IDH Finance plc

Quarterly Financial Report
3 months ended 30 September 2016

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 September 2016 which are maintained in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The interim results are not necessarily indicative of the results to be expected for the full year.

We have presented certain non-IFRS information in this quarterly report. This information includes "EBITDA" and other measures derived therefrom. EBITDA represents earnings before interest, tax, depreciation, amortisation and non-underlying 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 September 2015 and for the six months ended 30 September 2015. 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 2016 but not in both.

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

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Summary highlights

- Revenue for the three months ended 30 September 2016 ("Q2 FY17") was £142.1m. Year on year revenue growth, predominantly driven by acquisitions, was 2.0%.
- Q2 FY17 like-for-like private revenue growth of 3.8%.
- Q2 FY17 gross margin percentage of 44.9% compared to 45.8% in the three months to 30 September 2015 ("Q2 FY16").
- Overheads, excluding depreciation, goodwill amortisation and non-underlying items, as a percentage of revenue were 33.4%, compared to 32.0% in Q2 FY16.
- EBITDA before non-underlying items for the three months ended 30 September 2016 of £16.8m (11.9% of revenue), 14.2% behind the three months to 30 September 2015 (£19.6m, 14.1% of revenue).
- UDA delivery down c.5% year-on-year, for the quarter and year to date.
- LTM EBITDA of £77.7m; and estimated pro-forma adjusted LTM EBITDA of £81.0m.
- Two practices were acquired during the quarter – total practices at 30 September were 675.
- Total consideration for practice acquisitions including deferred consideration for prior year purchases, was £3.7m.
- Cash generated from operations of £23.3m (Q2 FY16: £19.2m).
- Maintenance capital expenditure for the quarter ended 30 September 2016 was £5.4m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 117.8%.
- Cash and cash equivalents at 30 September 2016 of £18.0m and net debt was £520.8m.
- Gearing levels are 6.70 times and 6.43 times LTM EBITDA and estimated pro-forma adjusted LTM EBITDA respectively.
- 'mydentist' brand rolled out to 473 practices as of 30 September 2016.
- Bonds and SSRCF re-financed in August 2016 with issue of £425m of new senior notes due 2022; £130m new second lien notes due 2023; and new £100m SSRCF.

NB: Comparative information for the quarter ended 30 September 2015 restated in accordance with IFRS.

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

Overview

Integrated Dental Holdings ("IDH") is pleased to announce its results for the quarter ended 30 September 2016.

IDH is the leading provider of dental services in the United Kingdom with a network of 675 dental practices throughout England, Scotland, Wales and Northern Ireland.

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.

The group is also a leading provider of materials, equipment and services to dental practices across the UK through the Practice Services division.

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 for the four quarters from 1 July 2015 to 30 June 2016 and for the quarter ended 30 September 2016 are provided below:

Key performance indicators	(1)	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Turnover (£m)		139.2	144.4	146.7	143.4	142.1
EBITDA (£m)		19.6	22.0	20.8	18.1	16.8
LTM EBITDA (£m)		76.9	80.4	80.2	80.5	77.7
Operating profit (£m)		1.7	3.3	6.0	3.7	1.2
NHS dentistry services as a percentage of revenue		68.0%	68.7%	68.1%	66.4%	66.6%
Private dentistry services as a percentage of revenue		15.5%	15.4%	15.2%	16.4%	16.5%
Practice services as a percentage of revenue		16.5%	15.9%	16.7%	17.2%	16.9%
Like-for-like private revenue growth		14.2%	13.0%	8.2%	10.0%	3.8%
Gross profit margin %		45.8%	45.8%	45.4%	46.0%	44.9%
Overheads as a percentage of revenue		32.0%	30.9%	31.6%	33.7%	33.4%
EBITDA margin %		14.1%	15.2%	14.2%	12.6%	11.9%
Number of dental practices		666	669	672	674	675
Maintenance capital expenditure (£m)		4.6	5.9	5.8	5.3	5.4
Cash conversion after maintenance capital expenditure %	(2)	95.7%	73.3%	96.6%	97.2%	116.7%
Estimated pro-forma adjusted EBITDA (£m)		83.9	85.9	87.2	85.6	81.0

(1) Restated in accordance with IFRS.

(2) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q2 FY17 was 117.8% (Q2 FY16: 99.7%).

During the quarter, we acquired two dental practices and merged one practice into another for a total of 675 dental practices in our estate as at 30 September 2016 (30 September 2015: 666).

Revenue

Group revenue increased by £2.8m, or 2.0%, from £139.2m for the three month period ended 30 September 2015 (“Q2 FY16”) to £142.1m for the three month period to 30 September 2016 (“Q2 FY17”).

Revenue derived from dental practices increased by £1.8m from £116.3m to £118.1m. Revenue from our Practice Services division, after the elimination of intragroup trading, increased by £1.1m from £23.0m in Q2 FY16 to £24.0m in Q2 FY17.

