IDH Finance plc

Annual report for Bondholders

Year ended 31 March 2018

Contents

Presentation of financial data

This report summarises consolidated financial and operating data derived from the audited consolidated financial statements of Turnstone Midco 2 Limited, the parent company of IDH Finance plc. The financial information provided has been derived from our records for the years ended 31 March 2018 and 31 March 2017.

The financial information in this report has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Non-IFRS financial measures

We have presented certain non-IFRS information in the Annual report. This information includes metrics derived from "EBITDA", including EBITDA before non-underlying items, which represents earnings before interest, tax, depreciation, amortisation, impairment and one-off, exceptional, or strategic items (referred to as 'non-underlying' items), and estimated pro forma adjusted EBITDA, which represents EBITDA before non-underlying items, estimated adjusted EBITDA of BF Mulholland and an add back to EBITDA for losses from practice closures. We also present certain items derived from EBITDA-related metrics, including EBITDA margin and cash conversion. For the definitions and reconciliations of such terms to other financial metrics, see "Management's discussion and analysis of financial condition and results of operations—Results of operations for the years ended 31 March 2018 and 31 March 2017—Other financial data". Our management believes metrics derived from EBITDA are meaningful for investors because they provide an analysis of our operating results, profitability and ability to service debt. Metrics derived from EBITDA are 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, although our presentation of such metrics may not be comparable with that of other similar metrics presented by other companies.

We have also included other measures in this Annual report, some of which we refer to as "key performance indicators" ("KPIs"), including EBITDA margin, gross profit margin, NHS dentistry services revenue as a percentage of total revenue, total annual UDA delivery percentage, UDA contract uplift (as defined herein), private dentistry services revenue as a percentage of total revenue, like-for-like private revenue growth, like-for-like private revenue growth per working day, Dental Directory revenue as a percentage of total revenue, overheads as a percentage of revenue and total number of dental practices. We believe that it is useful to include these non-IFRS measures as they are used by us for internal performance analysis. These other non-IFRS measures should not be considered in isolation or construed as a substitute for IFRS measures. For a description of certain of our KPIs, see "Management's discussion and analysis of financial condition and results of operations—Description of key line items—Other financial information (non-IFRS)".

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 2017 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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Forward-Looking Statements

This Annual report includes statements that are forward-looking in nature. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Summary

Integrated Dental Holdings ("IDH") is Europe's largest vertically-integrated dental business and the United Kingdom's number one dental practice chain, with a focus on delivering the best possible patient care, the highest clinical standards and a comprehensive choice of treatments through our UK dental practice network. The group operates through two divisions: mydentist and Dental Directory.

mydentist is the leading provider of dental services in the United Kingdom, with 583 NHS dentistry contracts across our network of 643 dental practices throughout England, Scotland, Wales and Northern Ireland. Our dental practices, operating mainly under the "mydentist" brand, offer a broad range of primary care dental services in our dental practices, including dental examinations, fillings and extractions, as well as more specialised dental services such as cosmetic dentistry and orthodontics.

Dental Directory is a leading supplier of dental and other medical consumables, materials and services (including the installation and servicing of specialised dental equipment), selling dental supplies and services to at least 8,000 dental practices, including to mydentist. The principal trading entities of Dental Directory are Billericay Dental Supply Co. Limited trading as Dental Directory, along with a number of smaller businesses including dbg, Mi-Tec Ltd, Dolby Medical, Med-FX, PDS Dental Laboratory and BF Mulholland, which we acquired on 8 September 2017. BF Mulholland supplies a similar range of dental consumables, materials and equipment to those offered by Dental Directory, but to the Northern Irish and Irish markets, and therefore extends our geographic reach.

We have continued to be affected by a challenging trading environment during the year ended 31 March 2018, and our results have been adversely impacted by a lower level of UDA delivery in mydentist and lower gross margins in Dental Directory. These factors have been partially mitigated by continued like-for-like growth in our private dentistry revenues. However, the business has taken a number of steps to address the decline in trading performance during the year.

Following the appointments of Alan Bowkett as Chairman in March 2017 and Tom Riall as Chief Executive Officer in May 2017, a new senior management team is now in place: Omar Shafi Khan joined as Chief Financial Officer, and Steve Melton joined as Managing Director of mydentist, both in October 2017; Dr Julian Perry joined as Group Commercial Director in January 2018; and Paul Adams joined as Managing Director of Dental Directory in May 2018.

The group has developed a set of seven strategic priorities, in order to reverse the decline in trading performance experienced in recent years and to restore the business to growth:

1. Improve clinician and nurse resourcing and retention;
2. Evaluate the portfolio;
3. Optimise practice productivity;
4. Buffer and mitigate short term costs;
5. Continue growth of private;
6. Continue growth in Dental Directory;
7. Maintain high clinical standards.

During the year, the group has significantly expanded its clinician resourcing capability in order to accelerate clinician recruitment from both UK and overseas channels. As a result, we have recruited an additional net 232 clinicians. Therefore, management are cautiously optimistic that the decline we have experienced in UDA delivery should start to reverse as we progress through the year ending 31 March 2019.

We have conducted a thorough review of our portfolio of dental practices to identify those which are no longer viable due to structural issues such as, for example, very low UDA contract values and delivery performance or where geographical isolation has made it difficult to recruit dentists. As a result of this review, decisions were taken to close or sell 49 dental practices. By 31 March 2018, the group had sold 13 practices and closed 19 practices, including two which were closed in March 2017, at the end of the previous financial year. The remaining 17 practices are expected to be closed or sold by 30 September 2018. In addition, after the period end, we have taken the decision to close or sell a further 21 practices which we also expect to complete by 30 September 2018.

Financial highlights

- EBITDA before non-underlying items for the year ended 31 March 2018 decreased by 19.9% to £55.1 million.
- Revenue was £580.5 million, which was 0.9% lower than the year ended 31 March 2017, predominantly due to lower UDA delivery in mydentist, partially offset by growth in private dentistry and Dental Directory revenues.
- Like-for-like private revenue growth was 5.0% (2017: 7.0%). Like-for-like private revenue growth per working day was 6.7% (2017: 5.7%)
- UDA delivery percentage of 86.1%, after temporary and permanent NHS contract handbacks, for the year ended 31 March 2018 compared with 90.4% for the year ended 31 March 2017.
- Overheads, excluding depreciation, the amortisation and impairment of intangible assets, and other non-underlying items, as a percentage of revenue was 34.4% (2017: 33.1%).
- Estimated pro forma adjusted EBITDA at 31 March 2018 of £57.3 million.
- Cash generated from operations for the year ended 31 March 2018 was £65.9 million compared to £72.9 million for the year ended 31 March 2017.
- Group maintenance capital expenditure for the year ended 31 March 2018 was £18.8 million, of which £17.9 million relates to mydentist, representing 3.82% of mydentist revenues.
- Normalised cash conversion, adjusting for one-off items in working capital and maintenance capital expenditure, was 96.4% (2017: 91.9%).
- Cash and cash equivalents at 31 March 2018 of £16.2 million and net debt was £531.4 million.
- Gearing levels are 9.64 times LTM EBITDA and 9.28 times estimated pro forma adjusted LTM EBITDA.

Q4 FY 2018 Financial Highlights

- EBITDA before non-underlying items of £14.2 million for the three months ended 31 March 2018 (‘Q4 FY 2018’), down £2.8 million or 16.6% from the three months ended 31 March 2017 (‘Q4 FY 2017’).
- Revenue for Q4 FY 2018 of £148.3 million, 1.8% lower than Q4 FY 2017.
- Q4 FY 2018 like-for-like private revenue growth of 2.6% within mydentist. Like-for-like private revenue growth per working day was 4.2%.
- Overheads, excluding depreciation, the amortisation and impairment of intangible assets, and other non-underlying items, as a percentage of revenue was 34.4% (Q4 FY 2017: 32.7%).
- Cash generated from operations of £21.5 million in the three months to 31 March 2018 (Q4 FY 2017: £22.2 million).
- Maintenance capital expenditure for the quarter ended 31 March 2018 was £7.3 million (Q4 FY 2017: £3.9 million).

Recent developments

- Paul Adams was appointed as Managing Director of Dental Directory with effect from 30 April 2018.
- Since 31 March 2018, the group has closed a further four practices and sold a further three practices as we look to complete the sale or closure of those practices identified for disposal through the portfolio review by 30 September 2018.

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

The following discussion and analysis of IDH's financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and the related notes thereto contained in this Annual report.

Certain information in the discussion and analysis set out below includes forward-looking statements that involve risks and uncertainties. See "Forward-looking statements" and "Risk factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Annual report.

Overview

We are Europe's largest vertically-integrated dental business and the United Kingdom's number one dental practice chain, with a focus on delivering the best possible patient care, highest clinical standards and a comprehensive choice of treatments through our growing UK dental practice network. We operate our business through two divisions: mydentist and Dental Directory. We are the leading provider of dental services in the United Kingdom through mydentist, with 583 NHS dentistry contracts across our network of 643 dental practices throughout England, Scotland, Wales and Northern Ireland. As at 31 March 2018, mydentist had a market share of approximately 7% in terms of revenue and a market share of approximately 5% in terms of number of practices and held contracts for approximately 15% of all units of dental activity ("UDAs") commissioned by the NHS in England and Wales. Our dental practices, operating under the "mydentist" brand, offer a broad range of primary care dental services, including dental examinations, fillings and extractions, as well as more specialised dental services such as cosmetic dentistry and orthodontics. We are also a leading provider of private dentistry services in the United Kingdom, which has grown quickly as the UK economy has strengthened. We operate in the UK dental market, which benefits from stability in terms of volume and pricing and from systemic trends, including continued government focus on improving access to dental services, favourable demographic trends and an increasing overall spend on dentistry. Through Dental Directory, we are a leading supplier of dental and other medical consumables, materials and services (including installation and servicing of specialised dental equipment), selling dental supplies and services to at least 8,000 dental practices, including mydentist's dental practices, with an estimated market share of 25% in the United Kingdom, by revenue. In the twelve months ended 31 March 2018, the group recorded revenue of £580.5 million and generated EBITDA before non-underlying items of £55.1 million.

Significant factors affecting results of operations

mydentist

Availability of dentists and other dental professionals

Without dentists, our dental practices cannot provide dental services or generate revenue from either NHS dentistry services or private dentistry services. It has historically proven difficult to attract dentists to work in certain regions of the United Kingdom, such as the southwest of England. This can impact our results in that we may not be able to deliver contracted UDAs in respect of NHS dentistry services in localities where we have NHS dentistry contracts if we are unable to source dentists in or to such localities.

In recent times, we have experienced dentist shortages, which have contributed to the decline we have seen in our UDA delivery rates. This decline has been due to a combination of factors, including:

i. a reduction in the number of hours dentists are making themselves available for work;
ii. a reduction in the volume of UDA's that dentists are willing to contract to complete;
iii. a reduction in the number of eligible exempt patients resulting in changes in the UDA band mix; and
iv. the impact of our growth in private revenues.

In response to these factors, we have needed to recruit more dentists in order to fulfil our NHS contracts. During the year ended 31 March 2018, we have significantly expanded our internal recruitment team in order to accelerate dentist recruitment from both UK and overseas channels. Over the course of the year, we have held a number of well attended resourcing days both across the UK and overseas and have added a net additional 232 dentists. As we have outlined previously, with regulatory and registration requirements it can take between six to nine months for a clinician position to be filled. Furthermore, clinicians new to the country can be subject to some regulatory restrictions on the amount of UDA's they can perform in their first year, including the requirement to have a named mentor. As these new clinicians settle in and their productivity starts to increase, we expect the decline in UDA delivery we have experienced to start to reverse as we go through the year ending 31 March 2019.

As of 31 March 2018, approximately half of our dentists are British and our rate of annual dentist turnover remains at a historically low level of approximately 10%.

Sourcing and retention of hygienists and nurses also affect our results. Hygienists operate in conjunction with dentists, but no longer necessarily require a referral from a dentist to provide a limited number of services and so are, to a certain extent, a source of revenue generation complementary to our dentists.

Dentists are prohibited from providing dental services to patients without a nurse present, so the recruitment and retention of nurses also drive our results and operational efficiency. We constantly review our salary and training packages for nurses in order to improve sourcing and retention, including identifying career progression opportunities and achieving the most appropriate staff to dentist ratio for our practices.

Industry-wide factors affecting UDA delivery rates

mydentist provides NHS dentistry services to patients under various types of framework NHS dentistry contracts. Under the current system, the value of these contracts is primarily based on volume, specifically UDAs.

We are paid the annual contract value for our NHS dentistry services in twelve equal monthly instalments. This results in a well-matched cash flow and cost profile, as we typically receive payments on our NHS dentistry contracts prior to paying related costs. Any underperformance in terms of UDA delivery must be repaid, where requested, to the NHS after the contract year end, or repaid over subsequent contract years. In certain instances, the underperformance can be repaid during the contract year (which we refer to as a "handback"). We have never had to make a repayment of more than £2 million to the NHS in respect of any of our contracts. However, during the year ended 31 March 2018, a number of small permanent contract handbacks have been agreed with the NHS Regions, principally in areas where there has persistently been either insufficient patient demand for NHS dentistry, or it has proved difficult to recruit sufficient clinicians, in order to deliver the number of contracted UDA's. These permanent contract handbacks equate to approximately 1.8% of the total number of UDA's contracted by mydentist as at 31 March 2017, and have resulted in a write down of £5.3 million being recorded in the income statement for the year ended 31 March 2018.

In general, UDA values differ across the United Kingdom and amongst our dental practices. The average value of a UDA in England is currently approximately £27. The number of UDAs awarded for a particular treatment depends on the type of treatment provided. Dental treatments are split into four bands based on the type of treatment, the number of UDAs applicable to such treatment and the patient contribution in respect of such treatment.

We recognise revenue based on the number of UDAs that our dental practices complete in a contract year. Revenue generated by mydentist is therefore affected by our UDA delivery rates. These rates are impacted by various factors, which have been outlined above, including factors which affect the industry as a whole. For the five contract years ended 31 March 2015, our UDA delivery rates averaged 96.8%. Our UDA delivery rates, after temporary and permanent handbacks, for the contract years ended 31 March 2016, 31 March 2017 and 31 March 2018, decreased to 92.4%, 90.4% and 86.1% respectively. The decline that we have experienced in our UDA delivery rate have resulted in impairment charges of £60.2 million and £26.1 million being recorded in the income statements for the years ended 31 March 2018 and 31 March 2017 respectively.

Over the past three years, we have also experienced a decrease in the number of exempt patients, who are not required to contribute to the cost of the NHS dentistry services they receive. This has resulted in an adverse change to the mix of UDA bands delivered, since exempt patients tend to receive services requiring a higher number of UDAs compared to patients who are required to contribute to the cost of NHS dentistry services provided. Over the past three years, this change in UDA band mix has reduced the number of band 3 treatments (for which a higher number of UDAs are awarded) we have completed from 30.4% of all UDAs in the year ended 31 March 2015 to 28.8% in the year ended 31 March 2018, thereby reducing the total number of UDAs that we have delivered by approximately 175,000.

Some of this decrease in productivity under NHS dentistry contracts has been offset by growth in the provision of private dentistry services and in the NHS dentistry contract price uplifts. We expect to gradually return to our 2011 to 2015 average UDA delivery rate as we continue to recruit additional dentists in order to enable us to deliver our NHS dentistry contracts. However, this will take time, as with regulatory and registration requirements, it can take between six to nine months for a clinician position to be filled. Furthermore, clinicians new to the country are subject to some regulatory restrictions on the amount of UDA's they can perform in their first year, and it will take time for new dentists to increase their productivity to normal levels.

In addition, we continue to implement a number of other measures, including actively providing training to dentists to improve UDA productivity, improving diary and claims management and working with dentists to increase their working hours. We estimate that each 1% increase or decrease in UDA delivery equates to an increase or decrease of approximately £1.7 million in EBITDA before non-underlying items. Over the course of the year ended 31 March 2018, permanent contract handbacks and completed practice disposals reduced our contracted UDA's by approximately 4.2%. Of this, approximately 1.8% of the reduction was attributable to permanent contract handbacks and approximately 2.4% was attributable to practice disposals that completed before 31 March 2018. Because unclaimed UDAs result in foregone revenue in a period, but not necessarily a loss of potential revenue for future periods, we expect any future improvement in UDA delivery to result in a corresponding increase in EBITDA before non-underlying items.

Dental chair efficiency and utilisation

We refer to our ability to utilise our dentists' time and drive efficiency in terms of revenue generation as "time in the dental chair," or "the time a dentist spends with patients." The drivers for maximising time in the dental chair consist of maximising opening hours and patient numbers and minimising downtime for maintenance and non-dentistry burdens, such as recording practice notes or responding to NHS enquiries.

We have scope to increase time in the dental chair by extending our opening hours, as most of our practices do not currently offer weekend or evening services. Because our dentists' hours and workload in practice tend to be fixed to weekday trading days and normal trading hours, our results of operations are affected by the number of trading days in a year and by other factors that result in closure or fewer or more trading days. We also leverage our central support function to drive patient numbers, and to that end we have implemented a variety of targeted marketing efforts that are aimed at attracting new patients and increasing visit frequency from existing patients.

We regularly invest in capital expenditures to provide new chairs and other equipment, and to make our suite of chairs and equipment uniform across our estate, which we believe will reduce money and time spent on maintenance. By removing the administrative, compliance and regulatory burdens of dentists, we believe that we provide dentists with a platform for maximising the time they spend with patients, and thereby increasing UDAs delivered, private dentistry services revenue generated, and overall quality of care and patient satisfaction.

Private revenue

For the twelve months ended 31 March 2018, we generated £99.9 million in revenue, or 17.2% of our total revenue, through the provision of private dentistry services. Between 31 March 2016 and 31 March 2018, we experienced like-for-like private revenue growth of 12.3%. Private dentistry services, including general dentistry, hygienist and cosmetic services, are provided by most of our dental practices, along with such practices' NHS dentistry services offering. Private dentistry services are one of the key drivers of our organic growth, and our expansive offering of private dentistry services provides us with opportunities to complement revenues we generate under our NHS dentistry contracts. Private dentistry services are provided solely at the election of the patient who funds the work (whether out-of-pocket or through insurance or payment plans), and on average the cost of private dentistry services is higher than the cost of comparable NHS dentistry services. The result is that revenues generated from private dentistry services tend to be significantly more sensitive to general macroeconomic conditions and the level of disposable income available to our patients than revenues generated from NHS dentistry services. Prices for private dentistry services are set by the individual dentist working within guidelines determined by us. We generally compensate dentists for the provision of private dentistry services on a fixed percentage of fees paid for private dentistry services provided.

Dentist fees, costs of materials and costs of laboratory work

Cost of sales in mydentist, which was £248.0 million for the twelve months ended 31 March 2018, was primarily comprised of dentist and hygienist compensation, the cost of materials and laboratory work performed and the cost of consumables, materials and equipment supplied by Dental Directory. Dentists working in our practices are self-employed, independent contractors who pay us a notional license fee and receive a fixed rate per UDA delivered (in the case of the majority of NHS dentistry services) and a percentage of fees paid for private dentistry services. We negotiate dentist contracts on an individual basis, depending in part on demand for dentists and UDA prices prevalent in the locality in which the relevant dentist operates, and such fees are agreed in our associate contracts with our dentists. We also use floating dentists (locums), who generally receive higher fees per UDA than dentists operating out of one dental practice. During the year ended 31 March 2018, we have taken actions to reduce both the volume, and the average cost, of UDAs delivered by locums. Our second most significant variable cost is the cost of materials. The cost of materials we procure for our dental practices are subject to general inflationary pressures in line with the macroeconomy. We have been able to drive efficiencies and achieve economies of scale in the procurement of materials by selecting the range of materials used by our practices and purchasing such materials with the benefit of volume discounts. In addition, through the development of Dental Directory, we have in-sourced the supply of the majority of dental materials, equipment and equipment maintenance to our dental practices, which has resulted in a number of cost savings for our dental practices. Our third most significant variable cost is the net costs of laboratory work performed, which we generally split evenly with dentists. Some of this work has also now been in-sourced through the acquisition of PDS Dental Laboratory. Both the costs of materials and the net costs (after dentist contribution) of laboratory work performed are directly tied to our sales volumes and activity.

Practice overhead and support centre costs

Practice overhead and support centre costs constitute the primary components of our overheads, which were £173.7 million in mydentist, or 37.1% of our revenue (after excluding depreciation, amortisation and impairment of intangible assets, amortisation of grant income and non-underlying items), for the twelve months ended 31 March 2018. We benefit from low property costs for our dental practices, with rent costs constituting less than 3% of mydentist revenues for the twelve months ended 31 March 2018.

Practice overheads include the salaries of support staff, which consist of nurses and administrative support at the dental practice, the provision of equipment and estate management.

Support centre costs include the salaries of management and central support function employees providing IT, compliance, regulatory support, property and equipment maintenance, legal, finance, human resources, marketing, health and safety, risk management, recruitment, training, insurance and logistics services to our dental practices, our central support systems, central support overhead and the costs related to leasing our support centre building Manchester.

Regulatory environment

Our results of operations are also affected from time to time by changes to the regulatory environment in relation to healthcare generally, and dentistry specifically, in the United Kingdom. As 63.5% of our group revenue in the year ended 31 March 2018 was generated through the provision of NHS dentistry services, we are particularly affected by UK Government policy in relation to contracts and funding for the provision of dental services. This includes the framework of contracts for the provision to provide dentistry, the determination of UDA volumes for a particular locality and the determination of indices governing UDA prices and contract uplifts. Under the current contract framework, which was introduced in 2006, the value of NHS dentistry contracts is primarily based on the volume of UDAs delivered. Each UDA delivered under an NHS dentistry contract is assigned a fixed UDA rate, which varies by contract year-to-year, with the number of UDAs per treatment varying based on the actual treatment provided.

Local contracting

Our results are also affected by the determination of the number of UDAs required for a particular locality. NHS Regions on behalf of the NHS determine the number of UDAs required for a locality, and then solicit tenders for contracts to provide such UDAs. The NHS Regions take into account demand for dental services, population, demographics, socioeconomic factors and the penetration of dentistry access in an area when determining the number of UDAs for such locality. Increased demand for NHS dentistry and numbers of UDAs in a particular locality will result in new contracts for the provision of NHS dentistry services, for which we may tender. If UDAs allocated to a particular locality do not meet the contracted targets, the number of contracted UDAs may be reduced through cuts to contracts where there is cumulative UDA underperformance of more than 4% (or 5% in Wales). We have never lost a contract due to significant underperformance, however during the year ended 31 March 2018, a number of small permanent contract handbacks have been agreed with the NHS Regions.

NHS budget

Whilst funding for certain other UK healthcare sectors has been subject to funding freezes or cuts due to government austerity measures, historically UDA prices have been subject to annual contract uplift, with increases of 0.5%, 1.5%, 1.6%, 1.34% and 0.7% for the contract years ended 31 March 2013, 2014, 2015, 2016 and 2017 respectively, and an increase of 1.14% for the contract year ending 31 March 2018 (with an uplift of 1.44% in Wales and 2.25% in Scotland). The uplift for the contract year ending 31 March 2019 has not yet been announced, however in the last 15 years, NHS England has never reduced prices. Under the current system, UDA rates vary significantly depending on the locality in which the dental services related to such UDAs were provided.

General regulatory requirements

Our costs of operations are also impacted by regulation more generally as it relates to health and safety, quality of care, the handling and storage of controlled drugs and medicines and other regulatory requirements with which we are required to comply in providing dentistry services and in purchasing and distributing dental consumables, materials and equipment. As the leading provider of dental services in the United Kingdom, we believe we are well placed to respond to and comply with regulatory changes in terms of having both dedicated regulatory and compliance teams to minimise such costs, and a sizeable revenue base and infrastructure to absorb increased costs.

Proposed NHS dentistry contract changes

A prototype trial process commenced in April 2016 as the next stage in the proposed reform of the NHS dentistry contract. Under the proposed changes to the current contract frameworks, which we estimate will be implemented, if at all, no earlier than 2020, NHS dentistry contracts could combine aspects of the existing UDA-based system with fixed payments for the number of patients treated. The prototypes also involve active performance management by NHS England, which includes monitoring of operational key performance indicators, such as clinical effectiveness, best practice, patient experience, safety and data quality. We believe that these changes, if they occur, will generally prove revenue neutral, and that we will be able to leverage our scale to derive a competitive advantage in terms of patient recruitment and delivery of quality care under any new NHS dentistry contractual framework.

Sourcing and acquisition of dental practices

Acquisitions of dental practices have historically been the core driver of our growth. A limited number of new NHS dentistry contracts become available each year, so the primary method for growing our revenues has been through acquiring dental practices holding existing NHS dentistry contracts. Since 11 May 2011, we have acquired 237 dental practices and we have employed a disciplined strategy centred on the acquisition of practices with NHS dentistry contracts with three or more chairs.

With 14,030 dental practices (according to Mintel), the large majority of which are independent, the UK dental market remains highly fragmented, and we believe there is scope for additional consolidation as dentists retire or sell their dental practices to become independent contractors, whether due to the administrative, regulatory and compliance burden of owning their own dental practice or otherwise. Within the large number of independent dental practices throughout the United Kingdom, we estimate that approximately 300 practices are available for acquisition in an average year.

In recent times, valuations being attributed to dental practices by prospective vendors have increased substantially and, together with our currently high levels of gearing, have led us to pause our dental practice acquisition programme. As a consequence, we do not anticipate completing any further acquisitions until market conditions normalise and our gearing levels start to reduce.

Dental Directory

Dental Directory revenues

Revenues generated within Dental Directory, before intragroup trading eliminations, have increased from £135.0 million for the twelve months ended 31 March 2017 to £142.9 million for the twelve months ended 31 March 2018, reflecting organic growth together with the acquisition of BF Mulholland in September 2017.

Dental Directory provides support to mydentist’s dental practices as well as providing a range of products and services to the wider UK dental and healthcare sectors, including at least 8,000 dental practices in the United Kingdom. The integration of mydentist’s dental practices with its supply chain and service providers in the Dental Directory division has resulted in significant cost savings and synergies, as we capture margin that would otherwise be paid to third-party providers and benefit from certain VAT exemptions.

The majority of Dental Directory’s revenues result from the sale of dental materials and consumables to dental practices across the United Kingdom, however the division also supplies dental equipment, engineering, dental laboratory, calibration and training services to dental practices.

Demand for the products and services offered by Dental Directory is principally dependent upon the demand for dentistry services by the end customer. However, fluctuations in demand for NHS or private dentistry services within the market as a whole may impact the demand for dental materials since the cost of materials and consumables used to deliver private dentistry treatments will often be higher than for similar NHS treatments.

Cost of goods sold

The cost of goods sold by Dental Directory principally comprises the wholesale cost of purchasing dental materials, equipment and consumables. Materials, consumables and equipment are sourced from a wide range of suppliers, many of whom are located overseas. Approximately 40% of the cost of goods sold by Dental Directory are denominated in currencies other than pounds sterling, predominantly Euros or US dollars, and are therefore subject to foreign exchange risk. Since we do not generate any significant revenues in currencies other than pounds sterling, our policy is to hedge the pound sterling equivalent costs of a proportion of our foreign currency purchases using ordinary course foreign exchange derivative contracts, in order to reduce uncertainty over future cash flows. In addition to fluctuations resulting from movements in foreign exchange rates, cost of goods sold also fluctuate due to changes in supply and demand in the market and changes in the cost of associated raw materials. Dental Directory manages the impact of these fluctuations through competitive tendering of significant supply contracts and through volume purchasing to take advantage of supplier discount arrangements or rebate mechanisms. During the year ended 31 March 2018, the Dental Directory gross margin has been adversely impacted both from a change in the sales mix, with higher sales of lower margin products such as facial aesthetics, and a continuation of the increase in the cost of goods sold following the decline in the value of Sterling against the Euro. The foreign exchange impact continues to be partially mitigated by market based reviews of pricing.

Distribution and sales overheads

Distribution and sales overheads include the freight and carriage costs associated with distributing products to our customers and the salary and associated costs of our sales teams. Over the past three years, we have invested significantly into these sales teams, including the implementation of new CRM software and improvements to the functionality of the website and we expect to continue investing in these areas in the future. For engineering and other similar services, overheads also include the cost of direct labour associated with delivering the service.

Description of key line items

Income statement

Set out below is a brief description of the composition of the key line items of our income statement under IFRS.

Revenue

Revenue represents the income received in the ordinary course of business for dentistry or other goods or services provided to the extent that we have obtained the right to consideration. Amounts are stated net of discounts, returns and value added taxes. Revenue derived from NHS dentistry contracts in England and Wales is recognised on the volume of dental activity delivered in the financial period. Amounts received from the NHS in advance of dental activity delivered are held on the balance sheet within deferred income. Revenue 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. Revenue generated from the sale of goods by Dental Directory is recognised upon despatch and revenue generated from the installation or repair of equipment, or from other services, is recognised upon completion of the service.

Cost of sales

Cost of sales represents the operating expenses incurred in delivering our dental goods and services, including the cost of goods sold, dentist compensation and the cost of laboratory work, dental materials and prostheses.

Distribution costs

Distribution costs include expenses that are directly attributable to the distribution of goods sold by Dental Directory and principally comprise sales and distribution staff salaries and transportation costs.

Administrative expenses

Administrative expenses represent all other operating expenses that are not directly attributable to the actual provision of our dentistry services, including dental practice staff costs, property services and facilities management costs and other variable dental-related expenses and rent. Administrative expenses also include support centre costs, including central staff and employee support costs, premises costs, communications and systems costs, legal and professional fees, and marketing and development costs. In addition, administrative expenses includes amortisation and impairment charges in respect of goodwill and other intangible assets and the depreciation of owned tangible assets.

Other income

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

Other gains/(losses)

Other gains/(losses) comprise realised and unrealised gains or losses arising from foreign exchange forward contracts entered into by Dental Directory to mitigate the impact of fluctuations in foreign exchange rates and to provide reasonable certainty over cashflows.

Operating profit

Operating profit represents the sum of (i) gross profit, (ii) distribution expenses, (iii) administrative expenses, (iv) other income and (v) other gains/(losses).

Finance income

Finance income comprises interest income and gains on interest rate hedging instruments which are recognised as they arise.

Finance costs

Finance costs comprise the interest paid by us on our bond and bank debt including the amortisation of financing costs in respect of bank facilities together with losses on interest rate hedging instruments, which are recognised as they arise. The amount for the year ended 31 March 2017 also included costs associated with the early redemption of the Previous Notes.

Income tax

Income tax represents the corporation tax charge or credit on our profit or loss for the year and includes both current and deferred income tax. Income tax is recognised in the income statement unless it relates to items recognised directly in equity, when it is recognised through the statement of comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at the end of the reporting period, and any adjustments in respect of previous periods.

Deferred income tax is provided on certain temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and taxation purposes at the end of each reporting period. 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 the tax rates enacted in each jurisdiction at the end of the reporting period.

Other financial information

Set out below is a brief description of other non-IFRS financial information.

Gross profit margin

Gross profit margin represents gross profit divided by revenue.

EBITDA margin

EBITDA margin represents EBITDA before non-underlying items divided by revenue.

NHS dentistry services revenue as a percentage of total revenue

NHS dentistry services revenue as a percentage of total group revenue represents revenue generated through the provision of NHS dentistry services under NHS dentistry contracts divided by group revenue.

Total annual UDA delivery percentage

Total annual UDA delivery percentage represents the total number of UDAs we deliver in a given year divided by our total number of contracted UDAs in place at the end of a given year (after any temporary or permanent handbacks).

UDA contract uplift

UDA contract uplift represents the percentage increase of UDA prices under each NHS dentistry contract over the prior year’s prices in each respective NHS dentistry contract.

Private dentistry services revenue as a percentage of total revenue

Private dentistry services revenue as a percentage of total group revenue represents revenue generated through the provision of private dentistry services divided by revenue.

Like-for-like private revenue growth

Like-for-like private revenue growth represents the total private revenue generated by all the practices owned for the whole of a financial year divided by the private revenue generated by the same practices in the preceding financial year.

Like-for-like private revenue growth per working day

Like-for-like private revenue growth per working day represents the average private revenue per working day generated by all the practices owned for the whole of a financial year, divided by the average private revenue per working day generated by the same practices in the preceding financial year.

Overheads as a percentage of total revenue

Overheads expenditure as a percentage of total revenue represents administrative expenses, plus distribution costs less depreciation, amortisation and impairment of intangible assets and amortisation of grant income and other non-underlying items, divided by revenue.

Total number of dental practices

Total number of dental practices represents the total number of dental practices we own as at a specified date.

Results of operations for the years ended 31 March 2018 and 31 March 2017

The following tables set out the key line items from the consolidated income statement and the consolidated cash flow statement for the years ended 31 March 2018 and 31 March 2017 and from the consolidated balance sheet at 31 March 2018 and 31 March 2017.

