IDH Finance plc

Quarterly Financial Report
3 months ended 30 June 2013

Contents

Presentation of financial data

This report summarises consolidated financial and operating data derived from the unaudited consolidated financial statements of Turnstone Midco 2 Limited, the parent company of IDH Finance plc. The summary financial information provided has been derived from our records for the three month accounting period to 30 June 2013 which are maintained in accordance with UK GAAP. The interim results are not necessarily indicative of the results to be expected for the full year.

The report includes the period prior to the closing of the notes offering by IDH Finance plc, which took place on 30 May 2013 ("closing").

We have presented certain non-GAAP information in the quarterly report. This information includes "EBITDA", which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items. Our management believes EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt. EBITDA is also used by management to track our business development, establish operational and strategic targets and make important business decisions. EBITDA is the measure commonly used by investors and other interested parties in our industry.

Comparative information has been provided for the quarter ended 30 June 2012. Information presented in this report and described as like-for-like excludes any practices or other operating units trading in the group in the current financial year or the year ended 31 March 2013 but not in both.

References to "Integrated Dental Holdings", "IDH" and "the group" refer to Turnstone Midco 2 Limited and all of its subsidiaries.

DISCLAIMER

Summary highlights

- IDH's operational performance in the three months ended 30 June 2013 benefited from both the increased scale of the business due to practice acquisitions and improving performance in existing practices.
- 19 practices were acquired by the group during the quarter – total practices increased to 550.
- The Dental Buying Group ("dbg") was acquired by the group on 16 April 2013.
- IDH Finance plc raised £400m on 30 May 2013 from the issue of £200m 6% Senior notes, £125m Floating Rate (LIBOR +5.0%) notes and £75m 8.5% Second Lien notes. The funds raised, after fees incurred in the process, were used to repay existing bank debt and to re-finance £50m of shareholder debt.
- EBITDA before exceptional items for the quarter increased to £15.4m, 21.1% up on the three months to 30 June 2012.
- Year on year turnover growth, predominantly driven by acquisitions through the year, was 20.7%.
- Like-for-like private revenue growth of 5.6% arising from the development of additional services.
- Gross margin percentage up year-on-year: 47.4% to 47.8%.
- Administrative expenses, excluding depreciation and goodwill amortisation, as a percentage of turnover consistent with prior periods at 32.7%.
- Increase in LTM EBITDA to £59.0m and pro-forma EBITDA to £70.3m.
- Operating cash generated of £8.2m.
- Maintenance capital expenditure for the quarter ended 30 June 2013 was £4.6m and includes expenditure on the completion of the recently opened IDH Academy.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 75.5%.
- £50.7m was spent on acquiring practices and dbg during the quarter.
- Cash and cash equivalents at 30 June 2013 was £24.3m and net debt was £360.9m.
- Gearing levels are 6.12 times and 5.13 times on LTM EBITDA and pro-forma EBITDA respectively.

Management's discussion and analysis of financial condition and results of operations

Overview

Integrated Dental Holdings is pleased to announce its results for the quarter ended 30 June 2013. This quarterly report is the first to be presented since IDH Finance plc's offering of notes during May 2013.

IDH is the leading provider of dental services in the United Kingdom with a network of 550 dental practices throughout England, Scotland and Wales.

Our core business is the provision of primary care dental services on behalf of the NHS. The majority of our dental practices also provide private dentistry services including general dentistry, hygienist and cosmetic services. A small number of our practices also provide specialist and advanced services such as treatment under sedation, dental implants and orthodontics.

Commentary on results

The following discussion of IDH's financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes contained in this interim report.