Group revenue	Q2 2017 £'000	Q2 2016 £'000	Movement £'000
Practices owned as at 1 April 2015	112,363	114,537	(2,174)
Practices acquired or opened:			
During the 12 months ended 31 March 2016	5,414	1,742	3,672
During the 6 months ended 30 September 2016	294	-	294
Dental practice revenue	118,071	116,279	1,792
Practice services and other revenue	24,008	22,955	1,053
Group revenue	142,079	139,234	2,845

Revenue of £5.4m was contributed by the 35 practices acquired or opened during the period 1 April 2015 to 31 March 2016 (“FY16 acquisitions”) in the quarter ended 30 September 2016, a £3.7m increase over the £1.7m contributed by the 24 practices acquired or opened in the first half of the last financial year. The four practices acquired during the first half of FY17 (“FY17 acquisitions”) contributed an additional £0.3m.

NHS revenue

NHS revenue for the quarter ended 30 September 2016 was £94.7m, an increase of £0.1m or 0.1% from £94.6m in Q2 FY16. An additional £3.0m of revenue was generated by FY16 and FY17 acquisitions.

NHS revenue generated from practices owned at 1 April 2015 reduced from £93.3m to £90.3m. The decrease is principally due to a lower level of UDA performance in the quarter when compared to FY16, partially offset by the 0.7% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) in England from 1 April 2016.

UDA delivery rates in our patient services division have continued to fall due to increased appointment times, the influence of the successful growth in private revenues, the reduction in the number of eligible exempt patients and changes in band mix. We continue to implement initiatives to recover UDA performance including providing training to improve UDA productivity through improving diary and claim management, working with dentists, including through incentivisation, to increase their working hours and in the medium to long term, looking to recruit more locums and dentists to increase delivery capacity.

Private revenue

Private revenue for the quarter ended 30 September 2016 was £23.4m, 8.0% higher than £21.6m for the equivalent period in FY16.

Like-for-like practices increased private sales by £0.8m, or 3.8%, with acquired practices generating £1.0m additional private revenue. Private revenue growth continues to reflect the benefits from increasing the range of treatment options available to our patients, the offering of additional services and price increases.

Practice services revenue

Revenue of £24.0m (Q2 FY16: £23.0m) has been generated from The Dental Directory, dbg and other services. The increase of £1.1m principally reflects the contributions from Med-FX Limited ('Med-FX'), which was acquired in August 2015, along with PDS Dental Laboratory Leeds Limited ('PDS') and Dolby Medical Limited ('Dolby'), both of which were acquired in March 2016. Encouraging growth was also seen in the high street sector but subject to some regional differences in demand.

Cost of sales

Gross margin for the quarter ended 30 September 2016 was 44.9% a 0.9% decrease from 45.8% in the quarter ended 30 September 2015. Patient services gross margin for Q2 FY17 was 46.7% (Q2 FY16: 48.0%) and gross margin in our practice services division was 30.2% (Q2 FY16: 31.2%).

Cost of sales increased by £2.8m, or 3.7%, from £75.5m to £78.3m for the quarter ended 30 September 2016. The increase in the cost of sales is principally due to the impact of acquisitions, with the FY16 and FY17 practice acquisitions increasing Patient Services cost of sales by £2.1m.

The drop in Patient Services gross margin to 46.7% reflects the benefit of the 0.7% NHS contract uplift, diluted by the costs associated with the higher levels of locum usage compared to the previous year.

The drop in the gross margin % in Practice Services was due in part to the volatility in the value of the Pound against the Euro and US Dollar following the EU referendum. This has been mitigated due to the supply chain and hedging policies, however further volatility could have an impact on the cost of sales of our Practice Services division because c40% of the division's purchases are made on a wholesale basis in Euros or US Dollars.

Overheads

Overheads, including administrative expenses, distribution costs, amortisation of intangible assets, depreciation, grant income and other non-underlying items were £63.1m for Q2 FY17, in line with the cost for the three months to 30 September 2015.

Overheads excluding amortisation of intangible assets, depreciation, grant income and other non-underlying items were £47.5m, an increase of £2.9m from £44.6m in Q2 FY16.

The increase in overheads is primarily due to acquisitions, including Med-FX, PDS and Dolby, along with the dental practices acquired in the year ended 31 March 2016 and the six months ended 30 September 2016. The Practice Services division has also increased headcount at the support centre to roll-out new initiatives and support future sales growth. These increases are partially offset by the reductions in Patient Services support centre and practice headcount made towards the end of Q2 FY16.

The group's largest overhead is the cost of staff working in dental practices, in operational management and at the divisional support centres. In the quarter ended 30 September 2016, staff costs were £31.2m, an increase of £1.5m from £29.7m in Q1 FY16.

Rent expense for the quarter was £3.8m, 2.7% of revenue and an increase of £0.4m from £3.4m in Q2 FY16. The increase was principally due to the growth in the number of practices.

Dental equipment and practice property maintenance costs for Q2 FY17 were £2.5m, £0.5m lower than Q2 FY16.

Other operating income

Other operating income for the three months ended 30 September 2016 was £0.5m. 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.