Consolidated income statement

(£ in millions)	**For the year ended 31 March 2018**	**For the year ended 31 March 2017**
Revenue	**580.5**	**585.8**
Cost of sales	(327.8)	(324.8)
Gross profit	**252.7**	**261.0**
Distribution costs	(17.6)	(16.6)
Administrative expenses	(338.0)	(269.4)
Other operating income	2.0	2.0
Other gains	0.1	0.3
Operating loss	**(100.8)**	**(22.7)**
Finance costs	(43.5)	(56.0)
Finance income	0.5	1.6
Loss before income tax	**(143.8)**	**(77.1)**
Income tax credit	11.5	11.2
Loss for the year	**(132.3)**	**(65.9)**
Attributable to:		
Owners of the parent	(132.4)	(65.9)
Non-controlling interests	0.1	-
	(132.3)	**(65.9)**

Consolidated balance sheet

(£ in millions)	As at 31 March 2018	As at 31 March 2017
Non-current assets		
Goodwill	247.9	317.7
Other intangible assets	372.7	422.8
Property, plant and equipment	92.5	98.8
Deferred income tax assets	16.5	12.8
	729.6	**852.1**
Current assets		
Inventories	21.3	19.7
Trade and other receivables	41.2	41.5
Corporation tax	0.1	–
Cash and cash equivalents	16.2	12.6
	78.8	**73.8**
Assets classified as held for sale	3.3	0.3
Total assets	**811.7**	**926.1**
Equity attributable to the owners of the parent		
Share capital	411.0	411.0
Accumulated losses	(332.9)	(201.1)
	78.1	**209.9**
Non-controlling interest	0.1	0.1
Total equity	**78.2**	**210.0**
Non-current liabilities		
Borrowings	547.7	540.2
Other payables	2.4	1.2
Deferred income tax liabilities	36.7	43.8
Defined benefit pension obligation	0.5	0.3
Provisions	7.0	7.0
	594.3	**592.5**
Current liabilities		
Trade and other payables	137.0	121.2
Corporation tax	–	0.2
Provisions	2.0	1.5
Derivative financial instruments	0.2	0.6
	139.2	**123.7**
Total liabilities	**733.5**	**716.1**
Total equity and liabilities	**811.7**	**926.1**

Consolidated cash flow statement

(£ in millions)	For the year ended 31 March 2018	For the year ended 31 March 2017
Cash flows from operating activities		
Cash generated from operations	65.9	72.9
Tax received	–	–
Net cash inflow from operating activities	**65.9**	**72.9**
Investing activities		
Acquisitions (net of cash acquired)	(9.1)	(10.5)
Purchase of property, plant and equipment	(19.1)	(20.0)
Purchase of freehold property held for sale	–	(0.7)
Proceeds from business and asset disposals	1.2	1.0
Interest received	–	–
Net cash outflow from investing activities	**(27.0)**	**(30.1)**
Financing activities		
Drawdown of bank loans	15.0	7.0
Repayment of bank loans	(10.0)	(46.0)
Proceeds from issue of notes	–	549.7
Redemption of Previous Notes including redemption fees	–	(506.2)
Arrangement fees and associated professional costs	–	(11.1)
Bank and bond interest paid	(40.3)	(38.5)
Net cash outflow from financing activities	**(35.3)**	**(45.2)**
Net increase/(decrease) in cash and cash equivalents	**3.6**	**(2.3)**
Cash and cash equivalents at the start of the year	12.6	14.9
Cash and cash equivalents at the end of the year	**16.2**	**12.6**

Other financial data

(£ in millions, except as specified)	For the year ended 31 March 2018	For the year ended 31 March 2017
Other profit and cash flow data		
EBITDA before non-underlying items[1]	55.1	68.8
Estimated pro forma adjusted EBITDA[2]	57.3	70.3
EBITDA margin[3]	9.5%	11.7%
Gross profit margin[4]	43.5%	44.6%
Maintenance capital expenditure[5]	18.8	17.8
Cash conversion[6]	95.9%	89.9%
Other debt and credit data		
Net senior secured debt[7]	404.9	401.7
Net total debt[8]	531.4	527.6
Ratio of net senior secured debt to estimated pro forma adjusted EBITDA	7.07	5.72
Ratio of net total debt to estimated pro forma adjusted EBITDA	9.28	7.51

Key performance indicators

	For the year ended 31 March 2018	For the year ended 31 March 2017
NHS dentistry services revenue as a percentage of total revenue	63.5%	65.7%
Private dentistry services revenue as a percentage of total revenue	17.2%	16.4%
Dental Directory revenue as a percentage of total revenue	19.3%	17.9%
Total annual UDA delivery percentage[9]	86.1%	90.4%
Like-for-like private revenue growth[10]	5.0%	7.0%
Like-for-like private revenue growth per working day[11]	6.7%	5.7%
Overheads as a percentage of revenue[12]	34.4%	33.1%
Total number of dental practices[13]	643	674

	For the year ended 31 March 2015	For the year ended 31 March 2016	For the year ended 31 March 2017	For the year ended 31 March 2018
£ per UDA contract uplift[14]	1.60%	1.34%	0.70%	1.14%

The following table reconciles EBITDA before non-underlying items to operating profit:

	For the year ended 31 March 2018	For the year ended 31 March 2017
Operating loss	(100.8)	(22.7)
Amortisation of intangible assets	32.1	32.8
Depreciation	21.7	20.7
Amortisation of government grant income	(0.1)	(0.1)
Impairment of goodwill and intangible assets	66.3	30.0
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	29.8	1.7
Differences between contingent consideration paid and estimates initially recognised	2.9	(2.1)
Value of employee services arising from shares granted	0.8	-
Other non-underlying items*	2.5	8.8
Foreign exchange gains	(0.1)	(0.3)
EBITDA before non-underlying items	**55.1**	**68.8**

* Non-underlying items in respect of the year ended 31 March 2018 include £2.2 million relating to senior management and other staff and business restructuring, including associated professional fees, and £0.3 million from professional fees and expenses incurred in relation to acquisitions.

We are not presenting EBITDA before non-underlying items and other EBITDA-based measures as measures of our results of operations. EBITDA before non-underlying items and other EBITDA-based measures have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results of operations. EBITDA before non-underlying items, estimated pro forma adjusted EBITDA and related leverage and coverage ratios are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS. Our management believes that the presentation of EBITDA before non-underlying items and EBITDA-based measures is helpful to investors as measures of our operating performance and ability to service our debt. Our EBITDA before non-underlying items and our other EBITDA-based measures may not be comparable to similarly titled measures used by other companies.

(1) EBITDA before non-underlying items represents operating profit before the amortisation and impairment of intangible assets, depreciation, amortisation of grant income, foreign exchange gains or losses and other non-underlying items. Accordingly, EBITDA before non-underlying items can be extracted from our consolidated financial statements by taking operating profit and adding back amortisation and impairment of intangible assets, depreciation, amortisation of grant income, foreign exchange gains or losses and other non-underlying items.

(2) Estimated pro forma adjusted EBITDA for the year ended 31 March 2018 has been calculated following the methodology set out in the IDH Finance Plc Offering Memorandum dated 22 July 2016. The estimated adjusted EBITDA of BF Mulholland Limited is management's estimate of the annualised EBITDA of BF Mulholland, which was acquired on 8 September 2017, less the actual results consolidated in EBITDA before non-underlying items from the date of acquisition.

In arriving at estimated pro forma adjusted EBITDA, management have also added back the EBITDA losses generated by the 30 dental practices that were sold or closed during the year ended 31 March 2018, and EBITDA losses generated by the 17 practices where the intention to close or sell had been announced by 31 March 2018.

The following table reconciles estimated pro forma adjusted EBITDA to EBITDA before non-underlying items:

(£ in millions)	**Year ended 31 March 2018**
EBITDA before non-underlying items	55.1
Estimated adjusted EBITDA of BF Mulholland Limited	0.4
Add back EBITDA losses from practice disposals	1.1
Add back EBITDA losses from practices earmarked for disposal	0.7
Estimated pro forma adjusted EBITDA	57.3

(3) Represents EBITDA before non-underlying items divided by revenue.

(4) Represents gross profit divided by revenue.

(5) Represents capital expenditures excluding acquisitions refurbishments. Maintenance capital expenditures include capital expenditures required for routine maintenance, equipment replacement, additional equipment purchases, building refurbishment not in connection with an acquisition and capital expenditures associated with practice relocations, but exclude capital expenditures made in connection with acquisitions.

(6) Represents cash generated from operations before non-underlying items, less maintenance capital expenditures, divided by EBITDA before non-underlying items.

(7) Represents total senior secured borrowings less available cash at bank and in hand and unamortised arrangement fees.

(8) Represents total borrowings less available cash at bank and in hand and unamortised arrangement fees.

(9) Represents the total number of UDAs per dental practices owned at the beginning of a given contract year delivered in such year, divided by the total number of contracted UDAs in place in respect of such dental practices at the end of that contract year (after any temporary or permanent handbacks). This percentage is calculated based on the agreed total number of UDAs at 31 March of the applicable year and, in respect of the percentage calculated on the agreed total number of UDAs at 31 March 2018, immaterial changes to this percentage may occur pending final agreement with NHS Regions regarding over performance paid or carried over to the next contract year. Because UDAs are delivered under full year contracts, interim UDA delivery is not useful in an analysis of annual UDA delivery percentage.

(10) Represents total private revenues generated by all the practices owned for the whole of the financial year ended 31 March 2018 divided by the private revenue generated by the same practices in the corresponding periods of the preceding financial year.

(11) Represents the average private revenue per working day generated by all the practices owned for the whole of a financial year, divided by the average private revenue per working day generated by the same practices in corresponding periods of the preceding financial year.

(12) Represents administrative expenses, plus distribution costs, less amortisation and impairment of intangible assets, depreciation, amortisation of grant income and other non-underlying items, divided by revenue.

(13) Represents the total number of dental practices we own as at a specified date.

(14) Represents the nationwide price per UDA per year contract uplift in England promulgated by the UK Government in a given year.

Year ended 31 March 2018 compared to the year ended 31 March 2017

In the year ended 31 March 2018, we acquired one dental practice, sold 13 practices, closed 17 practices and merged two practices into other existing practices for a total of 643 dental practices in our estate as at 31 March 2018.

Revenue

Revenue for the year ended 31 March 2018 has decreased by £5.3 million, or 0.9%, from £585.8 million for the year ended 31 March 2017 to £580.5 million. This was predominantly due to lower UDA delivery in mydentist, partially offset by growth in private dentistry and Dental Directory revenues.

The table below analyses the movement in our revenues between the year ended 31 March 2017 and the year ended 31 March 2018:

Revenue (£ in millions)	**For the year ended 31 March 2018**	**For the year ended 31 March 2017**	**Movement**
Practices owned as at 1 April 2016	458.1	469.3	(11.2)
Practice disposals	4.7	8.7	(4.0)
Practices acquired or opened during the year ended 31 March 2017	4.8	2.9	1.9
Practices acquired or opened during the year ended 31 March 2018	0.8	–	0.8
Total dental practice revenue	468.4	480.9	(12.5)
Dental Directory and other revenue	112.1	104.9	7.2
Group revenue	**580.5**	**585.8**	**(5.3)**

The six practices acquired during the year ended 31 March 2017, along with the one practice acquired during the year ended 31 March 2018, contributed revenue of £5.6 million for the year ended 31 March 2018, an increase of £2.7 million over the contribution by the same practices during the year ended 31 March 2017.

Revenue generated by practices owned at 1 April 2016, excluding the 32 practices which have either been sold or closed during the year ended 31 March 2017 or the year ended 31 March 2018, decreased by £11.2 million, or 2.4%, from £469.3 million for the year ended 31 March 2017 to £458.1 million for the year ended 31 March 2018. The decrease principally arises from a lower UDA delivery percentage of 86.1%, after handbacks, compared with 90.4% for the year ended 31 March 2017. This is partially offset by continued growth in private revenues, which increased by 5.0% on a like-for-like basis, despite there being four fewer trading days during the year ended 31 March 2018 than during the year ended 31 March 2017. When adjusted for the number of trading days, like-for-like private revenue growth was 6.7%.

The continuing decline in our UDA delivery rates is disappointing and is the result of a combination of factors, including a reduction in the number of hours dentists are making themselves available for work, a reduction in the volume of contracted UDA’s held by dentists, and the impact of our growth in private revenues as a result of offering more choice to patients. In addition, the improving UK economy has reduced the number of exempt patients being seen by mydentist, which has resulted in a change in UDA band mix away from higher value band 2 (3 UDA’s) and 3 (12 UDA’s) treatments. Band 2 treatments, which include fillings, root canal work and the removal of teeth, require a patient contribution of £56.30, whilst band 3 treatments, which include crowns, dentures, bridges and other laboratory work, require a patient contribution of £244.30. In response to these factors, we have needed to recruit more dentists in order to fulfil the NHS contracts. During the year ended 31 March 2018, we have significantly expanded our internal recruitment team in order to accelerate dentist recruitment from both UK and overseas channels. Over the course of the year, we have held a number of well attended resourcing days both across the UK and overseas and have seen a net addition of 232 dentists. As we have outlined previously, with regulatory and registration requirements it can take between six to nine months for a clinician position to be filled. Furthermore, clinicians new to the country can be subject to some regulatory restrictions on the amount of UDA’s they can perform in their first year. As these new clinicians settle in and their productivity starts to increase, we expect the decline in UDA delivery we have experienced to start to reverse as we progress through the year ending 31 March 2019.

Cost of sales

Cost of sales increased by £3.0 million, or 0.9%, from £324.8 million for the year ended 31 March 2017, to £327.8 million for the year ended 31 March 2018. Gross profit margin decreased by 1.1 percentage points, from 44.6% for the year ended 31 March 2017 to 43.5% for the year ended 31 March 2018.

mydentist gross margin for the year ended 31 March 2018 was 47.1%, compared to 46.8% for the year ended 31 March 2017. This improvement was principally due to savings in dentist fees, with materials and laboratory costs remaining broadly in line with the previous year. In particular, locum costs were £1.5 million lower than the year ended 31 March 2017 due to measures taken to increase locum productivity, as well as a reduction in the number of UDA's delivered by locums, as a result of the actions taken to increase permanent recruitment and the effect of the practice disposal programme.

The gross margin in Dental Directory was 28.4%, a decrease of 1.4 percentage points from 29.8% for the year ended 31 March 2017. This reduction results both from a change in the sales mix, with higher sales of lower margin products such as facial aesthetics, and a continuation of the increase in cost of goods sold following the decline in the value of Sterling against the Euro. The foreign exchange impact continues to be partially mitigated by market based reviews of pricing.

Other operating income

Other operating income was £2.0 million in both the year ended 31 March 2018 and the year ended 31 March 2017. We generate other operating income primarily from Scottish Health Boards to assist in the upkeep of our dental practices, based on the proportion of NHS treatment carried out by each dental practice, and through property rental income.

Distribution costs

Distribution costs increased by £1.0 million, or 6.1%, from £16.6 million for the year ended 31 March 2017 to £17.6 million for the year ended 31 March 2018. This increase reflects the revenue growth we have seen within Dental Directory.

Administrative expenses

Administrative expenses increased by £68.6 million, or 25.5%, from £269.4 million for the year ended 31 March 2017, to £338.0 million for the year ended 31 March 2018. This increase is principally due to impairment charges of £66.3 million recorded against the carrying value of goodwill and other intangible assets, principally as a result of the decline in UDA delivery performance, compared to £30.0 million in the year ended 31 March 2017. In addition, a charge of £29.8 million has been incurred (year ended 31 March 2017: £1.6 million), as a result of the net losses arising from the sale or closure of practices through the portfolio review, including those practices which have been earmarked for closure or sale as at 31 March 2018 and which have therefore been written down to their estimated recoverable amounts.

Staff costs have also increased, across our dental practices, support centre and Dental Directory as a result of living wage increases, the introduction of the apprenticeship levy and headcount increases to underpin future growth.

These increases have been partially offset by a reduction in other non-underlying costs which, during the year ended 31 March 2017, included £2.5 million in relation to the roll-out of the mydentist brand.

Finance costs

Finance costs decreased by £12.5 million from £56.0 million for the year ended 31 March 2017, to £43.5 million for the year ended 31 March 2018. Finance costs for the year ended 31 March 2018 include £0.6 million resulting from a change in the discount rate applied to provisions and other non-current liabilities. Finance costs for the year ended 31 March 2017 included £6.9 million of arrangement fees written off and £6.2 million of early redemption fees payable as a result of the re-financing of the Previous Notes. Adjusted for these amounts, overall finance costs have remained consistent, with the increase due to the full year effect of the higher coupon rates payables on the new senior secured fixed rate, senior secured floating rate and second lien notes issued on 5 August 2016 when compared to the Previous Notes, being offset by a reduction in charges payable under the group's interest rate swap contracts, which expired on 1 June 2017 and have not been renewed.

Finance income

Finance income decreased by £1.1 million from £1.6 million for the year ended 31 March 2017 to £0.5 million for the year ended 31 March 2018. Finance income principally resulted from a favourable movement of £0.5 million in the mark-to-market value of the group's interest rate swap contracts, prior to their expiry on 1 June 2017.

Income tax credit

The income tax credit increased by £0.3 million, from £11.2 million for the year ended 31 March 2017, to £11.5 million for the year ended 31 March 2018. The tax credit has principally arisen from an excess of capital allowances claimed over depreciation charged and the partial reversal of deferred income tax temporary differences in respect of intangible assets, resulting from the amortisation charge and amounts written off as a result of both permanent NHS contract hand-backs, and the practice disposal programme.

EBITDA before non-underlying items

EBITDA before non-underlying items decreased by £13.7 million, or 19.9%, from £68.8 million for the year ended 31 March 2017, to £55.1 million for the year ended 31 March 2018. This was principally due to the decrease in the UDA delivery percentage, which declined from 90.4% in the year ended 31 March 2017 to 86.1%, after handbacks, for the year ended 31 March 2018, in addition to the reduction in gross margin in Dental Directory as outlined in more detail above, and increases in staff costs across the group. These factors were partially offset by continued growth in our private revenues, the 1.14% NHS dentistry contract rate uplift applied from 1 April 2017 and the closure or sale of loss making practices.

NHS dentistry services revenue as a percentage of total revenue

NHS dentistry services revenue as a percentage of total revenue decreased 2.2 percentage points, from 65.7% for the year ended 31 March 2017, to 63.5% for the year ended 31 March 2018. This decrease primarily results from the lower level of UDA contract delivery combined with growth experienced in private dentistry and Dental Directory revenues.

Total annual UDA delivery percentage

Our total annual UDA delivery percentage, after temporary and permanent handbacks, for the twelve months ended 31 March 2018 was 86.1%, a decrease of 4.3 percentage points over our total annual UDA delivery percentage of 90.4% for the year ended 31 March 2017. The decrease in UDA delivery percentage is due to a number of factors including a reduction in the number of hours dentists are making themselves available for work, a reduction in the volume of contracted UDA's held by dentists, and the impact of our growth in private revenues. Excluding the impact of handbacks, our total annual UDA delivery percentage was 82.7% down from 88.0% for the year ended 31 March 2017.

Private dentistry services revenue as a percentage of total revenue

Private dentistry services revenue as a percentage of total revenue increased 0.8 percentage points, from 16.4% for the year ended 31 March 2017, to 17.2% for the year ended 31 March 2018. This increase principally reflects like-for-like growth in private dentistry services of 5.0%.

Like-for-like private revenue growth

Like-for-like private revenue growth was 5.0% for the year ended 31 March 2018, following on from like-for-like growth of 7.0% and 11.6% for the years ended 31 March 2017 and 31 March 2016 respectively. Compared to the year ended 31 March 2016, our like-for-like private revenues have grown by 12.3%. The strong continuing growth continues to reflect the benefits from increasing the range of treatment choices available to our patients, the offering of additional services and price increases.

Overheads as a percentage of revenue

Overheads as a percentage of total revenue increased by 1.3 percentage points, from 33.1% for the year ended 31 March 2017, to 34.4% for the year ended 31 March 2018.

This increase primarily reflects higher staff costs across our dental practices, support centre and Dental Directory as a result of living wage increases, the introduction of the apprenticeship levy and headcount increases to underpin future growth. In addition, the increased ratio reflects a reduction in NHS revenues generated from practices owned at 1 April 2016.

Total number of dental practices

Our total number of dental practices decreased by 31 from 674 at 31 March 2017 to 643 at 31 March 2018. A total of 30 practices were either sold or closed as a result of the portfolio review and two other practices were merged into other existing sites. These mergers and disposals were offset by the acquisition of one practice in April 2017.

Liquidity and capital resources

"Liquidity" describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, capital expenditures, debt service obligations, other commitments, contractual obligations and acquisitions. Our primary sources of liquidity are provided by cash generated from our operating activities and our third-party financings. Our liquidity requirements arise primarily to meet our debt service obligations, to fund acquisitions and to fund capital expenditures.

We primarily rely on cash flow from operations and borrowings under our Revolving Credit Facility to fund capital expenditures and acquisitions, and to provide funds required for our operations. Our debt service obligations consist primarily of interest payments on the Notes and principal and interest payments on amounts drawn under the Revolving Credit Facility. We expect to fund acquisitions in the future, if any, primarily through drawings under the Revolving Credit Facility and with cash generated by our operations. We expect to fund maintenance capital expenditures primarily with cash generated by our operations. Although we believe that our expected cash flows from operating activities, together with available borrowings under the Revolving Credit Facility, will be adequate to meet our expected general liquidity needs and debt service obligations, we cannot assure you that our business will generate sufficient cash flows from operations to meet these needs or that future debt or equity financing will be available to us in an amount sufficient to meet our liquidity needs, including making payments on the Notes or on our other debt when due. If our cash flow from operating activities is lower than expected, or our capital expenditure requirements exceed our projections, we may be required to seek additional financing, which may not be available on commercially reasonable terms, if at all. Our ability to arrange financing generally and our cost of capital depends on numerous factors, including general economic conditions, the availability of credit from banks, other financial institutions and capital markets, restrictions in the instruments governing our debt and our general financial performance.

Cash flows

The table below summarises our consolidated cash flow statement for the years ended 31 March 2018 and 2017.

(£ in millions)	**For the year ended 31 March 2018**	**For the year ended 31 March 2017**
Cash generated from operations	65.9	72.9
Capital expenditure..	(17.9)	(19.7)
Acquisitions...	(9.1)	(10.5)
Financing	(35.3)	(45.2)
Net increase/(decrease) in cash and cash equivalents	**3.6**	**(2.3)**
Cash and cash equivalents at the start of the year	12.6	14.9
Cash and cash equivalents at the end of the year	**16.2**	**12.6**

Our cash generated from operations for the year ended 31 March 2018 decreased by £7.0 million, or 9.6%, from £72.9 million for the year ended 31 March 2017 to £65.9 million for the year ended 31 March 2018. Cash generated from operations includes favourable working capital movements of £13.1 million (2017: £12.1 million) which principally arise from the lower UDA contract delivery percentage. The group receives 1/12th of the annual contract value up-front and contract value that is not delivered will typically be repaid in the following year, although the group negotiated the early repayment of some undelivered UDAs during the year, which partially offsets the working capital inflow resulting from the lower delivery percentage. In addition, cash generated from operations includes acquisition related fees and expenses of £0.3 million (2017: £0.7 million). Cash generated from operations for the year ended 31 March 2017 also included costs of £2.5 million associated with the roll-out of the mydentist brand.

Net cash outflows from capital expenditure decreased by £0.6 million, or 3.3%, from £19.7 million for the year ended 31 March 2017 to £19.1 million for the year ended 31 March 2018. Net capital expenditures for the year ended 31 March 2017 included net proceeds of £0.3 million from the purchase and sale of freehold dental practices. Gross capital expenditures therefore reduced by £0.9 million from £20.0 million for the year ended 31 March 2017 to £19.1 million for the year ended 31 March 2018. The decrease principally arose from the decision to pause the dental practice acquisition programme. Capital expenditure in respect of refurbishing newly acquired dental practices was £2.2 million during the year ended 31 March 2017, compared to just £0.3 million for the year ended 31 March 2018. Management also continued to limit certain other capital expenditures across other areas of the business in order to conserve cash and manage gearing levels whilst trading conditions remain subdued, although to a lesser degree than in the previous year.

Cash outflows from acquisitions were £9.1 million for the year ended 31 March 2018, a decrease of £1.4 million from the year ended 31 March 2017, following the pause in the dental practice acquisition programme, which meant that just one dental practice was acquired in April 2018, compared to six practices during the year ended 31 March 2017. Dental Directory also acquired BF Mulholland during the year.

The cash outflow of £35.3 million from financing reflects cash interest costs of £40.3 million (compared to £38.5 million for the year ended 31 March 2017), partially offset by a drawdown of £5.0 million against the SSRCF. For the year ended 31 March 2017, the remaining cashflow outflow of £6.7 million resulted from the re-financing completed in August 2016 and included proceeds of £549.7 million from the issue of the Notes and the Second Lien Notes, offset by £506.2 million paid to redeem the Previous Notes, including early redemption costs, £39.0 million repaid against the Previous Revolving Credit Facility, and £11.2 million of arrangement fees paid in respect of the issue of the Notes and the Second Lien Notes along with the arrangement of the Revolving Credit Facility.

Capital expenditures

Net capital expenditures, excluding acquisitions, for the year ended 31 March 2018 and for the year ended 31 March 2017 were £19.1 million and £19.7 million, respectively. Excluding the net proceeds of £0.3 million arising principally from the purchase, sale and leaseback of four freehold dental practices during the year ended 31 March 2017, gross capital expenditure decreased by £0.9 million, or 4.4% from £20.0 million for the year ended 31 March 2017 to £19.1 million for the year ended 31 March 2018. Expenditure principally included ongoing investment in, and maintenance of, the dental practice estate and investment into the IT infrastructure across both mydentist and Dental Directory.

For the year ended 31 March 2018, approximately 99% of our capital expenditures constituted maintenance capital expenditures, which we define as capital expenditures excluding acquisitions refurbishments, and approximately 1% of our capital expenditures constituted capital expenditures in connection with acquisitions, or acquisition refurbishments. Within mydentist, our maintenance capital expenditures constituted 3.82% of our revenue for the year ended 31 March 2018, increased from 3.43% for the year ended 31 March 2017 due to a combination of targeted investments in growth opportunities, preventative maintenance and a reduction in mydentist revenues.

During the year ended 31 March 2019, we expect to incur capital expenditures of approximately £20 million within mydentist. Capital expenditure across our Dental Directory business is expected to be approximately £2 million.

Working capital requirements

Our working capital requirements differ between our Dental Directory and mydentist divisions. Within Dental Directory, net current assets as at 31 March 2018, comprising inventories, trade and other receivables and cash at bank and in hand, less trade and other short term payables, represented approximately 15% of Dental Directory revenues prior to intragroup eliminations, for the year ended 31 March 2018.

Within mydentist, we do not currently have significant short-term or long-term working capital requirements, as we typically receive payments under our NHS dentistry contracts prior to paying costs related thereto. Payments under our NHS dentistry contracts are made to us by NHS England, with payment of 1/12 the contract value paid at the beginning of each month. We collect the patient contributions on behalf of the NHS and remit such amounts to the NHS in arrears approximately two weeks thereafter. Three to six months following the contract year-end (31 March), we receive a statement detailing each UDA performance under each contract. If, at the end of the contract year, a practice has not performed all the UDAs allocated under its contract, NHS England may seek to reclaim UDAs paid for but not performed. Any payment of reclamation must be made after the end of the contract year of underperformance, although repayment may be made in year if both parties agree. At 31 March 2018 £57.2 million was held within accruals and deferred income on the balance sheet in respect of UDA receipts which were not delivered during the year to 31 March 2018. We expect to repay the majority of these amounts to the NHS during the course of the year ended 31 March 2019. Changes in our working capital are included in our net cash inflow from operating activities.

Contractual obligations and commercial commitments

The table below sets out our contractual obligations and commitments as at 31 March 2018.

£ in millions	Less than 1 year	1–5 Years	More than 5 years	Total
Senior Secured Fixed Rate Notes	–	275.0	–	275.0
Senior Secured Floating Rate Notes	–	150.0	–	150.0
Second Lien Notes	–	–	130.0	130.0
Super senior revolving credit facility	–	–	5.0	5.0
Contingent consideration	4.3	2.2	–	6.5
Operating leases	14.6	48.1	59.4	122.1
Total contractual obligations	**18.9**	**475.3**	**194.4**	**688.6**

Contingent consideration

Contingent consideration (including earn outs) is payable in respect of certain of our acquisitions based on the performance of the acquired business typically in one to five years following the acquisition. In the case of certain of our acquisitions, fees paid to selling dentists may represent a significant portion of the future EBITDA generated by such acquired dental practices above an EBITDA target agreed in the consultancy services agreements entered into in connection with such acquisitions.

Operating leases

Contractual obligations for our operating leases reflect our annual commitments under non-cancellable operating leases, including in respect of premises for rent, vehicles provided to certain members of our management team and various other types of office equipment.

Off-balance sheet arrangements

We are the obligor under a letter of credit issued by Lloyds Bank in the amount of £1.8 million to our clinical directors in respect of liabilities they may incur as partners in certain of our dental practices. The letter of credit is issued under the Revolving Credit Facility Agreement.

Financial risk management

Market risk is the potential loss arising from adverse changes in market rates and consists of risks relating to foreign exchange rates, interest rates and market prices. We are not exposed to market price risk as we do not own assets the value of which is determined by market prices.

Dental Directory is subject to foreign exchange risk related to the purchases of consumables and materials in Euros and US dollars. We generate revenue in pounds sterling and, because of this, we are unable to match purchases made using Euros or US dollars with revenue generated in these currencies. The group's policy is to hedge the pound sterling equivalent costs of a proportion of our foreign currency purchases using vanilla foreign exchange derivative contracts, in order to reduce uncertainty over future cashflows.

We are exposed to interest rate risk primarily in relation to our debt service obligations, which consist of obligations under our Senior Secured Floating Rate Notes and obligations outstanding under our Revolving Credit Facility. As at 31 March 2018, we have £280.0 million in financial debt subject to variable interest rates consisting of the Senior Secured Floating Rate Notes and the Second Lien Notes. The Second Lien Notes are subject to a LIBOR floor of 1.00%. £5.0 million was drawn against the Revolving Credit Facility as at 31 March 2018, with a further £1.8 million allocated to a letter of credit to our clinical directors. As at 31 March 2018 a further £93.2 million was available to draw under the Revolving Credit Facility.

After the issuance of the Notes in August 2016, we continued to hold a £125.0 million interest rate swap that was originally entered into in May 2013 to hedge some of our variable interest rate exposure. However, this interest rate swap expired on 1 June 2017 and has not been renewed. We continue to monitor market conditions and may enter into new hedging arrangements if and when we consider it appropriate. Our Senior Secured Fixed Rate Notes bear interest at a fixed rate. For fixed rate debt, interest rate changes affect the fair market value of such debt, but do not impact earnings or cash flow.

The nature of our contracts with NHS Regions means that consumer credit risk is minimised for a significant proportion of our revenues. Certain of the procedures undertaken by our dental practices may be paid for under payment plans which we contract to Medenta Patient Finance. While we are not exposed to the credit risk under such payment plans, we are required to carry a consumer credit license in respect of the provision of consumer credit. Whitecross holds our consumer credit license, and undertakes all work performed pursuant to such payment plans. Similarly, Dental Directory has no significant concentration of credit risk due to the high volume of individual customers that we supply. New customers are subject to external credit checks using the main agencies, credit terms are negotiated individually and subsequently monitored closely by the credit control team.

Internal controls

The ultimate source of internal controls is our Board. Our Board has delegated to senior management the establishment and implementation of a system of internal controls appropriate to our business. The Board and senior management maintain a strategic risk register to assist in the monitoring of risk across the group and the further development of internal controls. Key controls include the safeguarding of assets; the maintenance of proper accounting records; the reliability of financial information; and compliance with appropriate legislation, regulation and best practice, and are overseen by our independent auditors and our audit committee. At the dental practice level, internal controls are primarily managed by our practice managers, area managers and directors of region. In general, the implementation of our internal controls is manual and focused on the prevention of fraudulent UDA claims and the theft of cash. We have previously suffered from breaches of our internal controls that were immaterial to our overall results, including misclaimed UDAs, the theft of petty cash and fraud related to the acquisition of a dental practice.

In Dental Directory, controls are focused on the management of inventory, provenance of materials and equipment, including controlled drugs and medicines, and the credit-worthiness of customers.

Critical accounting policies and estimates

Our financial statements have been prepared in accordance with IFRS. The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts of assets and liabilities we report. We continually evaluate our estimates and assumptions and base them on historical experience and other factors, including expectations of future events that we believe are reasonable under the circumstances. Actual results may differ from these estimates. Whilst we do not believe that any of such estimates and assumptions have material implications for our results of operations or financial condition or are material due to a high degree of subjectivity or judgement, the following are significant accounting policies which are determined, to the extent described above, on the basis of estimates and assumptions.

Revenue recognition

Revenue derived from NHS dentistry contracts in England and Wales is recognised on the volume of dental activity delivered in the financial period. Revenue 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. Revenue generated from the sale of goods by Dental Directory is recognised upon despatch and revenue generated from the installation or repair of equipment, or from other services, is recognised upon completion of the service.

We are currently reviewing our revenue recognition policies in advance of the implementation of IFRS 15 – Revenue from Contracts with Customers, which we are required to adopt for the year ending 31 March 2019. More information can be found in note 2(c) to the audited financial statements for the twelve months ended 31 March 2018, which are included in this Annual report.

Work required for refurbishments

Any refurbishment of properties in our property portfolio is subject to multiple quotes from external third parties. Additionally, all properties in our property portfolio must meet required regulatory standards. Our property portfolio is managed internally by a property management team and supported by external consultants who review our practices and recommend improvements in meeting regulatory compliance in connection with our properties. Part of our internal central property management support function involves regulatory compliance in connection with our properties. Our property management team also manages a defined capital expenditure cycle and dilapidation schedule in respect of our leased and freehold properties.

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 not amortised but is tested for impairment at least annually. We use forecast cash flow information and estimates of future growth to determine the discount rate for assessing any impairment of goodwill. If our results of operations in future periods are adverse to the estimates used for impairment testing an impairment charge may be triggered.

The fair value of the consideration includes both actual and deferred consideration. Where the deferred consideration is contingent upon the future trading performance of an acquired asset, an estimate of the present value of the likely consideration is made. The contingent deferred consideration is reassessed annually and a corresponding adjustment is recorded in the income statement.

Defined benefit scheme

Details of the principal actuarial assumptions used in calculating the recognised liability or surplus for the defined benefit pension scheme are given in note 32 to the audited financial statements for the twelve months ended 31 March 2018, which are included in this Annual report. Changes to the discount rate, mortality rates and actual return on plan assets may necessitate material adjustments to this balance in the future.

Deferred income tax balances

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

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

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

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

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

Results of operations for the three months ended 31 March 2018 and 31 March 2017

The following tables set out the key line items from the consolidated income statement and consolidated cash flow statement for the three months ended 31 March 2018 ("Q4 FY 2018") and 31 March 2017 ("Q4 FY 2017").

Consolidated income statement

(£ in millions)	**For the three months ended 31 March 2018**	**For the three months ended 31 March 2017**
Revenue	**148.3**	**150.9**
Cost of sales	(83.6)	(84.9)
Gross profit	**64.7**	**66.1**
Distribution costs	(4.7)	(3.9)
Administrative expenses	(67.5)	(76.9)
Other operating income	0.5	0.4
Other losses	(0.1)	-
Operating loss	**(7.1)**	**(14.3)**
Finance costs	(11.2)	(11.1)
Finance income	-	0.5
Loss before income tax	**(18.3)**	**(24.8)**
Income tax credit	3.0	3.3
Loss for the year	**(15.3)**	**(21.5)**
Attributable to:		
Owners of the parent	(15.3)	(21.5)
Non-controlling interests	-	-
	(15.3)	**(21.5)**

Consolidated cash flow statement

(£ in millions)	For the three months ended 31 March 2018	For the three months ended 31 March 2017
Cash flows from operating activities		
Cash generated from operations	21.5	22.2
Tax paid	–	–
Net cash inflow from operating activities	**21.5**	**22.2**
Investing activities		
Acquisitions (net of cash acquired)	(0.3)	(0.7)
Purchase of property, plant and equipment	(7.2)	(4.4)
Purchase of freehold property held for sale	–	(0.2)
Proceeds from business and asset disposals	0.5	1.0
Net cash outflow from investing activities	**(7.0)**	**(4.2)**
Financing activities		
Drawdown of bank loans	–	7.0
Repayment of bank loans	–	(7.0)
Bank and bond interest paid	(14.4)	(15.2)
Net cash outflow from financing activities	**(14.4)**	**(15.2)**
Net increase in cash and cash equivalents	**0.1**	**2.7**
Cash and cash equivalents at the start of the period	16.1	9.9
Cash and cash equivalents at the end of the period	**16.2**	**12.6**

Key performance indicators

	Q1 FY 2018	Q2 FY 2018	Q3 FY 2018	Q4 FY 2018
Other profit and cash flow data				
Revenue (£m)	141.6	142.7	147.9	148.3
EBITDA (£m)	12.8	13.7	14.4	14.2
LTM EBITDA (£m)	63.5	60.4	57.9	55.1
Operating loss (£m)	(10.7)	(69.9)	(13.1)	(7.1)
NHS dentistry services as a percentage of revenue	63.5%	63.9%	63.4%	63.2%
Private dentistry as a percentage of revenue	17.3%	17.6%	17.3%	16.7%
Dental Directory revenue as a percentage of revenue	19.2%	18.5%	19.3%	20.1%
Like-for-like private revenue growth	3.8%	7.1%	5.6%	2.6%
Like-for-like private revenue growth per working day	7.2%	8.8%	5.6%	4.2%
Gross profit margin %	44.1%	44.1%	42.3%	43.7%
Overheads as a percentage of revenue	35.5%	34.9%	32.9%	34.4%
EBITDA margin	9.0%	9.6%	9.7%	9.6%
Number of dental practices	672	661	654	643
Maintenance capital expenditure (£m)	4.1	3.7	3.8	7.3
Cash conversion after maintenance capital expenditure	95.9%	138.7%	47.7%	103.5%
Estimated pro forma adjusted EBITDA (£m)	64.6	61.4	59.5	57.3

Three months ended 31 March 2018 compared to the three months ended 31 March 2017

During the quarter, we closed five, and sold six, loss making dental practices as part of the portfolio review, for a total of 643 dental practices in our estate as at 31 March 2018.