The key performance indicators for the group during the financial year ended 31 March 2013 and for the quarter ended 30 June 2013 are provided below:

Key performance indicators		Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Turnover (£m)		81.8	84.4	88.3	94.4	98.7
EBITDA (£m)		12.7	13.2	14.4	16.1	15.4
LTM EBITDA (£m)		56.8	56.2	55.7	56.3	59.0
Operating profit (£m)		2.1	3.5	3.5	5.4	4.0
NHS dentistry services as a percentage of turnover	(1)	87.3%	87.6%	87.4%	87.8%	85.6%
Private dentistry services as a percentage of turnover		12.7%	12.4%	12.6%	12.2%	12.7%
Like-for-like private turnover growth		4.5%	1.3%	1.6%	3.9%	5.6%
Gross profit margin %		47.4%	47.3%	47.1%	47.7%	47.8%
Administrative expenses as a percentage of turnover		32.4%	32.2%	31.3%	31.2%	32.7%
EBITDA margin %		15.5%	15.6%	16.3%	17.0%	15.6%
Number of dental practices		498	506	514	532	550
Maintenance capital expenditure (£m)		2.2	3.3	2.8	3.5	4.6
Cash conversion after maintenance capital expenditure %	(2)	85.9%	96.4%	53.3%	73.7%	23.7%
Proforma EBITDA (£m)					70.2	70.3

(1) Other income streams including dbg turnover total £1.8m and represent 1.7% of the Group's turnover in Q1 2014.

(2) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q1 FY14 was 75.5%.

In the quarter ended 30 June 2013, we acquired 19 dental practices and merged 1 practice into an existing practice for a total of 550 dental practices in our estate as at the quarter end. In addition we also acquired a majority stake in the Dental Buying Group (“dbg”), a leading healthcare service provider in the UK.

Turnover

Group turnover increased by £16.9m or 20.7% from £81.8m for the three month period ended 30 June 2012 (“Q1 FY13”) to £98.7m for the three month period to 30 June 2013 (“Q1 FY14”). Turnover from dental practices increased by £15.1m from £81.8m to £97.0m. The remaining £1.8m increase was delivered from new services provided outside of the practices including dbg.

The primary driver in changes in our turnover was the contribution from acquired group practices which is analysed further in the table below for turnover from dental practices:

	Q1 2014 £'000	Q1 2013 £'000	Movement £'000
Practices owned as at 1 April 2012	86,223	80,919	5,304
Practices disposals for OFT clearance	-	341	(341)
Practices acquired or opened:			
During the 12 months ended 31 March 2013	7,713	556	7,157
During the 3 months ended 30 June 2013	3,027	-	3,027
Total	96,963	81,816	15,147

The 49 practices acquired during the period 1 April 2012 to 31 March 2013 (“FY13 acquisitions”) contributed turnover of £7.7m in the quarter ended 30 June 2013, a £7.2m increase over the £0.6m contributed by the 6 practices acquired in the period to 30 June 2013. The 19 practices acquired during Q1 FY14 (“FY14 acquisitions”) contributed £3.0m in the first three months of ownership reflecting the immediate revenue impact from acquired practices.

NHS revenue

NHS revenue for the quarter ended 30 June 2013 was £84.5m, an increase of £13.1m and 18.3% from £71.5m in Q1 FY13.

This increase was principally due to the impact of acquisitions with £8.6m generated by FY13 and FY14 acquisitions, offset by a £0.3m revenue decline due to the sale of practices during FY13 under the terms of the Office of Fair Trading (“OFT”) clearance for the merger of IDH and ADP.

Practices owned at 1 April 2012 increased their revenue from NHS contracts from £70.7m to £75.4m due to the 1.50% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) from 1 April 2013 and improved year on year delivery of the number of UDAs in the quarter. This was due in part to an increase in trading days with the additional Jubilee bank holiday in June 2012.

Included within the NHS Revenue number is £6.4m (Q1 FY13: £4.6m) generated from the delivery of Orthodontic services under contracts with NHS England.

Private revenue

Private revenue for the quarter ended 30 June 2013 was £12.4m, 20.0% higher than £10.4m for the equivalent period in FY13.

Practices owned at 1 April 2012 increased private sales by £0.6m or 5.6% to £10.8m for the quarter with acquired practices generating £1.6m additional private revenue. Private revenue increases have been generated through the development of additional services for the dentist associates to provide as well as increasing the range of our hygiene offering.

Other revenue

Other revenue of £1.8m has been generated from dbg, the IDH Academy and other services.

The dbg generates revenue through the sale of materials, equipment and services including planned equipment engineering maintenance to a customer/membership base of over 50% of UK dental practices and 25% of GP surgeries.

