



IDH Finance plc
Quarterly Financial Report
3 months ended 31 December 2014

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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 nine month accounting period to 31 December 2014 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.

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 and nine month periods ended 31 December 2013. 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 2014 but not in both.

The comparative year-to-date information for the nine month period to 31 December 2013 includes the period prior to the closing of the notes offering by IDH Finance plc, which took place on 30 May 2013 (“closing”).

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

DISCLAIMER

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Summary highlights

- EBITDA before exceptional items for the three months ended 31 December 2014 (“Q3 FY15”) increased to £18.0m, 1.9% up on the three months to 31 December 2013.
- Q3 FY15 turnover was £135.5m. Year on year turnover growth, predominantly driven by acquisitions, was 29.7%.
- Q3 FY15 like-for-like private revenue growth of 9.4%.
- With the inclusion of Dental Directory’s post acquisition results:
 - Q3 FY15 gross margin percentage of 44.4% compared to 48.0% in the three months to 31 December 2013.
 - Administrative expenses, excluding depreciation, goodwill amortisation and exceptional items, as a percentage of turnover was 31.4%, in line with Q3 FY14.
- Increase in LTM EBITDA to £73.9m; and pro-forma LTM EBITDA of £83.2m.
- Nine practices were acquired during the quarter – total practices increased to 628.
- Operating cash generated of £13.5m (Q3 FY14: £13.9m).
- Maintenance capital expenditure for the quarter ended 31 December 2014 was £5.4m.
- Normalised cash conversion adjusting for one-off items in working capital and maintenance capital expenditure was 59.5% (YTD: 80.3%).
- £5.1m was spent on acquiring practices during the quarter.
- Cash and cash equivalents at 31 December 2014 of £16.7m and net debt was £480.1m.
- Gearing levels are 6.49 times and 5.77 times LTM EBITDA and pro-forma LTM EBITDA respectively.
- Roll-out of ‘My Dentist’ brand fascia to c.90 practices by March 2015 underway.
- Mark Stephenson appointed Chief Operating Officer of the Practice Services division in January.

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 31 December 2014.

IDH is the leading provider of dental services in the United Kingdom with a network of 628 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.

Following the acquisition of The Dental Directory ("DD") in April 2014 and the Dental Buying Group ("dbg") in April 2013, the group is also a leading provider of materials, equipment and services to dental practices across the UK. In conjunction with the Academy (provision of internal and external learning facilities), DD and dbg make up our 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 October 2013 to 30 September 2014 and for the quarter ended 31 December 2014 are provided below:

Key performance indicators	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Turnover (£m)	104.4	106.7	123.9	133.2	135.5
EBITDA (£m)	17.7	19.1	17.7	19.1	18.0
LTM EBITDA (£m)	64.8	67.8	70.1	73.6	73.9
Operating profit (£m)	4.2	6.4	4.5	4.3	2.1
NHS dentistry services as a percentage of turnover	84.6%	84.4%	71.3%	69.2%	69.5%
Private dentistry services as a percentage of turnover	13.7%	13.8%	12.7%	12.7%	13.1%
Practice services as a percentage of turnover	(1) 1.7%	1.8%	16.0%	18.1%	17.4%
Like-for-like private turnover growth	12.6%	8.4%	15.0%	13.8%	9.4%
Gross profit margin %	48.0%	48.4%	44.9%	44.9%	44.4%
Administrative expenses as a percentage of turnover	31.4%	30.9%	30.9%	30.9%	31.4%
EBITDA margin %	17.0%	17.9%	14.3%	14.4%	13.3%
Number of dental practices	570	585	592	621	628
Maintenance capital expenditure (£m)	3.8	5.1	4.7	4.6	5.4
Cash conversion after maintenance capital expenditure %	(2) 60.6%	72.0%	74.4%	100.6%	56.7%
Proforma EBITDA (£m)	73.0	84.8	83.8	86.0	83.2

(1) Turnover from practice services includes the Dental Buying Group ("dbg") and The Dental Directory and totals £23.5m in Q3 FY15 (Q3 FY14: £1.8m).