Revenue

Revenue for the three months ended 31 March 2018 ('Q4 FY 2018') has decreased by £2.6 million, or 1.8%, from £150.9 million for the three months ended 31 March 2017 ('Q4 FY 2017') to £148.3 million. This was predominantly due to lower UDA delivery in mydentist, partially offset by growth in private dentistry and Dental Directory revenues.

The table below further analyses the movements in our revenues between Q4 FY 2018 and Q4 FY 2017:

Revenue (£ in millions)	**For the three months ended 31 March 2018**	**For the three months ended 31 March 2017**	**Movement**
Practices owned as at 1 April 2016	117.0	119.3	(2.3)
Practice disposals	0.4	2.0	(1.6)
Practices acquired or opened during the year ended 31 March 2017	0.9	1.4	(0.5)
Practices acquired or opened during the year ended 31 March 2018	0.2	–	0.2
Total dental practice revenue	118.5	122.7	(4.2)
Dental Directory and other revenue	29.8	28.2	1.6
Group revenue	**148.3**	**150.9**	**(2.6)**

The six practices acquired during the year ended 31 March 2017, along with the one practice acquired during the year ended 31 March 2018, contributed revenue of £1.1 million during Q4 FY 2018, a decrease of £0.3 million over the contribution by the same practices during Q4 FY 2017.

Revenue generated by practices owned at 1 April 2016, excluding the 32 practices which have either been sold or closed during the year ended 31 March 2017 or the year ended 31 March 2018, decreased by £2.3 million, or 2.0%, from £119.3 million for Q4 FY 2017 to £117.0 million for Q4 FY 2018. The decrease principally arises from lower UDA delivery, partially offset by continued growth in private revenues, which increased by 2.6% on a like-for-like basis, despite there being one fewer trading days in Q4 FY 2018. Like-for-like private revenue growth per working day was 4.2% in Q4 FY 2018.

Cost of sales

Cost of sales decreased by £1.4 million, or 1.6%, from £84.9 million for Q4 FY 2017, to £83.5 million for Q4 FY 2018. Gross profit margin decreased by 0.1 percentage points, from 43.8% for Q4 FY 2017 to 43.7% for Q4 FY 2018.

mydentist gross margin was 47.6%, compared to 46.4% for the same period last year. This improvement was principally due to savings in dentist fees, with locum costs, in particular, £1.2 million lower than Q4 FY 2017.

The gross margin in Dental Directory was 26.9%, a decrease of 2.0 percentage points from 28.9% for Q4 FY 2017.

Overheads

Overheads, including administrative expenses, distribution costs, amortisation and impairment of intangible assets, depreciation, grant income and other non-underlying items were £72.2 million for Q4 FY 2018, a decrease of £8.5 million from £80.7 million in the three months ended 31 March 2017. The decrease is principally due to a lower level of impairment and disposal charges in Q4 FY 2018 (£4.0 million) compared with Q4 FY 2017 (£14.6 million).

Overheads excluding amortisation and impairment of intangible assets, depreciation, grant income and other non-underlying items were £51.0 million, or 34.4% of revenue, compared to £49.4 million, or 32.7% of revenue, in Q4 FY 2017. This increase was principally due to higher staff costs across both mydentist and Dental Directory.

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 31 March 2018, staff costs were £33.4 million, an increase of £1.2 million from £32.2 million in Q4 FY 2017.

Rent expense in Q4 FY 2018 was £3.7 million, 2.5% of revenue and £0.1 million higher than Q4 FY 2017.

Dental equipment and practice property maintenance costs for Q4 FY 2018 were £2.8 million, a decrease of £0.4 million from £3.2 million in Q4 FY 2017.

EBITDA before non-underlying items

EBITDA before non-underlying items decreased by £2.9 million, or 16.6%, from £17.1 million for Q4 FY 2017, to £14.2 million for Q4 FY 2018.

Non-underlying items

We have conducted a thorough review of our portfolio of dental practices to identify those which are no longer viable due to structural issues such as, for example, very low UDA contract values and delivery performance or where geographical isolation has made it difficult to recruit dentists. As a result of this review, decisions were taken to close or sell 49 dental practices. By 31 March 2018, the group had sold 13 practices and closed 19 practices, including two which were closed in March 2017, at the end of the previous financial year. The remaining 17 practices are expected to be closed or sold by 30 September 2018. As a result, the group has written down the carrying value of the assets associated with these practices to their recoverable amount and reclassified those assets as held for sale. The additional sites earmarked for closure or sale during Q4 FY 2018 have resulted in a charge to the income statement of £2.1m, which is included within non-underlying items.

Other non-underlying items of £3.9m principally relates to additional contingent consideration that has become payable in respect of one acquisition which completed in FY14.

Finance costs

Finance costs increased by £0.1 million from £11.1 million for Q4 FY 2017, to £11.2 million for Q4 FY 2018. Finance costs for Q4 FY 2018 include £0.6 million resulting from a change in the discount rate applied to provisions and other non-current liabilities. Finance costs for Q4 FY 2017 included £0.5 million of charges in respect of the group’s interest rate swap contracts, which expired on 1 June 2017 and have not been renewed.

Finance income

Finance income decreased by £0.5 million from £0.5 million for Q4 FY 2017 to £nil in Q4 FY 2018. Finance income in the previous year principally resulted from a favourable movement of £0.5 million in the mark-to-market value of the group’s interest rate swap contracts, prior to their expiry on 1 June 2017.

Cashflow, liquidity and net debt

At 31 March 2018, net debt was £531.5 million, compared to £527.6 million at 31 March 2017. This increase principally reflects the £5.0 million drawn from the SSRCF during the year.

Net cash flow for the quarter was an inflow of £0.1 million. This arises from cash generated from operations of £21.5 million and net proceeds from the sale of dental practices of £0.5 million, offset by expenditure of £14.4 million for the servicing of finance, capital expenditure of £7.2 million, and expenditure of £0.3 million from the settlement of contingent consideration obligations arising from previous acquisitions.

Cash generated from operations of £21.5 million was £0.7 million, or 2.9% lower than Q4 FY 2017, principally due to the reduce level of profitability, offset by favourable working capital movements, principally due to NHS contract payments received in advance.

Capital expenditure of £7.2 million related entirely to ‘maintenance’ capital expenditure and included pro-active refurbishment, preventative maintenance and equipment replacement across the dental practice estate.

Cash conversion after maintenance capital expenditure was 103.4% for Q4 FY 2018 compared to 108.5% for Q4 FY 2017. Excluding working capital movements, cash conversion was 49.1% (Q4 FY 2017: 77.2%).

Industry

Overview of the UK healthcare system

Government spending on healthcare in the United Kingdom (excluding pharmaceuticals) for the year ended 31 March 2018 was approximately £143 billion, broadly in line with spending in the previous year in nominal terms. The provision of healthcare in the United Kingdom is dominated by the National Health Service (the "NHS"), a public sector body, and its affiliates. The NHS was founded in 1948 under the principles of universality and equality, to provide publicly funded access to medical care to all residents of the United Kingdom. Despite numerous political, administrative and organisational changes, the NHS remains a universal service that provides healthcare on the basis of need and not on ability to pay. The NHS is funded through taxation and national insurance contributions. Private health insurers and independent providers of healthcare play a comparatively small role in the healthcare sector in the United Kingdom. The UK Office for National Statistics estimated that the independent sector (not-for-profit and for-profit) accounted for approximately 17% of the total healthcare expenditure in the United Kingdom, with the NHS contributing 83%, in each case for the year ended 31 March 2013. Excluding certain prescribed drugs and primary care eye and dental care, which require patient contributions (other than for certain exempt groups) all public healthcare services provided by the NHS are free to the patient at the point of delivery.

Healthcare and health policy for England is the responsibility of the UK Government, whereas in Scotland and Wales it is the responsibility of the respective devolved governments. In England, the NHS is supervised by the Department of Health.

The UK healthcare system

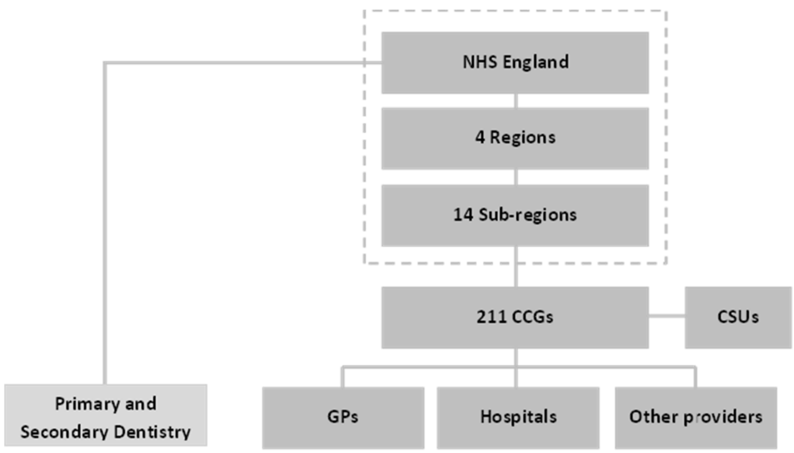
The UK healthcare system is divided into the primary and secondary care subsectors. Primary care consists of routine medical care, check-ups and outpatient medical services. Primary care service providers include general practitioners ("GPs"), dentists, opticians, pharmacists, NHS walk-in centres and NHS Choices (the NHS's online and telephone health advice and information service). These services are delivered by a wide range of independent contractors on behalf of the NHS, including GPs, dentists, pharmacists and optometrists. Care that goes beyond primary care is referred to as "secondary care" (also known as "acute care"), which consists of hospital-based care and specialised consultative healthcare accessed through referral from a primary or community health professional, such as a GP. Secondary care services include emergency and urgent care, acute care, ambulance services and mental health and elder care services.

Dentistry is essentially a primary care discipline in so far as the vast majority of patient care takes place in an outpatient surgery setting and most treatments are routine and are provided by generalists. Dental treatments beyond the primary level include, amongst others, orthodontics, restorative and paediatric treatments and complicated surgical extractions (both in-patient and out-patient). Primary care dentistry makes up the majority of the total dental market and is weighted towards NHS dentistry services.

NHS

In an effort to reduce costs and modernise the healthcare system, independent healthcare service providers have been permitted to compete and offer their services in certain subsectors of the NHS. Due to capacity and capital constraints, private sector involvement in the NHS has grown. The extent of private sector involvement is determined by the need and willingness of the NHS to outsource these services.

The following diagram presents the NHS England organisational structure:



Clinical Commissioning Groups ("CCGs") and NHS Regions share the responsibilities for commissioning services for their local communities, with NHS Regions acting on behalf of NHS England (in England) in respect of dental services. The NHS England National Board has regional and local teams to facilitate relationships with providers, but operates as one national body.

NHS Regions play a key role in the oversight of commissioning, maintaining a focus on addressing unequal access to healthcare and ensuring the right balance between consistency and the adoption of national frameworks and localisation. They also support the coordination of some of NHS England's nationwide initiatives. The NHS Regions in England have direct commissioning responsibilities for GP services, dental services, pharmaceutical services, and certain aspects of optical services, and as such represent the interface for the majority of services at a local level, though the contracting party for such services is NHS England.

NHS Regions and CCGs can commission any service provider that meets NHS standards and costs. These can be NHS hospitals, social enterprises, charities or private sector providers. They must, however, be assured of the quality of the services they commission, taking into account both National Institute for Health and Care Excellence ("NICE") guidelines and CQC data regarding service providers.

Budget environment

For the year ended 31 March 2018, the UK Government budget for the NHS in England was £110.0 billion. Budgeted expenditure for NHS England for the year ended 31 March 2019 is £114.3 billion, an increase of 3.9% over the previous year. Indicative budgets included within the Government's Mandate to NHS England for 2018-19 show expenditure rising further to £119.3 billion for the year ended 31 March 2021.

Scotland

The Scottish parliament has responsibility for dental care and healthcare and has full legislative competence, involving the power to pass both primary and secondary legislation regarding these matters. Other "reserved matters" remain the charge of the UK Government. Public healthcare in Scotland is provided by NHS Scotland, a completely separate body from the NHS in England and Wales. Primary and secondary care are linked and integrated, and services are provided by 14 regional health boards.

As in the rest of the United Kingdom, dental care in Scotland is provided through the GDS, the Salaried Dental Service and the Hospital Dental Service. There are differences in how these services are organized and managed in comparison with England, Wales and Northern Ireland.

Scotland operates a form of the GDS Contract, within a remuneration model of fee-per-item of service, capitation payments and continuation fees. The GDS accounts for approximately 75% of all NHS dental services spending in Scotland.

The UK dental service market

Introduction

The dentistry services market in the United Kingdom is critical to ensuring the oral health of the UK population, with over one million patient contacts per week occurring within NHS dentistry services alone. Oral health is not only important to a patient's appearance and sense of well-being, but also to overall physical health. According to the World Health Organization, oral diseases are the most common of the chronic diseases worldwide and are important public health problems because of their prevalence, their impact on individuals and society, and the expense of their treatment. Cavities and gum disease may contribute to many serious conditions, such as diabetes, cardiovascular diseases and respiratory diseases, and lead to serious infections.

Residents of the United Kingdom are entitled to receive all clinically necessary dental treatment from the NHS. Primary care NHS dentistry services are available to adults and children without registration in England and Wales from dentists who are contracted to provide NHS dentistry. In Scotland, adults and children must be registered with a dentist to receive treatment.

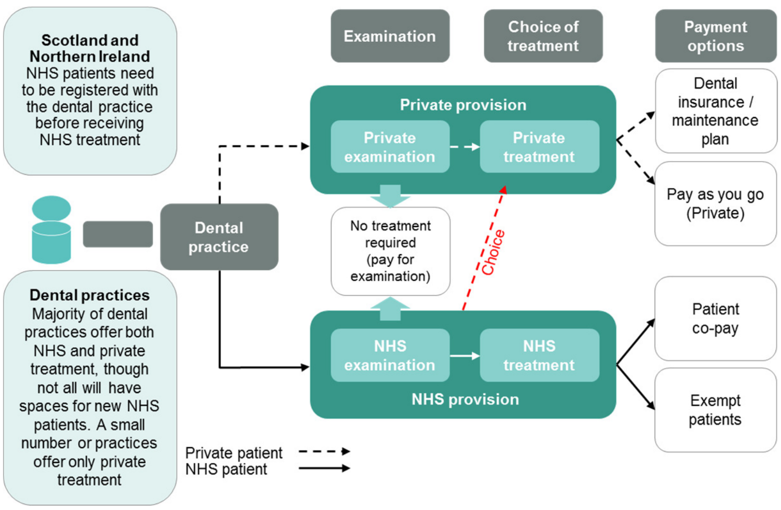
Dental treatment in the United Kingdom can be either fully funded or part-funded by the NHS or privately funded by the patient (whether directly or through the use of a dental payment plan or insurance). Free NHS dental treatment is available for specified groups of patients who are exempt from payment, such as children, new and expectant mothers, and individuals on certain benefits. Patients not exempt from payment pay a contribution toward the cost of NHS dentistry services. Patients with low incomes who do not fall into any of the specified groups of patients who are exempt from payment may be entitled to reduced patient contributions. In Scotland, all dental examinations are free to the patient.

Any treatment needed to keep mouth, teeth and gums healthy and free of pain may be made under NHS dentistry services. In England, this includes dentures, root canals, extractions, crowns and bridges, any preventive treatment needed such as a scale and polish, an appointment with a dental hygienist, fluoride varnish or fissure sealants, the removal of wisdom teeth if necessary, silver-coloured (amalgam) fillings or white fillings where clinically appropriate, and orthodontics for under-18s if considered clinically necessary.

Patients have the option of choosing private dentistry services, NHS dentistry services or a combination of private and NHS dentistry services depending on their preferences. NHS dentistry services are almost exclusively provided by the private sector with the vast majority of dentists practising in primary care settings offering NHS dentistry services or a combination of NHS and private dentistry services, with fewer than 15% of dentists carrying out private dentistry services only. Mintel estimated in June 2016 that approximately 19% of patients received wholly private dentistry care. In contrast to NHS dentistry services, private dentistry services differ in that:

- treatment prices are set by the dentist and are typically more expensive than NHS prices;
- there are no subsidised patients, and patients typically pay the full amount for their treatment at the time of their visit;
- patients receive faster service and the range of treatments, technologies and materials available is unrestricted; and
- private dentists' patient lists are typically half the size of those in NHS practices.

The following diagram presents a typical patient journey for NHS dentistry services and private dentistry services:



Market overview

The market value for dental care in the United Kingdom was estimated by Mintel to be £9.7 billion in the twelve months ended 31 March 2017 having generated £3.8 billion in spending on NHS dentistry services, £3.4 billion on private dentistry services and £2.5 billion on private cosmetic dentistry services, in each case in the twelve months ended 31 March 2017. The NHS funding of NHS dentistry services represents less than 3% of the overall UK Government health expenditure on the NHS.

Both the primary care dentistry market and the private dentistry market have seen significant growth, with overall spending increasing by 17% between 2013 and 2017. The economic downturn softened demand for private dentistry in the twelve months ended 31 March 2008 and 2009 as recessionary impacts held back consumer purchasing, with patients shifting from private to NHS dentistry to save on costs. NHS dental expenditure has remained resilient in the downturn and maintained positive nominal growth, with a growth of 7% between 2013 and 2017 in nominal terms. According to Mintel, expenditure on dental care is expected to experience fairly stable levels of growth over the next four years, of between 2.7% and 4.9% per year, and is expected to end the forecast period at £11.75 billion in 2022. Historically, NHS funding for dentistry has not shown a strong correlation to the macroeconomic environment underpinning the stability of the sector throughout economic cycles.

Since the introduction of UDA-based contracts to commission NHS dental services in 2006, UDA volumes and values had increased each year to 31 March 2014. However, estimated NHS data shows that UDA volumes have fallen in each of the three subsequent years, by 1.7% in the year ended 31 March 2015, 1.0% in the year ended 31 March 2016, and 0.7% in the year ended 31 March 2017. The decreases appear to reflect a change in UDA band mix away from higher value band 2 (3 UDAs) and band 3 (12 UDAs) treatments, as a result of a reduction in the number of exempt patients due to the improving economy.

The government introduced a prototype trial process, which commenced in April 2016 as the next stage in the proposed reform of the dentistry contract. Under the proposed changes to the current contract frameworks, which we estimate will be implemented, if at all, no earlier than 2019 or 2020, NHS dentistry contracts could combine aspects of the existing UDA-based system, fixed payments for a given level of care time, number of patients treated, clinical outcomes, patient experience and patient safety. We believe that these changes, if they occur, will generally prove revenue neutral, and that we will be able to leverage our scale to derive a competitive advantage in terms of patient recruitment and delivery of quality care under any new NHS dentistry contractual framework.

Since introduction of the UDA-based contracts in 2006, UDA values have been steadily adjusted upwards with, most recently, a price increase of 1.34% for the contract year ending 31 March 2016, 0.7% for the contract year ending 31 March 2017 and 1.14% for the contract year ending 31 March 2018. The contract uplift for 2019 is yet to be announced.

Supply and demand

According to the General Dental Council, there were approximately 40,000 dentists registered to practice dentistry in the United Kingdom in April 2018. Dental practices are typically either small or medium-sized private businesses owned either by an individual or a partnership of dentists, or are owned by a dental body corporate. Compared to other European countries, the United Kingdom has one of the lowest rates of dentists per capita, with only approximately 500 dentists per one million members of the population. This compares to approximately 650 in France and approximately 800 in Germany.

According to NHS Digital, only 29.0 million patients in England, or 52.4% of the population, accessed NHS dentistry services during the 24 months to 31 December 2017, substantially below the UK Government's target access rate of 64% and down from 52.8% in the 24 months ended 31 December 2016. This would suggest that there remains significant unsatisfied demand for NHS dentistry which, in recent years, has been driven by an ageing population and an increased public understanding of the importance of good dental hygiene. However, as the UK economy has strengthened in recent years, the industry has also seen significant growth in private dentistry, with some patients moving away from using NHS dentistry services.

Unlike other academic subjects, the number of places available to study dentistry is regulated by the UK Government. Between 2002 and 2010, significant efforts were made by the UK Government to improve the supply of dentists to address historical shortages, including opening new UK dental schools, expanding enrolment, and attracting more EEA-qualified dentists into the United Kingdom. However, since 2010/11, the dental student intake has reduced each year from approximately 1,000 students in 2010/11 to 780 in 2015/16 as a result of a report commissioned by the Chief Dental Officer which raised concerns over a significant potential oversupply of dentists by 2040 if no action was taken.

Despite this, the UK remains a net importer of dentists, with approximately 17% of the dentists registered with the GDC having qualified in other parts of the EEA and approximately 11% qualified outside Europe, according to Mintel.

Highly regulated market

As with other healthcare sectors, the UK dental market is a highly regulated market in which dental professionals must be registered with the regulatory body, the General Dental Council, in order to work in the United Kingdom. Since April 2011, the activity of dentists in England has also been subject to regulation by the CQC, which is responsible for ensuring that the care and treatment provided by all dental practices in England meet government standards of quality and safety. See "Business—Regulation". Under the current contract system, the provision of NHS dentistry services is subject to more regulatory oversight than private practice due to the nature of the tendering process and the importance of strong relationships with NHS England.

We believe that the highly regulated nature of the provision of NHS dentistry services provides a competitive advantage to existing market participants, due in part to:

- *Evergreen GDS NHS contracts*. The majority of NHS dentistry contracts are evergreen GDS contracts with no contracted end date, resulting in a limited number of new NHS dental contracts being put out for competitive tender. NHS contracts are unlikely to be moved to another supplier unless there is significant underperformance. See “Business—NHS framework contracts”.
- *Ability to attract and retain qualified dentists*. Dental qualifications are required to work within a practice and overseas dentists need to go through UK registration processes before they can practice in the United Kingdom. We believe this works to the advantage of larger market participants, like us, who are better able to absorb talent sourcing and retention costs, including in respect of overseas sourcing when necessary.
- *NHS relationships*. The process for awarding UDAs can be lengthy and is often done by tendering to the general market. However, we believe that preferred and existing suppliers with track records of delivering UDA targets have historically been more successful in winning contract tenders. Large-scale suppliers of NHS dentistry services also tend to have strong relationships with NHS England.

Market trends

We believe that there is significant scope for growth in demand for dental services in the United Kingdom as the market remains underdeveloped in terms of both spending and the supply of dentists. Structural growth factors have driven real growth in NHS dental spending over the last decade, and provide strong prospects for continued future growth.

The sector benefits from a number of favourable long-term trends in healthcare generally and dentistry in particular, including, amongst others, an ageing UK population, increased dental health expectations and increasing public understanding of the importance of good dental hygiene, as well as technological advances facilitating access to new treatments to more patients at lower costs.

NHS dentistry is considered a key front-line service of the UK Government. Despite recurring cycles of macroeconomic volatility, NHS volumes and values have both remained relatively stable. Around 40% of the UK population does not visit the dentist on a regular basis, with the majority of this population base receiving dental treatment irregularly and a small proportion never visiting a dentist.

Between 2002 and 2010, significant efforts were made by the UK Government to improve the supply of dentists to address historical shortages, creating two new dental schools and increasing the number of dental undergraduates in England by approximately 20%. However, according to Mintel, since 2010/11, the dental student intake has reduced each year from approximately 1,000 students in 2010/11 to 780 in 2015/16.

The highly fragmented UK dental market provides considerable scope for consolidation for nationwide operators with the platform and resources to drive consolidation, although rising practice valuations in recent times could slow this process. The consolidation trend in the UK primary care dentistry market is expected to continue over the long term, as existing corporate groups continue to expand.

The UK dental supplies market

The UK dental supplies market represents an estimated £400-500 million in spending per year and consists of a few key distributors supplying dental consumables and materials to dental practices throughout the UK. Products supplied range from dental consumables, specialist products including orthodontics, oral hygiene, implant products and dentistry equipment such as dental chairs and cabinetry to digital imaging systems. In addition, services offered include equipment installation and maintenance. These distributors primarily sell through field based sales representatives, online and telesales order services.

Laboratories

The market for dental laboratories in the UK is highly fragmented, predominantly made up of a large number of local suppliers, with only a few laboratories having a significant regional or national presence. Dental laboratories supply a range of dental appliances to dental practices, including crowns, bridges, dentures and dental implants.

Business

Overview

We are Europe's largest vertically-integrated dental business and the United Kingdom's number one dental practice chain, with a focus on delivering the best possible patient care, highest clinical standards and a comprehensive choice of treatments through our UK dental practice network. We operate our business through two divisions: mydentist and Dental Directory. We are the leading provider of dental services in the United Kingdom through mydentist, with 583 NHS dentistry contracts across our network of 643 dental practices throughout England, Scotland, Wales and Northern Ireland. As at 31 March 2018, mydentist had a market share of approximately 7% in terms of revenue and a market share of approximately 5% in terms of number of practices and held contracts for approximately 15% of all units of dental activity ("UDAs") commissioned in England and Wales. Our dental practices, operating under the "mydentist" brand, offer a broad range of primary care dental services, including dental examinations, fillings and extractions, as well as more specialised dental services such as cosmetic dentistry and orthodontics. We are also a leading provider of private dentistry services in the United Kingdom, which has grown quickly as the UK economy has strengthened. We operate in the UK dental market, which benefits from stability in terms of volume and pricing and from favourable systemic trends, including continued government focus on improving access to dental services, favourable demographic trends and an increasing overall spend on dentistry. Through Dental Directory, we are a leading supplier of dental and other medical consumables, materials and services (including installation and servicing of specialised dental equipment), selling dental supplies and services to at least 8,000 dental practices, including mydentist's dental practices, with an estimated market share of 25% in the United Kingdom, by revenue. In the twelve months ended 31 March 2018, the group recorded revenue of £580.5 million and generated EBITDA before non-underlying items of £55.1 million.

mydentist

For the twelve months ended 31 March 2018, mydentist generated revenue of £468.4 million (constituting 80.7% of our total revenue after intercompany eliminations) and EBITDA before non-underlying items of £48.7 million (constituting 88.3% of our EBITDA before non-underlying items after intercompany eliminations). mydentist's core business is the provision of primary care dental services under long-term contracts with various NHS bodies across the UK, which we refer to as "NHS dentistry services." NHS dentistry services accounted for 63.5% of our group revenue for the twelve months ended 31 March 2018. The majority of our dental practices also provide private dentistry services, including general dentistry, hygienist, and cosmetic services, with a smaller number offering specialist services, such as sedation, implants and orthodontics. Private dentistry services accounted for 17.2% of our group revenue for the twelve months ended 31 March 2018. As the UK economy has strengthened, we have observed an increase in demand for private dentistry and revenue from our private dentistry services has grown accordingly, with like-for-like growth of 11.6%, 7.0% and 5.0% for the twelve months ended 31 March 2016, 2017 and 2018, respectively. Of our dental practices, 86% are located in England, with 6% in Scotland, 7% in Wales and 1% in Northern Ireland.

We provide NHS dentistry services in England and Wales pursuant to contracts competitively tendered with the NHS specifying targeted annual volumes of UDAs for the contracted dental practice or entity. We refer to these contracts as "NHS dentistry contracts." Unlike other UK health subsectors, such as care homes, there is no single NHS dentistry contract. Instead, our individual dental practices enter into separate NHS dentistry contracts with NHS England (or, in the case of Wales, with Welsh health boards). As at 31 March 2018, our dental practices were contracted under 583 such NHS dentistry contracts. Each NHS dentistry contract in England and Wales for UDAs specifies a fixed UDA volume per year target, and each UDA delivered under an NHS dentistry contract is assigned a fixed value in a given year, with the number of UDAs per treatment varying based on the treatment provided. The volume of UDAs under a given contract does not change year-to-year, and the value assigned to a contract has historically increased year-to-year.

Approximately 94% of our NHS dentistry contracts, covering 54% of our group revenue in the twelve months ended 31 March 2018, consist of general dentistry services ("GDS") contracts, which we refer to as "evergreen" as they have no fixed term and roll over indefinitely except in cases of cumulative UDA underperformance of more than 4% (or 5% in Wales), at which point the number of UDAs under an individual contract may be rebalanced or, in extreme cases, the GDS Contract may be terminated. None of our GDS Contracts have ever been terminated. UDA rates are set annually and historically have benefited from annual price increases ("contract uplifts"), with the contract uplift for the contract year ending 31 March 2018 constituting a 1.14% increase over the prior contract year for England (with an uplift of 1.44% in Wales and 2.25% in Scotland). The uplift for the contract year ending 31 March 2019 has not yet been announced, however in the last 15 years, NHS England has never reduced prices.

Between the contract years ending 31 March 2011 and 31 March 2016, our five-year average for UDA delivery rates (that is, the percentage of contracted services actually delivered) under NHS dentistry contracts was 96.8%. However, in the contract years ending 31 March 2016, 31 March 2017 and 31 March 2018, our UDA delivery rates decreased to 92.4%, 90.4% and 86.1% respectively. The continuing decline in our UDA delivery rates is disappointing and is the result of a combination of factors, including a reduction in the number of hours dentists are making themselves available for work, a reduction in the volume of contracted UDA's held by dentists, and the impact of our growth in private revenues. In response to these factors, we have needed to recruit more dentists in order to fulfil the NHS contracts. During the year ended 31 March 2018, we have significantly expanded our internal recruitment team in order to accelerate dentist recruitment from both UK and overseas channels. Over the course of the year, we have held a number of well attended resourcing days both across the UK and overseas and have seen a net addition of 232 dentists.

We are paid for our NHS dentistry services in equal monthly instalments of our annual contracted value. This results in a well-matched cash flow and cost profile as we typically receive payments on our NHS dentistry contracts prior to paying related costs. Any underperformance in terms of UDA delivery must be repaid, where requested, to the NHS after the contract year end, or repaid over subsequent contract years. We have never had to make a repayment of more than £2 million to the NHS in respect of any of our individual contracts. During the year ended 31 March 2018, a number of small permanent contract handbacks have been agreed with the NHS Regions, principally in areas where there has been insufficient patient demand for NHS dentistry for a number of years. These permanent handbacks equate to approximately 1.8% of the total number of UDA's contracted by mydentist as at 31 March 2017. Private dentistry services are typically paid for by the patient at the point of treatment.

A typical dental practice for us has four dental chairs on average, with three or four self-employed, independently contracted dentists offering primary care dental services under an NHS dentistry contract, supported by nurses employed by us. As at 31 March 2018, more than 2,750 self-employed, independently contracted dentists worked in our dental practices, supplemented by approximately 230 dentists not assigned to a single practice, which we refer to as "locums," and supported by approximately 7,100 dental and central support staff. In addition, 484 hygienists work across our dental practices.

We own the NHS dentistry contracts and infrastructure of our dental practices and employ the dental support staff, whilst contracting with self-employed dentists for provision of dental services. We believe our business model is attractive to dentists as we enable dentists to focus on dentistry by taking on the administrative, regulatory and compliance burdens associated with running a dental practice, along with monitoring the dentist's performance and adherence to GDC and NHS standards and other regulatory requirements. Amongst our most significant costs are dentist fees and costs for laboratory work and materials, all of which are directly linked to volumes of sales and activity. In part as a result of the establishment of our Dental Directory division, we centralise and insource the procurement of equipment and materials used in mydentist's dental practices to generate economies of scale and lower our costs. Our dental practices purchase their dental consumables, materials, equipment installation, maintenance and engineering work, as well as any other products that Dental Directory offers, internally.

Dental Directory

Dental Directory is one of the two leading suppliers in the United Kingdom's fragmented dental consumables, materials and services markets, with an estimated market share of 25%. For the twelve months ended 31 March 2018, Dental Directory generated revenue of £112.1 million after intercompany eliminations (constituting 19.3% of our total revenue after intercompany eliminations) and EBITDA before non-underlying items of £6.4 million (constituting 11.7% of our EBITDA before non-underlying items after intercompany eliminations). Dental Directory provides support to mydentist's dental practices, as well as providing a wide range of products and services to the wider UK dental and healthcare sectors, including at least 8,000 dental practices in the United Kingdom. The integration of mydentist's dental practices with its supply chain and service providers in Dental Directory has resulted in significant cost savings and synergies, as we capture margin that would otherwise be paid to third-party suppliers and benefit from certain VAT exemptions. Dental Directory also provides us with an additional avenue for growth beyond the acquisition of dental practices. However, due to our current high levels of gearing and performance decline, it is unlikely that we will consider further bolt-on additions to Dental Directory at this time.

We have consolidated dbg, Dental Directory and Med-FX to distribute their catalogue of approximately 25,000 products from a central logistics platform through an online and telesales order service. The products offered by our Dental Directory businesses include dental consumables, specialist products including orthodontics, oral hygiene and implant products and dentistry equipment ranging from dental chairs and cabinetry to digital imaging systems. To enhance this existing capability, we acquired BF Mulholland on 8 September 2017. BF Mulholland supplies a similar range of dental consumables, materials and equipment to those offered by Dental Directory, but to the Northern Irish and Irish markets, and therefore extends our geographic reach, and increases our purchasing power.

Dental Directory also carries out services such as the installation and maintenance of specialised dentistry equipment (for example, hand piece repairs), laboratory work (such as crowns, bridges and dentures), and training and membership services. In addition, the Dental Directory also includes our academy, a dentist training centre and online training initiative for continued professional training of dentists, hygienists and nurses that we launched in

2013. Our academy is the first major private post-graduate dental training facility owned by a dental body corporate in the United Kingdom, and it demonstrates our ongoing commitment to our dentists and support staff.

History

The predecessor company of our group was founded by a practising dentist in 1996. It listed on the Alternative Investment Market of the London Stock Exchange in 2002 and delisted in 2004. In 2006, it was acquired by Legal & General Ventures and was subsequently sold to Merrill Lynch Global Private Equity in 2008. On 11 May 2011, we were acquired by Carlyle and Palamon and were simultaneously merged with Associated Dental Practices, which owned 133 dental practices at that time. Associated Dental Practices was founded in 1985 by a group of dentists and experienced rapid expansion through both organic growth and acquisitions. Associated Dental Practices was acquired by Kaupthing Capital Partners in 2007 and was subsequently sold to a consortium led by Palamon in 2009.

In 2013 we formed our practice services division (as it was then known) with the acquisition of dbg, which was followed by the acquisitions of Dental Directory in 2014, Med-FX in 2015, PDS Dental Laboratory and Dolby Medical in 2016, and BF Mulholland in 2017. The division is now known as Dental Directory.