The IDH Academy was successfully opened on 29 May 2013 in Manchester and provides state-of-the-art training and development facilities for all dental professionals, not just those working in IDH practices. The Academy also operates an online e-learning portal providing a wide range of dental-specific and general personal development courses which in due course will be made available to non-IDH personnel and professionals.

Other services consisted of limited laboratory products and assistance with dental recruitment.

Cost of sales

Gross margin for the quarter ended 30 June 2013 was 47.8% a 0.4% increase from 47.4% in the quarter ended 30 June 2012.

Cost of sales increased from £43.0m by £8.5m to £51.5m for the quarter. The increase in the cost of sales is primarily the result of the increase in revenue in acquisition sites: FY13 and FY14 acquisitions increased cost of sales by £5.0m.

The increase in trading volumes and 1.5% NHS contract uplift were offset by some cost pressure in dentist fees, materials and laboratory costs.

The increase in dental fees was due to some increases in the overall UDA rates paid to dentists together with the mix effect of the increased participation in private turnover where the dentists are paid a higher percentage of revenue for their services.

The increase in materials and laboratory costs is due in part to the mix effect of increased participation in private turnover, particularly in the Orthodontic practices, together with increasing costs to maintain practice and surgery compliance. Management is working on various initiatives to improve this cost ratio in the next financial year.

Administrative expenses

Administrative expenses including goodwill amortisation and depreciation were £43.6m for Q1 FY14, an increase of £6.5m from £37.1m in the three months to 30 June 2012. Administrative expenses excluding goodwill amortisation, depreciation, grant income and exceptional items were £32.2m, an increase of £5.7m from £26.5m in Q1 FY13.

The movement in administrative expenses is mainly due to the practice overheads relating to acquisitions including staff costs, rent, utilities and equipment maintenance and central administrative increases for the additional practices.

The group’s largest overhead is the cost of staff working in dental practices, in operational management and at head office. In the quarter ended 30 June 2013, staff costs were £20.8m, an increase of £3.6m from £17.2m in Q1 FY13 however this is consistent as a proportion of revenue at 21.1% (FY13: 21.0%). Apart from practice acquisitions, staff costs increased due to new incentives and pay rates for nurses and practice staff.

Rent expense for the quarter was £2.5m, 2.5% of revenue and an increase of £0.4m from £2.1m in FY13. The increase was due to the growth in the number of practices.

Other operating income

Other operating income for the three months ended 30 June 2013 increased by 5.0% to £0.4m. Other operating income includes contractual support received from Scottish Health Boards to assist in the upkeep of our Scottish dental practices (based on the proportion of NHS treatment carried out by each practice) and property rental income.

EBITDA before exceptional items

Earnings before interest tax, depreciation, amortisation and exceptional items increased by £2.7m, 21.1% from £12.7m to £15.4m.

Pro-forma EBITDA

	£'000
LTM EBITDA before exceptional items at 30 June 2013	59,013
Trading days adjustment	359
IT conversion adjustment	465
Estimated adjusted EBITDA of acquired dental practices at 30 June 2013	6,858
Adjusted EBITDA for dbg including annualised synergies	3,634
Estimated proforma adjusted EBITDA	70,329

Pro-forma EBITDA has been calculated following the methodology set out in the IDH Finance plc Offering Memorandum dated 22 May 2013.

Because our dentists' hours and workload tend to be limited to weekday trading days and normal trading hours, our results are affected by the number of trading days in a year. The adjustment of £0.7m included in the Offering Memorandum for two trading days has been reduced to reflect the effect of one additional bank holiday in June 2012 for the Queen's Diamond Jubilee.

The IT conversion adjustment represents a one-off decline in UDA delivery performance resulting from the conversion of ADP systems to group IT systems and the subsequent time lost due to installation and training and in the familiarisation period following installation during Q2, Q3 and Q4 of FY13.

The estimated adjusted EBITDA for acquired dental practices are management estimates for the annual EBITDA of an acquired practice less the actual results consolidated in LTM EBITDA from the date of acquisition. For dbg the EBITDA adjustments are the full year effect of the synergies described in the Offering Memorandum. Since the acquisition of dbg, management have started to introduce the plans to deliver these synergies and remain on track to deliver the full year effect of such initiatives during the year ended March 2015.