(2) Normalised cash conversion, after adjusting for one-off items in working capital and maintenance capital expenditure in Q3 FY15 was 59.5%.

In the quarter ended 31 December 2014, we acquired nine dental practices for a total of 628 dental practices in our estate as at the quarter end.

Turnover

Group turnover increased by £31.1m, or 29.7%, from £104.4m for the three month period ended 31 December 2013 (“Q3 FY14”) to £135.5m for the three month period to 31 December 2014 (“Q3 FY15”).

Turnover derived from dental practices increased by £9.3m from £102.7m to £112.0m. The remaining £21.8m increase was delivered from new services provided to dental practices and other associated businesses following the acquisition of The Dental Directory in Q1 FY15 and including dbg.

Group turnover	Q3 2015	Q3 2014	Movement
	£'000	£'000	£'000
Practices owned as at 1 April 2013	95,159	96,266	(1,107)
Practice disposals	-	80	(80)
Practices acquired or opened:			
During the 12 months ended 31 March 2014	11,324	6,304	5,020
During the 9 months ended 31 December 2014	5,468	-	5,468
Dental practice turnover	111,951	102,650	9,301
Practice services and other turnover	23,548	1,787	21,761
Group turnover	135,499	104,437	31,062

Turnover of £11.3m was contributed by the 61 practices acquired or opened during the period 1 April 2013 to 31 March 2014 (“FY14 acquisitions”) in the quarter ended 31 December 2014, a £5.0m increase over the £6.3m contributed by the 41 practices acquired or opened in the first nine months of the last financial year. The 48 practices acquired or opened during the first nine months of FY15 (“FY15 acquisitions”) contributed an additional £5.5m.

It should be noted that Q3 FY14 turnover benefitted from a partial catch-up of NHS activity lost as a result of the systems issue that affected c.45% of the practice estate towards the end of Q2 FY14. The financial effect on EBITDA in Q2 FY14 was estimated to be between £1.0m-£1.5m.

NHS revenue

NHS revenue for the quarter ended 31 December 2014 was £94.2m, an increase of £5.8m or 6.6% from £88.4m in Q3 FY14.

This increase was principally due to the impact of acquisitions with £8.2m generated by FY14 and FY15 acquisitions.

NHS revenue generated from practices owned at 1 April 2013 reduced from £83.3m to £81.0m due to:

- lower than expected levels of UDA performance in the quarter;
- patients choosing private treatment solutions instead of NHS treatment plans;
- partially offset by the 1.6% NHS dentistry contract uplift applied to the contracted Units of Dental Activity (“UDA”) from 1 April 2014; and
- the partial catch up of lost NHS activity in Q3 FY14 as a result of the systems issue experienced in Q2 FY14.

Included within the NHS revenue number is £7.2m (Q3 FY14: £6.5m) generated from the delivery of Orthodontic services under contracts with NHS England.

Private revenue

Private revenue for the quarter ended 31 December 2014 was £17.7m, 24.4% higher than £14.3m for the equivalent period in FY14.

Practices owned at 1 April 2013 increased private sales by £1.2m or 9.4% to £14.0m for the quarter with acquired practices generating £2.3m additional private revenue. Private revenue increases have been generated through recommended price increases, the development of additional services for the dentist associates to provide to our patients and increased training for our associates in providing patient choice.

Practice services and other revenue

Revenue of £23.5m (Q3 FY14: £1.8m) has been generated from The Dental Directory, dbg and other services.

Cost of sales

Gross margin for the quarter ended 31 December 2014 was 44.4% a 3.6% decrease from 48.0% in the quarter ended 31 December 2013. This movement is due to a change in sales mix following the acquisition of The Dental Directory in April 2014. Dental practice gross margin for Q3 FY15 was 47.4% (Q3 FY14: 48.0%), compared to 30.0% for practice services.