We have expanded significantly through both acquisitions and organic growth, and we have gradually consolidated our position as the leading provider of dental services and a leading supplier of dental and other medical consumables, materials and services in the United Kingdom.

mydentist

We are the leading provider of dental services in the United Kingdom. Our dental services consist primarily of primary care NHS dentistry and private dentistry services. We are not currently active in the secondary care dental services market. Our NHS dentistry and private dentistry services accounted for 63.5%% and 17.2%, respectively, of our revenue in the year ended 31 March 2018.

As at 31 March 2018, we had a network of 643 dental practices in the United Kingdom, which provide both NHS and private dentistry services. More than 80% of our dental practices have three dental chairs or more and on average we have approximately four dental chairs per dental practice. A typical dental practice for us has three to four self-employed, independently contracted dentists offering primary care dental services under an NHS dentistry contract, supported by nurses employed by us. In addition, 484 hygienists work across our practices, the majority of whom are self-employed, independent contractors.

mydentist focuses on leveraging its economies of scale and offering services and support to its dentists and dental practices by assuming many of the administrative responsibilities associated with running a dental practice as well as centralising and insourcing those administrative responsibilities to our central support function.

NHS dentistry services

We provide the majority of our dental services to NHS patients through NHS dentistry services. In the year ended 31 March 2018, revenue generated by our NHS dentistry services was £368.5 million, or 63.5% of our total group revenue. We provide primary care dental services such as dental examinations, periodontal treatment, amalgam fillings, endodontics and extractions, as well as fitting bridges, crowns and dentures. Our dentists also provide advice on how to care for teeth and gums in order to prevent oral health problems.

Our dentists have a duty of care to offer and carry out all treatments that are within their professional capabilities, and they refer patients to appropriate specialised dentists both within and outside of mydentist dental practices if a specific dental service is outside their capabilities. However, during the course of a treatment, NHS patients can choose to receive private dentistry services offered by the same dentist.

Our NHS dentistry services are funded by the NHS, and by fixed patient contributions depending on whether or not such person is exempt, and varying in amount based on the type of treatment. The patient contribution is set by the NHS and revised annually. Patients contribute to the cost of NHS dentistry services on the basis of the type of services they receive, with the balance of payments paid by NHS England, so there are no material billing requirements vis-à-vis NHS dentistry payments. The full amount is contributed by the NHS where patients are exempt from payment. Exempt patients include students under 19 years of age, the unemployed, new and expectant mothers and pensioners. In addition, certain low income patients may be entitled to partial exemptions, depending on their income. Exempt patients tend to receive treatments with a higher UDA band mix greater than that for non-exempt patients.

Private dentistry services

We provide our private dentistry services to both NHS patients and non-NHS patients. In the year ended 31 March 2018, revenue generated by our private dentistry services was £99.9 million, or 17.2% of our group revenue. All NHS patients can elect to receive private treatment, and private dentistry services may be provided as enhancements or add-ons to NHS dentistry services. In general, we provide our private dentistry services in the same dental practices where we provide our NHS dentistry services. We work to expand patient choice by broadening our offering of private dentistry services. Whilst dentists working in our dental practices may educate patients as to our private dentistry services, the choice of private dentistry services lies solely with the patient.

Certain cosmetic and advanced dental treatments can only be offered as part of our private dentistry services. The most common treatments that patients opt for privately include white fillings, advanced crowns and bridges, advanced dentures, implants, teeth whitening, facial aesthetics, hygienist services, orthodontics and treatments by specialised dentists. Other specialist dentistry services offered in some of our dental practices include sedation dentistry services, oral surgery, domiciliary services (that is, the treatment of patients outside of their dental surgery and at their residence), and oral pathology and maxilla facial surgery, which includes the diagnosis and treatment of oral lesions such as oral cancer. We also provide private periodontal services (that is, the advanced care of gum diseases) and advanced endodontic dental services (such as root canal therapy).

Typically, appointments for private dentistry services can be made in a few days whereas appointments for NHS dentistry services can take several weeks, making private dentistry services attractive to patients with greater disposable income. On average, follow-up appointments for private dentistry services can be arranged sooner and with more convenience than for NHS dentistry services.

Our private dentistry services are entirely funded by our patients whether through fee-per-service payments or the patient's dental insurance plan. Private dentistry services are typically paid at the time of treatment. The prices of private dentistry services are set by the individual dentist working within guidelines determined by us including minimum fee levels. The cost to the patient of private dentistry services (such as a white filling) is higher than the cost of a comparable NHS primary care dental service (such as an amalgam filling), with higher prices for more-complex procedures.

As the UK economy has strengthened, we have observed an increase across the market in demand for cosmetic dentistry, including, facial aesthetics, tooth whitening, veneers and dental implants.

Provision of services to our dental practices

Whilst dentists working in our dental practices and the hygienists, nurses and other staff that support them provide services to patients, we provide services such as procurement and estate management to our dental practices through a management contract between two of our operating subsidiaries, PTPL and Whitecross, and our dental practices.

Dental Directory

Provision of consumables, materials, equipment and services

Dental Directory sells dental consumables, materials and other supplies and services, both to our own dental practices and to third-party dental practices.

Dental Directory has one of the largest engineering teams in the United Kingdom, which carries out installations of surgery, equipment and digital imaging systems. The same engineering team also provides planned and reactive maintenance services to many brands of dental equipment and related types of equipment. In addition, Dental Directory holds dealership agreements with a number of prominent dental equipment manufacturers and operates a handpiece repair business that services both mydentist's dental practices and third-party customers.

We have integrated dbg and Dental Directory with each other, as well as with our other operations, including Med-FX, PDS Dental Laboratory and Dolby Medical. This integration has included the development of customer and category plans, the consolidation of warehousing, distribution and logistics facilities and the recruitment of a senior divisional management team. We intend to maintain the brands dbg, TAG Medical, Dental Directory, Med-FX, PDS Dental Laboratory and Dolby Medical for the foreseeable future. In addition, we acquired BF Mulholland on 8 September 2017. BF Mulholland supplies a similar range of dental consumables, materials and equipment to those offered by Dental Directory, but to the Northern Irish and Irish markets, and therefore extends our geographic reach and increases our purchasing power.

Dental Directory distributes a catalogue of approximately 25,000 products from its central logistics platform through its on-line and mail order service, including dental consumables, specialist products including orthodontics and oral hygiene and implant products and dentistry equipment ranging from dental chairs and cabinetry to digital imaging systems. Dental Directory also carries out services such as the installation, maintenance and repair of equipment and has a handpiece repair business. We believe that each of the acquisitions will deliver increased capability, significant cost savings and synergies to us and will allow us to drive economies of scale in terms of purchasing and other efficiencies that will benefit all customers of Dental Directory (including our dental practices).

Central support function

Our business model focuses on leveraging our economies of scale and offering services and support to our dentists and dental practices by assuming many of the administrative responsibilities associated with running a dental practice and centralising and insourcing them to our central support function. In addition to managing the performance of our dental practices, our central support function also provides the following services: IT, compliance, regulatory, legal, finance, human resources, health and safety, risk management, talent sourcing, training, insurance, property oversight, the administration of patient records, acquisitions, payroll, marketing, information sharing and logistics functions. For the year ended 31 March 2018, the mydentist central support function resulted in costs of £28.3 million, which constituted 6.0% of mydentist revenues for the year.

NHS framework contracts

Overview

mydentist provides our NHS dentistry services to patients under various types of framework contracts. Our individual dental practices enter into separate NHS dentistry contracts with NHS England (or Welsh health boards in Wales). The NHS Regions administer the NHS budget on behalf of the NHS and NHS England tenders contracts on behalf of the NHS to dental care providers such as us. Under the current NHS system, which was introduced in 2006, the value of the framework contracts is primarily based on volume, specifically UDAs. Accordingly, our dental practices are remunerated based on the number of UDAs they complete in a contract year.

Payments under the framework contracts are made to us by NHS England, with payment of 1/12 of the contract value paid at the beginning of each month. We collect patient contributions on behalf of the NHS, and typically remit such amounts to the NHS in arrears within two-to-six weeks thereafter. Three to six months following the contract year-end (31 March), we receive a statement detailing UDA performance under each contract. If, at the end of the contract year, a practice has not performed all the UDAs allocated under its contract, NHS England may seek to reclaim UDAs paid for but not performed. Any reclamation of payment must be made after the end of the contract year of underperformance, although repayment may be made in-year if both parties agree. We also receive mid-year UDA performance statements and, if a dental practice has failed to meet 30% of its annual target by 30 September, the NHS Region may adjust payments made under such contract for the remainder of such contract year to correspond to an annual performance of two times of what the dental practice has achieved to 30 September. Dental practices are only paid for exceeding the number of UDAs contracted on a case-by-case basis upon approval by NHS England.

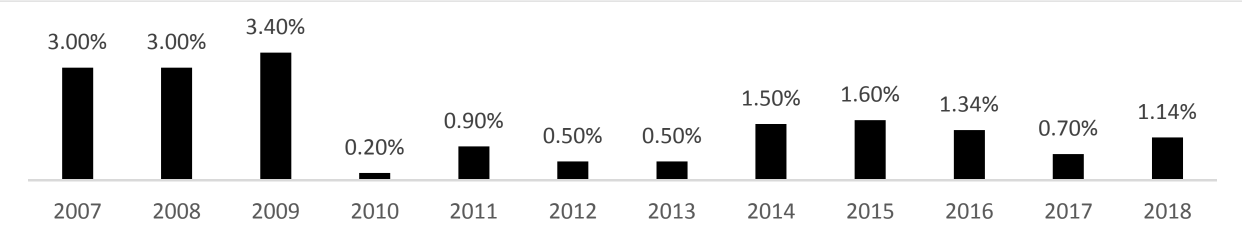
In general, UDA values differ across the United Kingdom and amongst our dental practices. We estimate that the average value of a UDA in England for our practices is currently approximately £27. The number of UDAs awarded for a particular treatment depends on the type of treatment provided. Dental treatments are split into four bands based on the type of treatment, the number of UDAs applicable to such treatment and the patient contribution. The patient contribution in respect of each treatment type during the year ended 31 March 2018 is set out in the table below:

			Patient charge	
	Treatment included	**Number of UDAs**	**England**	**Wales**
Band 1	Examination, prevention and advice, radiographs and scale and polish	1	£ 20.60	£ 14.00
Band 2	Band 1 plus all fillings, root canal therapy and extractions	3	£ 56.30	£ 44.00
Band 3	Band 1 and 2 plus any medical device constructed by a lab including crowns, bridges and dentures	12	£ 244.30	£ 195.00
Band 1a	Urgent treatment to include advice, 1 filling and 2 extractions	1.2	£ 20.60	£ 14.00

Patients treated at our Scottish and Northern Irish dental practices pay 80% of the gross cost of each course of treatment up to a maximum of £384, other than exempt patients, whose treatments are paid for by the regional Scottish, or Northern Irish, Health Boards.

The value per UDA to date has been subject to annual contract uplifts as recommended by the DDRB and promulgated by the Department of Health, which may or may not accept the DDRB's recommendation. The contract years ended 31 March 2016, 2017 and 2018 saw contract uplifts of 1.34%, 0.70% and 1.14% respectively. The contract rate uplift for the year ending 31 March 2019 is yet to be announced. Historically UDA values have never declined in nominal terms since their introduction in 2006.

The following table presents the contract uplifts for each of the contract years (ending 31 March) since 2007:



Types of NHS dentistry contracts

There are two primary types of NHS dentistry contracts:

- General Dentistry Services ("GDS") contracts are evergreen contracts with no end date that automatically roll over upon the achievement of targeted UDA volumes. Generally, the volume of UDAs contracted under GDS Contracts cannot be reduced unless volume targets are not met. Absent the termination events described under "—Key terms of NHS dentistry contracts", a GDS Contract may only be terminated if there is cumulative UDA underperformance of more than 4% (or 5% in Wales) and the cumulative effect of breaches of such NHS dentistry contract would be prejudicial to the efficiency of the services to be provided under the contract, and even then the more likely scenario is amendment of the contract rather than cancellation. Volumes of UDAs under the contract can only be varied by mutual consent. For the year ended 31 March 2018, approximately 54% of our revenue was generated under GDS Contracts.

- Personal Dentistry Services ("PDS") contracts are fixed-term contracts, usually with terms of three to five years. However, if the PDS contract covers mandatory services (i.e. general dental and not specialist), the service provider has the right to apply to NHS England to convert the PDS contract into a GDS contract. The majority of the group's PDS contracts are for the provision of specialist orthodontic services. Like GDS Contracts, the volume of UDAs contracted under PDS contracts cannot generally be reduced unless volume targets are not met. For the year ended 31 March 2018, approximately 6% of our revenue was generated under PDS contracts. The NHS is currently in the process of competitively re-tendering the majority of orthodontic PDS contracts across England, which includes the majority of PDS contracts held by mydentist.

In Scotland and Northern Ireland, non-salaried dentists are compensated on the basis of the number of patients registered with them and for procedures performed. Scottish dental practices may also receive additional practice allowances to assist in the upkeep of their premises. Scotland and Northern Ireland do not employ volume targets, and earnings of dental practices are uncapped. For the year ended 31 March 2018, 2.2% of our total group revenue was generated in Scotland and 0.4% in Northern Ireland.

In addition to general dental services, we provide specialised dental services that a general dentist may not be able to carry out. These services may be added on to our GDS or PDS general dentistry services contracts, or may be subject to separate framework contracts with NHS England.

- Orthodontic treatments are subject to a system similar to the UDA system, with the value of the framework contracts primarily based on units of orthodontic activity ("UOA"). Each orthodontic treatment equals 21 UOAs - that is, one UOA attributed to the examination and 20 UOAs attributed to the fitting of the brace and the ongoing related dental care of the patient. Payments under these framework contracts are made to us on a monthly basis, with any shortfalls trued up following the contract year-end.
- Sedation dentistry services are contracted and paid in a manner similar to UOAs.
- Oral surgery, which includes the extraction of difficult to remove teeth that a general dentist may not be able to perform, are contracted based on a target number of patients or visits or by types of treatment, and depend on referral volumes. Payments under these framework contracts are made to us on an equal monthly basis, with any shortfalls trued up following the contract year-end.
- Domiciliary services, which include the treatment of patients outside of a dental surgery (usually at a patient's residence), are contracted based on a target number of patients or visits. Payments under these framework contracts are made to us on a monthly basis, with any shortfalls trued up following the contract year-end.

- Oral pathology and maxilla facial surgery services, which include the diagnosis and treatment of oral lesions such as oral cancer, are mostly carried out as secondary care, and paid by the NHS based on a course of treatment.

Key terms of NHS dentistry contracts

The specific terms of any given NHS dentistry contract vary depending on the NHS Region and the outcome of negotiations at the time the contract is awarded by NHS England. In addition to the terms related to contract duration, volumes and prices described above, all our NHS dentistry contracts include a general quality of care requirement. Failure to meet this quality of care requirement could result in loss of the applicable contract. NHS dentistry contracts also include limitations on assignment and, in most cases, a change of control absent consent of NHS England. Our NHS dentistry contracts are also generally terminable by NHS England upon certain insolvency events, if the contracted entity's financial situation is such that NHS England considers that NHS England is at risk of material financial loss or on grounds the contracted party is unsuitable for reasons such as disqualification, sanction or criminal activity. For other breaches of such contracts, such as underperformance in terms of UDA volumes, the contracts are only terminable by NHS England after service of notice on the contracted party of the breach and a provision of time for the contracted party to cure such breach. In our experience, NHS England has been willing to renegotiate contracts for lower volumes of UDA in lieu of terminating contracts due to underperformance. Out of our 583 NHS dentistry contracts, none of our GDS contracts have been terminated.

Tendering of new contracts

The majority of NHS dental contracts in England and Wales were allocated in 2006. Because most of these are GDS contracts with no fixed end date, a limited number of new NHS dental contracts are issued for competitive tender each year. In practice, new dental contracts tend to be issued for tender only if:

- the NHS Region has identified a shortfall in the existing supply of NHS dental treatment compared with the estimated need for dental services in that geographic locality;
- a dentist holding an existing NHS dentistry contract dies, retires or decides to abandon his or her contractual rights; or
- NHS England terminates a dental practice's contract in accordance with its terms.

Tenders are advertised through various channels which we monitor. Tenders for contracts are competitive, and winning bids tend to be those determined by the NHS Region to offer the best price, quality of service and care, compliance and timetable, along with other localised factors.

However, the majority of contracts to deliver NHS orthodontic dentistry services are time-limited PDS agreements. PDS contracts typically have a duration of between three and five years and are therefore subject to periodic competitive re-tender by the NHS. However, in recent times, the NHS has rolled over the expiry date of many of the existing contracts, which expired between 2017 and 2018, to 31 March 2019, in advance of a large scale procurement exercise to re-tender the vast majority of PDS orthodontic dentistry contracts across England, including the majority of our existing contracts. The new contracts are anticipated to come into effect from 1 April 2019, or soon afterwards, and are likely to run for a period of between five and seven years, with the potential to be extended up to a total length of 10 years.

We are currently in the process of preparing bids with the aim to both retain our existing orthodontic dentistry contracts, as well as to win additional orthodontic dentistry contracts. This presents us with an opportunity to grow our revenues from orthodontic dentistry services and we feel that we are well placed to retain our existing volumes and to potentially win additional volumes given our scale and infrastructure. However, there is a risk that we may be unsuccessful in retaining some, or all, of our orthodontic dentistry contracts as a result of this re-tender exercise, or that we retain volumes, or win additional volumes, but at a lower price per UOA. In light of this risk, we are currently reviewing our operational models to maximise our efficiency.

In the event that we are awarded additional contracts through this tender exercise, in locations where do not currently have a dental practice, we may need to invest significant amounts of capital expenditure to procure and fit-out premises from which we can deliver any such new contracts. Any such capital investment would be funded through a combination of operating cash flows and drawdowns from our Revolving Credit Facility.

New framework agreement proposals and pilot/prototype programmes

The UK Government has proposed changes to the current model of contracting NHS dentistry services that would move away from a strictly volume of services metric (namely, UDAs) to an approach that takes into account preventative treatment and increased access to dentistry services. The proposed changes would replace the UDA system with remuneration based on capitation (that is, the number of patients treated and the treatments provided), and an activity measure (yet to be determined). Whilst precise timing remains uncertain, we expect that the current model, if any, would be fully implemented no earlier than 2020.

In order to test the proposed payment models prior to implementation across the UK dental market, the Department of Health began a pilot programme in May 2011, which was expanded and revised in April 2013 and ended in January 2016. Three pilot payment schemes were tested; a guaranteed income model; a weighted capitation and quality model; and a model which allowed for complex care.

After ending the pilot programme in January 2016, the Department of Health introduced the first phase of a new prototype contract programme beginning in April 2016. The second phase of the programme is being tested in 2017 and 2018 and, if adopted, the revised payment plan based on the prototype programme will gradually be introduced. The new prototype programme uses two different approaches to determining remuneration, blending patient numbers and types of dental activity. The prototypes also involve active performance management by NHS England, which includes monitoring of operational key performance indicators, such as clinical effectiveness, best practice, patient experience, safety and data quality.

We were involved in the development, testing and review of various pilot programmes on behalf of the NHS and we have engaged with the Department of Health and the BDA in relation to the prototype roll out and development, with four of our practices (three of which previously participated in the pilot programmes) participating as prototypes. We believe that our involvement in the development of these pilot programmes and prototypes will provide us with a competitive advantage by allowing us to prepare for coming changes and by giving us a voice in their implementation. However, as the actual policy changes have not yet been finalised by the UK Government and the exact timeline of the implementation has not yet been set, and as high-level changes in relevant UK Government administrative roles have changed since the Steele Review in 2008, no assurance can be given that the new framework agreements will be implemented in the manner we expect, or at all. The terms of any new NHS dentistry contract are uncertain and the final terms of any NHS dentistry contract could be different from those we expect, which could have undesirable consequences for us and could result in material changes to our business.

We believe that changes to the current model of contracting NHS dentistry services, if any, present an opportunity for us. As the leading provider in the market, we have the capacity, scale and resources to quickly adapt to change. Specifically, we believe that capitation requirements will make the recruitment of patients more important, and that our IT systems, developing CRM capabilities and sales and marketing resources provide us competitive advantages in patient recruitment. The proposed focus on preventative care and increased responsibilities for hygienists and nurses could help us operate more efficiently, with dentist time being spent delivering more critical treatments. We may also benefit from any standardisation of UDA rates. Any change would affect the provision of dental services throughout England and potentially Wales, so we believe that the UK Government will try to ensure that any such change is essentially revenue neutral, or positive, for NHS dentistry as a whole so as not to disrupt the provision of dental services or encourage a migration of dentists into private dentistry services.

Dental professionals

Dental professionals in, or affiliated with, our workforce consist of highly trained dentists who are self-employed, independent contractors, and a team of dental staff which includes practice managers, highly skilled dental nurses, hygienists, dental therapists and dental assistants.

Dentists

Dentists working in our dental practices are self-employed, independent contractors known as dental surgeons, and we enter into contracts with our dentists using our standardised associate agreement which has been reviewed by the BDA and which we understand to comply with HMRC requirements for independent contractors. We provide the dentist with the facilities, equipment, staff, materials and patient list in exchange for notional monthly licensing fees paid by dentists to us. We individually negotiate the compensation arrangements in the standardised associate agreements with each dentist working in our dental practices, and so are able to vary the compensation paid to dentists based on prevailing rates in the applicable local markets for dentists. Under the associate agreements with dentists, dentists receive a fixed percentage fee per UDA delivered, in the case of NHS dentistry services, and a percentage of fees paid for private dentistry services delivered. Contracts with dentists in our dental practices typically are evergreen, but terminable by either party upon four months' notice and include non-compete terms that prevent dentists from competing against us within a certain geographic radius of our dental practice after such contracts' termination. We also have arrangements with dentists, some of whom are our employees, that are not assigned to any single dental practice but provide services where they are most needed, including in response to local shortages or areas in the United Kingdom that do not have full-time dentists. A small number of our dentists are employees.

To legally practice dentistry in the United Kingdom, a dentist must be registered with the General Dental Council (the "GDC"), the regulatory body for dentistry, must abide by regulations promulgated under the CQC and, in the case of NHS Dentistry, must abide by the Performers' list regulations. Of our dentists, approximately half are British. Given our current need to recruit additional clinicians in order to deliver our NHS dentistry contracts, we have significantly expanded our dedicated recruitment team during the year and are actively recruiting dentists both from UK and overseas channels, including both EEA and non-EEA countries. The distribution of NHS dentists can vary widely across regions, and historically the sourcing of dental graduates and dentists has been particularly difficult in southwest England.

Between 2002 and 2010, significant efforts were made by the UK Government to improve the supply of dentists to address historical shortages, including opening new UK dental schools, expanding enrolment, and attracting more EEA-qualified dentists into the United Kingdom. However, since 2010/11, the dental student intake has reduced each year from approximately 1,000 students in 2010/11 to 780 in 2015/16 as a result of a report commissioned by the Chief Dental Officer which raised concerns over a significant potential oversupply of dentists by 2040 if no action was taken.

Because dentists working in our dental practices are self-employed, independent contractors, we do not contribute to their pensions, provide holiday pay, make employer National Insurance contributions or take other actions that would be necessary if dentists working in our dental practices were our employees. Dentists working in our practices have the freedom to treat a patient in the manner determined in their professional opinion to the best of their medical skill. As a result, dentists are solely liable for any medical negligence liability that occurs as a result of their performance of dentistry services. Dentists are required as a matter of professional conduct to carry their own medical negligence liability insurance coverage.

Providing quality care for our patients is our first priority, and to that end we focus on making training opportunities available to our dentists, for which they pay training fees. We have an in-house training academy for our dentists, hygienists, therapists and dental nurses in order to allow our dentists, paying by subscription, to choose to stay abreast of the latest medical and technological developments in the provision of dental services. Our academy is the first major private post-graduate dental training facility owned by a dental body corporate in the United Kingdom, and it demonstrates our ongoing commitment to our dentists and support staff. This underlines our retention strategy, which is designed to encourage high performers to remain with mydentist.

Other dental professionals

Dental staff and employees support the work of dentists in our dental practices, and they include dental nurses and technicians working in dental laboratories and dental therapists. The clinical role of these non-dentists and dental professionals has expanded in recent years, allowing nurses to take on greater responsibility in their respective practices, thereby increasing the time dentists are able to spend on more complex tasks. Like the dentists themselves, many of our dental employees are required to register with the GDC.

Dental nurses provide support to dentists in surgery and other clinical environments and are responsible for, amongst other duties, dental instrument sterilisation, operative care, the preparation of treatment materials and various clerical duties such as updating patient records. A nurse is required to be present whenever a dentist is treating a patient. We have historically experienced relatively high rates of turnover amongst our nurses, and we have introduced initiatives, including increased salaries and training, to reduce such churn.

Dental hygienists are predominantly self-employed and perform a number of procedures, such as providing local analgesics, scaling and polishing teeth and providing general oral health advice. Following legislative changes, dental hygienists are able to book and carry out certain limited procedures without a referral from a dentist. Most of our 484 dental hygienists, as at 31 March 2018, are independent contractors and are reimbursed on the basis of work performed.

Dental therapists perform a wider range of procedures which include all that a hygienist can carry out as well as fillings for adults and children and extractions on children.

Clinical dental technicians are able to provide and manufacture full dentures for edentulous patients and, following a consultation and design from a dentist, provide partial dentures.

Dental technicians manufacture dental appliances such as braces, crowns, dentures and bridges.

Patients

Our patient base is broad, and generally reflects the diversity of the UK population, with a slight bias toward patients from less-privileged socioeconomic groups.

Sales and marketing

mydentist

We have implemented a variety of targeted marketing efforts that are aimed at attracting new patients and increasing visit frequency from existing patients. This is in addition to the patients that the dentists bring to treat in our dental practices. IT is a key focus in our marketing strategies. We are focused on online marketing efforts through a branded and interactive website with improved search engine capabilities that enable users to customise their searches for appointments, education and general questions about our business and the dentistry industry.

Each of our local dental practices has its own page on our main website. In addition, certain practices, particularly those offering specialist services, have individually tailored marketing programmes which typically include bespoke brochures and leaflets. Where appropriate, individual practices may also undertake their own marketing programmes as part of the normal patient re-call process, including through the use of specific posters, leaflets or banners displayed outside the relevant practices.

We have developed a patient management system to improve our ability to analyse the approximately five million active patient records we hold. The primary aim of this system is to enable us to direct tailored marketing initiatives and offers at our patient base to encourage more frequent visits, as well as the use of specialist services and attendance at events such as kids' clubs for fluoride treatment and teeth whitening for adults.

mydentist's marketing and sales efforts are also directed at minimising the number of patients lost due to excessive waiting room times and difficulties or delays in booking appointments and receiving information. We have made it easier for both new and existing patients to book appointments with a website that allows patients to book and amend appointments at any of our dental practices and to receive text message reminders of their appointments and to provide feedback. We also have instituted a programme to contact lapsed patients who have missed appointments and re-book them into appointments. We are very keen to receive feedback from patients and now operate both paper and SMS patient feedback surveys across all of our dental practices. We use this data to calculate a 'recommendation score', that is the proportion of patients who would be extremely likely, or likely, to recommend our services. This methodology is consistent with that used by the NHS Choices website. In addition, we are increasingly focused upon collecting and analysing more qualitative information from patients which will enable us to continue to develop the quality of our services and the experience that we offer to patients.

All of the foregoing initiatives are important elements of the group's sales and marketing strategy. However, we believe that our best marketing tool is maintaining a strong reputation for excellence in the provision of dental services, as such services are often dependent on local word-of-mouth and referrals, both from current patients to other patients and from general dentists to specialists. We are therefore also pursuing new marketing platforms, such as the use of social media campaigns, to leverage our reputation for excellence in dental services and raise awareness amongst a greater number of potential patients. In addition, we believe that a significant number of NHS patients are directed to one of our practices by the "NHS Choices" website, which enables users to search for local practices based on postcode or area and also to provide ratings and feedback for individual practices, thereby underlining the importance of maintaining our focus on high quality patient care and operational excellence.

Dental Directory

Our sales and marketing strategy in Dental Directory is to drive sales through three channels: web sales, telesales and direct marketing. The various websites used by the business units within Dental Directory are important transactional and marketing portals for its customers. Over the past few years, we have invested in these websites to improve their functionality and, in the longer term, to encourage customers and members to place more orders via such websites rather than through the inbound telesales operations. This investment has been successful, with approximately 75% of all orders now placed through the web, increased from approximately 65% a year ago.

The centralised sales force of Dental Directory is comprised of approximately 51 direct sales staff and 70 telesales staff, supported by a management system to monitor sales performance and yield. Dental Directory also has both outbound telesales and regional sales managers who actively visit third-party practices within their territories in order to keep such practices apprised of the various supplies and services we can provide, as well as to provide technical support for previously sold items.

Dental Directory's telesales team currently manages inbound calls as their primary focus and take the opportunity to offer customers additional products while taking their original orders. We have invested in a new CRM and scheduling system, along with associated reporting tools, which enables us to track customer purchasing activity across all channels, whether via the web, telesales or through its sales force. This should in turn enable Dental

Directory to target marketing and sales activities to maximise the value offering to existing customers to drive loyalty and to identify and win new business.

Quality of care

We are focused on providing services that achieve high quality and strong patient satisfaction rankings. In addition to requirements under our NHS dentistry contracts to meet certain standards of quality of care, we are overseen and regulated by the CQC, which inspects and rates all health and social care providers, including dental care providers, in England.

We have consistently maintained high quality ratings across our dental services, and as at 31 March 2018, 100% of our practices met the essential standards set by the CQC. In addition, during the last 18 months, four of our practices have been awarded ‘Notable Practice’ status after inspection by the CQC, an initiative introduced in December 2016 to highlight examples of notable practice and to promote the sharing of such practice with other providers. To date, a total of 26 practices have been awarded Notable Practice status by the CQC from over 1,500 inspections. Although a number of areas of notable practice were identified across our four practices, one consistent theme that was highlighted was the work our practices are doing to encourage awareness of oral hygiene issues within the local communities, particularly amongst children.

For example, we continue to work closely with the Royal Society for Prevention of Accidents (“RoSPA”), implementing its Quality Safety Assessment (QSA) management system audit across the company. The QSA process helps ensure measurable standards of performance are being constantly improved and maintained throughout the business. In 2018, mydentist was awarded the ‘RoSPA Commended in the Healthcare Services Industry Sector Award’. This builds upon our previous three years of success, where we achieved Gold Awards.

Clinical governance

We have a dedicated team of clinical directors devoted to clinical excellence led by our Group Clinical Director. As part of our clinical governance efforts, our clinical directors manage the clinical aspect of our dental practices, investigate patient complaints, respond to regulatory inquiries, help shape policies and procedures and conduct periodic audits and site visits of our dental practices. They work closely with and advise each Director of Region on issues of clinical governance and quality of care within their region. We also employ approximately 34 dentists who serve as clinical support managers on a part-time basis. The clinical services team also works closely with NHS England, NHS Regions, the CQC and professional bodies and universities to raise our profile and update our clinical practices and ensure we provide consistent, high-quality care to our patients.

Acquisitions and portfolio management

Overview and strategy

We have historically grown by pursuing selective acquisitions to expand our network of dental practices and NHS dentistry contracts. During the period beginning 12 May 2011 and ended 31 March 2018, we acquired 237 dental practices and invested approximately £238.0 million in dental practice acquisitions. Our acquisition strategy is to target dental practices with three or more dental chairs (the average practice acquired since 12 May 2011 has had four chairs) that benefit from GDS NHS dentistry contracts. We also focus on the historical UDA delivery rates of potential acquirees and the retention of key personnel. However, following significant increases in the prices that suitable dental practices were being offered at in the market, combined with the decline in UDA delivery performance across our existing practice base and our current gearing levels, we decided to pause our acquisition strategy during the year ended 31 March 2017 in order to focus resources upon improving trading performance in our existing practice base and to wait for transaction prices to normalise. In the medium term, we expect to be able to restart our acquisition programme.

As we focus upon improving the trading performance in our existing practice base, we have taken the opportunity to conduct a thorough review of our portfolio of dental practices to identify those which are no longer viable due to structural issues such as, for example, very low UDA contract values or where geographical isolation has made it difficult to recruit dentists. As a result of this review, decisions were taken to close or sell 49 dental practices. By 31 March 2018, the group had sold 13 practices and closed 19 practices, including two which were closed in March 2017, at the end of the previous financial year. The remaining 17 practices are expected to be closed or sold by 30 September 2018. In addition, after the period end, we have taken the decision to close or sell a further 21 practices which we also expect to complete by 30 September 2018.

Despite our decision to pause our acquisition programme at the present time, we have retained the majority of our experienced acquisition and integration team through reallocation of resources and targeting the team on assisting the performance improvement programme that is ongoing across our existing practices.

Legal structure of acquisitions

We structure the acquisition of a dental practice in one of four ways depending on a number of factors including the legal status of the target dental practice. Typically, our NHS dentistry contracts prohibit assignment without the consent of the applicable NHS Region and contain change of control provisions.

Assignment

In limited circumstances, an NHS Region may consent to the assignment of the applicable NHS dentistry contract. In such a case, we assign such contract to our trading company, Whitecross Dental Care Limited, in place of the seller of the acquired practice.

Acquiring an incorporated dental practice

Some of the dental practices we acquire already hold their NHS dentistry contract in an incorporated entity. In such situations we acquire the shares of the incorporated entity and it becomes a subsidiary.

Incorporation

In a situation in which the NHS Region does not consent to assignment of the contract and we are acquiring a practice from a sole proprietor or partnership, we may request that such sellers incorporate their practice into a limited company and obtain consent from the NHS Region for the NHS dentistry contract to be reissued in the name of that company. Assuming such consent is obtained and there are no change of control provisions in the newly issued contract (or consent is obtained to the change of control), we then acquire the shares in the limited company. This route of acquisition is rarely used now as a result of the formulation of the partnership structure described below which does not, we are advised, require the consent of the NHS Region at any stage.

Partnership

In a situation in which the NHS Region does not consent to assignment of the contract and we are acquiring a practice from a sole proprietor or a partnership, we add two or more of our clinical director employees to become partners with the sole proprietor or join in partnership with the existing partners (as applicable). There is an obligation to notify the NHS Region of such admissions but obtaining their consent to the change in status of the contractor is, we are advised, not required. In the case where our clinical directors join an existing partnership, legally, their admission to that partnership effectively dissolves the existing partnership and creates a new one. However, notwithstanding the dissolution of the existing partnership and equally, where a new partnership is formed with a sole proprietor, we believe, after consultation with external counsel, that existing law provides that the new partnership continues to hold and benefit of the NHS dentistry contract previously held by the predecessor partnership or sole proprietor (as applicable). Typically, the original partners or sole proprietor retire from the partnership shortly after the completion of the acquisition. As at 31 March 2018, 25% of our dental practices were organised as partnerships.

We have in the past experienced an increased unwillingness on the part of NHS Regions to assign contracts, and most of our recent acquisitions have therefore been undertaken pursuant to the partnership structure described above.

Acquisition opportunities

Whilst the UK dental market is highly fragmented, with approximately 14,030 dental practices, only a small number of high-quality acquisition targets meeting our criteria come up for sale in any given year. We have currently paused our practice acquisition programme however, in the medium term, we intend to continue to pursue our acquisition strategy of acquiring dental practices meeting our acquisition criteria, including dental practices with three or more chairs, GDS NHS dentistry contracts and strong private dentistry revenue generation, whilst avoiding undue concentration in any one local market. We estimate that approximately 300 practices become available for acquisition in an average year. In addition, we may also acquire other non-dental practice businesses which are similar to, or complimentary to, Dental Directory, in the future.