Other gains

Other gains include net realised and unrealised foreign exchange gains and losses arising in the group's Practice Services division, principally in relation to foreign exchange forward contracts which are used to hedge the cash impact of a proportion of the cost of goods purchased in Euros and US Dollars.

EBITDA before non-underlying items

Earnings before interest tax, depreciation, amortisation and non-underlying items for the three months ended 30 September 2016 was £16.8m.

Non-underlying items

Non-underlying items of £2.4m include the costs associated with the 'mydentist' re-branding. As at 30 September 2016, the 'mydentist' brand had been rolled out to 473 sites. Non-underlying items also includes fees and expenses incurred in respect of acquisitions completed during the quarter.

Year to date performance

In the six months to 30 September 2016 turnover increased by 3.9% from £274.8m to £285.5m. This increase was principally driven by the dental practice acquisition programme, with practices acquired during FY16 and FY17 adding £9.0m of revenue to the group results for the year to date.

Revenue generated from practices owned at 1 April 2015 has decreased by £1.3m due to a £4.0m reduction in NHS revenue offset by a £2.7m increase in private turnover.

Group revenue	YTD 2017 £'000	YTD 2016 £'000	Movement £'000
Practices owned as at 1 April 2015	225,766	227,029	(1,263)
Practices acquired or opened:			
During the 12 months ended 31 March 2016	10,717	2,104	8,613
During the 6 months ended 30 September 2016	396	-	396
Dental practice revenue	236,879	229,133	7,746
Practice services and other revenue	48,591	45,633	2,958
Group revenue	285,470	274,766	10,704

EBITDA before exceptional items for the year to date was £34.9m.

Estimated pro-forma adjusted LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 30 September 2016	77,690
Estimated adjusted EBITDA of acquired dental practices at 30 September 2016	1,274
Estimated adjusted EBITDA of PDS Dental Laboratory Leeds and Dolby Medical	641
Reversal of one off VAT grouping adjustment	607
Pro-forma EBITDA	80,212
Cost savings initiatives	640
VAT grouping savings	100
Estimated pro-forma adjusted EBITDA	80,952

Estimated pro-forma adjusted LTM EBITDA has been calculated following the methodology set out in the IDH Finance plc Offering Memorandum dated 22 July 2016.

The estimated adjusted EBITDA for acquired businesses are management estimates for the annual EBITDA of an acquired business less the actual results consolidated in LTM EBITDA from the date of acquisition.

Re-financing

During Q2 FY17 the company re-financed all outstanding debt through the issue of a new set of instruments. The company issued

- £275.0m of 6.25% Senior Secured Fixed Rate notes due 2022.
- £150.0m of Senior Secured Floating Rate notes due 2022. The notes have a floating rate of GBP LIBOR plus 6%.
- £130.0m of Second Lien Notes due 2023. The notes have a floating rate of GBP LIBOR (subject to a minimum floor of 1%) plus 8%.

The group has also agreed a new £100m Super Senior Revolving Credit Facility.

Finance costs

Following the re-financing, finance costs of £24.2m includes one-off charges of £13.1m for the write-off of arrangement fees and early redemption costs associated with the 2013 debt issue and 2014 issue of additional floating rate notes. Finance costs also include £9.5m in respect of the £275.0m 6.25% Senior Secured Fixed Rate Notes, £125.0m Senior Secured Floating Rate Notes and £130.0m Second Lien Notes and interest on the previous notes to the point of redemption. A further £1.5m relates to the amortisation of debt arrangement fees, interest rate swap charges and interest payable in respect of the Super Senior Revolving Credit Facility. The remaining £0.1m arises from the unwinding of discount in respect of contingent consideration and certain provisions which are expected to be settled in future periods.

Finance income of £0.4m principally arises from the unrealised mark-to-market movement in the value of the group's interest rate swap contracts.

Debt and liquidity

At 30 September 2016, net debt was £520.8m, compared to £510.6m at 30 June 2016. This movement principally reflects the arrangement costs of the new debt.

Net cash flow for the quarter was an outflow of £3.8m. This arises from cash generated from operating activities of £23.3m, offset by expenditure of £3.7m on acquisitions, capital expenditure of £6.3m, including the refurbishment of acquisition sites and the acquisition of a freehold property, £4.9m related to the re-financing and £12.2m for the servicing of finance.

Working capital movements

Cash generated from operations increased from £18.6m in Q2 FY16 to £23.3m principally due to the timing of creditor payments and a lower level of operating expenditure in respect of the 'mydentist' re-branding in comparison to Q2 FY16.

Capital expenditure

Capital expenditure for Q2 FY17 was £6.3m. This included acquisition refurbishments of £0.7m, "maintenance" capital expenditure of £5.4m and the purchase of a freehold property for £0.2m.

Maintenance capital expenditure includes £0.1m for the merger and relocation of existing practices in Keighley and the repair of fire damage at Doncaster.

Cash conversion

Cash conversion is measured as the ratio of EBITDA to cash generated from operations less maintenance capital expenditure and for the quarter was 116.7% compared to 95.7% in the corresponding quarter in FY16.