Interest

The interest charge of £30.5m for the quarter ended 30 June 2013 is not representative of the on-going interest charges of the group as it contains a number of one off items.

The current financing structure for the group was effective from 30 May 2013 and therefore only one month of interest on the £200m 6% Senior notes, £125m Floating Rate notes and £75m Second Lien notes , equivalent to £2.2m, is included in the quarterly results.

Following the settlement of the old banking facilities, the unamortised arrangement fees and related costs capitalised as part of the recognition of these facilities have been released to the profit and loss account leading to a one-off charge of £15.3m in the quarter.

£12.2m of interest relates to the period from 1 April 2013 to 30 May 2013 for interest payable on bank loans and accrued shareholder loans held by the parent company. The bank loans were repaid on 30 May 2013 and the shareholder loans were settled through the issue of share capital by Turnstone Midco 2 Limited on 29 May 2013.

Tax

The tax credit for the quarter of £1.0m relates to the recognition of deferred tax assets arising from capital allowances on assets acquired in the quarter.

Debt and liquidity

At 30 June 2013, the net debt was £360.9m, compared to £698.3m at 31 March 2013. This movement was primarily due to non-cash movements including the capitalisation of £411.0m of shareholder loans through the issue of share capital by Turnstone Midco 2 Limited.

Net cash flow for the quarter was an outflow of £18.1m; this is principally due to a timing difference on the drawdown of funds for acquisitions made before 31 March 2013 and utilised in the first few days of April 2013. A further drawdown of £25.3m was made during April 2013.

During the period, IDH Finance plc issued £400m of £200m 6% Senior notes, £125m Floating Rate notes and £75m 8.5% Second Lien notes, with proceeds used to repay £329.3m of banking facilities and £50.0m of shareholder loans as well as the payment of £11.3m of fees relating to the bond issue.

Working capital movements

Net cash inflow from operating activities fell from £12.2m in Q1 FY13 to £8.2m in Q1 FY14 and the ratio of EBITDA to operating cash flow fell from 96.4% to 53.0% due to one-off items and timing differences.

The increase in debtors includes £2.5m of NHS UDA contract debtors where, due to delays in transferring bank accounts for these acquisition sites, more than the normal one month of contract value is currently outstanding as a debtor. This will reverse as the bank accounts are transferred and the cash is transferred to IDH accounts. In addition £0.6m was repaid to an NHS Area Team that related to an FY13 contract and had been expected to be settled before 31 March 2013.

Other working capital outflows were experienced in the quarter through the cash outflow arising from the utilisation of fair value accruals created as part of the acquisitions of ADP and IDH by Turnstone Midco 2 Limited including £0.7m for practice upgrades to maintain compliance with CQC and Health and Safety regulations and £0.8m for other pre-acquisition obligations.

Adding one-off items back to operating cash flow would increase the operating cash flow to £13.9m and the ratio of EBITDA to operating cash to 90.3%.

Capital expenditure

Capital expenditure for Q1 FY13 was £5.1m including acquisition refurbishments of £0.5m. The remaining capital expenditure is referred to as “maintenance” capital expenditure and was £4.6m for the quarter.

The maintenance capital expenditure for the quarter was higher than preceding quarters due to a number of one-off infrastructure projects. The £4.6m cash flow for the quarter includes £0.5m for IT business continuity projects including back up storage, WAN upgrades and IT architecture improvements, £0.7m for the relocation of Kingswood and Wimborne practices to upgraded premises for future growth and £0.5m for the final elements of the IDH Academy and relocation of one of the Manchester practices.

Cash conversion

Cash conversion is measured as the ratio of EBITDA to operating cash flow less maintenance capital expenditure and for the quarter was 23.7% compared to 85.9% in FY13.

Cash conversion was reduced by one-off working capital outflows and timing differences and the additional one-off capital expenditure projects. After taking these items into account, cash conversion would increase to 75.5% for the quarter.