Competitors

We compete in the UK dental services market, a highly fragmented market consisting of a variety of for-profit and not-for-profit groups. According to Mintel, the UK dental services market is made up of 14,030 dental practices. mydentist is the leading provider of dental services in the United Kingdom with 643 dental practices as at 31 March 2018. The remainder of the market is made up of smaller dental practices and dentists working as sole practitioners. Our market share in terms of revenue was approximately 7% for the twelve months ended 31 March 2018. Our next largest competitor, Bupa Dental has, according to its website, over 400 dental practices. Bupa Dental has an approximately even split of private dentistry services and NHS dentistry services. Whilst we do not compete with any one competitor in each of the local markets for dental services in which we operate, we do generally experience significant competition at the local level from independent dental practices for such services, and that competition may be intense. We compete with other dental practices in both tendering for new NHS dentistry contracts through the NHS tender and in driving customer demand and thereby UDA delivery rates.

Dental Directory also competes with a number of other providers in the market for the provision of supplies and services to third-party dental practices. This market is also highly fragmented, particularly as many of the larger dentistry practices prefer to purchase from multiple suppliers. The most significant competitor in this area is Henry Schein, which, together with Dental Directory, is a leader in the market. Other significant competitors include Wright Cottrell, Trycare and Dental Sky, as well as many smaller wholesalers and service providers. Our mydentist dental practices purchase their dental consumables, materials and services from Dental Directory exclusively, except in cases where Dental Directory does not offer the required consumables, materials or services.

Regulation

We are subject to regulation by the UK Government (and the Scottish Government in relation to our practices located in Scotland) and we are particularly impacted by laws relating to the provision of dental services and quality of care, as well as the regulations of the Department of Health. Discussed in more detail below are some of the key laws and regulations under which we operate.

As a provider of primary healthcare services within the NHS we are subject to a complex legislative framework designed to ensure that people who use healthcare services such as those provided by us are protected and certain standards of quality and safety are met.

The CQC is an independent body which regulates the provision of health and social care services in England. Its main objective is to protect and promote the health, safety and welfare of those using such healthcare services. The CQC's functions include the registration of healthcare service providers and the ongoing monitoring of such providers through inspections, data analysis and other checks to ensure that standards of quality and safety are met and to encourage ongoing improvements by such providers. The results of such reviews and inspections are published by the CQC and are available for public inspection.

The services provided by our dental practices fall within the scope of regulated activities under healthcare legislation and like all relevant service providers we must be registered with the CQC. The regulations stipulate that where the service provider is a body corporate, an individual must also be registered and shall be responsible for supervising the management of the carrying on of the provision of the services by that provider. There are various registration requirements which include providing a statement of purpose setting out the aims and objectives of the service provider and details of the locations at which the services will be provided. All our dental practices are duly registered with the CQC and we have a dedicated team who deals with our CQC registrations and the provision of information to the CQC.

The CQC maintains a public register of all registered service providers and the activities carried out by them, and we are obliged to notify the CQC of certain changes affecting the carrying on of the services (for example, where the service provider is a partnership, it must notify the CQC of any changes in the membership of the partnership) and the occurrence of certain incidences in the provision of such services, which might include allegations of abuse, matters reported to, or investigated by the police and physical damage to the premises which may have a detrimental effect on the care provided. Failure to register with the CQC or non-compliance with the registration requirements may result in both criminal and civil sanctions. The CQC is also empowered to take enforcement action if a registered service provider fails to comply with relevant regulations. The regulations provide that all service providers are required to take proper steps to assess and monitor the quality of services being provided and ensure the proper care and welfare of patients. For example, service providers are required to consider the safety and suitability of the premises and equipment used, ensure that appropriate standards of cleanliness are met, have effective complaints procedures in place and maintain accurate patient records. Further, service providers must ensure that they have sufficient levels of staffing and recruit staff with the necessary qualifications, skills and experience. Our CQC registrations manager and clinical directors, amongst others, oversee the provision of services at our dental practices to ensure that our practices meet all applicable CQC standards.

An important part of the CQC regulatory framework is the maintenance of up-to-date registrations. This is particularly relevant to us when we acquire practices and need to ensure that adequate time is allowed for the transfer of registrations from the vendor to us. We continuously review our processes and controls in order to minimise the risk of any such incidents occurring and to ensure that the highest levels of CQC compliance are maintained.

There are specific regulations governing dental services contracts. The regulations applicable to both GDS and PDS contracts set out the conditions which must be met by a service provider before a contract for the provision of dental services will be provided by an NHS body. Where applicable conditions are satisfied, a GDS contract may be provided to an individual dental practitioner, partnership, dental corporation or limited liability partnership (“LLP”) and a PDS contract may be provided to an individual dental practitioner, a dental corporation, a company limited by shares or an LLP. The regulations also prescribe the terms to be included in such contracts, which include: the services to be provided and the manner in which they are to be provided to patients (including the practice address and surgery hours); the type and duration of the contract; the applicable fees and charges; conditions to be met by those who perform the services and provisions regarding complaints; patient records; the provision of information and rights of entry and inspection; and sets out procedures for dispute resolution and the variation and termination of the contract.

Generally, under a GDS Contract, the service provider will be required to provide a range of dental services and, in most circumstances, on an ongoing basis subject only to specific termination provisions set out in the legislation. A GDS Contract generally provides greater flexibility by allowing the service provider to form partnerships and change the membership of partnerships. PDS Contracts are typically granted for a fixed term and do not include any provision for the service provider to form partnerships. However, if mandatory (i.e. general dental and not specialist) services are provided under the PDS Contract, the service provider has the right to apply to NHS England to convert the PDS Contract into a GDS Contract.

Since we also operate dental practices in Scotland, Wales and Northern Ireland, we are subject to regulation relating to the provision of dental care in those jurisdictions, which may differ from regulation relating to the provision of dental care in England.

Dental Directory is subject to regulatory oversight by the UK’s Medical & Healthcare products Regulatory Agency in respect of the purchase, storage, sale and distribution of controlled drugs and medicines. Failure to comply with these regulations could result in fines or penalties, including the denial of the ability to supply certain or any controlled drugs or medicines.

Environment, health and safety

We are subject to numerous separate laws and regulations relating to the protection of the environment and human and occupational health and safety, including those governing the handling, transportation and disposal of hazardous and medical waste. These laws and regulations are enforced either at the national level (particularly in the case of health and safety) or at local level. Fire safety laws are enforced by the local fire inspectors and environmental laws enforced by local authorities.

The most significant occupational health and safety law is the Health and Safety at Work etc Act 1974 (the “Health and Safety Act”). The Health and Safety Act imposes a duty of care upon us, not only to our employees but also to our patients and to any visitors to our facilities. We are required to take care to prevent serious accidents and to eliminate from our facilities conditions that could lead to such accidents. Our business activities are, in particular, exposed to significant risks, relating, for example, to the transmission of infections (including blood-borne infections, such as HIV) and other risks associated with medical practices generally and dental practices specifically. There are also similar and specific risks associated with our Dental Directory business, particularly its warehouses and dispensaries, and in the supply of equipment. We have experienced in the past, and likely will experience in the future, violations of health and safety regulations. We have a dedicated team of experienced health and safety experts to meet our health and safety requirements and address any violations that may occur.

With regard to environmental legislation, the most significant law is the Environmental Protection Act 1990–Part II as amended (the "Environmental Protection Act"). The Environmental Protection Act mandates that all waste is disposed of through a licensed waste disposal agent and that all hazardous and non-hazardous waste disposals be supported by approved documentation. In that respect, we ensure that we only use approved and licensed waste carriers and recyclers.

Failure to comply with such laws and regulations in the future could subject us to, amongst others, civil and criminal fines and penalties, enforcement actions, the suspension or termination of our licenses to operate or third-party claims. See "Risk factors—Risks related to our business—Our business activities are exposed to significant health and safety risks, and we may also be subject to future liability due to unforeseen health and safety risks."

We are also committed to reduce the impact of our business on the environment. As a major dental care service provider, we produce a considerable volume of clinical waste at the dental practice level. We have partnered with a waste management company to ensure this waste is collected, processed and disposed in line with all relevant environmental regulations.

Immigration

We have historically relied on foreign dentists (both from within and outside the EEA) to the extent required to address shortfalls in UK dental graduates and UK-qualified dentists to fill vacancies in our dental practices. In such cases, and even though our dentists are independent contractors not employed by us, we must comply with relevant immigration laws for non-EEA workers. In particular, the Immigration, Asylum and Nationality Act 2006 (the "IANA") imposes civil and/or criminal penalties on the provision of work to adults who are subject to immigration controls and have not been granted leave to enter or remain in the United Kingdom or whose leave is invalid, ineffective or subject to conditions preventing them from accepting employment ("illegal workers"). Under this legislation, an employer is subject to civil fines of up to a maximum of £20,000 per worker if it employs an immigrant in a job for which he or she is not authorised. Changes to the law made as at February 2008 created a criminal offence of knowingly employing an illegal worker. From July 2016, this offence has been widened such that it is a criminal offence if the employer knows, or has reasonable cause to believe, they are employing an illegal worker. Employers prosecuted under the IANA can establish a defence by proving that they checked, copied and retained specific types of documents as specified by the UK Government prior to the commencement of employment. In addition, NHS Regions review the immigration papers of foreign dentists as part of their approval process.

Suppliers

The primary equipment and materials required to conduct our business include dental practice equipment such as dental chairs, diagnostic equipment, general dentistry materials, such as the amalgam, other components for fillings and bridges, radiology equipment, hygiene equipment and other general dental care products.

Dental appliances such as crowns, dentures and bridges are supplied to mydentist's dental practices by PDS Dental Laboratory and other third-party laboratories and the costs of such supplies are shared equally between us and the self-employed dentists working in that practice.

In part as a result of the establishment of Dental Directory, we centralise and insource the procurement of equipment and materials used in mydentist's dental practices to generate economies of scale and lower our costs. mydentist's dental practices purchase their dental consumables, materials, equipment installation, maintenance and engineering work, as well as any other products that Dental Directory offers internally. We also negotiate volume discounts with our external suppliers of non-dental supplies, including for Dental Directory.

We generally do not enter into long-term supply commitments with our suppliers and actively look to negotiate volume discounts with them. Whilst we believe that the large amount of supplies purchased by Dental Directory are readily available from a large number of suppliers, some of the more specialised items, such as handpieces, may only be available from a few suppliers, and any disruption or loss of such suppliers could negatively impact our ability to supply mydentist and impact Dental Directory's ability to supply its third party customers.

The group has an anti-slavery and human trafficking policy which reflects our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains. Relevant staff undergo training to ensure that they possess a high level of understanding of the risks of modern slavery and human trafficking occurring within our supply chains and our business and to ensure they are aware of how to report any concerns they may have. In addition, the group is developing a system for supply chain verification, whereby the organisation evaluates potential suppliers before they enter the supply chain. We are also reviewing our existing suppliers and, where necessary, contacting them to ensure that they agree to comply with the requirements of the Modern Slavery Act 2015 and the group's policies.

Billing and payment

We have no material billing requirements in respect of patients of our NHS dentistry services. Patients contribute to the cost of NHS dentistry services depending on the type of dental care service they receive, with the balance of payment paid by NHS England. The patient contribution is set by the NHS and revised annually. The full amount is contributed by the NHS when patients are exempt from payment. Exempt patients include students under 19 years of age, the unemployed, new and expectant mothers, and pensioners. In addition, certain low income patients may be entitled to partial exemptions, depending on their income. Our private dentistry services are entirely funded by our patients, whether through out-of-pocket payments or certain dental insurance or payment plans. Private dentistry services are typically paid as of the time of treatment. Whilst most patients opting for private dentistry services pay out-of-pocket, we also accept payment under certain dental insurance plans.

Payments under our NHS dentistry contracts are made to us by NHS England, with payment of 1/12 of the contract value paid at the beginning of each month. We collect patient contributions on behalf of the NHS and remit such amounts to the NHS in arrears approximately two to six weeks thereafter. Three to six months following the contract year-end (31 March), we receive a statement detailing each UDA performance under each contract. If, at the end of the contract year, a practice has not performed all the UDAs allocated under its contract, NHS England may seek to reclaim UDAs paid for but not performed. Any payment of reclamation must be made after the end of the contract year of underperformance although repayment may be made in-year if both parties agree. We also receive mid-year UDA performance statements and, if a dental practice has failed to meet 30% of its annual target by 30 September, the NHS Region may adjust payments made under such contract for the remainder of such contract year to correspond to an annual performance of two times of what the dental practice has achieved to 30 September. Dental practices are only paid for exceeding the number of UDAs contracted on a case-by-case basis upon approval by NHS England.

Real and personal property

We lease our executive offices, which are located at Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester, M26 1GG, United Kingdom. At 31 March 2018 we were also party to 698 other property leases, which includes 638 dental practices in various locations throughout the United Kingdom, 24 leased or licensed car parks, Dental Directory's central warehouse and eight other leased properties used by Dental Directory. We typically lease dental surgeries on behalf of our dental practices pursuant to long-term leases. In some cases we also lease space for our dental practices from NHS Regions.

We hold freehold interests in three properties, which are dental practices for which we have acquired the freehold interest alongside the dental practice, but we did not acquire these properties intending to hold them for the long term, and may enter into sale-leaseback arrangements in respect of these properties in the future. Rates (UK business property taxes) paid in respect of a dental practice are reimbursed to us by NHS England in proportion to such dental practice's proportion of NHS dentistry services performed to private dentistry services and, as a result, the majority of the rates paid in respect of our dental practices are reimbursed. Our property portfolio is managed internally by a property management team and supported by external specialists where appropriate. Part of our central property management support function involves regulatory compliance in connection with our properties. Our property management team also manages a defined capital expenditure cycle and dilapidation schedule in respect of our leased and freehold properties.

We are also party to certain operating leases in respect of approximately 240 vehicles leased by us for use by certain members of our management team, including certain of our clinical directors, area development managers and sales and engineering staff within Dental Directory, as well as operating leases in respect of office equipment, such as copier machines.

Intellectual property

Whilst our know-how, copyrights, business processes and other intellectual property rights are important to our business, we do not consider any single piece of intellectual property to be of material importance in relation to our business as a whole. We are not currently engaged in any material intellectual property litigation, nor do we know of any material intellectual property claims outstanding. We believe we have registered all relevant trademarks associated with the "mydentist" brand.

Information technology systems

IT systems impact virtually all aspects of our business, including record-keeping, patient information processing and storage, data security, marketing and sales, compliance logistics and practice and performance management. Our IT strategy is driven by the dual goals of promoting growth of our business whilst ensuring data security.

We have implemented a centralised IT platform for mydentist that brings together many of our IT functions in one data warehouse based at our support centre and managed by an experienced team of information specialists. Our practice performance management IT systems are critical to the management of our business, and we have implemented unified practice management software across our entire estate of dental practices and dashboard capabilities for our area development managers and directors of region working in our dental practices to monitor performance. In addition, we are developing backup and recovery databases for use in our support centre and dental practices. These systems back up our data several times a day to make sure that the abundance of sensitive patient information we have stored at our many dental practices is safely managed in one central location.

During the year, we have been preparing our IT systems in order to comply with the requirements the European data privacy regime under the European General Data Protection Regulation ("GDPR"), which is applicable from May 2018. GDPR will further increase the regulatory requirements as well as introduce the potential for large fines for non-compliance. In addition, we continue to prepare for any potential changes to data retention and regulation that could be introduced as part of changes to the NHS dentistry contract framework.

We operate a separate, bespoke IT infrastructure for Dental Directory that manages warehouse operations, inventory control and logistics. A web portal system has been implemented which allows practice managers and dentists from across mydentist to review an e-catalogue and order products for their practices via this web portal. The use of such an e-catalogue provides our dental practices with access to a select list of product lines suitable for both the provision of NHS and private dentistry services while enabling us to keep the cost of materials used by our practices within agreed parameters.

We also leverage our IT systems in its sales and marketing strategy by, for example, search optimisation and improved website functionality.

Independently contracted dentists and employees

Dentists working in our dental practices are self-employed and independent. As at 31 March 2018, we had over 2,750 dentists working in our 643 dental practices, either part-time or full-time. We also have arrangements with approximately 230 dentists, which we refer to as locums, who as at 31 March 2018 were not assigned to a single practice, but can fill dentist vacancies on an as-needed basis to provide dental services where they are most needed. We also have approximately 90 practising dentists who are our employees and are referred to as regional dentists and foundation dentists. We individually negotiate the associate contracts with dentists working in our dental practices, and so are able to vary the compensation paid to dentists based on prevailing rates in the applicable local markets for dentists. Under our associate contracts with dentists, dentists receive a fixed percentage fee per UDA delivered, in the case of NHS dentistry services, and a percentage of fees paid for private dentistry services delivered. Contracts with dentists in our dental practices typically are for a term of two years and include non-compete terms that prevent dentists from competing against us for our NHS dentistry services patients within a certain geographic radius of our dental practice.

We also employ highly skilled dental support staff who provide a broad range of clinical and administrative support services for our dentists, including 34 clinical technicians (all of whom are self-employed, independent contractors) in our practices across the UK. In addition, as at 31 March 2018, 484 hygienists worked across our practices, the majority of whom were self-employed, independent contractors.

The following table sets out the number of our dentists and dental support and central staff, as at 31 March 2018:

	As at 31 March 2018
Self employed dentists, including locums	3,011
Self employed hygienists	450
Dental, support and central staff, including employed dentists and hygienists	7,100
Dental Directory staff	556
Total	11,117

Insurance

Our operations are subject to various actual and potential claims, liabilities, hazards and disasters. We carry a variety of insurance policies, including policies in respect of property and material damage, business interruption, combined commercial liability, and directors' and officers' liability. We believe that our insurance coverage is adequate and customary for a business of our size in our industry. Our self-employed, independently contracted dentists are obliged by professional licensing standards to carry their own medical negligence insurance, and we are typically not subject to medical negligence liability claims.

Legal proceedings

In the normal course of our business, we may be involved in legal, arbitration or administrative proceedings. Additionally, we operate in a closely regulated industry. As such, in the ordinary course of business, we are subject to national and local regulatory scrutiny, supervision and control. Such regulatory scrutiny often includes inquiries, investigations, examinations, audits, site visits and surveys, some of which are non-routine.

We are currently, and have in the past been, subject to employment tribunal claims brought by former employees.

On the basis of current information, we do not expect that the actual claims, lawsuits and other proceedings to which we are subject, or potential claims, lawsuits and other proceedings relating to matters of which we are aware, will ultimately have a material adverse effect on our results of operations, financial condition or liquidity.

From time to time we are subject to claims and disputes related to the recoupment of amounts paid under NHS dentistry contracts and other disputes with NHS Regions and NHS England. Each of the claims arises from allegations of overstated contract payments, or patient charge collection claims.

Risk factors

Investors should carefully consider the risks described below together with all of the other publicly available information regarding IDH before making an investment in the Notes. The risks below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial may also materially and adversely affect our business or operations. Any of the risks described herein could have a material adverse effect on our results of operations and financial condition and our ability to service our debt, including the Notes. In such a case, investors may lose all or part of their investment in the Notes.

Risks related to our business

We may fail to deliver UDA volumes under our NHS dentistry contracts, or we may reach those volumes over a longer period of time than originally expected, which could have a negative impact upon our results of operations and the financial performance of our business.

Many of our NHS dentistry contracts require the dental practice holding the contract to reach certain volumes within a certain period of time. If, whether due to underperformance, poor management, lack of demand or any other reason, a dental practice suffers cumulative UDA underperformance of more than 4% (or 5% in Wales), volumes under the contract may be reduced, or, if the cumulative effect of breaches are prejudicial to the services to be provided under such NHS dentistry contract, the entire contract may be lost. In addition, as we are paid each month for 1/12 of the contract value under NHS dentistry contracts, any underperformance in terms of UDA delivery must be repaid to the NHS after the end of the contract year of underperformance. In certain instances, the underperformance can be repaid during the contract year. Significant underperformance could thereby result in large repayments to the NHS, and we may not have cash or financing available at such times to make such repayments, which could adversely impact our financial condition.

Industry-wide factors have resulted in a decrease in our UDA delivery rates, which negatively impacts our revenues from NHS dentistry services.

During the twelve months ended 31 March 2018, we continued to experience a decline in UDA delivery rates with respect to the NHS dentistry services provided by mydentist. Our UDA delivery rate, after temporary and permanent handbacks, for the contract year ending 31 March 2018 was 86.1% compared to 90.4% for the year ended 31 March 2017, 92.4% for the year ended 31 March 2016 and an average UDA delivery rate of 96.8% for the five years ended 31 March 2015. Before handbacks, our UDA delivery rate for the year ended 31 March 2018 was 82.7% compared to 88.0% for the year ended 31 March 2017. This reduction in UDA delivery rates in our core business of NHS dentistry services resulted in a decline in revenue and EBITDA before non-underlying items for the year, with each 1% increase or decrease in UDA delivery equating to an increase or decrease of approximately £1.7 million in EBITDA before non-underlying items.

We believe that this decline in our UDA delivery rates is a result of a number of factors, namely increased NHS scrutiny of claims and performance benchmarks and a decrease in the number of exempt patients we treat in each year as a result of the improving UK economy. The increased NHS scrutiny of claims and performance benchmarks has also reduced dentist productivity by requiring dentists to spend more time recording notes detailing patient care and causing dentists to be more cautious in claiming UDAs. These factors, along with the steps we have taken to improve patient choice which has contributed to growth in our private revenues, have also led to a number of dentists reducing the number of UDAs they are willing to complete in a year. In order to deliver the same volume of NHS treatment, mydentist needs to recruit more dentists. There is no guarantee that we will be able to recruit sufficient dentists to address the decline, or that we will continue to be able to recruit dentists at a sufficient rate to replace leavers.

Moreover, the decrease in the number of exempt patients, such as students under 19 years of age, the unemployed, new and expectant mothers and pensioners, exempt from payment (“exempt patients”), has resulted in a decline in the mix of UDA bands delivered, since exempt patients typically receive services requiring a high number of UDAs per course of treatment.

While we are undertaking measures to recover UDA performance, we cannot make any assurances that such measures will be successful, or that the loss of revenues from UDA delivery rates will be offset by increases in the provision of private dentistry services or NHS dentistry contract price uplifts. Furthermore, we may face continued NHS scrutiny in the future that may offset any measures we take to address UDA delivery rate declines. See “Management’s discussion and analysis of financial condition and results of operations—Significant factors affecting results of operations—mydentist—Industry-wide factors affecting UDA delivery rates.” In addition to its impact on revenue, a drop in UDA delivery also increases the risk that NHS Regions may seek to renegotiate the number of UDAs contracted under certain of mydentist’s NHS dentistry contracts or even, in an extreme scenario, terminate certain NHS dentistry contracts. A continuation of the decline in UDA delivery rate over an extended period of time may have a material adverse impact on our financial condition.

We may be subject to claims for recoupment of amounts paid under NHS dentistry contracts.

We are paid for NHS dentistry services under each of our 583 NHS dentistry contracts in equal monthly instalments of our annual contracted value. As such, we may receive payment for services not yet rendered, or for services that will not be rendered. Following the close of the contract year, or in some cases, after renegotiation with the NHS in year, we may be subject to claims for recoupment of amounts paid under NHS dentistry contracts where we were overpaid in respect of underperformance of UDA delivery. If we are found to have been overpaid in respect of a NHS dentistry contract, such sums may be subject to recoupment by NHS England. Although management has conducted a thorough analysis of the impact of such claims, amounts claimed in respect of such recoupment may be significant, and if we do not have cash or financing available at the time the recoupment is required, it may be difficult for us to repay such amounts. In addition, if a dentist working in one of our dental practices fraudulently claims UDAs in respect of services not actually performed, we may be liable for reimbursing NHS England for amounts received in respect of such NHS dentistry contract, and we may be unable to effectively recoup our losses from the fraudulent dentist.

We could be unsuccessful in re-tendering for some, or all, of our NHS orthodontic dentistry contracts, or we may only retain our existing contracts at reduced unit prices or volumes.

The majority of our contracts to deliver NHS orthodontic dentistry services are time-limited PDS agreements. PDS contracts typically have a duration of between three and five years and, therefore, we are periodically required to competitively re-tender for these contracts. In recent times, the NHS has rolled over the expiry date of many of the existing contracts, which expired between 2017 and 2018, to 31 March 2019 in advance of a large scale procurement exercise to re-tender the vast majority of PDS orthodontic dentistry contracts across England. The new contracts are anticipated to come into effect from 1 April 2019, or soon afterwards, and are likely to run for a period of between five and seven years, with the potential to be extended up to a total length of 10 years.

We may be unsuccessful in retaining some, or all, of our orthodontic dentistry contracts as a result of this re-tender exercise. Alternatively, we may retain some, or all of our existing contracts, but for a lower volume of UOA's, or at a lower price per UOA. Any loss of revenue that results from us failing to retain an existing contract, or retaining an existing contract but with a lower volume, or at a lower price per UOA, will have a corresponding impact upon our financial condition and results from operations.

Furthermore, loss or reduction of a contract may lead to a conclusion that the affected dental practice may no longer be viable. As a result, we may need to take the decision to close or sell the affected practice, or practices, with the risk that we cannot recover the carrying value of the associated assets and that we may incur significant additional closure related costs. Both of these factors could have an impact upon our results from operations and financial condition.

In the event that we are awarded additional contracts through this tender exercise, in locations where we do not currently have a dental practice, there is a risk that we are unable to deliver these contracts if, for example, we are unable to find suitable premises, or if we are unable to recruit sufficient new dentists with the appropriate skills, in time to enable us to open the new practices by the contract start date. This could adversely impact the reputation of our business, as well as our results from operations and financial condition.

Furthermore, developing the facilities to deliver a new contract may require significant capital expenditures. If we do not generate sufficient cash flow from our operations or have funds available for future borrowing under our existing credit facilities to cover these capital expenditure requirements, we may not be able to make such capital expenditures, which may negatively impact our revenues and profitability and, ultimately, we may breach the terms of any new contracts.

Our inability to attract and retain dentists, hygienists, nurses, practice managers and other key dental professionals could adversely affect our business, financial condition and results of operations.

The success of our dental practices depends on attracting and retaining qualified, skilled and experienced dentists, therapists, hygienists and nurses. Our success also depends on our ability to attract and retain qualified practice, area development and regional managers, in addition to senior management at the group level.

Over the past three financial years, we have experienced a reduction in our UDA delivery rates, as a result of pressures which have led to increased appointment times, a reduction in the number of exempt patients and changes to UDA band mix, along with the successful growth we have experienced in our private revenues. When combined, these factors have led to localised shortages of dentists within some of our practices, as the availability and distribution of NHS dentists can vary widely across regions. As a result, we need to recruit additional dentists in order to fulfill our NHS contracts. In addition to the actions we have taken to increase UDA performance by working with dentists to increase their productivity, we have increased recruitment, both from within the UK and overseas, to increase capacity. Although we have started to see an increase in the net number of dentists the recruitment of additional dentists will take time, as the clinical recruitment cycle can take a minimum of four months due to notice periods and the time taken to complete regulatory registrations. It can take significantly longer (between six and nine months) to recruit an overseas based dentist. Furthermore, it takes time for newly appointed dentists to settle into the business and for their productivity to increase to normal levels. There can be no guarantee that we will be able to recruit sufficient dentists to address the shortage we currently have, either on acceptable terms, or at all.

We have previously experienced similar periods in which a shortage of qualified dentists in the United Kingdom and our inability to fill vacancies had a negative adverse effect on our operations, and we may experience similar periods in the future. In particular, our ability to attract and retain dentists could be negatively affected by any adverse change in our reputation, and this risk may be exacerbated by our brand. Vacancies, whether localised or on a national scale, result in lower rates of UDA delivery and may partly reflect variable levels of spending on NHS dentistry by the NHS, and thereby affect our ability to perform under our contracts and our results of operations. Furthermore, our plans for future talent sourcing and retention of highly trained dental professionals may not materialise or may be more expensive than expected. We have historically experienced a high rate of turnover among our dental nurses. Increases in the national living wage in the United Kingdom may result in an increase to our staff costs, or may result in additional turnover among our dental nurses as the pay for other types of work will increase.

Our business depends on personal relationships and the professional reputation of our dentists, whose patients refer other patients to our dental practices. Dentists who have left our practices and who have strong relationships with their local health community may draw business away from us. If we lose, or fail to attract and retain, skilled dentists, hygienists, nurses and other key dental professionals, our revenue and earnings could be adversely affected.

When it has been necessary in the past, we have attempted to overcome shortages in the supply of dentists, hygienists and nurses in the United Kingdom by recruiting dentists, hygienists and nurses from outside the United Kingdom, particularly from South Africa and Eastern Europe. If shortages in the supply of dentists, hygienists and nurses in the United Kingdom continue, or occur again in future, we may be unable to fill vacancies if immigration processing and obtaining NHS and GDC approvals (including language tests) becomes more difficult, particularly for dental professionals who are not citizens of the EEA. Such difficulties may be exacerbated by the United Kingdom's decision to withdraw from membership of the European Union, particularly if such withdrawal results in greater restrictions on the movement of people between the European Union and the United Kingdom. An inability to fill vacancies with non-UK citizens during times of shortage of dental professionals in the United Kingdom could result in underperformance in our contracts and a corresponding loss of revenue or, if such underperformance is significant and persistent, decreased volumes under, or losses of, our NHS dentistry contracts.

We spend substantial resources and time training our staff, and any increase in staff turnover in an industry where shortages in the supply of qualified dentists is common could increase our operating costs and impact the quality of the services we provide.

Our business activities are exposed to significant health and safety risks, and we may also be subject to future liability due to unforeseen health and safety risks.

Health and safety risks are inherent in the services that we provide and are always present in the dental practices that we operate. Our business activities are, in particular, exposed to significant risks, relating, for example, to the transmission of infections (including blood-borne infections, such as HIV) and other risks, to dentists, employees and patients, associated with medical practices generally and dental practices specifically. Furthermore, we sell dental equipment and supplies, as well as, through Med-FX, facial aesthetic products, and have warehouses and logistic systems which are also subject to health and safety regulations and standards. If an incident occurs because of a failure to comply with health and safety regulations by us or our employees or as a result of a defective product sold by us, we may be held liable or fined, and any registration certificates or licenses we require to operate our business or our dental practices could be suspended or withdrawn for such failure. This may have a material adverse impact on our reputation, business, financial condition, results of operations and prospects. From time to time we have experienced health and safety incidents.

Our operations are subject to licensing and regulation under national and local laws and regulations in the United Kingdom relating to the protection of human and occupational health and safety, including those governing the handling and disposal of medical samples and biological, infectious and hazardous waste, as well as regulations relating to the safety and health of dental professionals and staff. Our dental practices are also required to comply with specific regulations for dentists, including sterilisation and decontamination rules. In addition, we must meet extensive requirements relating to workplace safety for personnel in dental practices who could be exposed to various biological risks such blood-borne pathogens (including HIV), which require work practice controls, protective clothing and equipment, training, medical follow-ups, vaccinations and other measures such as needlestick prevention.

Moreover, we could incur substantial costs and sanctions, including civil and criminal fines and penalties, enforcement actions, or the suspension or termination of our licenses to operate as a result of violations of our responsibilities under these laws and regulations, which could have a material adverse effect on our business. We also may become subject to claims from employees or other persons, such as those alleging injury or illness resulting from exposure to materials they handle or to which they are exposed or to patients with whom they come into contact.

Health and safety regulations are likely to become more stringent over time, and our costs to comply with these requirements are likely to increase.

We handle personal data including sensitive patient data in the ordinary course of our business, and any failure to maintain the confidentiality of that data could result in legal liability for us and reputational harm to our business.

We receive, generate and store significant volumes of personal data including sensitive information, such as patients' medical information. We are therefore subject to privacy laws and regulations and related security protocols with respect to the use, transfer and disclosure of protected health information intended to protect the confidentiality, integrity and availability of such information, and the privacy of the individuals.

Privacy regulations and related security protocols establish a complex regulatory framework on a variety of subjects, including:

- the circumstances under which the use or disclosure of protected health information is permitted or required without the specific freely given consent of the patient;
- a patient's rights to access, amend and receive a statement of certain disclosures of protected health information;
- requirements to notify patients of privacy practices for protected health information;
- administrative, technical and physical safeguards required of entities that use or receive protected health information; and
- the protection of computing systems that store protected health information.

The European data privacy regime under the European General Data Protection Regulation ("GDPR"), incorporated into UK law by the Data Protection Act 2018, applies from 25 May 2018, and will further increase the regulatory requirements as well as increase the potential for large fines for non-compliance and introduce the payment of compensation to affected individuals.

Even if such data was not subject to the strict regimes imposed by the Data Protection Act 2018, and the GDPR, a failure to comply with equivalent standards could harm our reputation and reduce the number of patients willing to seek treatment with us, or customers willing to purchase supplies from us. Furthermore, as Dental Directory sells supplies to dental practices with which mydentist competes directly, we need to maintain strict information barriers within the group and any breach of such barriers could lead to fewer customers being willing to transact with us.

If we do not adequately safeguard confidential patient data or other protected personal data, including health information, across all of our operations, or if such information or data is wrongfully used by us or disclosed to an unauthorised person or entity, our reputation could suffer and we could be subject to significant fines, penalties and litigation, either from the ICO, or directly, by any affected individual.

We are exposed to litigation risks, including litigation risks related to medical negligence and disputes with employees.

From time to time we are subject to various actual and potential claims, lawsuits and other proceedings relating principally to breaches of contract, breaches of employment legislation, common law causes of action for civil damages, negligence and personal injury, and other claims. Some of the claims, lawsuits and proceedings against us may involve claims for substantial monetary damages and the cost of defending against such claims has been and may be significant. Moreover, such claims could divert our senior management's attention from our day-to-day operations and negatively affect our business. If we fail in defending such claims, or, in the case of product liability claims related to supplies we sold, we are unable to successfully seek redress against the original manufacturer under any indemnification agreement that might be in place, it may result in substantial monetary damages, which may materially and adversely affect our financial condition and results of operations. Whether or not we are successful in defending against them, such claims may also cause significant damage to our reputation and result in decreased demand for our dental services, thereby making it more difficult to attract dentists, or to retain existing, and/or tender for new, NHS dentistry contracts.

Although we believe that our dentists are solely liable in the case of claims alleging medical or professional negligence, which may be covered by a dentist's professional insurance, claimants may attempt to bring us into proceedings in respect of such claims.

Failures of our information technology systems, including cyber attack, other major incident, or failures resulting from system conversions under the new NHS dentistry contract, could disrupt our operations and cause the loss of UDA claims, customers, patients or business opportunities.