Cash conversion excluding working capital movements was 67.8% (Q2 FY16: 76.5%).

Acquisitions

Acquisitions capital expenditure in the quarter was £3.7m and included the acquisition of two dental practices and the payment of deferred consideration relating to prior year purchases.

Changes to the Board of Directors

Following on from the intention disclosed in the Offering Memorandum dated 22 July 2016, Paul Pindar has now resigned from his position as Chairman.

In addition, Eric Kump and Alex Stirling have been replaced by Andrew Burgess and Karthic Jayaraman as representatives of Carlyle on the Board of the Issuer and the Parent Guarantor.

Risk factors

The latest opportunity and risk position of the group is detailed in the Annual Report to bondholders for Turnstone Midco 2 for the year ended 31 March 2016, as updated by the press release dated 20 July 2016 regarding certain information disclosed to prospective holders of the new Notes. The risk factors and strategies are also set out in the IDH Finance plc Offering Memorandum dated 22 July 2016.

Turnstone Midco 2 Limited

Condensed interim consolidated financial statements – Unaudited

Quarter ended 30 September 2016

Consolidated income statement (unaudited)

For the quarter ended 30 September 2016

	Note	Q2 2017 £'000	Q2 2016 £'000
Revenue	4	142,079	139,234
Cost of sales		(78,317)	(75,513)
Gross profit	4	63,762	63,721
Distribution costs		(4,199)	(3,714)
Administrative expenses		(58,943)	(59,337)
Other operating income		544	484
Other gains		76	555
Operating profit	4	1,240	1,709
EBITDA before non-underlying items	4	16,849	19,642
Amortisation of intangible assets		(8,171)	(7,861)
Depreciation		(5,145)	(4,613)
Amortisation of government grant income		14	38
Other non-underlying items		(2,383)	(6,052)
Foreign exchange gains		76	555
Operating profit	4	1,240	1,709
Finance costs		(24,163)	(9,818)
Finance income		382	24
Net finance costs		(23,781)	(9,794)
Loss before income tax	4	(22,541)	(8,085)
Income tax credit	5	4,841	1,260
Loss for the period		(17,700)	(6,825)
Attributable to:			
Owners of the parent		(17,680)	(6,822)
Non-controlling interests		(20)	(3)
		(17,700)	(6,825)

There are no items of other comprehensive income during the current or previous period other than those stated above and therefore no separate statement of comprehensive income has been presented.

Consolidated income statement (unaudited)

For the six months ended 30 September 2016

	Note	YTD 2017 £'000	YTD 2016 £'000
Revenue	*4*	285,470	274,766
Cost of sales		(155,750)	(149,164)
Gross profit	*4*	129,720	125,602
Distribution costs		(8,448)	(7,268)
Administrative expenses		(117,880)	(117,255)
Other operating income		1,023	938
Other gains		509	238
Operating profit	*4*	4,924	2,255

EBITDA before non-underlying items	*4*	34,912	37,376
Amortisation of intangible assets		(16,330)	(15,596)
Depreciation		(10,215)	(9,146)
Amortisation of government grant income		33	92
Other non-underlying items		(3,985)	(10,709)
Foreign exchange gains		509	238
Operating profit	*4*	4,924	2,255

Finance costs		(33,824)	(19,301)
Finance income		575	621
Net finance costs		(33,249)	(18,680)
Loss before income tax	*4*	(28,325)	(16,425)
Income tax credit	*5*	5,903	3,119
Loss for the period		(22,422)	(13,306)
Attributable to:			
Owners of the parent		(22,407)	(13,260)
Non-controlling interests		(15)	(46)
		(22,422)	(13,306)

There are no items of other comprehensive income during the current or previous period other than those stated above and therefore no separate statement of comprehensive income has been presented.

Consolidated balance sheet (unaudited)

At 30 September 2016

	Note	Q2 2017 £'000	Q2 2016 £'000
Non-current assets			
Goodwill	*8*	341,238	334,227
Other intangible assets	*8*	440,271	459,761
Property, plant and equipment		101,351	94,144
Other receivables		-	958
Deferred tax income tax assets		10,898	11,079
		893,758	900,169
Current assets			
Inventories		21,424	21,326
Trade and other receivables		47,451	49,073
Current income tax		-	-
Derivative financial instruments		633	299
Cash and cash equivalents		18,016	17,977
		87,524	88,675
Assets classified as held for sale		490	1,118
Total assets		981,772	989,962
Equity attributable to the owners of the parent			
Share capital		410,961	410,961
Accumulated losses		(157,311)	(130,201)
		253,650	280,760
Non-controlling interest		74	(165)
Total equity		253,724	280,595
Non-current liabilities			
Borrowings	*7*	538,787	530,603
Other payables	*6*	1,496	2,675
Deferred income tax liabilities		46,867	55,234
Post employment benefits		-	414
Provisions		7,094	6,966
Derivative financial instruments		-	2,520
Total non-current liabilities		594,244	598,412
Current liabilities			
Trade and other payables	*6*	130,291	108,610
Current income tax		303	624
Provisions		1,652	1,721
Derivative financial instruments		1,558	-
Total current liabilities		133,804	110,955
Total liabilities		728,048	709,367
Total equity and liabilities		981,772	989,962