Cost of sales increased by £21.1m and 38.8% from £54.3m to £75.4m for the quarter. The increase in the cost of sales is primarily the result of the Dental Directory acquisition which, along with dbg and other services added £15.6m. In addition, trading from FY14 and FY15 acquisition sites increased cost of sales by £5.5m.

The mix effect of increased private turnover and the associated higher dentist fee rates, laboratory and materials costs have slightly diluted the effect of the margin increase arising from the 1.6% NHS contract uplift.

Margins continue to be assisted by a reduced level of locum usage and laboratory fee savings resulting from management initiatives to increase cost transparency to dentists when compared to FY14, however this benefit has been offset by increased expenditure on dental materials, partly as a result of the increasing level of private revenue but also transitional issues with the transfer of materials purchasing to Dental Directory during Q2 and Q3 which will be resolved during Q4.

Administrative expenses

Administrative expenses including goodwill amortisation and depreciation were £58.5m for Q3 FY15, an increase of £12.2m from £46.3m in the three months to 31 December 2013. Administrative expenses excluding goodwill amortisation, depreciation, grant income and exceptional items were £42.5m, an increase of £9.7m from £32.8m in Q3 FY14.

The movement in administrative expenses is primarily due to the overheads of the acquired Dental Directory business of £4.9m, in addition to 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 31 December 2014, staff costs were £27.4m, an increase of £5.5m from £21.9m in Q3 FY14. This increase is due to the Dental Directory acquisition (£2.7m), practice acquisitions (£1.8m), a general staff pay increase of 1.5% awarded at the beginning of April 2014. In addition management have made investments in practice operations including increased dentist clinical support, private services operational managers and additional practice managers.

Rent expense for the quarter was £2.8m, 2.1% of revenue and an increase of £0.5m from £2.3m in FY14. The increase was due to the growth in the number of practices and the acquisition of The Dental Directory.

Dental equipment and practice property maintenance costs for Q3 FY15 were £3.0m, £1.1m higher than Q3 FY14 due to a spike in facilities costs during the quarter and the increased practice estate.

Other operating income

Other operating income for the three months ended 31 December 2014 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.

EBITDA before exceptional items

Earnings before interest tax, depreciation, amortisation and exceptional items increased by £0.3m, or 1.9% from Q3 FY14 (£17.7m) to Q3 FY15 (£18.0m). However, it should be noted that when the effect of the IT issues in Q2 FY14 are removed from the comparison by looking at Q2 and Q3 together, EBITDA for FY14 of £33.3m increased to £37.2m in FY15 (11.5%).

Exceptional items

Exceptional items of £1.8m primarily relate to professional fees incurred as part of the review of the strategic options being undertaken by management and shareholders and initial costs incurred on the 'My Dentist' re-branding. At the date of this report 13 sites have been rebranded "My Dentist"

Year to date performance

In the nine months to 31 December 2014 turnover increased by 30.5% from £300.8m to £392.5m. This increase was driven by the acquisition of The Dental Directory in Q1 2015, with the Practice Services division, including Dental Directory and dbg, adding £62.4m of revenue year-on-year. In addition, the dental practice acquisition programme over the last two years, together with growth from our existing practices through private revenue has led to an increase in turnover of £29.3m.

Practices acquired during FY14 and FY15 have added £28.2m of revenue to the group results in the year to date. Practices owned at 1 April 2013 have generated £1.3m through a 12.6% increase in private turnover partially offset by a 1.4% reduction in NHS revenue. The reduction in NHS revenue reflects the completion of a lower number of UDA's in the contract year to date, partially offset by the 1.6% dentistry contract rate uplift received from the NHS.

The latest NHS England data available is for the three months to June 2014 and highlights a trend in the increase in Band 1 treatments (eg check-ups), up 37,000, however Band 2 treatments (eg fillings) are down year-on-year by 475,000 and more complicated Band 3 treatments are down 289,000. Overall there was a fall of 3.4% in the number of UDA's completed when compared to the prior year with one less trading day in the quarter compared to the three months to June 2013.