Cash conversion is also affected by UDA delivery. The NHS contract is paid in 12 equal monthly instalments with shortfalls to the annual contract target usually repaid in the following year following agreement of any annual shortfall with NHS England. This creates a working capital timing difference between the monthly cash receipts, the phasing of the claims for UDAs during a contract year and the consequential generation of EBITDA from such activity, and the repayment of any shortfall in the next fiscal year. In the quarter to 30 June 2013, the company has claimed more UDAs than for the same period last year. This higher UDA delivery improves EBITDA, however the cash conversion % has fallen as the overall level of cash collected remains the same. The effect of this timing difference in comparison to Q1 FY13 is estimated to be £2.3m.

Acquisitions

Acquisitions capital expenditure in the quarter was £50.7m and included dbg and a large orthodontic group in the South West of England and South Wales.

Risk factors

There have been no material changes in IDH's overall opportunity and risk position when compared to the Risk factors set out in the IDH Finance plc Offering Memorandum dated 22 May 2013 and the statutory accounts for Turnstone Equityco 1 Limited for the year ended 31 March 2013.

Recent developments

Acquisition of DBG (UK) Limited

The Dental Buying Group (dbg) was acquired by a new group company, Healthcare Buying Group Limited on 16 April 2013.

In the last reported results, dbg generated revenue of £7.5m and had an operating profit of £1.2m, for the year ended 30 June 2012.

In addition to the acquisition of dbg, a further 19 practices were acquired in the quarter to 30 June 2013.

Turnstone Midco 2 Limited

Condensed consolidated financial statements – Unaudited

Q1, 2014 – 3 months ended 30 June 2013

Profit and loss account (unaudited)

For the quarter ended 30 June 2013

	Note	Q1 2014 £'000	Q1 2013 £'000
Turnover	*3*	98,726	81,816
Cost of sales		(51,536)	(42,996)
Gross profit		47,190	38,820
Administrative expenses		(43,642)	(37,136)
Other operating income		441	420
Operating profit		3,989	2,104
EBITDA before exceptional items		15,389	12,711
Depreciation		(3,176)	(2,901)
Amortisation of goodwill		(8,313)	(7,473)
Amortisation of grant income		138	166
Exceptional items		(49)	(399)
Operating profit		3,989	2,104
Profit/(loss) on disposal of assets		3	(755)
Profit on ordinary activities before interest and taxation		3,992	1,349
Interest payable and similar charges		(30,532)	(16,863)
Interest receivable and other income		2	-
Loss on ordinary activities before taxation	*3*	(26,538)	(15,514)
Tax on loss on ordinary activities	*4*	1,043	(315)
Loss on ordinary activities after taxation		(25,495)	(15,829)
Equity minority interests		(9)	(2)
Loss for the financial period	*8*	(25,504)	(15,831)

Balance sheet (unaudited)

at 30 June 2013

	Note	Q1 2014 £'000	Q1 2013 £'000
Intangible assets	*5*	604,610	539,153
Tangible assets		71,676	61,516
Fixed assets		676,286	600,669
Stock		7,192	5,729
Debtors		37,183	27,788
Cash at bank and in hand		24,293	14,539
Current assets		68,668	48,056
Creditors: amounts falling due within one year	*6*	(67,643)	(59,935)
Net current liabilities		1,025	(11,879)
Creditors: amounts falling due after more than one year	*7*	(387,018)	(638,930)
Provisions for liabilities and charges		(14,070)	(17,452)
Net assets/(liabilities)		276,223	(67,592)
Capital and reserves			
Share capital	*8*	410,961	-
Profit and loss reserve	*8*	(134,663)	(67,590)
Minority interest		(75)	(2)
Total shareholders' funds/(deficit)	*8*	276,223	(67,592)

Cash flow statement (unaudited)