IT systems are used extensively in virtually all aspects of our business, including reporting, billing, patient information processing and storage, logistics and the management of systems monitoring our performance as well as the website through which customers order a substantial portion of the consumables and materials supplied by Dental Directory. Our operations depend on the continued and uninterrupted functioning of our IT systems. As part of our efforts to increase our operational efficiency and leverage our economies of scale, upon each acquisition we have centralised and insourced a number of functions previously carried out by individual dental practices, including IT, compliance, regulatory, legal, finance, human resources, health and safety, risk management, talent sourcing, training, marketing, insurance and logistics functions. Whilst we believe centralisation and insourcing of these functions have made our operations more efficient, such activities have to a certain extent also made such functions more vulnerable to a catastrophic failure at the site or sites at which the IT systems underlying such functions are physically located. In addition, there is the risk that the process of centralisation and insourcing disrupts the normal functioning of our IT systems, resulting in losses of information or disruption to our operations. IT systems are vulnerable to damage from a variety of sources, including telecommunications or network failures, human acts and natural disasters. Moreover, our IT systems may be subject to cyber attack through physical or electronic break-ins, computer viruses and other similarly disruptive problems.

We record and claim UDAs via our IT systems. If possible changes to the NHS dentistry contract are implemented we could be required to update our IT systems to address changes under the new regime. UDAs may only be claimed under the contracts from which they arose if such claims are made within 60 days of the service giving rise to the UDA claim. If, whether due to our inability to update our IT systems upon changes to the new NHS dentistry contract or to a failure of our information systems or otherwise, we are unable to claim UDAs by the required deadline, such UDAs may be lost and the patient fees retained by the NHS, and we may underperform on the applicable contract. The result of such underperformance may include reduction in UDA volumes or even the loss of such contracts, which could have an adverse effect on our business, financial condition and results of operations.

We also sell a substantial portion of the consumables and materials supplied by Dental Directory through the division's various business websites, and any failure of the IT systems underlying these websites could have an adverse effect on the business, financial condition and results of operations of Dental Directory.

Failure to continue to comply with quality of care standards could adversely impact our reputation.

We are subject to a high level of regulation and oversight. The CQC is our primary regulator in England, with the equivalent regulators in Scotland, Wales and Northern Ireland being Healthcare Improvement Scotland ("HIS"), Healthcare Inspectorate Wales ("HIW") and the Regulation and Quality Improvement Authority ("RQIA"), respectively. The CQC, HIS, HIW and RQIA set quality of care standards and registration requirements that we are required to meet. Some of these standards are stringent, and require significant costs for us to comply with them. By law, our dental practices in England, Scotland, Wales and Northern Ireland must be registered and licensed with the CQC, HIS, HIW or RQIA, as applicable, to show that they are meeting certain essential standards of quality and safety. Non-compliance with such standards may result in a range of enforcement actions taken by the CQC, HIS, HIW or RQIA, ranging from fines and public admonition to facility closure, and could materially and adversely affect our business, financial condition and results of operations.

Furthermore, those legal entities of the group which sell dental supplies to mydentist's and third party practices must be properly accredited in order to sell such products. In addition to the cost of compliance and fines or disruptions to our business, non-compliance, or alleged non-compliance, may lead to unfavourable national press coverage, which could have the effect of damaging our reputation with our patients and with NHS England, NHS Scotland, Health in Wales and Health and Social Care in Northern Ireland and which could materially and adversely affect our business, financial condition and results of operations. This effect could be exacerbated because the majority of our dental practices now trade under the "mydentist" brand.

We may not be able to continually enhance our dental care practices with the most recent technological advances in dental care equipment, which could affect our growth prospects and our reputation.

Technological advances in dental care equipment can be rapid and requires a substantial investment of resources by dental practices. Such equipment costs represent significant capital expenditures for us. Rapid technological advances could render existing equipment obsolete earlier than anticipated and result in assessed impairment charges, which may have a material effect on our results of operations. If we are unable to purchase the necessary equipment, our reputation could be negatively affected, which could have a material adverse effect on our business, financial condition and results of operations.

Our inability to retain reputational control of our 'mydentist' brand, particularly given the increasing use of social media, could adversely affect our reputation, financial condition, business and results of operations.

Now that the majority of our dental practices are operating under a single brand identity, the risk of damage to our business resulting from our inability to retain reputational control of our brand has significantly increased. This is exacerbated through the increasing usage of social media. Our failure to retain reputational control over our brand could significantly impact our business, financial condition and results of operations.

Any change to the legal classification of contracts under our operating partnerships could have a material adverse effect on our business, financial condition and results of operations.

Certain of our clinical directors act as partners in dental practices which we acquire through partnership structures. This allows us to both exercise control over the partnership and maintain the NHS dentistry contract without assigning it to another party, which would require NHS England's consent. If our clinical directors were no longer willing to be identified as partners in our dental practice partnerships, due to, for example, the risks and liabilities associated with acting as partner (for example, in 2015, one of our partnerships was fined and involved in a criminal proceeding due to the inadvertent loss of registration of a partnership due to a technical error), and we were unable to replace them, we could effectively lose the benefit of the relevant NHS dentistry contract with the affected partnership. Additionally, as there is no direct contractual nexus between us and NHS England in respect of NHS dentistry contracts held by a partnership, payments for NHS dentistry services provided by a partnership have historically been made directly to accounts that belong to the relevant partnership, and for certain dental practices we acquired in the past, we have no direct control over these accounts, other than through our clinical directors. Whilst we modified the payments structure for acquisitions of dental practices that are partnerships from the start of 2014 onwards, this payment structure remains in place for acquisitions made prior to that date and any loss of payments could adversely affect our revenues, and therefore our financial condition and results of operations.

The death of one or more of the partners in our dental practice partnerships may result in the surrender of the NHS contracts held by such partnership, and result in the re-tendering of such contracts.

We rely on relevant NHS regulations that permit the transferability of NHS dentistry contracts between partners in a partnership to transfer contracts to our clinical directors. If such regulations were modified it could render us unable to transfer, and thereby benefit from, NHS dentistry contracts held by our partnerships. If we lost NHS dentistry contracts held by our dental practices organised as partnerships because of the death of the partners within those partnerships, which dental practices constituted approximately 25% of our practices as at 31 March 2018, or were unable to transfer such contracts, it could materially and adversely affect our revenues, and therefore our financial condition and results of operations.

Our ability to significantly grow our business relies upon our acquisition strategy and there can be no guarantee that we will resume our acquisition strategy or that sufficient or appropriate acquisition opportunities will be available to us, that financing will be available on acceptable terms or that, once acquired, new businesses will be successfully integrated into our operations.

To date, growth in our dental practice estate has been largely attributable to the acquisition of other small and medium-sized independent dental practices and their integration into our existing network. In recent times, valuations being attributed to dental practices by prospective vendors have increased substantially and, together with our current high levels of gearing and performance decline, have led us to pause our dental practice acquisition programme. As a consequence, we anticipate only limited practice acquisitions activity until market conditions normalise and our gearing levels start to reduce. It is also unlikely that we will consider further bolt-on additions to Dental Directory at this time.

Once conditions normalise, we plan to continue to expand our business through similar acquisitions, with a focus on acquiring dental practices which have UDA delivery rates of at least 96%. During the twelve months ended 31 March 2018, we completed the acquisition of one dental practice, compared to six dental practices which were acquired during the year ended 31 March 2017 and 34 during the year ended 31 March 2016.

The success of our acquisition strategy depends on the ability of our senior management to identify suitable acquisition candidates, to accurately assess the value, strengths, weaknesses, contingent or other liabilities and potential profitability of such acquisition candidates, to obtain any necessary permits or approvals from bodies such as the NHS and the Competition and Markets Authority (the "CMA") to operate such acquisition candidates, attract suitable associate dentists at appropriate rates, and to integrate the operations of such businesses once they are acquired. Our success in making additional acquisitions depends on the availability of, and competition for, suitable acquisition candidates. Successful integration of acquired practices will depend on our ability to effect any required changes in operations or personnel, and may require renovation or other capital expenditures or the funding of unforeseen liabilities. The integration and operation of any future acquisitions may expose us to certain risks, including the following: difficulty in integrating the acquired businesses in a cost-effective manner, including the establishment of effective management information and financial control systems; unforeseen legal, regulatory, contractual, labour or other issues arising out of the acquisitions; significant unexpected liabilities or contingencies arising from the acquisitions; potential disruptions to our ongoing business caused by our senior management's focus on the acquired companies; and post-acquisition performance not meeting our expectations or plans. There can be no assurance that we will resume our acquisition strategy, or that our future acquisitions will be made on appropriate terms or at an acceptable cost or can be successfully integrated. A failure to identify appropriate acquisitions or to properly integrate them once acquired could have a material adverse effect on our business, results of operations, financial condition or prospects.

In addition to acquiring small and medium-sized chains of independent dental practices, from time to time we may also enter into acquisitions of a larger scale or in complementary markets to our current operations. If we were to undertake such additional acquisitions, the risks associated therewith would be similar in nature to, but of a substantially greater magnitude than, those associated with our more routine acquisitions.

We are subject to competition legislation that affects our ability to acquire dental practices. Whilst the UK dental market is as a whole highly fragmented, we have a high market share of dental practices and UDAs in certain localities. The CMA, the UK's competition regulator, may review acquisitions we make for purposes of compliance with competition law. This could limit our ability to acquire new dental practices and grow, particularly in markets we find attractive. If we do not comply with competition laws, we may be subject to significant sanctions.

We have historically financed acquisitions of dental practices through a variety of sources, including our own cash reserves and debt financing. Whilst we intend to continue to finance acquisitions from these sources in the future, we may have insufficient cash reserves to fund acquisitions and adverse market conditions or other factors may prevent us from obtaining debt finance on acceptable terms or at all.

If we are unable to implement our acquisition strategy, obtain sufficient financing or integrate acquired businesses successfully, our business and prospects for growth could be negatively affected.

The operations of Dental Directory are subject to a significant level of competition and regulatory oversight, and are reliant upon transport and warehousing infrastructure in order to generate revenues.

Our Dental Directory operations are subject to intense competition from other suppliers and distributors of dental and medical products and equipment. This competition can result in pricing and margin pressures or loss of customers as a result of competitor actions. There is also substantial competition for the services of experienced sales staff, the loss of whom could adversely impact our ability to retain customers. Any significant loss of customers is ultimately likely to have a materially adverse impact upon our revenues and results of operations.

Dental Directory is subject to regulatory oversight by the Medicines and Healthcare Products Regulatory Agency ('MHRA') in respect of the purchase, storage, sale and distribution of controlled drugs and medicines. Failure to comply with these regulations could result in fines or penalties, including the risk that we may no longer be able to supply certain or any controlled drugs or medicines. This could have a significant adverse impact upon our revenues and results of operations and could also result in the loss of customers to our competitors due to our inability to provide a complete range of the products and services they require. In addition, to the extent that we inadvertently supplied products that did not meet with regulatory requirements, we could be subject to warranty or compensation claims from our customers. Such claims could have a substantial adverse impact upon our business, results of operations and financial condition and there could be no certainty that we would ultimately be able to recoup such losses from our suppliers.

Our warehousing, supply and distribution operations are also subject to the risk of disruption which could adversely impact our ability to fulfil customer orders and therefore adversely impact our results of operations. Disruption could result from a major incident, such as a fire, at our warehouse which is concentrated in a single location, or disruption to transport infrastructure, both in respect of goods arriving from suppliers, some of which are located overseas, and the delivery of goods to our customers. Such disruption could ultimately also result in the loss of customers to competitors and adversely impact our business, results of operations and financial condition.

Our competitors may not be willing to also be customers of Dental Directory.

In the past several years, we have acquired a substantial presence in the dental practice service and supply market, primarily through a number of acquisitions which now form our Dental Directory business unit.

However, there is a risk associated with this vertical integration, since certain of our competitors could cancel their contracts with Dental Directory which would result in a decrease in our EBITDA. Following the acquisition of Dental Directory, we initially experienced a loss of contracts with our competitors. To the extent a significant proportion of Dental Directory's third-party dental practice customers cease conducting business with us, it could have an adverse impact on the business, results of operations, financial conditions or prospects of Dental Directory.

We are exposed to currency fluctuation risks that could adversely affect our profitability.

Dental Directory is subject to a certain degree of foreign exchange risk related to purchases of consumables and materials in Euros and US dollars. We generate revenue in pounds sterling and, because of this, we are unable to match purchases made using Euros or US dollars with revenue generated in these currencies. Significant changes in the value of the pound sterling relative to the Euro or US dollar could adversely affect the results of operations of Dental Directory. Although the group's policy is to hedge the pound sterling equivalent costs of a proportion of our foreign currency purchases using vanilla foreign exchange derivative contracts, in order to reduce uncertainty over future cashflows, there can be no certainty that significant fluctuations in foreign exchange rates will not have a materially adverse impact upon our results of our operations.

We rely on continued patient demand for dental care, and a decrease in patient demand, or an adverse change in the UDA band mix that patients demand, could adversely impact our business, results of operations and financial condition.

Our future growth depends on our ability to maintain our existing high-quality services and, through successful sales and marketing activities, increase demand for our dental services. Any number of factors such as health and safety incidents, problems in our dental facilities, negative media or social media coverage, or general patient dissatisfaction, whether legitimate or not, could lead to a deterioration in our reputation and the public perception of the quality of our dental services, which in turn could lead to a loss of business support for our operations. Any impairment of the value of our brand and registration could similarly have a material adverse effect on our business, results of operations, financial condition or prospects. Additionally, the possible transition to a new NHS dentistry contract and a business model that will focus more on patient numbers will make our revenue generation more reliant on patient retention. Demand for our services, particularly for our private dentistry services, is also dependent on macroeconomic factors. To the extent the demand for NHS dentistry services changes in such a way that it reduces the UDA band mix of services we provide, it could impact our UDA delivery rates and, therefore, our revenues. For example, as the UK economy has improved, over the past three years we have experienced a decrease in exempt patients who typically demand higher UDA band treatments since services are provided to such patients without a patient contribution. This change in the UDA band mix, amongst other factors, has impacted our UDA delivery rates and revenues from NHS dentistry services. There can be no guarantee that demand for our services will grow or continue, and any decrease in demand and any such failure could have a material adverse effect on our business, results of operations, financial condition or prospects.

Our costs of operations are subject to price inflation, but UDA values, which make up a majority of mydentist revenues, are subject to UK Government determination which may not reflect the actual inflation rate, resulting in increases to our cost of doing business that we are unable to pass on, which could adversely affect our results of operations and financial condition.

We are subject to price inflation in the purchase of our materials and services and to inflation in respect of the fees paid to our dentists and the wages paid to staff. At the same time, a significant portion of our revenue is paid under NHS dentistry contracts with prescribed annual adjustments for UDA values for inflation. Historically, the annual UDA contract uplift was in line with that recommended by the Review Body on Doctors' and Dentists' Remuneration (the "DDRB"), an independent review body that makes recommendations to the Department of Health. However, more recently annual UDA contract uplifts have not always followed the DDRB's recommendation, as the contract rates have been set by the UK Government. However, in 2017 the DDRB recommendation was used as an input to a formula to determine the UDA contract uplift in conjunction with expected cost inflation in other key dental practice expenditures such as laboratory fees, materials and other overheads. If increases under our NHS dentistry contracts do not meet the price inflation and fee and wage inflation we experience in our business, the result would be an erosion of our profitability as the price we are paid for our services would decline in real terms. Depending on the quantum of inflation we experience, this could have an adverse effect on our business, financial condition and results of operations.

The introduction of a national living wage in April 2016 and the apprenticeship levy in April 2017 has increased our staff costs, as will any future increases in minimum wages, wage inflation or wage/apprentice levies.

The national living wage took effect in the United Kingdom in April 2016, initially raising the minimum hourly wage for workers aged 25 and over to at least £7.20 per hour. This increased to £7.50 per hour from April 2017 and, from April 2018, rises to £7.83 per hour. Staff under age 25 continue to receive the national minimum wage. These increases have been rolled out across our staff, and primarily affect wages paid to our dental nurses and support staff, which increases our staff costs. While the payment of the national living wage is expected to benefit our retention among these groups, our staff costs have increased at a faster rate than the UDA rate uplifts we have received in respect of our NHS dentistry contracts.

In addition, from April 2017 we have been required by legislation to contribute an additional 0.5% of our total wage bill to the apprenticeship levy. The impact of the introduction of the apprenticeship levy across our business for the year ended 31 March 2018 was approximately £0.5m. Our results of operations could be adversely impacted to the extent that further increases in wages or wage levies are mandated, or to the extent that wages increase with, or in excess of, inflation.

Certain of our operations are capital intensive and require significant capital investment and planning to support successful growth.

Our existing dental practices require expenditures on maintenance to repair ordinary wear and tear, to upgrade outdated equipment and to standardise the suite of dental equipment across our estate. For the twelve months ended 31 March 2018, our maintenance capital expenditure was approximately £18.8 million (2017: £17.8 million). Our central support functions, particularly our IT systems, also require regular capital expenditure. Similarly, acquisitions of dental practices also require a certain amount of upfront capital expenditure, with the average three-chair practice acquired requiring approximately £50,000–£100,000 in capital expenditure. When we grow organically through new contract acquisition and new builds, or merge together existing practices, considerably more capital expenditure, up to £500,000 or more, is required. If we do not generate sufficient cash flow from our operations or have funds available for future borrowing under our existing credit facilities to cover these capital expenditure requirements, we may not be able to make such capital expenditures, which may negatively impact our competitive position and, ultimately, our revenues and profitability. Moreover, to the extent that our investment in capital expenditure does not generate the expected levels of returns in terms of efficiency or improved cost profile, or it takes longer to achieve such expected levels, there could be an adverse effect on our business, financial condition, results of operations and prospects.

We operate in a highly fragmented and competitive environment in certain geographic regions, and an inability to compete successfully with our competitors in these regions could result in a loss of market share, contracts or patients.

The dentistry industry in the United Kingdom is highly fragmented and competitive, particularly in certain geographic areas. Whilst we do not compete with any one competitor in each of the local markets in which we operate, our competitors include other national Dental Bodies Corporate (“DBCs”) as well as regional and local independent dental practices, and we face current and prospective competition for patients and contracts from these competitors. In recent times, we have seen increased competition in the market for dental practice acquisitions which has caused the average cost of each acquisition to increase, making it harder for us to make cost effective acquisitions. As a result of this, together with the challenging trading conditions we have recently experienced, we have paused our acquisition growth strategy until transaction prices normalise and trading conditions improve.

Dental Directory operates in competition with certain national and regional companies including specialists in certain areas. In particular, some of our competitors, have developed a strong presence online and have sought to provide a “one-stop-shop” solution for customers, which could allow them to expand their market share. If we are unable to compete effectively, our business, financial condition and results of operations may be materially and adversely affected.

Our inability to retain senior management could adversely affect our operations.

We rely upon the experience of our senior management team to maintain relationships with key players in the dentistry industry, understand the technical and strategic elements of our business, manage our portfolio of practices effectively, and to identify acquisition opportunities. Whilst we have attempted to establish policies and remuneration schemes designed to retain and properly incentivise our management team, no assurance can be given that these strategies will be effective in retaining key members of management. If one or more of our executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily, and our business may be disrupted, which may materially and adversely affect our results of operations and financial condition. In addition, if any of our executives or other key personnel joins a competitor or forms a competing company, we may lose know-how and other key members of management, which may also have an adverse effect on our business, financial condition and results of operations.

The United Kingdom's withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

On 29 March 2017, the UK Government invoked Article 50 of the Lisbon Treaty, thereby commencing the process through which the United Kingdom will withdraw from the European Union. The terms of withdrawal are subject to a negotiation period that will last until at least 29 March 2019, with a transitional arrangement now provisionally agreed until 31 December 2020. The withdrawal process has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union-derived laws to replace or replicate. Depending on the terms of the withdrawal, the United Kingdom could lose access to the single EU market and to the global trade deals negotiated by the European Union on behalf of its members which could affect the attractiveness of the United Kingdom as a global investment centre and detrimentally impact UK growth. Volatility in the value of the pound against the Euro and the US dollar following the referendum held in June 2016 has had, and could continue to have, a negative impact on the cost of sales for Dental Directory because a significant proportion of Dental Directory's supplies are purchased on a wholesale basis in Euros and US dollars. The withdrawal of the United Kingdom from the European Union may also make it more difficult for us to source dentists from outside the United Kingdom as a result of changes to UK border and immigration policy. In addition, in response to the United Kingdom's decision to leave the European Union, the regional government in Scotland have argued strongly for a second referendum to be held on independence from the United Kingdom, although these plans are currently on hold until after the European Union exit process has finished. A vote by Scotland to leave the United Kingdom could present risks for our dental practices in Scotland. Any of these risks could have an adverse effect on our business, financial condition, results of operations and prospects.

Weakness in economic conditions could adversely affect demand for our services, which could in turn adversely affect our business, financial condition and results of operations.

An economic downturn in the United Kingdom or continuing UK Government austerity measures would increase the risks associated with our business, including the risk of reduced levels of government funding for the NHS and the risk of a lack of demand for our dental services generally. Most patients, unless exempt, are responsible for contributing to the cost of the dental services they receive. Even if government funding for dentistry is not significantly affected, macroeconomic weakness and high unemployment rates may result in non-exempt patients who are unable or unwilling to make their required contributions to the cost of their dental services, thereby driving down demand for dental services and affecting our UDA delivery rates. More generally, a decrease in household disposable incomes, or the perception thereof, in times of economic downturn can lead to a reduction in individuals' healthcare expenditure, which has had and could have in the future a negative impact on more discretionary spending, such as spending on either our NHS or private dentistry services.

A downturn in the overall dental sector, or wider UK healthcare market, could also impact the operations of Dental Directory by reducing demand for the products and services we supply. A reduction in demand could adversely impact our revenues and results of operations either through us reducing our sales prices, and therefore our margins, to maintain volumes, or through reduced sales volumes or through a combination of both.

Loss of our ability to use certain properties subject to long-term leases through reclamation by the landlord could adversely affect on our business.

The majority of our dental practices and warehouses are situated in leased properties. A typical lease has a term of approximately 15 years in length. As with all leases, the landlord is entitled to serve notice to reoccupy the property at the end of the lease term. If landlords in respect of such properties choose to exercise their rights under such clauses, our dental practices may have to relocate to an alternative site and find other surgery space, perhaps upon short notice. In particular, this risk could materialise in situations where the landlord is also a dentist who previously sold the practice to us. He or she may exercise his or her right to reclaim the leased surgery space and it may be difficult for us to reopen the dental practice in a timely manner and we would have the additional challenge of a competing dental practice in the space where our dental practice previously traded in the event the dentist secures an NHS dentistry contract.

Our business and results of operations are subject to seasonal factors, and extreme weather conditions can affect our levels of activity and hence our revenue.

Historically, our revenue has been somewhat seasonal as dentists typically push to reach their contracted UDA levels by working more intensively during the fourth quarter of each financial year. Our patients are less likely to attend or make dental appointments during inclement or severe weather conditions, particularly when transportation is disrupted. During such periods, we tend to experience a decrease in demand for our dental services and a reduction in our revenue, particularly in UDA delivery rates. If such weather events occur near the end of the contract year, we may experience difficulty achieving our annual UDA delivery targets.

In addition, Dental Directory's warehousing and logistics facilities are at risk from localised instances of extreme weather or natural disasters.

Our insurance may be inadequate to cover future liabilities and our insurance premiums may increase substantially.

We may be subject to significant losses from claims, liabilities, hazards and disasters. Whilst we currently maintain insurance which we believe is adequate and consistent with industry practice, we may experience losses in excess of our insurance coverage or claims not covered by our insurance. Furthermore, there can be no assurance that we will be able to obtain insurance coverage in the future on acceptable terms or at all. Any such losses not covered by insurance may have a material adverse effect on our financial condition and results of operations.

A substantial portion of our assets are represented by goodwill, and we may never realise the full value thereof or we may be required to write down the value of our goodwill.

We have recorded a significant amount of goodwill. Total goodwill, which represents the excess of cost over the fair value of the net assets of the businesses we acquire, was £247.9 million as at 31 March 2018, or 31% of our total assets.

We perform goodwill impairment testing on an annual basis, or more frequently, where indicators of impairment are identified. During the year ended 31 March 2018, we have recorded impairment charges totaling £65.5 million against the intangible assets and goodwill allocated to the mydentist division, in light of our declining UDA delivery performance and management expectations of the time it will take to recover to more typical performance levels, in addition to a small number of permanent contract handbacks agreed with NHS Regions during the year. We also recorded impairment charges totalling £29.8 million against the goodwill, intangible assets and other tangible assets of dental practices which have been sold or closed during the year, or where the decision has been taken to sell or close the practice which has required us to write down the carrying value of the practice assets to their estimated recoverable amount. In addition, we have recorded an impairment of £0.8 million against the goodwill and intangible assets attributable to our acquisition of PDS Dental Laboratory, following the loss of a significant contract.

If we were to conclude in future that any further write-down of our goodwill is necessary, we would have to record the appropriate charge, which could result in a material adverse effect on results of operations. A write-down of our goodwill may result from, amongst other things, further deterioration in our performance, a decline in expected future cash flows, or decisions being taken to close or sell additional dental practices.

Changes in tax laws or challenges to the Group's tax position could adversely affect the Group's results of operations and financial condition.

We are subject to complex tax laws. Changes in tax laws could adversely affect our tax position, including our effective tax rate or tax payments. We often rely on generally available interpretations of applicable tax laws and regulations. In certain instances we have secured clearance from HMRC on the application to tax law within the group. There cannot be certainty that HMRC will always be in agreement with our interpretation of these laws. If our tax positions are challenged by HMRC, the imposition of additional taxes could require us to pay taxes that we currently do not collect or pay or increase the costs of our services to track and collect such taxes, which could increase our costs of operations or effective tax rate. The occurrence of any of the foregoing tax risks could have a material adverse effect on our business, financial condition and results of operations.

Recent changes in tax law related to the deductibility of certain types of interest may result in increased tax costs.

From 1 April 2017, the UK Government has introduced new rules, known as the Corporate Interest Restriction, to limit the corporate tax deductibility of interest expense. These changes introduced, amongst other things, a fixed ratio rule, limiting corporate tax deductions for net interest expense to 30% of a group's UK tax EBITDA. In addition, a group ratio rule, broadly based on the external net interest to EBITDA ratio is available should this be less restrictive than the 30% cap. A detailed analysis as to how the group's interest expense will be impacted by the new rules for the year ended 31 March 2018 is still to be undertaken, however this analysis may reduce the amount of interest for which a corporate tax deduction can be claimed.

Any future changes to the law in this area could further reduce the amount of interest expense incurred on our indebtedness for which we can claim a tax deduction, which would effectively increase the amount of taxes we pay on our taxable profits.

Under UK law, until 1 April 2017, interest payments in respect of indebtedness were generally deductible from taxable profits. In the event that a company was considered to be thinly capitalised—that is, if it had more debt than it either could, or would, borrow acting in its own interests—the deductibility of interest on amounts of debt considered "excessive" (or greater than would arise if the company was acting at arm's length from the lender) may have been treated as distributions of equity instead of interest in respect of indebtedness for tax deductibility purposes. The determination of whether a company was thinly capitalised was made on the basis of a company's self-assessment, discussed with HMRC, of its true, arm's length borrowing capability, as if it were borrowing on a stand-alone basis from a third-party lender. Amounts of interest paid on debt in excess of such borrowing capability were treated as distributions on equity and were not deemed to be deductible for tax purposes.

We have discussed the application of the UK transfer pricing/thin capitalisation rules with HMRC to establish the amount of indebtedness that is supportable under UK transfer pricing principles and therefore interest arising on that amount may be deducted for UK corporation tax purposes. We have an agreement in place with HMRC in respect of tax year 2012-2013. The position in respect of tax years 2013-2014 through to 2016-17 is supported by self-assessment analysis. The tax year 2017-18 will be subject to the new Corporate Interest Restriction rules.

We may not be able to tender for new NHS contracts if we do not comply with applicable laws.

The UK Government has implemented a procurement policy requiring potential suppliers of goods and services to the government, including us as providers of NHS dentistry services, to self-certify their recent tax compliance history as part of contract tender processes, and to comply with health and safety equality and other laws. If we do not comply with such laws, we may not be able to participate in tenders for new NHS dentistry contracts, which could adversely affect our results of operations and prospects.

In addition, public sector procurement rules have been extended to include provisions that require suppliers of goods and services to the government, such as ourselves through our NHS dentistry contracts, to be responsible for reviewing and determining the employment status of all contractors providing services to us. Previously, the contractor held this responsibility. In the event that we were judged by the NHS, or another government body, to have incorrectly determined any such contractors to be self-employed, we could lose our contracts and be unable to tender for future contracts. In addition, we may become liable for any retrospective employment taxes that may become due, which could adversely affect our business model, results of operations and prospects.

We could be adversely affected by violations of anti-bribery laws or violations of other government regulations by our employees.

Anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to public officials for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-bribery laws. We operate a large number of dental practices throughout the United Kingdom and rely on our management structure, regulatory and legal resources and effective operation of our compliance programme to direct, manage and monitor the operations of our practices and the activities of our dentists and employees.

However, despite our training, oversight and compliance programmes, we cannot ensure that our internal control policies and procedures will always protect us from deliberate, reckless or inadvertent acts of our employees or dentists that contravene our compliance policies or violate applicable laws. Violations of these laws, or allegations of such violations, could result in a material adverse effect on our business, financial condition, results of operations or prospects.

We may be subject to organised action by our dentists or other employees, which could decrease our profitability and negatively affect our results of operations.

Self-employed dentists working in our dental practices could act collectively to demand a higher portion of contracted fees for the services they perform in our dental practices. Whilst none of our employees are currently unionised, no assurance can be made that such employees will not become unionised in the future. Any such collective action or unionisation by our self-employed dentists or employees, whether targeting us specifically or not, could have the effect of increasing our costs, thereby adversely affecting our results of operations.

The interests of our shareholders could conflict with your interests.

A majority of our equity interests are beneficially owned by Carlyle and Palamon. See "Principal shareholders." As a result, Carlyle and Palamon are able to control matters requiring shareholder approval, including the election and removal of our directors, our corporate and management policies, potential mergers and acquisitions, payment of dividends, asset sales and other significant corporate transactions. The interests of both Carlyle and Palamon could conflict with the interests of the holders of the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. For example, Carlyle or Palamon could cause us to pursue acquisitions, divestitures, financings, dividend distributions or other transactions which, in their respective judgement, could enhance their equity investments, even though such transactions might involve risks or decrease the market value of the Notes. Such transactions may not trigger a "Change of Control" under the Indenture. Furthermore, Carlyle or Palamon may sell all or any part of their respective shareholding at any time or look to reduce their holding by means of a sale to a strategic investor, an equity offering or otherwise.

Risks related to our industry

Any change in the employment status of dentists in our dental practices could have an adverse effect on our business, financial condition and results of operations.

Our dentists are self-employed, independent contractors. Because of their non-employee status, we do not pay pension contributions, employer National Insurance contributions, holiday pay or medical negligence insurance in respect of our dentists, and our dentists do not have the rights of employees under the Employment Rights Act 1996. If HMRC reassessed our business model and objected to the self-employed status of the dentists in our dental practices it could lead to significant costs and tax consequences for our business. In addition, we have in the past been subject to conflicting, non-precedential employment tribunal determinations regarding the employment status of our dentists. To the extent employment tribunals would begin to consistently consider dentists to be our employees, we may also be exposed to new areas of liability under employment law. The occurrence of any of the foregoing would materially and adversely impact our business, financial condition and results of operations.

Changes to Value Added Tax ("VAT") legislation, or the judicial interpretation of VAT legislation, resulting in the application of VAT in respect of the services we provide to our dental practices could have an adverse impact on our results of operations.

VAT is a tax charged on most business transactions in the United Kingdom. A hypothetical VAT-registered business adds VAT to the prices at which it sells its goods and services and reclaims the VAT it pays for the goods and services it purchases. The current standard rate of VAT in the United Kingdom is 20%. Dentistry, however, is a VAT-exempt service under applicable VAT legislation, which means that most dental services are exempt from VAT and charges for supplies amongst groups of dentists are exempt from VAT provided that they relate to the provision of services or facilities that are predominantly medical in nature and are necessary to allow the recipient of such services and supplies to perform dentistry. We have structured our operating subsidiaries such that two of our operating subsidiaries, PTPL and Whitecross, provide services in terms of payroll, the provision of supplies and estate management, amongst others, to the majority of our dental practices, including those operating within partnerships. Under this arrangement, we consider the services provided by PTPL and Whitecross to be VAT exempt, in so far as they relate to the provision of services or facilities that are predominantly medical in nature and are necessary to allow the recipient of such services and supplies to perform dentistry. If, however, HMRC successfully challenged our VAT-exempt status, the costs of our operations would effectively increase by an additional 20%, which would materially and adversely impact our business, financial conditions and results of operations. In addition, if VAT rates were to increase our cost base would be negatively affected to the extent of such increase, and we would not be able to recover such an increase in VAT costs.

We are subject to numerous legal and regulatory requirements governing our activities. If we fail to comply with such requirements, we may be subject to substantial fines or sanctions which could have a material adverse effect on our financial condition and results of operations or could impact our ability to conduct our business.

The provision of our dental services is subject to a high level of regulation and oversight. These regulatory requirements relevant to our business cover the entire range of our operations, from the initial acquisition of new practices, which are subject to registration and licensing requirements, to the sourcing of dentists and the recruitment and appointment of dental support staff, occupational health and safety, duty of care to patients, clinical standards, the conduct of our dentists, other dental professionals and support staff, and other stringent requirements. The majority of our operations are regulated by the same body, the CQC, or its equivalent in Scotland (HIS) and Wales (HIW). We are also subject to regulations imposed by the Health and Safety Executive, which is the national UK independent regulator for health and safety in the workplace and some legal entities may be required to hold a license with NHS Improvement, the health sector regulator in the UK.

Furthermore, new legislation, regulations, regulatory systems or regulatory bodies may be introduced and we are unable to predict their content or their effect on our business. There can be no assurance that our operations will not be adversely affected by regulatory developments.

A failure to comply with government regulations or the receipt of a negative report that leads to a determination of regulatory non-compliance or the failure of any of our dental practices to cure any defect noted in an inspection report, for example, could result in reputational damage, fines and/or the revocation of the license of any of our dental practices.

Regulatory action could also result in our management deciding to cease providing dental services in a particular region or to close a particular practice because of negative publicity or regulatory sanction. In addition, regulatory action in relation to one or more of our practices, regardless of the substantive merit or the eventual outcome of such action, may have a material adverse effect upon our reputation and brand and our ability to attract and/or retain patients, expand our business or seek licenses for new dental practices, either nationally or within the regional area in which the dental service which is subject to the regulatory action is located.

Any failure to comply with applicable regulations could have a material adverse effect on our business, financial condition, results of operations or prospects.

Our operations are also subject to regulation from the Financial Conduct Authority ("FCA") in respect of the brokering of consumer credit for high value private dentistry treatments and from the Payment Card Industry Security Standards Council in respect of the receipt of electronic card payments. We are also required to comply with the Data Protection Act 2018 and the GDPR regulations in respect of the handling of personal data. Failure to comply with these requirements could adversely impact our ability to offer certain high value private dentistry treatments and/or to receive electronic card payments which comprise a substantial proportion of our private dentistry revenues, Dental Directory revenues and patient charges for NHS treatment.

The terms of any new NHS dentistry contract, are uncertain, and the final terms of any such new NHS dentistry contract could be different from those we expect, which could have undesirable consequences for us and could result in material changes to our business.