Group turnover	YTD 2015 £'000	YTD 2014 £'000	Movement £'000
Practices owned as at 1 April 2013	282,606	281,273	1,333
Practice disposals	-	245	(245)
Practices acquired or opened:			
During the 12 months ended 31 March 2014	33,013	14,090	18,923
During the 9 months ended 31 December 2014	9,325	-	9,325
Dental practice turnover	324,944	295,608	29,336
Practice services and other turnover	67,561	5,169	62,392
Group turnover	392,505	300,777	91,728

EBITDA before exceptional items for the year to date has increased from £48.7m in FY14 to £54.9m in FY15, an increase of 12.6%.

Pro-forma LTM EBITDA

	£'000
LTM EBITDA before exceptional items at 31 December 2014	73,939
Estimated adjusted EBITDA of acquired dental practices at 31 December 2014	4,641
Adjusted EBITDA for The Dental Directory including annualised synergies	4,642
Estimated pro-forma adjusted LTM EBITDA	83,222

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

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 The Dental Directory, the EBITDA adjustments include the effect of the synergies described in the Offering Memorandum dated 6 May 2014.

Interest

An interest charge of £7.6m arises from charges related to the £200.0m 6% Senior Secured Fixed Rate Notes, £225.0m Senior Secured Floating Rate Notes and £75.0m Second Lien Note.

The remaining £2.0m relates to the amortisation of arrangement fees, interest rate swap charges and interest charges in respect of the Super Senior Revolving Credit Facility.

Debt and liquidity

At 31 December 2014, the net debt was £480.1m, compared to £479.1m at 30 September 2014. This movement reflects a decrease in cash balances during the quarter, offset by a £6.0m repayment made against the Super Senior Revolving Credit Facility during October 2014.

Net cash flow for the quarter was an outflow of £6.4m. This reflects cash generated from operating activities of £13.5m and proceeds from the sale of freehold property of £3.6m, with outflows from a £6.0m repayment against the Super Senior Revolving Credit Facility, expenditure of £5.1m on acquisitions, capital expenditure of £7.5m, including the refurbishment of acquisition sites, £4.0m for the servicing of finance, £0.3m of debt issue costs relating to the issue of additional Senior Secured Floating Rate Notes in May 2014 and £0.5m of Corporation Tax.

Working capital movements

Net cash inflow from operating activities decreased slightly from £13.9m in Q3 FY14 to £13.5m in Q3 FY15 and the ratio of EBITDA to operating cash flow decreased from 78.4% to 74.9%.

Capital expenditure

Net capital expenditure for Q3 FY15 was £3.9m. This includes proceeds from the sale of freehold property of £3.6m. Gross capital expenditure of £7.5m included acquisition refurbishments of £2.1m and “maintenance” capital expenditure of £5.4m.

Maintenance capital expenditure includes £0.7m for the relocation of the Glasgow orthodontic practice and £0.1m for the relocation of the Leatherhead practice to new premises.

Cash conversion

Cash conversion is measured as the ratio of EBITDA to operating cash flow less maintenance capital expenditure and for the quarter was 56.7% compared to 60.6% in the corresponding quarter in FY14. The reduction in the ratio is due in part to investment in additional stock by The Dental Directory.

Cash conversion was reduced by the relocation capital expenditure project discussed above. After taking these items into account, cash conversion would increase to 59.5% for the quarter.

Acquisitions

Acquisitions capital expenditure in the quarter was £5.1m and was focussed on individual practice acquisitions across England, Scotland and 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, the updated Offering Memorandum dated 6 May 2014 and the statutory accounts for Turnstone Midco 2 Limited for the year ended 31 March 2014.