For the quarter ended 30 June 2013

	Q1 2014	Q1 2013
	£'000	£'000
Operating profit	3,989	2,104
Amortisation of goodwill	8,313	7,473
Depreciation	3,176	2,901
Amortisation of grant income	(138)	(166)
Increase in stock	(135)	-
Increase in debtors	(6,043)	(2,404)
Increase in creditors	65	2,803
Decrease in provisions	(1,077)	(463)
Net cash inflow from operating activities	8,150	12,248
Corporation tax paid	(96)	-
Returns on investments and servicing of finance	(5,072)	(4,946)
Capital expenditure	(5,098)	(2,272)
Acquisitions and disposals	(50,707)	(4,223)
Net cash (outflow)/inflow before financing	(52,823)	807
Debt issue costs	(11,322)	-
Financing	46,035	(5,225)
Decrease in cash for the period	(18,110)	(4,418)
Opening cash	42,403	18,957
Closing cash	24,293	14,539

Reconciliation of net cash flow to movement in net debt (unaudited)

For the quarter ended 30 June 2013

	Q1 2014	Q1 2013
	£'000	£'000
Decrease in cash for the period	(18,110)	(4,418)
Drawdown of bank loans	(25,307)	-
Repayment of bank loans	329,272	5,225
Redemption of loan notes	50,000	-
Issue of high yield bonds	(400,000)	-
Debt issue costs	11,322	-
Total cash movement in net debt	(52,823)	807
Accrued interest	(8,339)	(11,064)
Non-cash movements in net debt from re-financing	399,353	-
Amortisation of loan arrangement fees	(776)	(846)
Total non-cash movement in net debt	390,238	(11,910)
Total movement in net debt	337,415	(11,103)
Net debt brought forward	(698,322)	(621,930)
Net debt carried forward	(360,907)	(633,033)

Notes

Forming part of the financial statements

1 General information and statement of compliance

Turnstone Midco 2 Limited (the "company") is a company registered in England. It is the parent company of IDH Finance plc (the "issuer"). The company is 100% owned by Turnstone Midco 1 Limited and the ultimate UK parent company is Turnstone Equityco 1 Limited.

The condensed interim financial statements of the company are for the quarter ended 30 June 2013. The results for the quarter represent the group's trading from 1 April 2013 to the quarter end and include the refinancing of the group's bank debt through the issue of high yield bonds by IDH Finance plc. Comparative results are provided for the quarter ended 30 June 2012.

The content of this report does not constitute statutory financial statements and is unaudited.

The condensed consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice (UK GAAP). They do not include all of the information required for full annual statements and should be read in conjunction with the consolidated financial statements for the group, Turnstone Equityco 1 Limited for the year ended 31 March 2013 which are available from our website, www.idhgroup.co.uk.

2 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the group accounting policies set out in the 2013 directors' report and consolidated financial statements for Turnstone Equityco 1 Limited.

Turnover

Turnover represents the income received in the ordinary course of business for dentistry goods or services provided to the extent that the group has obtained the right to consideration. Turnover derived from NHS contracts in England and Wales is recognised on the volume of dental activity delivered in the financial year. Turnover from all private dental work and NHS patients in Scotland is recognised on 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.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, which is 20 years, being the period over which the group expects to benefit from the assets acquired. The carrying value of goodwill is evaluated when there is an indicator of impairment. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

In calculating the goodwill, the total consideration, both actual and deferred, is taken into account. Where the deferred consideration is contingent and dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made. This contingent deferred consideration is re-assessed annually and corresponding adjustment is made to the goodwill arising on acquisition.

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Notes

Forming part of the financial statements

Taxation

The corporation tax expense to be recognised in an interim period is based on the best estimate of the average corporation tax rate expected for the full year applied to the profit before tax for the interim period.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases

Operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

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.

Notes

Forming part of the financial statements

3 Segmental information

	Turnover	Profit
	£'000	£'000
Operation of dental practices	96,963	15,059
Other services	1,763	330
Group turnover/EBITDA	98,726	15,389
Exceptional items		(49)
Profit/(loss) on disposal of assets		3
Depreciation and amortisation		(11,351)
Net interest payable		(30,530)
Loss before taxation		(26,538)

All activities arose in the United Kingdom.

4 Taxation

	Q1 2014	Q1 2013
	£'000	£'000
Analysis of tax credit/(charge) in the period		
Current tax		
Corporation tax	17	(732)
Total current tax credit/(charge)	17	(732)
Deferred tax		
Deferred tax credit	1,026	576
Adjustment in respect of prior periods	-	(159)
Effect of changes in tax rates	-	-
Total deferred tax credit	1,026	417
Tax credit/(charge) on ordinary activities	1,043	(315)

Due to the level of allowable interest deductions, no current tax liability has been recognised for the quarter ended 30 June 2013.