Consolidated statement of changes in equity (unaudited)

For the quarter ended 30 September 2016

Q2 2017

	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(139,631)	271,330	94	271,424
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(17,680)	(17,680)	(20)	(17,700)
Balance at end of the period	410,961	(157,311)	253,650	74	253,724

Q2 2016

	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(123,379)	287,582	(162)	287,420
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(6,822)	(6,822)	(3)	(6,825)
Balance at end of the period	410,961	(130,201)	280,760	(165)	280,595

Consolidated statement of changes in equity (unaudited)

For the six months ended 30 September 2016

	YTD 2017				
	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(134,904)	276,057	89	276,146
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(22,407)	(22,407)	(15)	(22,422)
Balance at end of the period	410,961	(157,311)	253,650	74	253,724

	YTD 2016				
	Share capital	Retained earnings	Total equity attributable to the owners of the parent	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance at beginning of the period	410,961	(116,941)	294,020	(119)	293,901
Comprehensive expense for the period					
Total comprehensive expense for the period	-	(13,260)	(13,260)	(46)	(13,306)
Balance at end of the period	410,961	(130,201)	280,760	(165)	280,595

Consolidated cash flow statement (unaudited)

For the quarter ended 30 September 2016

	Q2 2017 £'000	Q2 2016 £'000
Cash flows from operating activities		
Loss before taxation	(22,541)	(8,085)
Depreciation of property, plant and equipment	5,145	4,613
Amortisation of government grants	(14)	(38)
Amortisation of intangible assets	8,171	7,861
Finance costs	24,163	9,818
Finance income	(382)	(24)
Loss on business and asset disposals	-	(207)
Differences between contingent consideration paid and initial estimates	(63)	(87)
Net unrealised foreign exchange losses/(gains)	367	(555)
Cash generated from operations before movements in working capital	14,846	13,296
Changes in working capital		
Movement in inventories	(607)	190
Movement in trade and other receivables	419	967
Movement in trade and other payables	8,925	4,478
Movement in provisions	(285)	(325)
Cash generated from operations	23,298	18,606
Taxation	-	550
Net cash inflow from operating activities	23,298	19,156
Cash flows from investing activities		
Acquisitions (net of cash acquired)	(3,748)	(18,419)
Purchase of property, plant and equipment	(6,081)	(5,940)
Purchase of freehold property held for sale	(225)	-
Proceeds from business and asset disposals	1	1,746
Interest received	4	24
Net cash flow from investing activities	(10,049)	(22,589)
Cash flows from financing activities		
Drawdown of bank loans	-	8,500
Repayment of bank loans	(39,000)	-
Proceeds from issue of notes	49,700	-
Arrangement fees and associated professional costs	(15,608)	-
Bank and bond interest paid	(12,177)	(13,558)
Net cash outflow from financing activities	(17,085)	(5,058)
Net decrease in cash and cash equivalents	(3,836)	(8,491)
Cash and cash equivalents at the beginning of the period	21,852	26,468
Cash and cash equivalents at the end of the period	18,016	17,977

Consolidated cash flow statement (unaudited)

For the six months ended 30 September 2016

	YTD 2017 £'000	YTD 2016 £'000
Cash flows from operating activities		
Loss before taxation	(28,325)	(16,425)
Depreciation of property, plant and equipment	10,215	9,146
Amortisation of government grants	(33)	(92)
Amortisation of intangible assets	16,330	15,596
Finance costs	33,824	19,301
Finance income	(575)	(621)
Loss on business and asset disposals	2	225
Differences between contingent consideration paid and initial estimates	(154)	(154)
Net unrealised foreign exchange (gains)/losses	106	(238)
Cash generated from operations before movements in working capital	31,390	26,738
Changes in working capital		
Movement in inventories	(988)	1,007
Movement in trade and other receivables	948	(5,567)
Movement in trade and other payables	12,459	17,726
Movement in provisions	(710)	(688)
Cash generated from operations	43,099	39,216
Taxation	-	550
Net cash inflow from operating activities	43,099	39,766
Cash flows from investing activities		
Acquisitions (net of cash acquired)	(6,226)	(30,314)
Purchase of property, plant and equipment	(12,152)	(13,069)
Purchase of freehold property held for sale	(225)	-
Proceeds from business and asset disposals	(1)	1,745
Government grants received	-	(4)
Interest received	8	38
Net cash flow from investing activities	(18,596)	(41,604)
Cash flows from financing activities		
Drawdown of bank loans	-	8,500
Repayment of bank loans	(39,000)	-
Proceeds from issue of notes	49,700	-
Arrangement fees and associated professional costs	(15,608)	-
Bank and bond interest paid	(16,521)	(17,801)
Net cash outflow from financing activities	(21,429)	(9,301)
Net increase/(decrease) in cash and cash equivalents	3,074	(11,139)
Cash and cash equivalents at the beginning of the period	14,942	29,116
Cash and cash equivalents at the end of the period	18,016	17,977