Turnstone Midco 2 Limited

Condensed consolidated interim financial statements – Unaudited

Q3 2015 – 3 month period ended 31 December 2014

Profit and loss account (unaudited)

For the quarter ended 31 December 2014

	<i>Note</i>	Q3 2015 £'000	Q3 2014 £'000
Turnover	3	135,499	104,437
Cost of sales		(75,397)	(54,309)
Gross profit		60,102	50,128
Administrative expenses		(58,455)	(46,323)
Other operating income		461	407
Operating profit		2,108	4,212
EBITDA before exceptional items	3	18,043	17,705
Depreciation		(4,452)	(3,362)
Amortisation of goodwill		(9,749)	(8,537)
Amortisation of grant income		45	112
Exceptional items		(1,779)	(1,706)
Operating profit		2,108	4,212
(Loss)/profit on disposal of assets		(3)	24
Profit on ordinary activities before interest and taxation		2,105	4,236
Interest payable and similar charges		(9,631)	(7,947)
Interest receivable and other income		19	8
Loss on ordinary activities before taxation	3	(7,507)	(3,703)
Tax on loss on ordinary activities	4	(155)	31
Loss on ordinary activities after taxation		(7,662)	(3,672)
Equity minority interests		55	(18)
Loss for the financial period	8	(7,607)	(3,690)

Profit and loss account (unaudited)

For the nine months ended 31 December 2014

	<i>Note</i>	YTD 2015 £'000	YTD 2014 £'000
Turnover	3	392,505	300,777
Cost of sales		(217,059)	(155,747)
Gross profit		175,446	145,030
Administrative expenses		(165,874)	(134,132)
Other operating income		1,354	1,296
Operating profit		10,926	12,194
EBITDA before exceptional items	3	54,884	48,722
Depreciation		(12,654)	(9,855)
Amortisation of goodwill		(28,704)	(25,292)
Amortisation of grant income		258	385
Exceptional items		(2,858)	(1,766)
Operating profit		10,926	12,194
Profit/(loss) on disposal of assets		1,521	(281)
Profit on ordinary activities before interest and taxation		12,447	11,913
Interest payable and similar charges		(29,264)	(46,334)
Interest receivable and other income		64	60
Loss on ordinary activities before taxation	3	(16,753)	(34,361)
Tax on loss on ordinary activities	4	(733)	572
Loss on ordinary activities after taxation		(17,486)	(33,789)
Equity minority interests		23	(25)
Loss for the financial period	8	(17,463)	(33,814)

Balance sheet (unaudited)

at 31 December 2014

	<i>Note</i>	Q3 2015 £'000	Q3 2014 £'000
Intangible assets	5	664,281	605,524
Tangible assets		87,611	75,022
Fixed assets		751,892	680,546
Stock		25,946	7,394
Debtors		58,306	37,479
Cash at bank and in hand		16,660	17,292
Current assets		100,912	62,165
Creditors: amounts falling due within one year	6	(89,754)	(67,983)
Net current assets/(liabilities)		11,158	(5,818)
Creditors: amounts falling due after more than one year	7	(503,489)	(396,323)
Provisions for liabilities and charges		(9,404)	(10,476)
Net assets		250,157	267,929
Capital and reserves			
Share capital	8	410,961	410,961
Profit and loss reserve	8	(160,747)	(142,973)
Minority interest	8	(57)	(59)
Total shareholders' funds	8	250,157	267,929

Cash flow statement (unaudited)

For the quarter ended 31 December 2014

	Q3 2015 £'000	Q3 2014 £'000
Operating profit	2,108	4,212
Amortisation of goodwill	9,749	8,537
Depreciation	4,452	3,362
Amortisation of grant income	(45)	(112)
Increase in stock	(4,479)	(110)
Decrease in debtors	2,511	931
Decrease in creditors	(436)	(1,551)
Decrease in provisions	(344)	(1,395)
Net cash inflow from operating activities	13,516	13,874
Corporation tax paid	(549)	-
Returns on investments and servicing of finance	(4,013)	(2,576)
Capital expenditure	(3,916)	(5,021)
Acquisitions and disposals	(5,080)	(8,409)
Net cash outflow before financing	(42)	(2,132)
Debt issue costs	(342)	(1,382)
Financing	(6,000)	-
Decrease in cash for the period	(6,384)	(3,514)
Opening cash	23,044	20,806
Closing cash	16,660	17,292