The UK Government is currently reviewing the regulatory framework related to NHS dentistry and the NHS dentistry contract, with the goal of making NHS dentistry more efficient, accessible, high quality and focused on preventative care. In April 2016, the government commenced a prototype trial process as the next stage in the reform of the NHS dentistry contract. We currently anticipate that this process will evaluate the proposed contract over the next two to three years, although it is not yet certain if or when a new NHS dentistry contract will be introduced and adopted by an Act of Parliament. As with any significant regulatory change, there exists the risk that we may not be able to adapt to the change, or the change may prove costly or limit our ability to execute our business model and strategy. For example, the UK Government has indicated that, under the prototype trial, a partial move away from compensation based on UDA volumes may be introduced, and instead dentists will be rewarded based on a combination of number of patients registered and the number of Band 2 and/or Band 3 treatments completed. Quality metrics that measure clinical patient outcomes and the quality of the patient experience may also be increasingly used by the NHS as part of contract management. The UK Government and the GDC have also indicated that non-dentist staff such as hygienists will be able to carry out preventative services without a referral from a dentist, potentially adding competition to dental practices by independent hygienists. Since the final terms of any proposed new NHS dentistry contract are uncertain, we cannot anticipate all risks that might arise upon the adoption of any such new NHS dentistry contract, including risks that may specifically target our business model, and we cannot provide assurance that dentistry will remain under the purview of the NHS. If any such new NHS dentistry contract has terms different from those we expect, our business, financial condition and results of operations could be materially adversely affected, and it could result in material changes to our business, financial condition, results of operations or prospects.

We rely on contracts with publicly funded entities in the United Kingdom such as the NHS for a substantial proportion of our revenues, and changes to levels of funding or funding priorities under such contracts could adversely affect our business, results of operations and financial condition.

NHS dental services accounted for 63.5% of our total revenues for the year ended 31 March 2018. Overall NHS spending is currently significantly constrained as a result of the UK Government's efforts to reduce government spending, with indicative budgeted expenditure through to 2020/21 allowing for only moderate inflationary increases. While dental expenditures have not declined in nominal terms, contract uplifts have not kept up with inflation, resulting in a decline in the price paid for our NHS dentistry services in real terms. Any decline in government funding for NHS dentistry services, whether in nominal or real terms, could result in lower overall volumes of UDAs, lower prices per UDA, fewer new contract tenders or other measures that could cause declines in our revenue and materially adversely affect our business, financial condition and results of operations. Such a decline in nominal or real terms of NHS dentistry spending would also have a direct negative impact on Dental Directory, as some of the division's largest customers are NHS affiliates, and an indirect impact on Dental Directory, as a reduction in revenues for dental practices could cause them to reduce their purchases of non-essential supplies and work to reduce their overall supply costs, including services and supplies purchased from the group.

In addition, approximately 6% of our NHS dentistry contracts, principally providing orthodontic treatments and covering approximately 6% of our revenue for the year ended 31 March 2018, are Personal Dentistry Services ("PDS") contracts, which are typically fixed term contracts with a period of three to five years. These contracts are therefore subject to periodic competitive re-tender. Our failure to successfully re-tender for these contracts as they expire could adversely affect our revenues and results of operations in the future.

We may become subject to additional regulation by NHS Improvement, the health sector regulator in the UK, which could restrict our future growth through acquisitions because of our high-level of indebtedness, result in additional regulatory oversight, increase our costs and limit our ability to grow.

The Health and Social Care Act 2012 sets out NHS Improvement's core responsibilities as the sector regulator of NHS-funded health care services and tasks NHS Improvement with promoting the provision of health care services that are economic, efficient and effective. The legislation provides that all NHS providers of health care services must hold an NHS provider license issued by NHS Improvement, unless they are exempt.

On 1 April 2014 The National Health Service (License Exemptions, etc.) Regulations 2013 came into force and the regulations set out exemptions to the requirement for a provider of NHS services to hold a license with NHS Improvement. Regulation 5 exempts persons providing "primary dental services" commissioned by (or under delegated authority from) NHS England in accordance with Part 5 of the NHS Act 2006 as NHS England is already well-placed to enforce standards equivalent to those included in NHS Improvement's standard license conditions. This means that where a legal entity is providing private dental services under Part 5 of the NHS Act 2006 (i.e., pursuant to a GDS Contract) there is no requirement for that legal entity to hold a license. However, if the legal entity provides other NHS services, it will require a license unless it qualifies for another exemption. For example, Regulation 8 exempts providers whose revenue from supplying NHS services is less than £10 million in a relevant business year from the requirement to hold a license.

The legal entity providing the NHS services is the legal entity that must be licensed. For example, where a provider is part of a wider corporate group, such provider will need to be licensed in its own right if it is the legal entity responsible for providing the services (rather than the parent company) and in the case of partnerships, each partnership which provides NHS services must be licensed unless an exemption applies. The license sets out the conditions the license-holder must meet in order to provide NHS-funded services and examples of standard conditions include obligations about pricing and anti-competitive behaviour. If any legal entity owned by us is regulated by NHS Improvement, we could be subject to potentially significant costs of compliance and monitoring. In addition, based on NHS Improvement oversight of other UK healthcare sectors, regulation by NHS Improvement may entail financial and clinical health checks of our business, and NHS Improvement may prohibit us from participating in new contracts, transferring contracts or acquiring new dental practices because of our high level of indebtedness. If these or other circumstances were to materialise, they could materially and adversely affect our business, financial condition and results of operations.

Risks related to our capital structure

Our substantial indebtedness could have a material adverse effect on our financial health and could prevent us from fulfilling our obligations with respect to the Notes and the Guarantees.

We continue to have a significant amount of outstanding debt with substantial debt service obligations. At 31 March 2018, we had an aggregate principal amount of third-party financial debt of £560.0 million outstanding excluding accrued interest and unamortised debt issuance costs. We also had a further £93.2 million available for borrowing under the £100 million Revolving Credit Facility, with £1.8 million thereunder allocated to a letter of credit to our clinical directors.

Our significant leverage could have important consequences for our business and operations and for you as a holder of the Notes, which may include, but may not be limited to:

- subjecting us to additional regulation or oversight or limiting our ability to acquire or transfer NHS dentistry contracts;
- making it more difficult for us to satisfy our payment obligations with respect to the Notes, the Revolving Credit Facility and our other debts, liabilities and obligations;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments for the service of our debt, thus reducing the availability of our cash flow to fund investments in our business and for other general corporate purposes;
- limiting the availability of funds for our working capital, capital expenditures, investments, acquisitions and our other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business, patient demand, competitive pressures and the patients we serve;
- placing us at a competitive disadvantage compared to any of our competitors that have lower leverage or greater financial resources than we have;
- increasing our vulnerability to general and industry-specific adverse economic conditions;
- negatively impacting credit terms with our creditors; and
- limiting our ability to borrow additional funds and subject us to financial and other restrictive covenants.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including our obligations in respect of the Notes and Guarantees.

Despite our current level of debt, we may still be able to incur substantially more debt in the future, which may make it difficult for us to service our debt, and impair our ability to operate our businesses.

We and our subsidiaries may be able to incur substantial additional debt in the future. Although the Revolving Credit Facility Agreement and the Indenture contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances the amount of debt that could be incurred in compliance with these restrictions could be substantial and we may be able to secure such additional debt with Collateral or other assets. Under the Indenture, in addition to specified permitted indebtedness, we are able to incur additional indebtedness so long as, at the time of the incurrence, on a pro forma basis, our fixed charge coverage ratio (as defined in the Indenture) is at least 2.00 to 1.00, and in the event such indebtedness is secured indebtedness, our consolidated senior secured leverage ratio (as defined in the Indenture, which, amongst other things, exclude certain specified permitted indebtedness from the calculation of such ratio) is less than 4.50 to 1.00. Under the terms of the Indenture, we are permitted to incur future debt that may have substantially the same covenants as, or covenants that are more restrictive than, those of the Indenture. Moreover, some of the debt we may incur in the future could be structurally senior to the Notes and may be secured by collateral that does not secure the Notes. In addition, the Indenture and our Revolving Credit Facility Agreement do not prevent us from incurring obligations that do not constitute indebtedness under those agreements. The incurrence of additional debt would increase the leverage-related risks described in this Annual report.

We may not be able to generate sufficient cash to service our indebtedness, including due to factors outside our control, and we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make principal or interest payments when due on our indebtedness, including amounts drawn under the Revolving Credit Facility Agreement and our obligations under the Notes, and to fund our ongoing operations, will depend on our future performance and ability to generate cash which, to a certain extent, is subject to regulatory, general economic, financial, competitive, legislative, legal and other factors, as well as other factors discussed in these "Risk factors", many of which are beyond our control. In addition, upon the maturity of the Revolving Credit Facility, or any replacement credit facility, the Notes or any other debt which we may incur, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, we may be required to, amongst other things:

- reduce or delay business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of our debt on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

There can be no assurance that any of these alternatives can be accomplished on a timely basis, on satisfactory terms or at all. In addition, the terms of our existing and future debt, including those terms contained in the Indentures and the Revolving Credit Facility Agreement, may limit our ability to pursue any of these alternatives.

If we are not able to refinance any of our debt, obtain additional financing or sell assets on commercially reasonable terms or at all, we may not be able to satisfy our debt obligations, including under the Notes. In that event, borrowings under other debt agreements or instruments that contain cross-default or cross-acceleration provisions may become payable on demand, and we may not have sufficient funds to repay all our debts, including the Notes.

In addition, any failure to make payments of interest or principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. For a discussion of our cash flows and liquidity, see "Management's discussion and analysis of financial condition and results of operation—Liquidity and capital resources".

The Senior Secured Floating Rate Notes and drawings under the Revolving Credit Facility Agreement bear, and any future variable interest rate debt we incur will bear, interest at floating rates that could rise significantly, thereby increasing our costs and reducing our cash flow.

The Senior Secured Floating Rate Notes and drawings under the Revolving Credit Facility Agreement bear interest at floating rates of interest per annum equal to GBP LIBOR, as adjusted periodically, plus a spread. The Revolving Credit Facility Agreement also allows for drawings to be made in Euros which will bear interest at floating rates of interest per annum equal to EURIBOR, as adjusted periodically, plus a spread. These interest rates could rise significantly in the future. There can be no assurance that hedging will be available on commercially reasonable terms or at all, or that we will enter into any interest rate hedging. Hedging itself carries certain risks, including that we may need to pay a significant amount (including costs) to terminate any hedging arrangements. To the extent that interest rates or any drawings were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

The manner of calculating GBP LIBOR is under review by European regulators and others. There can be no assurance that GBP LIBOR will continue to be calculated as it has been historically, if at all.

We are subject to restrictive covenants which limit our operating and financial flexibility.

Our Revolving Credit Facility Agreement and each of the Indenture and the indenture governing the Second Lien Notes contain covenants which impose significant restrictions on the way we operate, including restrictions on our ability to:

- incur or guarantee additional debt and issue preferred stock;
- in the case of the indenture governing the Second Lien Notes, layer debt of the Issuer and the guarantors of the Second Lien Notes;
- make certain payments, including dividends or other distributions;
- make certain investments or undertake acquisitions, including participating in joint ventures and undertaking capital expenditure;

- prepay or redeem subordinated debt;
- engage in certain transactions with affiliates;
- create unrestricted subsidiaries;
- agree to limitations on the ability of our subsidiaries to make distributions;
- sell assets, or consolidate or merge with or into other companies;
- sell or transfer all or substantially all our assets or those of our subsidiaries on a consolidated basis;
- complete a change of control;
- issue or sell share capital of certain subsidiaries; and
- create or incur certain liens.

Any future indebtedness may include similar or other restrictive terms. These restrictions could materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities or consummate transactions that may be in our best interests.

In addition, the Revolving Credit Facility Agreement requires us, subject to the Revolving Credit Facility being drawn in cash by more than 35%, to maintain a specified maximum ratio of drawn super senior debt to EBITDA before non-underlying items, tested quarterly. Our ability to meet that financial ratio can be affected by events beyond our control, and we cannot assure you that we will meet such financial ratio. A breach of any of those covenants, ratio or restrictions could result in an event of default under the Revolving Credit Facility Agreement. Upon the occurrence of any event of default under the Revolving Credit Facility Agreement, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the Revolving Credit Facility Agreement and elect to declare all amounts outstanding under the Revolving Credit Facility, together with accrued interest, immediately due and payable.

In addition, a default under the Revolving Credit Facility Agreement could lead to an event of default and acceleration under other debt instruments that contain cross-default or cross-acceleration provisions, including under the Indenture and the indenture governing the Second Lien Notes. If our creditors, including the creditors under the Revolving Credit Facility, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay those amounts in full, to satisfy all other liabilities of our subsidiaries that would be due and payable and to make payments to enable us to repay the Notes, in full or in part. In addition, if we are unable to repay those amounts, our creditors could proceed to enforce the security interest in any Collateral granted to them to secure repayment of those amounts.

These covenants could affect our ability to operate our business and may limit our ability to react to market conditions or regulatory developments or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect our ability to finance our operations; pursue acquisitions, investments or alliances; restructure our organisation; or finance our capital needs.

Management

Board of directors of the Issuer

Board of directors

The Issuer is a public limited company incorporated under the laws of England and Wales. The following table sets out certain information with respect to the current members of the Issuer's board of directors:

Name	Age	Title
Tom Riall (appointed 8 May 2017)..........................	58	Executive Director
Omar Shafi Khan (appointed 16 October 2017)	43	Executive Director
Jean Bonnavion..	46	Non-Executive Director
Andrew Burgess...	53	Non-Executive Director
Karthic Jayaraman	42	Non-Executive Director

Board of directors of the Parent Guarantor and EquityCo

Board of directors

The Parent Guarantor is a private limited company incorporated under the laws of England and Wales. The following table sets out certain information with respect to the current members of the Parent Guarantor's board of directors.

Tom Riall was appointed Chief Executive Officer of the group on 8 May 2017, replacing Terry Scicluna, who left his position on 31 March 2017. Mark Robson resigned as Chief Financial Officer on 31 July 2017, although remained a Non-Executive Director of Equityco until 31 December 2017. Omar Shafi Khan was appointed Chief Financial Officer on 16 October 2017.

Name	Age	Title
Alan Bowkett*	67	Non-Executive Chairman
Tom Riall (appointed 8 May 2017)..........................	58	Executive Director
Omar Shafi Khan (appointed 16 October 2017)	43	Executive Director
Jean Bonnavion..	46	Non-Executive Director
Andrew Burgess...	53	Non-Executive Director
Barry Cockroft*	67	Non-Executive Director
Louis Elson	55	Non-Executive Director
Karthic Jayaraman	42	Non-Executive Director

** Director of EquityCo only and not of the Parent Guarantor.*

Set out below is a brief description of the business experience of the individuals who serve as members of our Board.

Alan Bowkett. Mr. Bowkett joined the Board as non-executive Chairman on 21 March 2017. He has been Chair of the Avio Board of Directors since 2010, Diaverum since May 2016 and Strix since 2008. He has stood at the helm of a number of diverse international businesses spanning the aerospace, engineering, building products, chemicals and property development industries. Most recently, Mr. Bowkett was Chairman of the diagnostic imaging and cancer treatment group Euromedic, the retirement housebuilder McCarthy & Stone and FTSE 250 listed company Redrow. In addition, he has spent time in Brussels as Chairman of the Dutch chemicals group Acordis BV, and from 2009 - 2015, was the Chairman of English Premier League side Norwich City Football Club. Mr. Bowkett holds an MBA from London Business School and a BSC from University College London.

Tom Riall. Mr. Riall joined Integrated Dental Holdings as Chief Executive Officer on 8 May 2017. He is the former Chief Executive Officer of Priory Group having held the position from April 2013 to December 2016 and led Priory through its successful sale to Acadia Healthcare Services. Just prior to his appointment, he had served as chief executive of Serco's global services business since June 2012, and prior to that its Civil Government and Home Affairs divisions having joined the business in 2005. Serco is a UK listed company that provides a variety of services and products relating to defence, home affairs, aviation, and transport. Mr. Riall has completed the Advanced Management Programme at Harvard Business School, holds an MBA from the City University Business School and a BA from Durham University.

Omar Shafi Khan. Mr. Shafi Khan is the Chief Financial Officer of Integrated Dental Holdings and joined in October 2017. He was previously Group Chief Financial Officer and Executive Board Director at Innovia Group, a private equity backed leading advanced polymer solutions company with 1,600 employees and revenues of €500 million. Prior to this, Mr. Shafi Khan spent 16 years at Royal Dutch Shell in a variety of strategy, business development and finance leadership roles. Mr. Shafi Khan has a degree in Economic, Managerial Studies and Policy Studies from Rice University, Houston, USA and is a member of the Chartered Institute of Management Accountants.

Jean Bonnavion. Mr. Bonnavion joined our Board in 2011 as a non-executive Director. He is currently a Partner at Palamon. He has served as an observer or member of the board for many Palamon investments, including Towry and SAV Credit. Prior to joining Palamon in 2005, Mr. Bonnavion spent eight years working in management consulting for Bain & Company in Paris and London. He also worked for the French Railways in London for two years as part of the Eurostar marketing team.

Andrew Burgess. Mr. Burgess is a Partner at The Carlyle Group and Managing Director advising Carlyle Europe Partners, originating and leading buy-outs for services and consumer businesses. Mr. Burgess joined Carlyle in 2005 and is based in London. Prior to joining Carlyle, Mr. Burgess was a Director of Bridgepoint, the pan-European Private Equity fund manager, where he was responsible for deal origination, execution, portfolio management and realisations. Mr Burgess received a B.Sc. (Hons) in accountancy with law and economics and is a member of the Institute of Chartered Accounts in England and Wales. He currently serves on the boards of Integrated Dental Holdings, The Innovation Group, the business process outsourcer for the insurance and automotive industries, Addison Lee, the private hire and transport services provider and PA Consulting, a leading management consultancy.

Barry Cockcroft. Mr. Cockcroft joined our Board in 2015 as a Non-Executive Director. Mr. Cockcroft is a qualified dentist and initially spent more than 25 years in general dental practice where he also represented Coventry, Warwickshire and Solihull on the General Dental Services Committee of the British Dental Association, ultimately becoming the Vice-Chairman of the Committee. In 2002 he joined the Department of Health as Deputy Chief Dental Officer, and was appointed Chief Dental Officer in 2006. During this time, he provided clinical and professional advice to NHS England, the Department of Health and Health Education England and contributed to the development of dental care in the United Kingdom. He was awarded a CBE in 2010 as well as honorary fellowships by the University of Central Lancashire, the Faculty of Dental Surgery in England and the Faculty of General Dental Practice and an honorary doctorate in dental surgery by the University of Plymouth.

Louis Elson. Mr. Elson joined our Board in 2014 as a non-executive Director. Currently, he is co-founder and managing partner at Palamon, where he has managed investments in the European healthcare sector for the past 14 years. Mr. Elson has also participated in a number of other investments with Palamon, including Towry, SARquavitae, OberScharrer Group, Retail Decisions and Feelunique. Prior to his career in private equity, Mr. Elson worked in investment banking at Goldman Sachs and in publishing at Time Inc. Mr. Elson has also held directorships in a number of companies in a variety of industries over the past twenty years.

Karthic Jayaraman. Mr. Jayaraman is a Partner at The Carlyle Group advising on investment opportunities in Europe for Carlyle Global Partners and opportunities in the healthcare sector for Carlyle Europe Partners. Mr. Jayaraman joined Carlyle in 2002 and is based in London. Prior to joining Carlyle, Mr. Jayaraman was at Credit Suisse First Boston in the Investment Banking Group. Prior to that he was an Engineer at Schlumberger Limited. Mr. Jayaraman received his Bachelor of Engineering from The University of Sydney, Australia, and his M.B.A. from the Harvard Business School.

Key members of senior management

In addition to the board of directors discussed above, the following individuals form the key members of the senior management of the Parent Guarantor:

Name	Age	Title
Tom Riall	58	Chief Executive Officer
Omar Shafi Khan	43	Chief Financial Officer
Paul Adams	58	Managing Director – Dental Directory
Steve Melton	56	Managing Director – mydentist
Tom Muir	32	Group Director of Communications
Dr Julian Perry	56	Group Commercial Director
Robert Pilling	42	Director of Business Development
Dr Nyree Whitley	47	Group Clinical Director
Nicky Walsh	50	Director of HR

Set out below is a brief description of the business experience of other key members of senior management of the group not already described.

Paul Adams. Mr Adams joined Integrated Dental Holdings on 30 April 2018 as Managing Director of the Dental Directory division. He has more than 25 years' experience in FTSE100 and private equity companies across consumer products, retail, technology, financial cash management and healthcare sectors, including the manufacture and supply of pharmaceutical and medical device products. Mr Adams has strong operations experience, having been Chief Operating Officer of Talaris Ltd, a global cash management company, then owned by private equity house, Carlyle, the current co-owner of the group. In 2012, he became CEO of Talaris, taking the business through a successful sale to Glory Ltd later that year, where he continued as Chief Executive. Most recently, Mr Adams was CEO of Redeem Group Ltd. He has an MBA from Westminster University and is co-author of The Little Black Book of Change published by John Wiley & Sons in 2016.

Steve Melton. Mr. Melton joined Integrated Dental Holdings in October 2017 as Managing Director of the mydentist division. Mr. Melton was previously Chief Operating Officer, and then Chief Executive Officer, of Circle Holdings, Europe's largest employee co-owned hospital group. He has more than three decades of experience in retail and healthcare leadership. Earlier in his career, Mr. Melton held the roles of Supply Chain Director for Argos and General Manager (Non-Food) for ASDA, as well as a number of international roles for Unilever.

Tom Muir. Mr Muir joined Integrated Dental Holdings as Group Director of Communications in August 2017. He was previously Group Director of Corporate Affairs at the Priory Group, the UK's leading provider of mental healthcare and specialist education services and, before that, Head of Communications for Circle Partnership, the employee co-owned hospital group. He has worked as a Senior Political Adviser at the Conservative Party and was a Global Emerging Markets Research Analyst for Japanese Investment Bank, Nomura. Mr. Muir has a first-class degree from Cambridge University in History and Management Science.

Dr. Julian Perry. Dr. Perry joined Integrated Dental Holdings in January 2018 as Group Commercial Director. Dr. Perry has over 30 years' experience in dentistry, including more than 20 years in multi-site ventures. Prior to IDH, he held a series of roles with Oasis Dental Care, now BUPA Dental, including Group Clinical Director and Director of Acquisitions. Dr. Perry played a key role in the successful turnaround and sale of Oasis Dental Care to BUPA in November 2016. Dr. Perry also continues to work part time as a practicing clinician, specialising in implantology.

Robert Pilling. Mr. Pilling is the Director of Business Development of Integrated Dental Holdings and joined the Group in January 2009. He worked closely with the IDH management team during the sale of the business to the Carlyle Group and Palamon in 2011 and has worked extensively in the acquisitive growth within the Group thereafter. He was previously a Senior Manager at BDO Stoy Hayward, a global firm of accountants and advisors across 154 countries. His role was primarily working on UK national turnaround business solutions and he also worked on a number of corporate finance matters. Prior to this, Mr. Pilling worked in accountancy roles for the card retailer, Birthdays plc which was later acquired by Clinton Cards. Mr. Pilling is a member of the Chartered Institute of Management Accountants.

Dr. Nyree Whitley. Dr Whitley has been with Integrated Dental Holdings since August 2014 and took up the position of Group Clinical Director in October 2017. Having qualified as a dentist in 1996 she has held posts in primary and secondary dental care and with another dental corporate. She is also a Postgraduate Dental Tutor for the Welsh Deanery and a Local Dental Advisor for Dental Protection and still practices clinical dentistry.

Nicky Walsh. Miss Walsh is the Director of HR. She joined Integrated Dental Holdings in January 2015 as Head of HR before being appointed Director of HR in June 2016. Her career in HR spans over 20 years across a number of sectors including retail, financial services, housing and commercial vehicle contract hire. Prior to joining Integrated Dental Holdings, Miss Walsh worked in senior HR management roles at Phones 4U, the mobile phone retailer, and HBOS.

The business address for each of the Board and the senior management team of the group is Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester M26 1GG, United Kingdom.

Committees

Audit Committee

Our Audit Committee is chaired by Alan Bowkett and is composed of the following members: Karthic Jayaraman and Jean Bonnavion. The role of the Audit Committee is to monitor and review our internal financial controls, risk management systems and audit function, external auditor independence and objectivity, and the effectiveness of the external auditor review process. The Audit Committee will also develop and implement our policy on the engagement of, and make recommendations to the board in relation to the appointment of, external auditors. The Audit Committee meets at least once every twelve months.

Remuneration Committee

Our Remuneration Committee is composed of Alan Bowkett, Andrew Burgess, Karthic Jayaraman, Jean Bonnavion and Tom Riall. The responsibilities of the Remuneration Committee include determining the remuneration and performance targets for senior executives and any employees who earn a salary greater than £110,000 per year, the award of rights under equity incentive plans and the setting of all management bonus schemes.

Compensation of directors and senior management

The aggregate salary and fees, performance-related remuneration and bonuses, pension contributions and other benefits paid to the directors and senior management listed under "—Board of directors of the Parent Guarantor" and "—Key members of senior management" in the year ended 31 March 2018 was £2.2 million excluding severance and other transition payments to directors and senior management that have left us during such period.

Management employment agreements

Our senior management is compensated by way of a fixed annual salary and an annual bonus. The annual bonus is typically determined based on the proportion by which our EBITDA before non-underlying items exceeds budget and certain personal objectives, in both cases reasonably determined by the Board. The Remuneration Committee reviews compensation packages for all senior executives and any employees who earn a salary greater than £110,000 per year, and all other employee compensation packages are reviewed annually by the Board.

Share ownership

Certain members of the board of directors and senior management of the group directly, or indirectly, own shares of EquityCo. See "Principal shareholders".

Principal shareholders

As at the date of this Annual report, the issued share capital of the Issuer consisted of 50,000 ordinary shares with a total par value of £1.00. All the issued share capital of the Issuer is held by the Parent Guarantor, a private limited company incorporated under the laws of England and Wales and a wholly owned subsidiary of MidCo, a private limited company incorporated under the laws of England and Wales. Other than the preference shares, the issued share capital of MidCo is held by EquityCo, a private limited company incorporated under the laws of England and Wales.

Ownership in EquityCo

EquityCo has five classes of ordinary equity capital. The ordinary shares of EquityCo are designated as A1, A2, B, E1 and E2 shares. The A1 ordinary shares have a nominal value of £0.01, the A2 shares and B shares each have a nominal value of £0.04, the E1 shares have a nominal value of £0.10 and the E2 shares have a nominal value of £0.001. The following table sets out certain beneficial ownership information regarding the holders of over 5% of the ordinary shares in EquityCo, and the number and percentage owned by each shareholder as at 31 March 2018:

	Carlyle[(1)]		**Palamon[(2)]**		**Management[(3)]**		**Total**	
	(‘000)	%	(‘000)	%	(‘000)	%	(‘000)	%
A1 Ordinary Shares	1,282	57.5	400	17.9	–	–	1,682	75.4
A2 Ordinary Shares	–	–	–	–	18	0.8	18	0.8
B Ordinary Shares	–	–	–	–	300	13.5	300	13.5
E1 Ordinary Shares.............	–	–	–	–	82	3.7	82	3.7
E2 Ordinary Shares.............	–	–	–	–	147	6.6	147	6.6
Total..................................	**1,282**	**57.5**	**400**	**17.9**	**547**	**24.6**	**2,229**	**100.0**

(1) The Carlyle Group is the beneficial owner of shares in EquityCo held by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle.

(2) Palamon Capital Partners is the beneficial owner of shares in EquityCo held by its fund Palamon European Equity II, L.P. In addition, ADP Primary Care Acquisitions Limited, an entity controlled by Palamon, holds preference shares in MidCo with a par value of £20 million.

(3) Current and former members of our senior management hold interests in the A2 and B ordinary shares of EquityCo indirectly through their interests in Turnstone Management Investments Limited. The E1 and E2 ordinary shares were issued on 12 June 2017 and are held directly by certain members of our senior management team and by an employee benefit trust on behalf of other members of our senior management. No member of management individually or together with such member of management’s immediate family members or personal trust beneficially holds more than 5% of the ordinary shares of EquityCo.

Information about our principal shareholders

Carlyle

Funds formed and managed by The Carlyle Group hold 57.5% of our equity interests. The Carlyle Group is a global alternative asset manager with $201 billion of assets under management across 324 investment vehicles as of 31 March 2018. Founded in 1987 in Washington, DC, Carlyle has grown into one of the world’s largest and most successful investment firms, with more than 1,575 professionals operating in 31 offices in North America, South America, Europe, the Middle East, Sub-Saharan Africa, Japan, Asia and Australia. Carlyle’s investment in IDH is made through its €5.4 billion third European Buyout fund.

Palamon

Funds formed and managed by Palamon Capital Partners hold 17.9% of our equity interests. Palamon Capital Partners is a private equity partnership that invests throughout Europe in service-oriented businesses with high growth potential. Palamon manages funds with capital commitments of €1.5 billion. Palamon’s other investments in the healthcare industry include SARquavitae, Prospitalia, POLIKUM and OberScharrer Group.

Subscription and Shareholders Agreement

On 28 January 2011, EquityCo, MidCo and BidCo, inter alios, entered into a subscription and shareholders' agreement (the "Subscription and Shareholders' Agreement"), amended on 11 May 2011, relating to the shares held in EquityCo by each of Carlyle and Palamon (together, the "Lead Investors") and certain members of our senior management, and governing the management and affairs of EquityCo and its subsidiaries.

The Subscription and Shareholders' Agreement contains provisions, amongst other things, regulating (i) the proceedings and general meetings of the Board, the BidCo board of directors and the board of directors of Turnstone Management Investments Limited, (ii) matters which are reserved for the prior written consent of the Lead Investors, (iii) restrictions and rights on transfers of debt and equity instruments in EquityCo or Turnstone Management Investments Limited (including rights of first offer and tag-along and drag-along rights), (iv) pre-emption rights, (v) acquisition and rescue issues, (vi) the manner and process of exit, (vii) rights and obligations of holders of debt and equity instruments in EquityCo or Turnstone Management Investments Limited (including distributions and ranking), (viii) the rights and obligations of Management, (ix) rights and obligations of EquityCo, MidCo, the Parent Guarantor, BidCo and Turnstone Management Investments Limited and (x) matters relating to indemnification of the parties under the Subscription and Shareholders' Agreement.

Certain relationships and related party transactions

In the ordinary course of business we may enter into transactions with related parties. Described below are the most significant transactions with related parties.

Letter of credit to clinical directors

Certain of our clinical directors act as partners in the dental practices we acquire through partnership structures. In order to indemnify such clinical directors against the risks inherent in these arrangements, Lloyds Bank has issued a letter of credit in favour of such clinical directors in the amount of £1.8 million, which letter of credit is issued under our Revolving Credit Facility.

Description of material debt instruments

For a description of our material debt instruments, please see "Description of other indebtedness" and "Description of the Notes" in the offering memorandum dated 22 July 2016 in respect of the £275.0 million 6¼% Senior Secured Fixed Rate Notes due 2022 and our £150.0 million Senior Secured Floating Rate Notes due 2022 issued by IDH Finance plc, which has been posted to our website at www.mydentist.co.uk under "—Investors—Archive".

Certain definitions

In this Annual report:

"**BDA**"	means the British Dental Association;
"**BF Mulholland**"	means BF Mulholland Limited, a supplier of dental consumables, materials and equipment to the Northern Irish and Irish markets, that we acquired on 8 September 2017;
"**BidCo**"	means Turnstone Bidco 1 Limited;
"**Board**" or "**Directors**"	means the Board of Directors of the Issuer;
"**Carlyle**"	means The Carlyle Group;
"**CMA**"	means the United Kingdom's Competition and Markets Authority;
"**Collateral**"	has the meaning ascribed to it in "Description of the Notes—Security";
"**CQC**"	means the United Kingdom's Care Quality Commission;
"**dbg**"	means the Dental Buying Group, a UK supplier of medical and dental equipment and supplies, that we acquired on 16 April 2013;
"**Dental Directory**"	means the supplier of dental products, including orthodontics, oral hygiene, surgical accessories and equipment, that we acquired on 17 April 2014, together with a number of other smaller businesses including dbg, Dolby Medical, Med-FX, PDS Dental Laboratory and BF Mulholland which were, together, previously known as the "practice services" division.
"**Department of Health**"	means the United Kingdom's Department of Health;
"**Dolby Medical**"	means Dolby Medical Limited, a dental equipment and services supplier that we acquired on 31 March 2016;
"**EquityCo**"	means Turnstone Equityco 1 Limited;
"**EU**"	means the European Union;
"**Euro**" or "**€**"	means the lawful currency of the Member States of the European Union participating in the European Monetary Union;
"**FSMA**"	means the Financial Services and Markets Act 2000;
"**GDC**"	means the United Kingdom General Dental Council;
"**GDS Contract**"	means a general dental services contract with NHS England;
"**GP**"	means a general practitioner of medicine;
"**Guarantees**"	means the guarantees of the Notes on a senior secured basis by the Guarantors;
"**Guarantors**"	means, collectively, the Parent Guarantor and the Subsidiary Guarantors;
"**HMRC**"	means HM Revenue & Customs;
"**IDH**"	means Integrated Dental Holdings;
"**IFRS**"	means the International Financial Reporting Standards as adopted by the European Union;

"**Indenture**"	means the indenture governing the Notes dated as at the Issue Date by and amongst, *inter alios*, the Issuer and the Trustee, as described in "Description of the Notes";
"**Issue Date**"	means 5 August 2016;
"**Issuer**"	means IDH Finance plc, a public limited company incorporated under the laws of England and Wales on 7 May 2013, with registered number 08516986. and a registered office located at Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester, M26 1GG, United Kingdom;
"**Med-FX**"	means Med-FX Limited, the facial aesthetics business that we acquired on 31 August 2015;
"**MidCo**"	means Turnstone Midco 1 Limited, a wholly owned subsidiary of EquityCo and the indirect parent company of the Issuer;
"**mydentist**"	means our dentistry business, formarly known as "patient services";
"**NHS**"	means the United Kingdom's National Health Service;
"**NHS England**"	means England's independent national health services commissioning board, an executive non-departmental public body under the Department of Health in England, formerly known as the NHS Commissioning Board;
"**NHS Improvement**"	means the NHS organisation responsible for overseeing foundation trusts and NHS trusts, as well as independent providers that provide NHS-funded care;
"**NHS Regions**"	means one of the four NHS regions or their respective sub-regions that act on behalf of NHS England, with responsibilities for primary care contract management in England;
"**Notes**"	means, collectively, the Senior Secured Fixed Rate Notes and the Senior Secured Floating Rate Notes;
"**Palamon**"	means Palamon Capital Partners;
"**Parent Guarantor**"	means Turnstone Midco 2 Limited, the direct parent company of the Issuer;
"**PDS Contract**"	means a personal dental services contract with NHS England;
"**PDS Dental Laboratory**"	means PDS Dental Laboratory Leeds Limited, a laboratory providing crown and bridge work, dentures and implant assistance to dentists across the United Kingdom that we acquired on 18 March 2016;
"**Pound**," "**pounds sterling**," "**U.K. pound**" or "**£**"	mean the lawful currency of the United Kingdom;
"**Previous Fixed Rate Notes**"	means the £200.0 million in aggregate principal amount of the Issuer's 6% senior secured fixed rate notes due 2018 issued on 30 May 2013 and redeemed on 5 August 2016 as part of the Previous Notes Redemption;
"**Previous Floating Rate Notes**"	means the £225.0 million in aggregate principal amount of the Issuer's senior secured floating rate notes due 2018 issued on 30 May 2013 and 9 May 2014 and redeemed on 5 August 2016 as part of the Previous Notes Redemption;
"**Previous Notes**"	means, collectively, the Existing Fixed Rate Notes, the Previous Floating Rate Notes and the Previous Second Lien Notes;

"**Previous Notes Redemption**".................	means the satisfaction and discharge of the Issuer's obligations under the indentures governing the Previous Notes on 5 August 2016 in connection with the Refinancing;
"**Previous Revolving Credit Facility**".....	means the revolving credit facility governed by the Previous Revolving Credit Facility Agreement;
"**Previous Revolving Credit Facility Agreement**"...	means the £100.0 million super senior revolving credit facility agreement dated as at 20 May 2013, amongst, *inter alios*, Turnstone Midco 2 Limited, Turnstone Bidco 1 Limited and Credit Suisse AG, London Branch and J.P. Morgan Limited as arrangers, which was replaced by the Revolving Credit Facility Agreement from 25 July 2016;
"**Previous Second Lien Notes**".................	means the £75.0 million in aggregate principal amount of the Issuer's 8½% second lien notes due 2019 issued on 30 May 2013 and redeemed on 5 August 2016 as part of the Previous Notes Redemption;
"**Private Placement**"................................	has the meaning ascribed to it in "Summary—The Refinancing—Private Placement of Second Lien Notes";
"**PTPL**"...	means Petrie Tucker & Partners Limited;
"**Refinancing**"	means the transactions described under "Summary—The Refinancing";
"**Registrar**"...	means Elavon Financial Services DAC;
"**Revolving Credit Facility**".....................	means the revolving credit facility governed by the Revolving Credit Facility Agreement;
"**Revolving Credit Facility Agreement**"...	means the £100.0 million super senior revolving credit facility agreement dated 25 July 2016, amongst, *inter alios*, the Parent Guarantor, BidCo, Credit Suisse AG, London Branch, ING BANK N.V., London Branch, Lloyds TSB Bank PLC, Mizuho Corporate Bank Ltd, Societe Generale, London Branch, and The Royal Bank of Scotland plc as arrangers and the Security Agent;
"**Second Lien Notes**"	means the £130.0 million in aggregate principal amount of the Issuer's senior secured fixed rate notes due 2023 placed by the Issuer with certain private investors pursuant to the Private Placement on 5 August 2016.
"**Security Agent**"	means U.S. Bank Trustees Limited;
"**Security Documents**".............................	means the agreements to be entered into between, amongst others, the Security Agent, the Issuer and the Guarantors pursuant to which security interests in the Collateral are granted to secure the Notes, which as at the Issue Date consist of (i) an English law governed debenture, (ii) a Scots law governed bond and floating charge and (iii) a Scots law governed share pledge;
"**Senior Secured Fixed Rate Notes**"........	means the £275.0 million in aggregate principal amount of the Issuer's 6.25% senior secured fixed rate notes due 2022 issued on 5 August 2016;
"**Senior Secured Floating Rate Notes**" ...	means the £150 million in aggregate principal amount of the Issuer's senior secured floating rate notes due 2022 issued on 5 August 2016;
"**Sponsors**"	means, together, Carlyle and Palamon;
"**Subsidiary Guarantors**".........................	means those companies set out under "Listing and general information—Subsidiary Guarantors";

"**Trustee**"	means US Bank Trustees Limited in its capacity as trustee of the Senior Secured Fixed Rate Notes and the Senior Secured Floating Rate Notes, as the context requires.
"**UDA**"	means unit of dental activity;
"**UK Government**"	means the government of the United Kingdom;
"**United Kingdom**" or "**UK**"	means the United Kingdom of Great Britain, Northern Ireland, Guernsey, Jersey and the Isle of Man;
"**United States**," "**US**" or "**U.S.**"	means the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia;
"**US dollars**" or "**US$**"	means the lawful currency of the United States;
"**we**" or "**us**"	means the Parent Guarantor and its subsidiaries, unless where expressly stated otherwise or where the context requires otherwise; and
"**Whitecross**"	means Whitecross Dental Care Limited.