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

For the quarter ended 30 September 2016

	Q2 2017	Q2 2016
	£'000	£'000
Decrease in cash for the period	(3,836)	(8,491)
Drawdown of bank loans	-	(8,500)
Repayment of bank loans	39,000	-
Issue of high yield bonds	(549,700)	-
Redemption of high yield bonds	500,000	-
Debt issue costs	9,420	-
Total cash movement in net debt	(5,116)	(16,991)
Other non-cash movements in net debt	(4,392)	-
Amortisation of loan arrangement fees	(617)	(633)
Total non-cash movement in net debt	(5,009)	(633)
Total movement in net debt	(10,125)	(17,624)
Net debt brought forward	(510,646)	(495,002)
Net debt carried forward	(520,771)	(512,626)

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

For the six months ended 30 September 2016

	YTD 2017	YTD 2016
	£'000	£'000
Increase/(decrease) in cash for the period	3,074	(11,139)
Drawdown of bank loans	-	(8,500)
Repayment of bank loans	39,000	-
Issue of high yield bonds	(549,700)	-
Redemption of high yield bonds	500,000	-
Debt issue costs	9,420	-
Total cash movement in net debt	1,794	(19,639)
Other non-cash movements in net debt	(4,392)	-
Amortisation of loan arrangement fees	(1,247)	(1,263)
Total non-cash movement in net debt	(5,639)	(1,263)
Total movement in net debt	(3,845)	(20,902)
Net debt brought forward	(516,926)	(491,724)
Net debt carried forward	(520,771)	(512,626)

Notes

Forming part of the financial statements

1 General information and basis of preparation

Turnstone Midco 2 Limited (the "company", and with its subsidiaries, the "group") 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 consolidated financial statements (the 'interim financial statements') of the company have been prepared for the quarter ended 30 September 2016. The results for the year to date represent the group's trading from 1 April 2016 to 30 September 2016. Comparative results are provided for the quarter ended 30 September 2015 and for the six months ended 30 September 2015.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and, specifically, IAS 34 'Interim Financial Reporting'. The interim financial statements are presented in thousands of pounds sterling (£'000's) except where otherwise stated. Pounds sterling is the functional currency of both Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited.

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

These interim financial statements do not include all of the disclosure information required in annual financial statements prepared in accordance with IFRS and should therefore be read in conjunction with the consolidated financial statements of Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited for the year ended 31 March 2016, both of which are available from our website, www.mydentist.co.uk.

2 Significant accounting policies

The interim financial statements have been prepared on the basis of the accounting policies set out in the 2016 annual report and consolidated financial statements for Turnstone Midco 2 Limited and Turnstone Equityco 1 Limited.

a) 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.

Notes

Forming part of the financial statements

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.

b) Foreign currency translation

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 within other gains or losses.

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 or losses.

c) 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.

d) 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.

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.

Notes

Forming part of the financial statements

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.

e) 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 CGU's. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGU's to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised through the income statement. Impairment losses recognised in respect of CGU's 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.

Notes

Forming part of the financial statements

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.

f) 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.

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.

g) 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 from the sale of goods by the group's practice services division is recognised upon despatch.

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.

h) 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.

Notes

Forming part of the financial statements

i) 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 taxes 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.

Notes

Forming part of the financial statements

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 annual estimation of the value in use of the CGU's 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. An impairment review was performed at 31 March 2016 and no impairment was identified.

Management have considered whether there are indicators of impairment present at the end of Q2 in light of the UDA delivery performance and have determined that no impairment exists given the nature of the annual contract means that shortfalls can be recovered and that future year's cash flows will recover to historic long term delivery rates.

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. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the income statement in the period in which it is determined.

(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.

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.

Notes

Forming part of the financial statements

4 Segment reporting

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 patient services and practice services.

Through its patient services division, the group is the leading provider of dental services in the United Kingdom. The division owns and manages a national chain of dental practices with 675 sites at 30 September 2016 (30 September 2015: 666).

The group's practice services division, which principally comprises the dbg and The Dental Directory, provides a range of products and services to the dental and wider healthcare sectors, including to the group's patient services division. Sales to the patient services division are carried out on an arms-length basis.

All services are provided in the United Kingdom.

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

Q2 2017	Patient services	Practice services	Central costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
Revenue				
NHS dentistry	94,689	-	-	94,689
Private dentistry	23,383	-	-	23,383
Practice services	-	31,704	(7,697)	24,007
Total revenue	118,072	31,704	(7,697)	142,079
Gross profit	55,180	9,574	(992)	63,762
Gross margin	*46.7%*	*30.2%*		*44.9%*
Overheads	(40,389)	(7,561)	493	(47,457)
Overheads % of revenue	*34.2%*	*23.8%*		*33.4%*
Other income	544	-	-	544
EBITDA before non-underlying items	15,335	2,013	(499)	16,849
EBITDA margin	*13.0%*	*6.3%*		*11.9%*
Amortisation of intangible assets	(7,338)	(833)	-	(8,171)
Depreciation	(4,742)	(473)	70	(5,145)
Amortisation of government grant income	14	-	-	14
Other non-underlying items	(1,981)	(402)	-	(2,383)
Foreign exchange gains	-	76	-	76
Segment operating profit/(loss)	1,288	381	(429)	1,240
Net finance costs				(23,781)
Loss before income tax				(22,541)
Segment assets	873,170	118,059	(9,457)	981,772
Segment liabilities	(164,142)	(114,735)	(449,171)	(728,048)
Additions in the period				
Goodwill	1,754	201	-	1,955
Other intangible assets	2,122	-	-	2,122
Property, plant and equipment	5,222	546	(318)	5,450