Cash flow statement (unaudited)

For the nine months ended 31 December 2014

	YTD 2015 £'000	YTD 2014 £'000
Operating profit	10,926	12,194
Amortisation of goodwill	28,704	25,292
Depreciation	12,654	9,855
Amortisation of grant income	(258)	(385)
Increase in stock	(3,891)	(388)
Increase in debtors	(833)	(7,390)
Increase in creditors	7,731	2,319
Decrease in provisions	(1,215)	(4,944)
Net cash inflow from operating activities	53,818	36,553
Corporation tax (paid)/recovered	(480)	246
Returns on investments and servicing of finance	(20,373)	(14,927)
Capital expenditure	(8,244)	(15,159)
Acquisitions and disposals	(99,583)	(68,177)
Net cash outflow before financing	(74,862)	(61,464)
Debt issue costs	(1,664)	(14,682)
Financing	86,250	51,035
Increase/(decrease) in cash for the period	9,724	(25,111)
Opening cash	6,936	42,403
Closing cash	16,660	17,292

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

For the quarter ended 31 December 2014

	Q3 2015	Q3 2014
	£'000	£'000
Decrease in cash for the period	(6,384)	(3,514)
Repayment of bank loans	6,000	-
Debt issue costs	-	1,382
Total cash movement in net debt	(384)	(2,132)
Other non-cash movements in net debt	103	(980)
Amortisation of loan arrangement fees	(628)	(627)
Total non-cash movement in net debt	(525)	(1,607)
Total movement in net debt	(909)	(3,739)
Net debt brought forward	(479,144)	(369,881)
Net debt carried forward	(480,053)	(373,620)

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

For the nine months ended 31 December 2014

	YTD 2015 £'000	YTD 2014 £'000
Increase/(decrease) in cash for the period	9,724	(25,111)
Drawdown of bank loans	(81,500)	(30,307)
Repayment of bank loans	96,500	329,272
Redemption of loan notes	-	50,000
Issue of high yield bonds	(101,250)	(400,000)
Debt issue costs	-	14,682
Total cash movement in net debt	(76,526)	(61,464)
Accrued interest	-	(8,339)
Other non-cash movements in net debt	-	396,515
Amortisation of loan arrangement fees	(1,928)	(2,010)
Total non-cash movement in net debt	(1,928)	386,166
Total movement in net debt	(78,454)	324,702
Net debt brought forward	(401,599)	(698,322)
Net debt carried forward	(480,053)	(373,620)

Notes

Forming part of the financial statements

1 General information and statement of compliance

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 consolidated interim financial statements of the company are for the quarter ended 31 December 2014. The results for the year to date represent the group’s trading from 1 April 2014 to 31 December 2014. Comparative results are provided for the quarter ended 31 December 2013 and the nine months ended 31 December 2013 and include the refinancing of the group’s bank debt through the issue of high yield bonds by IDH Finance plc.

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

The condensed consolidated interim financial statements have been prepared in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice (UK GAAP). They do not reflect all of the disclosure requirements for full annual statements and should 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 2014, both of 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 accounting policies set out in the 2014 directors’ report and consolidated financial statements for Turnstone Midco 2 Limited and 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.

Notes

Forming part of the financial statements

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.

