, an investment vehicle for The Carlyle Group.