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

Q2 2016	Patient services	Practice services	Central costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
Revenue				
NHS dentistry	94,634	-	-	94,634
Private dentistry	21,645	-	-	21,645
Practice services	-	28,720	(5,765)	22,955
Total revenue	116,279	28,720	(5,765)	139,234
Gross profit	55,853	8,961	(1,093)	63,721
Gross margin	*48.0%*	*31.2%*		*45.8%*
Overheads	(39,316)	(6,162)	915	(44,563)
Overheads % of revenue	*33.8%*	*21.5%*		*32.0%*
Other income	484	-	-	484
EBITDA before non-underlying items	17,021	2,799	(178)	19,642
EBITDA margin	*14.6%*	*9.7%*	*3.1%*	*14.1%*
Amortisation of intangible assets	(7,124)	(737)	-	(7,861)
Depreciation	(4,317)	(329)	33	(4,613)
Amortisation of government grant income	38	-	-	38
Other non-underlying items	(5,747)	(305)	-	(6,052)
Foreign exchange losses	-	555	-	555
Segment operating profit/(loss)	(129)	1,983	(145)	1,709
Net finance costs				(9,794)
Loss before income tax				(8,085)
Segment assets	883,621	113,321	(6,980)	989,962
Segment liabilities	(159,489)	(110,735)	(439,143)	(709,367)
Additions in the period				
Goodwill	8,020	20	-	8,040
Other intangible assets	11,469	2,187	-	13,656
Property, plant and equipment	7,173	189	(193)	7,169

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

YTD 2017	Patient services	Practice services	Central costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
Revenue				
NHS dentistry	189,944	-	-	189,944
Private dentistry	46,935	-	-	46,935
Practice services	-	64,288	(15,697)	48,591
Total revenue	236,879	64,288	(15,697)	285,470
Gross profit	112,142	19,579	(2,001)	129,720
Gross margin	*47.3%*	*30.5%*		*45.4%*
Overheads	(81,313)	(15,624)	1,106	(95,831)
Overheads % of revenue	*34.3%*	*24.3%*		*33.6%*
Other income	1,023	-	-	1,023
EBITDA before non-underlying items	31,852	3,955	(895)	34,912
EBITDA margin	*13.4%*	*6.2%*		*12.2%*
Amortisation of intangible assets	(14,664)	(1,666)	-	(16,330)
Depreciation	(9,419)	(894)	98	(10,215)
Amortisation of government grant income	33	-	-	33
Other non-underlying items	(3,395)	(590)	-	(3,985)
Foreign exchange gains	-	509	-	509
Segment operating profit/(loss)	4,407	1,314	(797)	4,924
Net finance costs				(33,249)
Loss before income tax				(28,325)
Segment assets	873,170	118,059	(9,457)	981,772
Segment liabilities	(164,142)	(114,735)	(449,171)	(728,048)
Additions in the period				
Goodwill	1,971	247	-	2,218
Other intangible assets	3,240	-	-	3,240
Property, plant and equipment	11,565	1,082	(588)	12,059

Notes

Forming part of the financial statements

4 Segment reporting *(continued)*

YTD 2016	Patient services	Practice services	Central costs and intra-segment eliminations	Total
	£'000	£'000	£'000	£'000
Revenue				
NHS dentistry	187,276	-	-	187,276
Private dentistry	41,857	-	-	41,857
Practice services	-	57,313	(11,680)	45,633
Total revenue	229,133	57,313	(11,680)	274,766
Gross profit	110,339	17,434	(2,171)	125,602
Gross margin	*48.2%*	*30.4%*		*45.7%*
Overheads	(78,449)	(12,413)	1,698	(89,164)
Overheads % of revenue	*34.2%*	*21.7%*		*32.5%*
Other income	938	-	-	938
EBITDA before non-underlying items	32,828	5,021	(473)	37,376
EBITDA margin	*14.3%*	*8.8%*	*4.0%*	*13.6%*
Amortisation of intangible assets	(14,137)	(1,459)	-	(15,596)
Depreciation	(8,564)	(643)	61	(9,146)
Amortisation of government grant income	92	-	-	92
Other non-underlying items	(9,883)	(826)	-	(10,709)
Foreign exchange gains	-	238	-	238
Segment operating profit/(loss)	336	2,331	(412)	2,255
Net finance costs				(18,680)
Loss before income tax				(16,425)
Segment assets	883,621	113,321	(6,980)	989,962
Segment liabilities	(159,489)	(110,735)	(439,143)	(709,367)
Additions in the period				
Goodwill	11,655	60	-	11,715
Other intangible assets	20,017	2,187	-	22,204
Property, plant and equipment	14,752	551	(405)	14,898