The deferred tax asset has been recognised based on the capital allowances available on fixed assets acquired during the quarter.

The main rate of Corporation Tax has been reduced to 23% from 1 April 2013 and this rate has been used to measure the deferred tax asset. The budget announced on 20 March 2013 included provisions to reduce the main rate of Corporation Tax to 21% by 1 April 2014 and 20% by 1 April 2015. These changes had not been substantively enacted by the quarter end and therefore the impact has not been recognised in this report. The rate reduction is expected to reduce the deferred tax balance by around £1.0m.

Notes

Forming part of the financial statements

5 Intangible fixed assets

During the 3 months ended 30 June 2013, the group acquired 19 dental practices. Practice acquisitions totalling £4.8m and subsidiary acquisitions totalling £49.8m were made in the period.

Due to the timing of these acquisitions, the initial acquisition accounting and determination of fair values has currently only been determined on a provisional basis.

6 Creditors: amounts falling due within one year

	Q1 2014	Q1 2013
	£'000	£'000
Bank loans	-	10,395
Trade creditors	10,929	10,096
Other taxation and social security	1,802	1,107
Corporation tax	2	891
Deferred consideration for acquisitions	8,067	744
Accruals and deferred income	44,323	35,988
Accrued interest	2,520	714
	67,643	59,935

Deferred consideration is due to the vendors of individual practices.

Notes

Forming part of the financial statements

7 Creditors: amounts falling after more than one year

	Q1 2014 £'000	Q1 2013 £'000
High yield bonds	400,000	-
Debt issue costs	(14,800)	-
High yield bonds net of debt issue costs	385,200	-
Bank loans	-	234,825
Shareholder loans	-	402,352
Super senior revolving credit facility	-	-
Deferred consideration	1,410	777
Accruals and deferred income	408	976
	387,018	638,930

The high yield bonds were issued at 100% on 30 May 2013 and consist of:

- £200m 6% Senior Secured Fixed Rate notes due to mature on 1 December 2018;
- £125m Senior Secured Floating Rate notes due to mature on 1 December 2018. The notes are set at a floating rate of GBP LIBOR plus 5% each quarter.
- £75m 8.5% Second Lien notes due to mature on 1 June 2019.

The super senior revolving credit facility, when drawn, will attract an interest charge of GBP LIBOR plus 4%.

The shareholder loan notes outstanding in Q1 2013 were issued by the parent company, Turnstone Midco 1 Limited as part of the acquisition of the IDH and ADP groups in 2013 and as additional funding for acquisitions in the intervening period. The liability at 29 May 2013 was settled through the issue of share capital in Turnstone Midco 2 Limited, excluding £50m which remained outstanding.

The proceeds of the bond issue were used to repay all outstanding bank facilities on 30 May 2013 and the £50m of outstanding shareholder loans.

As part of an interest rate management strategy, the group has entered into two interest rate contracts to swap LIBOR for a fixed rate.

Deferred consideration is due to the vendors of individual practices over the next 2-5 years.

Notes

Forming part of the financial statements

8 Shareholders' funds

	Q1 2014	Q1 2013
	£'000	£'000
Share capital	410,961	-
Profit and loss reserve	(134,663)	(67,590)
Minority interest	(75)	(2)
Total shareholders' funds/(deficit)	276,223	(67,592)

As part of the refinancing process, £411m of loan notes due to the company's parent, Turnstone Midco 1 Limited, were settled through the issue of additional share capital.

Share capital	Q1 2014	Q1 2013
	£'000	£'000
At beginning of the period	-	-
Share capital issued in exchange for loan notes	410,961	-
At end of period	410,961	-

Profit and loss reserve	Q1 2014	Q1 2013
	£'000	£'000
At beginning of the period	(109,159)	(51,759)
Loss for the financial period	(25,504)	(15,831)
At end of period	(134,663)	(67,590)