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

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3 Segmental information

	Q3 2015		YTD 2015	
	Turnover	Profit	Turnover	Profit
	£'000	£'000	£'000	£'000
Dental practices	111,951	16,340	324,944	49,690
Practice services	23,548	1,703	67,561	5,194
Group turnover/EBITDA	135,499	18,043	392,505	54,884
Exceptional items		(1,779)		(2,858)
(Loss)/profit on disposal of assets		(3)		1,521
Depreciation and amortisation		(14,156)		(41,100)
Net interest payable		(9,612)		(29,200)
Loss before taxation		(7,507)		(16,753)

Practice services include The Dental Directory group, dbg, the Academy and recruitment services.

All activities arose in the United Kingdom.

4 Taxation

	Q3 2015	Q3 2014
	£'000	£'000
Analysis of tax (charge)/credit in the period		
<i>Current tax</i>		
Corporation tax	1	(19)
Total current tax credit/(charge)	1	(19)
<i>Deferred tax</i>		
Deferred tax (charge)/credit	(156)	50
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	-
Total deferred tax (charge)/credit	(156)	50
Tax (charge)/credit on ordinary activities	(155)	31

Due to the level of allowable interest deductions and the availability of capital allowances, no current tax liability has been recognised for current trading in the quarter ended 31 December 2014.

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 21% from 1 April 2014. A further reduction to 20% from 1 April 2015 was substantively enacted in the Finance Act 2013 and the deferred tax asset has been measured accordingly.

Notes

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4 Taxation (continued)

	YTD 2015	YTD 2014
	£'000	£'000
Analysis of tax (charge)/credit in the period		
<i>Current tax</i>		
Corporation tax	(2)	(2)
Total current tax charge	(2)	(2)
<i>Deferred tax</i>		
Deferred tax (charge)/credit	(731)	1,585
Adjustment in respect of prior periods	-	-
Effect of changes in tax rates	-	(1,011)
Total deferred tax (charge)/credit	(731)	574
Tax (charge)/credit on ordinary activities	(733)	572

5 Intangible fixed assets

During the three months ended 31 December 2014, the group acquired nine dental practices. Practice acquisitions totalling £2.9m and subsidiary acquisitions totalling £3.1m 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

	Q3 2015	Q3 2014
	£'000	£'000
Trade creditors	19,801	9,904
Other taxation and social security	2,760	1,929
Corporation tax	4	302
Deferred consideration for acquisitions	5,603	4,670
Accruals and deferred income	54,096	44,154
Accrued interest	7,490	7,024
	89,754	67,983

Deferred consideration is due to the vendors of individual practices.

Notes

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7 Creditors: amounts falling after more than one year

	Q3 2015	Q3 2014
	£'000	£'000
High yield bonds	501,088	400,000
Debt issue costs	(11,375)	(14,088)
High yield bonds net of debt issue costs	489,713	385,912
Super senior revolving credit facility	7,000	5,000
Deferred consideration	6,349	5,026
Accruals and deferred income	427	385
	503,489	396,323

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 31 December 2014, high yield bonds in issue consist 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 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 premium arising on the notes issued in May 2014 is to be amortised over the remaining term to maturity.

The super senior revolving credit facility has an interest charge of GBP LIBOR plus 4%.

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.

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8 Movements in shareholders' funds

	Q3 2015				Q3 2014			
	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000
At beginning of the period	410,961	(153,140)	(2)	257,819	410,961	(139,283)	(77)	271,601
Loss for the financial period	-	(7,607)	(55)	(7,662)	-	(3,690)	18	(3,672)
At end of period	410,961	(160,747)	(57)	250,157	410,961	(142,973)	(59)	267,929

	YTD 2015				YTD 2014			
	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000	Share capital £'000	Profit and loss reserve £'000	Minority interest £'000	Total £'000
At beginning of the period	410,961	(143,284)	(34)	267,643	-	(109,159)	(84)	(109,243)
Share capital issued in exchange for loan notes	-	-	-	-	410,961	-	-	410,961
Loss for the financial period	-	(17,463)	(23)	(17,486)	-	(33,814)	25	(33,789)
At end of period	410,961	(160,747)	(57)	250,157	410,961	(142,973)	(59)	267,929

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