Notes

Forming part of the financial statements

5 Taxation

	Q2 2017 £'000	Q2 2016 £'000
Current income tax		
Current income tax for the period	-	-
Total current income tax	-	-
Deferred income tax		
Origin and reversal of temporary differences	(2,556)	(1,260)
Impact of change in tax rate	(2,285)	-
Total deferred income tax	(4,841)	(1,260)
Total income tax credit	(4,841)	(1,260)

	YTD 2017 £'000	YTD 2016 £'000
Current income tax		
Current income tax for the period	-	-
Total current income tax	-	-
Deferred income tax		
Origin and reversal of temporary differences	(3,618)	(3,119)
Impact of change in tax rate	(2,285)	-
Total deferred income tax	(5,903)	(3,119)
Total income tax credit	(5,903)	(3,119)

The main rate of corporation tax was reduced from 21% to 20% from 1 April 2015. Further reductions to 19% from 1 April 2017 and to 17% from 1 April 2020 were substantively enacted on 18 November 2015 and 15 September 2016 respectively, and both the deferred income tax asset and liability have been re-measured accordingly.

Notes

Forming part of the financial statements

6 Trade and other payables

	Q2 2017	Q2 2016
	£'000	£'000
Current		
Trade payables	19,637	16,966
Accruals and deferred income	101,813	80,320
Other taxation and social security	4,201	3,977
Contingent consideration	4,585	7,248
Government grants	55	99
	130,291	108,610
Non-current		
Contingent consideration	1,265	2,409
Government grants	231	266
	1,496	2,675

Contingent consideration is due to the vendors of individual acquired practices.

Notes

Forming part of the financial statements

7 Borrowings

	Q2 2017 £'000	Q2 2016 £'000
Non-current		
Senior secured, floating rate and second lien notes		
Due between two and five years	549,829	500,880
	549,829	500,880
Bank loans		
Due between two and five years	-	39,000
Less: unamortised arrangement fees and related costs	(11,042)	(9,277)
Total non-current loans and borrowings	538,787	530,603

High yield bonds totalling £400m were issued at 100% on 30 May 2013. A further £100m of Senior Secured Floating Rate Notes were issued on 9 May 2014 at 101.25%. As at 30 September 2015, high yield bonds in issue consisted of:

- £200m 6% Senior Secured Fixed Rate Notes due to mature on 1 December 2018;
- £225m Senior Secured Floating Rate Notes due to mature on 1 December 2018. The notes were 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 had an interest charge of GBP LIBOR plus 4%.

During Q2 FY2017 the group has issued:

- £275m of 6.25% Senior Secured Fixed Rate Notes due 2022 at 100%;
- £150m of Senior Secured Fixed Rate Notes due 2022. The notes are set at a floating rate of GBP LIBOR (set at a minimum of 0%) plus 6% each quarter;
- £130m of Second Lien Notes due 2023. The Second Lien Notes are set at a floating rate of GBP LIBOR (set at a minimum of 1%) plus 8%;

The proceeds of the issue were used to repay the outstanding notes including redemption costs and professional fees and the outstanding drawings from the Super Senior Revolving Credit Facility.

A new £100m Super Senior Revolving Credit Facility (“SSRCF”) was agreed with an interest charge of GBP LIBOR plus 3.5%. At the quarter end the SSRCF was undrawn.

As part of an interest rate management strategy, the group has entered into two interest rate contracts to swap LIBOR for a fixed rate. The mark-to-market value of these contracts at the balance sheet date is included as a current liability in the consolidated statement of financial position under the heading ‘Derivative financial instruments’.

Notes

Forming part of the financial statements

8 Business combinations

Set out below are details of the acquisitions completed during the quarter ended 30 September 2016 and the six months ended 30 September 2016. Acquisitions during the quarter ended 30 September 2016 comprised of two unincorporated dental practices acquired by the group's patient services division (six months ended 30 September 2016: two incorporated and two unincorporated dental practices). The directors consider each of these acquisitions to be individually immaterial to the group, having considered a number of qualitative and quantitative factors. Therefore, these acquisitions have been aggregated for disclosure purposes.

	Q2 2017 Total £'000
Consideration	
Cash	3,516
Total consideration	3,516
Fair value of assets and liabilities acquired	
Intangible assets	2,122
Deferred taxation	(382)
Provisions	(10)
Total identifiable net assets/(liabilities)	1,730
Goodwill	1,786
Total	3,516

	YTD 2017 Total £'000
Consideration	
Cash	4,959
Total consideration	4,959
Fair value of assets and liabilities acquired	
Intangible assets	3,240
Deferred taxation	(583)
Provisions	(20)
Total identifiable net assets/(liabilities)	2,637
Goodwill	2,322
Total	4,959