Turnstone Midco 2 Limited

Annual report and consolidated financial statements

Registered number 07496754

Year ended 31 March 2018

Contents

Strategic report for the year ended 31 March 2018

The directors present the Strategic report for the year ended 31 March 2018.

Principal activities

The principal activity of the company during the year was to act as a holding company. The principal activities of the group of companies owned by Turnstone Midco 2 Limited ('the group') are the operation of dental practices and the provision of materials, services and equipment to dental practices.

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

Business ownership

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

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

Carlyle and Palamon have joint control of Turnstone Midco 2 Limited, through their respective interests in Turnstone Equityco 1 Limited, the company's ultimate parent, which are shown below. Carlyle's majority holding is owned by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle. Palamon's ownership of the group is through its fund Palamon European Equity II, L.P. As at 31 March 2018, senior managers of the group held 24.6% of the equity interest in the company (2017: 15.9%).

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

Ownership Structure of Turnstone Equityco 1 Limited

Number of shares (% of total)	Management		Carlyle		Palamon		Total	
'A1' Ordinary ('000)	-	-	1,282	57.5%	400	17.9%	1,682	75.5%
'A2' Ordinary ('000)	18	0.8%	-	-	-	-	18	0.8%
'B' Ordinary ('000)	300	13.5%	-	-	-	-	300	13.5%
'E1' Ordinary ('000)	82	3.7%	-	-	-	-	82	3.7%
'E2' Ordinary ('000)	147	6.6%	-	-	-	-	147	6.6%
Total	**547**	**24.6%**	**1,282**	**57.5%**	**400**	**17.9%**	**2,229**	**100.0%**

Business review

Following a number of new senior management appointments during the year, the group now has a new set of seven strategic priorities, as the business works to reverse the decline in trading performance experienced in recent years and restore growth to each of our two business units:

mydentist
Through mydentist, the group owns and manages a national chain of dental practices, with 643 sites at 31 March 2018 (2017: 674). The dental practices, operating mainly under the "mydentist" brand, offer a broad range of primary care dental services, including dental examinations, fillings and extractions, as well as more specialised dental services such as cosmetic dentistry and orthodontics. The group is the largest provider of NHS dentistry in the UK, with around 64% of group revenue coming from NHS contracts (2017: 66%).

The division's main trading entities are Petrie Tucker and Partners Limited, Whitecross Dental Care Limited and IDH Limited. mydentist has continued to be affected by a challenging trading environment during the year, with the NHS dentistry business, in particular, being adversely impacted by a declining level of Unit of Dental Activity ('UDA') delivery. This decline has been due to a number of factors, including:

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

Strategic report for the year ended 31 March 2018 *(continued)*

Business review *(continued)*

In response to these factors, mydentist has needed to recruit more dentists in order to fulfil the NHS contracts. During the year ended 31 March 2018, the business has significantly expanded its internal recruitment team in order to accelerate dentist recruitment from both UK and overseas channels. Over the course of the year, a number of well attended resourcing days have been held both across the UK and overseas. As a result of these actions, the group has added a net additional 232 dentists over the course of the year.

In addition, management have conducted a thorough review of the group's portfolio of dental practices to identify those which are no longer viable due to structural issues such as, for example, very low UDA contract values or where geographical isolation has made it difficult to recruit dentists. As a result of this review, decisions were taken to close or sell 49 dental practices. By 31 March 2018, the group had sold 13 practices and closed 19 practices, including two which were closed at the end of the year ended 31 March 2017. The remaining 17 practices are expected to be closed or sold by 30 September 2018. In addition, after the period end, the decision has been taken to close or sell a further 21 practices which we also expect to complete by 30 September 2018.

During the year to 31 March 2018, mydentist also acquired one practice and merged two practices into other existing practices. The table below sets out the movements in the number of dental practices owned by the group:

Movement in the number of dental practices Year ended 31 March	2018 No.	2017 No.
Opening	**674**	**672**
Acquired	1	6
Merged into other existing practices	(2)	(2)
Closed	(17)	(2)
Sold	(13)	-
Closing	**643**	**674**

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

mydentist has four dental practices participating in the NHS's prototype trial process which commenced in April 2016 as the next stage in the proposed reform of the NHS dentistry contract. Under the proposed changes, NHS dentistry contracts could combine aspects of the existing UDA-based system with fixed payments for the number of patients treated. The prototype format also involves active performance management by NHS England, which includes monitoring of operational key performance indicators, such as clinical effectiveness, best practice, patient experience, safety and data quality. The prototype programme is at an early stage and the group does not expect any changes to be implemented until 2020 at the earliest, if at all, and anticipates that there would be little change to overall contracted values.

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

Strategic report for the year ended 31 March 2018 *(continued)*

Business review *(continued)*

Dental Directory *(continued)*
The principal trading entities of The Dental Directory are Billericay Dental Supply Co. Limited trading as The Dental Directory, along with a number of smaller businesses including DBG (UK) Limited, Dolby Medical Limited, Med-FX Limited and PDS Dental Laboratory Leeds Limited. During the year ended 31 March 2018, The Dental Directory has continued to grow both organically and through the acquisitions of BF Mulholland Limited on 8 September 2017 and the trade, assets and liabilities of Torque Orthodontics Limited (‘Torque Orthodontics’), which completed on 30 June 2017. BF Mulholland Limited supplies a similar range of dental consumables, materials and equipment to those offered by Dental Directory, but to the Northern Irish and Irish markets, and therefore extends the geographic reach of The Dental Directory. Torque Orthodontics is a small supplier of orthodontic appliances and materials.

Dental Directory has continued to grow its revenues during the year ended 31 March 2018, however gross margins have declined both as a result of a change in the sales mix, with higher sales of lower margin products such as facial aesthetics, as well as a continuation of the increase in cost of goods sold following the decline in the value of Sterling against the Euro. The foreign exchange impact continues to be partially mitigated by market based reviews of pricing.

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

Consolidated income statement
The group’s results for the year are summarised below.

Summary Financial Results Year ended 31 March	**2018 £m**	**2017 £m**
Revenue	**580.5**	**585.8**
Gross profit	**252.7**	**261.0**
Operating loss	**(100.8)**	**(22.7)**
Amortisation	32.1	32.8
Depreciation	21.7	20.7
Amortisation of grant income	(0.1)	(0.1)
Impairment of goodwill and intangible assets	66.3	30.0
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	29.8	1.7
Differences between contingent consideration paid and estimates initially recognised	2.9	(2.2)
Value of employee services arising from shares granted	0.8	-
Other non-underlying items	2.5	8.9
Foreign exchange	(0.1)	(0.3)
EBITDA before non-underlying items	**55.1**	**68.8**

Revenue from mydentist was £468.4 million (2017: £480.9 million) with £368.5 million (2017: £385.1 million) arising from NHS dentistry services and £99.9 million from private dentistry services (2017: £95.8 million). Revenue from NHS dentistry services comprised 63.5% (2017: 65.7%) of total group revenue with private dentistry services contributing 17.2% (2017: 16.4%). Revenue from Dental Directory, net of supplies to mydentist practices, was £112.1 million (2017: £104.9 million) or 19.3% of the group total (2017: 17.9%).

The group has continued to experience strong demand for private dentistry services within our existing practices, with like-for-like revenue having increased by 5.0% (2017: 7.0%). However this growth has been offset by a reduction in revenue from NHS dentistry services, where we have seen a reduction in the overall UDA delivery percentage, after temporary and permanent handbacks, to 86.1% for the year ended 31 March 2018 compared with 90.4% for the year ended 31 March 2017. The continuing decline in UDA delivery rates is disappointing and is the result of a combination of factors, including a reduction in the number of hours dentists are making themselves available for work, a reduction in the volume of contracted UDA’s held by dentists, and the impact of growth in private revenues. In addition, the improving UK economy has reduced the number of exempt patients being seen by mydentist, which has resulted in a change in UDA band mix away from higher value band 2 (3 UDA’s) and 3 (12 UDA’s) treatments. In response to these factors, the group has needed to recruit more dentists in order to fulfil the NHS contracts. During the year ended 31 March 2018, management has significantly expanded the group’s internal recruitment team in order to accelerate dentist recruitment from both UK and overseas channels. Over the course of the year, a number of well attended resourcing days have been held both across the UK and overseas and the group has added a net additional 232 dentists.

Strategic report for the year ended 31 March 2018 *(continued)*

Business review *(continued)*

Consolidated income statement *(continued)*
As these new clinicians settle in and their productivity starts to increase, management expects the decline in UDA delivery we have experienced to start to reverse as we go into the year ending 31 March 2019.

Gross profit for the group decreased by £8.3 million from £261.0 million for the year ended 31 March 2017 to £252.7 million for the year ended 31 March 2018. Gross margin declined from 44.6% for the year ended 31 March 2017 to 43.5% for the year ended 31 March 2018. In mydentist, gross margin improved from 46.8% for the year ended 31 March 2017 to 47.1% for the year ended 31 March 2018, principally due to savings in dentist fees, with materials and laboratory costs remaining broadly in line with the previous year. In particular, locum costs were £1.5 million lower than the year ended 31 March 2017 due to measures taken to increase locum productivity, as well as a reduction in the number of UDA's delivered by locums. The gross margin in Dental Directory was 28.4%, a decrease of 1.4 percentage points from 29.8% for the year ended 31 March 2017. This reduction results both from a change in the sales mix, with higher sales of lower margin products such as facial aesthetics, and a continuation of the increase in cost of goods sold following the decline in the value of Sterling against the Euro. The foreign exchange impact continues to be partially mitigated by market based reviews of pricing.

Staff costs have also increased, across the group's dental practices, support centre and Dental Directory as a result of living wage increases, the introduction of the apprenticeship levy and headcount increases to underpin future growth. The group's key profit performance indicator is earnings before interest, tax, depreciation, amortisation and non-underlying items ('EBITDA before non-underlying items'). Management consider this the key operating indicator as it measures the underlying performance of the group and the ability of the group to service its debt.

	2018 **£m**	**2017** **£m**
Operating loss	**(100.8)**	**(22.7)**
Net finance costs	(43.0)	(54.4)
Loss before income tax	(143.8)	(77.1)
Income tax credit	11.5	11.2
Loss for the year	**(132.3)**	**(65.9)**

Consolidated balance sheet
Goodwill and intangible assets amount to £620.6 million (2017: £740.5 million) and arose from the acquisition of the Integrated Dental Holdings ('IDH') and Associated Dental Practices ('ADP') groups in May 2011 together with the acquisition of further dental practices and businesses complementary to Dental Directory over the past seven years. Amounts ascribed to intangible assets acquired through business combinations are determined by using appropriate valuation techniques, including estimated discounted future cash flows. The principal intangible assets recognised by the group include contractual arrangements and relationships, customer relationships and brands or trademarks. During the year ended 31 March 2018, the group has recorded the following impairment charges, reflecting the challenging trading conditions that have been experienced and the decisions taken to dispose of dental practices as a result of the portfolio review. Further details can be found in notes 15 and 16 to the financial statements:

- An impairment of £60.2 million was recognised during the year against the carrying value of goodwill within mydentist. This impairment principally reflects the decline that has been experienced in UDA delivery performance, and the impact of this upon estimated discounted future cashflows.
- An impairment of £5.3 million was recorded against the carrying value of intangible assets arising from contractual arrangements within mydentist as a result of the permanent contract hand-backs agreed with NHS Regions during the year. The permanent contract cuts have affected a limited number of practices where delivery rates have been consistently difficult to maintain due to either dentist or patient shortages.
- An impairment of £0.8 million was recorded against the carrying value of goodwill and intangible assets within Dental Directory, specifically in relation to our acquisition of PDS Dental Laboratory Leeds Limited, following the loss of a contract significant to that business.
- Impairments and other costs or charges totalling £29.8 million have been recorded against the carrying value of goodwill, intangible assets, tangible assets and other current assets within mydentist, to write the carrying value of assets associated with practices which have been identified for closure or sale through the portfolio review down to their estimated recoverable amounts. Where the decision had been taken to sell a practice before the year end, the estimated recoverable amount is included within assets held for sale.

Property, plant and equipment of £92.4 million (2017: £98.8 million) includes £18.6 million (2017: £19.5 million) of additions during the year resulting from upgrades to the group's dental practices, equipment and facilities.

Strategic report for the year ended 31 March 2018 *(continued)*

Business review *(continued)*

Consolidated balance sheet *(continued)*
Throughout the year ended 31 March 2018, the group had the following borrowings, further details of which can be found in note 24 to the financial statements:

- £275 million 6.25% senior secured notes due 15 August 2022;
- £150 million LIBOR plus 6.00% senior secured floating rate notes due 15 August 2022;
- £130 million LIBOR plus 8.00% second lien notes due 15 August 2023, with LIBOR subject to a minimum floor of 1.00%; and
- £100 million Super Senior Revolving Credit Facility ('SSRCF') available until 5 August 2022 with interest payable in arrears at a rate of LIBOR plus 3.5% per annum. As at 31 March 2018, £5.0 million had been drawn against this facility, with a further £1.8 million committed against a letter of credit, leaving £93.2 million available to the group.

At 31 March 2018, borrowings totalled £547.6 million (2017: £540.2 million) comprising the senior and second lien debt as detailed above, net of unamortised arrangement fees, and £5.0 million (2017: £nil) drawn against the SSRCF.

Consolidated cash flow statement
Cash generated from operations of £65.9 million (2017: £72.9 million) reflects the strong cash generation properties of the group's business units.

After the servicing of external finance costs, investments made in the practice estate, the acquisitions of BF Mulholland Limited, Torque Orthodontics, and one dental practice during the year, there was a net cash outflow before financing transactions, of £1.4 million (2017: inflow of £4.3 million). The group also made net drawdowns of £5.0 million against the SSRCF during the year (2017: net £6.6 million outflow). As a result, cash increased by £3.6 million (2017: decrease of £2.3 million) to leave a closing cash balance of £16.2 million (2017: £12.6 million).

Subsequent events

To the date of this report, the group has closed a further four practices and sold a further three practices as part of the ongoing disposal of those practices identified through the portfolio review. In addition, since the year end, the group has taken the decision to close or sell a further 21 practices.

Principal risks and uncertainties

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

The group receives, generates and stores significant volumes of personal data containing patients personal and medical information. The group is therefore subject to the privacy laws with respect to the use, transfer and disclosure of this data, including the European General Data Protection Regulation ('GDPR'), which is applicable from May 2018. During the course of the year, the group has been preparing its IT systems to ensure that the group is compliant with the new regulations. A failure to adequately safeguard confidential patient information could result in significant fines, penalties and litigation.

Strategic report for the year ended 31 March 2018 *(continued)*

Principal risks and uncertainties *(continued)*

NHS contract

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

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

In addition, the NHS is currently in the process of competitively re-tendering the majority of its PDS contracts to deliver orthodontic dentistry services across England. The group is currently preparing bids with the aim to both retain the group's existing orthodontic dentistry contracts, as well as win additional orthodontic dentistry contracts.

Clinicians and other qualified staff

The group requires skilled clinicians, hygienists and nurses in order to care for its patient base. The expansion of the European Union ('EU') over recent years and, until recently, the increased capacity of UK dental schools have increased the supply of clinicians available to the group. The directors recognise the importance of quality clinicians and their self-employed status for ensuring the continued success of the group. The group manages the risk associated with the supply of clinicians through offering access and subscription to training and development programmes to enhance retention. Due to factors which have resulted in a decrease in UDA delivery rates over recent years, the group is currently working to recruit additional clinicians in order to deliver its NHS contracts. In addition, the UK's decision to withdraw from membership of the EU may impact the supply of clinicians in future and the group continues to monitor developments.

The group continues to invest in improving pay structures and incentivisation for nurses and other clinical staff and continues to monitor the impact of future increases to the National Living Wage and other potential regulatory future changes upon its staffing structures.

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

Financial risk management

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

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls to monitor both the risks and adherence to limits set. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. Further details can be found in note 31 to the financial statements.

Strategic report for the year ended 31 March 2018 *(continued)*

KPIs – financial and non-financial

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

KPIs **Year ended 31 March**	**2018**	**2017**
Revenue (£'m)	580.5	585.8
EBITDA before non-underlying items (£'m)	55.1	68.8
Operating loss (£'m)	(100.8)	(22.7)
NHS dentistry services as a percentage of group revenue (%)	63.5%	65.7%
Private dentistry services as a percentage of group revenue (%)	17.2%	16.4%
Dental Directory revenue as a percentage of group revenue (%)	19.3%	17.9%
Like-for-like private revenue growth (%)	5.0%	7.0%
Like-for-like private revenue growth per working day (%)	6.7%	5.7%
UDA(1) delivery (% of total contract, after temporary and permanent handbacks)	86.1%	90.4%
Total number of UDAs(1) delivered (million)	11.7	12.6
Gross profit margin (%)	43.5%	44.6%
Overheads as a percentage of revenue (%) (2)	34.4%	33.1%
EBITDA margin (%)	9.5%	11.7%
Number of dental practices	643	674
Proforma LTM EBITDA (£'m) (3)	57.3	70.3
Net bank and bond debt (£'m)	531.5	527.6
Net debt to EBITDA	9.64	7.67
Net debt to Proforma LTM EBITDA	9.28	7.51
Cash generated from operations (£'m)	65.9	72.9
Cash generated from operations net of interest paid (£'m)	25.6	34.4

(1) UDA – Units of Dental Activity, measures set by the NHS Regions as part of the contract terms. The UDA delivery % shown above is stated after temporary and permanent handbacks agreed in-year. The UDA delivery % before handbacks for the year ended 31 March 2018 was 82.7% (2017: 88.0%).

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

(3) Proforma EBITDA has been calculated in accordance with the methodology set out in IDH Finance Plc Offering Memorandum dated 22 July 2016 and represents the estimated EBITDA of the group after adjusting for the full year ownership effect of acquisitions and disposals completed during the year ended 31 March 2018.

Strategic report for the year ended 31 March 2018 *(continued)*

Social matters

The group owns a national chain of dental practices, operating principally under the 'mydentist' brand, with 643 sites throughout the UK as at 31 March 2018 (2017: 674). Our dental practices provide community dental services to more than 5 million patients throughout the UK and offer a broad range of, and choice between, NHS and private dental treatments. The UK Government has a long term goal of increasing access to NHS dentistry for the UK population. As at 31 March 2018, mydentist held contracts for approximately 15% of all units of dental activity ('UDA's') commissioned by the NHS in England and Wales. Therefore, the group is the largest provider of NHS dentistry services in the UK and plays an important role towards the UK Government achieving its access target.

The group has also used its scale to help raise awareness of the importance of dental hygiene, particularly amongst children. Tooth decay is nearly entirely preventable in around 90% of cases, however 25% of all five year olds have tooth decay, and it is currently the number one reason why a child aged between five and nine enters hospital in order to have a general anaesthetic, the point at which it is too late. Around 45,000 children up to the age of 19 were admitted to hospital with tooth decay in 2016/17 and it is also one of the main reasons for school absence. It can also have a longer term impact upon physical and mental health, development, confidence and educational achievement. mydentist kids' clubs, involving visits to schools, nurseries and other organisations throughout the UK, have provided expert advice to children and parents on subjects including brushing techniques and tooth-friendly foods, through interactive role-play and games. The group also has online information, resources, and an app, to assist parents in improving the dental hygiene of their children, which can be found at www.mydentist.co.uk/dental-health/dental-treatment/kids-club.

In addition, the group continues to work closely with our clinical charity partner, Bridge2Aid. Bridge2Aid take clinicians from the UK to some of the poorest areas of the developing world to provide emergency dental care, as well as training for local health workers to allow them to continue to provide vital treatment. Each year the group provides funding for two of our clinicians to go to Tanzania with the charity. In 2017, our clinicians helped to train health workers in the Morogoro region to provide sustainable emergency dentistry to remote communities.

The group also has a charity committee, comprised of employees from across the business, who organise a range of fundraising events throughout the year to support the group's chosen charity, which is currently Cancer Research UK. All employees are encouraged to participate. During the year ended 31 March 2018, our employees' fundraising activities raised £98,000 for Cancer Research UK.

Environmental impact

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

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

To achieve these aims, the group has an environmental committee, which comprises employees from across the business. The committee's objective is to identify and promote changes that will contribute towards the group's aims. A number of initiatives are currently being rolled-out across the business, including reducing staff travel through the use of on-line meetings; increasing the use of low power LED lighting across the estate; and initiatives across our dental practices and in our support centre to reduce waste. In addition, the group contracts with a third party to manage the safe and responsible disposal of all of our clinical waste.

Strategic report for the year ended 31 March 2018 *(continued)*

People

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

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

The group is keen to ensure that our employees and self employed clinicians have a voice in how the group operates. As such, a number of initiatives are in place to enable us to engage with our people. These include ‘town hall’ meetings conducted regionally by our CEO with local practice staff and clinicians; regular online anonymised surveys; and a forum through which employee representatives can discuss issues openly with management. Additionally, the group regularly briefs employees on matters of concern to them, including the financial and economic performance of their business units.

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

Human rights

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

Anti-corruption and bribery

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

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

Strategic report for the year ended 31 March 2018 *(continued)*

Future outlook and strategy

Whilst the market continues to be challenging for dentistry in the UK, with pressures on NHS funding and consumer spending, the directors believe that the group continues to be well positioned to take advantage of further opportunities. In particular, the group will continue to focus upon reversing the decline in trading performance experienced in recent years and restoring growth to each of our two business units through:

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

On behalf of the Board

O Shafi Khan
Director
26 June 2018

Directors' report for the year ended 31 March 2018

The directors present their report and the audited consolidated financial statements of Turnstone Midco 2 Limited for the year ended 31 March 2018.

Financial risk management

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

Future developments

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

Proposed dividend

The directors do not recommend the payment of a dividend for the year (2017: £nil).

Directors

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

J Bonnavion	
A Burgess	
L Elson	
K Jayaraman	
T Riall	(appointed 8 May 2017)
O Shafi Khan	(appointed 16 October 2017)
WHM Robson	(resigned 31 July 2017)

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

Statement of directors' responsibilities

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

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

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

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

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

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

Directors' report for the year ended 31 March 2018 *(continued)*

Employees

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

Political and charitable contributions

The group made charitable contributions totalling £41,224 during the year (2017: £6,654). The group made no political donations during the year (2017: £nil).

Policy and practice on the payment of creditors

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

Subsequent events

To the date of this report, the group has closed a further four practices and sold a further three practices as part of the ongoing disposal of those practices identified through the portfolio review. In addition, since the year end, the group has taken the decision to close or sell a further 21 practices.

Going concern

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

The group meets its day to day working capital requirements through cash generated from operations and its borrowing facilities. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group is able to operate within the level of its current facilities. At 31 March 2018, the group currently has £93.2 million of available headroom under its £100 million SSRCF, which is available until 2022, with no significant covenant restrictions over drawdown. The group's other principal borrowing facilities, which comprise £150 million of senior secured fixed rate notes, £275 million of senior secured floating rate notes, and £130 million second lien notes, are available until 2022 or 2023.

Furthermore, the group remains cash generative at the operating level, with the reported operating loss and loss before tax arising principally from non-cash items, including the amortisation and impairment of goodwill and intangible assets, depreciation, and non-cash interest accrued on shareholder loan notes. The group's net current liability position is structural, as a result of the way in which the NHS pays the group in respect of the NHS dentistry contracts.

Further information on the group's available borrowing facilities and covenants can be found in notes 24 and 31 respectively to the financial statements.

Disclosure of information to auditors

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

Independent auditors

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

On behalf of the Board

O Shafi Khan
Director
26 June 2018

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

Independent auditors' report to the members of Turnstone Midco 2 Limited

Report on the audit of the financial statements

Opinion

In our opinion, Turnstone Midco 2 Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2018 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 March 2018; the Consolidated income statement, the Consolidated statement of comprehensive expense, the Consolidated and Company cash flow statements, the Reconciliation of movements in net cashflow to movement in net debt and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

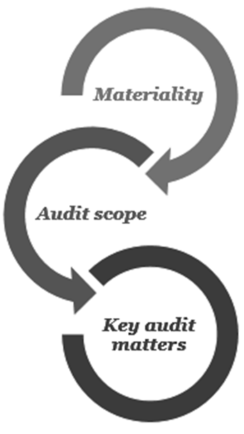
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit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

Independence

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

Our audit approach

Overview



- Overall group materiality: £1.4 million (2017: £1.7 million), based on 2.5% of earnings before interest, taxes, depreciation and amortisation and before non-underlying items (Adjusted EBITDA).
- Overall company materiality: £1.7 million (2017: £4.1 million), based on 1% of total assets.

- The two divisions within the group are mydentist and Dental Directory. Within these divisions the significant components are the mydentist companies (mydentist) and Billericay Dental Supply Co. Limited (Dental Directory). Components have been scoped based upon EBITDA contribution to the group.
- Our audit scope addressed over 98% of group revenue and 96% of group EBITDA
- Excluding the full scope components, we have audited specific financial statement line items being the borrowings within IDH Finance Plc.

- Valuation of goodwill and intangible assets (group).
- Going concern (group and company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill and intangible assets	
Group	
Goodwill of £247.9 million (2017: £317.7 million) and intangible assets of £372.7 million (2017: £422.8 million) are material to the group financial statements. Management have performed a full impairment review to compare the carrying value of the asset base, including goodwill and intangible assets, to the value of discounted future cash flows. The directors have prepared a five year perpetuity model which examines multiple factors and estimates. The impairment model is split into two cash generating units (CGUs), being mydentist and Dental Directory. The models incorporate a number of estimates, key ones being: • Forecasted EBITDA for each of the next five years and then into perpetuity, including inflationary assumptions; and • discount rates; An impairment charge of £66.3 million (2017: £30.0 million) has been recorded in the current year against goodwill and intangible assets. This is largely due to the loss made in the year and the decline in the units of dental activity (UDA) rates over the last two years.	We evaluated and assessed mydentist's and Dental Directory's future cash flow forecasts and the process by which they prepared and tested the underlying calculations. During our testing we noted the following: • We found the cash flow forecasts to be consistent with the Board approved strategic plan. We reviewed the proposed increase in UDA delivery rates based on management's plans to increase the number of dentists working in the Group, and their enhanced review into the performance of specific dental practices. We further reviewed the EBITDA forecasts by evaluating the impact of expected changes to the proportional delivery of public and private UDAs and the impact of cost improvement plans; • We engaged with internal experts to review the reasonableness of the discount rates used by assessing the cost of capital calculations for the CGUs and comparing against comparable organisations; • The terminal growth rate is in line with long term NHS estimates of inflation but lower than long term UK inflation expectations. We consulted with our internal experts and concluded this was appropriate based on our understanding of the business and its services; • We assessed the current management team's ability to create accurate forecasts; and • We performed sensitivity analysis and found both of the models to be sensitive to small changes in all three of the key assumptions discussed above. As a result management have disclosed the sensitivity of the key assumptions within the financial statements (note 15). We have verified that these calculations have been performed correctly. We have performed the above procedures and concluded that no further impairment, in addition to the £66.3 million, is required.

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Key audit matter	How our audit addressed the key audit matter
Going concern **Group and company** The group and company financial statements have been prepared on the going concern basis. The Directors believe that the group and company will have the cash resources it requires to service and settle its liabilities for the period extending beyond 12 months from the date of approval of the financial statements. Whilst the group generates positive EBITDA, the group has made a significant loss before tax in both the prior and current year. Furthermore, the group is in a significant current and overall liability position, which is largely due to borrowings of £547.6 million (2017: £540.1 million). Interest is paid in cash on the total of these borrowings, amounting in 2018 to £39.3 million (2017: £36.8 million). The group has an external financing facility agreement, the Super Senior Revolving Credit Facility (SSRCF). Covenant compliance in relation to the SSRCF is monitored, including an assessment of the drawn super senior gross leverage ratio, which cannot exceed 2.3:1. There are no other financial covenants on any of the other borrowings. The going concern status of the company is intrinsically linked to the success of the group.	Our testing focused on the key judgements and assumptions as follows: • We evaluated and challenged the group's future cash flow forecasts and the process by which they were drawn up. We compared the group's forecasts to the latest Board approved budget and found them to be consistent; • We have reviewed the terms of the group's financing facility and confirmed that there are no restrictions to draw down outside of the control of the group, other than covenant compliance. We have reviewed the covenants in relation to this facility and confirmed that the group is in compliance with all covenant conditions in the current year. In addition, we have compared forecasted cash flows by assessing their impact on the covenant conditions and noted no expected breaches; • We have assessed management's ability to produce reliable forecasts by reviewing the accuracy of previous forecasts; • We have reviewed results post year end and confirmed there are no significant variations from management's initial expectations which would change their conclusions over going concern; and • Considering the test results above we noted no other factors that would impact the going concern status of the company, and therefore, we concur with management's assessment that the group and company accounts should be prepared on a going concern basis.

How we tailored the audit scope

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

The two divisions within the group are mydentist and Dental Directory. Within these divisions the significant components are deemed to be the mydentist companies (mydentist) and Billericay Dental Supply Co. Limited (Dental Directory). Components have been scoped based upon EBITDA contribution to the group.

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

Furthermore, we have performed procedures over the group's consolidation of these entities and significant consolidation entries.

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£1.4 million (2017: £1.7 million).	£1.7 million (2017: £4.1 million).
How we determined it	2.5% of earnings before interest, taxes, depreciation and amortisation before non-underlying items (adjusted EBITDA).	1% of net assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, adjusted EBITDA is the primary measure used by shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	We believe that net assets is the appropriate benchmark as the entity is a holding company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.2 million and £1.2 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £68,500 (group audit) (2017: £85,000) and £85,000 (company audit) (2017: £205,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Independent auditors' report to the members of Turnstone Midco 2 Limited *(continued)*

Strategic report and Directors' report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
26 June 2018

Consolidated income statement
for the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Revenue	4	**580,490**	585,823
Cost of sales		**(327,772)**	(324,821)
Gross profit		**252,718**	261,002
Distribution costs		**(17,567)**	(16,562)
Administrative expenses		**(337,996)**	(269,359)
Other income	9	**2,010**	1,965
Other net gains	10	**75**	261
Operating loss		**(100,760)**	(22,693)
Analysed as			
EBITDA before non-underlying items		**55,115**	68,809
Amortisation of intangible assets	15	**(32,079)**	(32,784)
Depreciation	16	**(21,745)**	(20,702)
Amortisation of government grant income		**55**	60
Impairment of intangible assets	15	**(66,276)**	(30,000)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	5	**(29,754)**	(1,667)
Differences between contingent consideration paid and estimates initially recognised	5	**(2,889)**	2,152
Value of employee services arising from shares granted	29	**(808)**	-
Other non-underlying items	5	**(2,454)**	(8,822)
Net foreign exchange gains	10	**75**	261
Operating loss		**(100,760)**	(22,693)
Finance costs	11	**(43,512)**	(56,042)
Finance income	12	**509**	1,590
Net finance costs		**(43,003)**	(54,452)
Loss before income tax		**(143,763)**	(77,145)
Income tax credit	13	**11,435**	11,229
Loss for the year		**(132,328)**	(65,916)
Attributable to:			
Owners of the parent		**(132,349)**	(65,928)
Non-controlling interests		**21**	12
		(132,328)	(65,916)

All activities are derived from continuing operations.

The notes on pages F-29 to F-74 form part of these financial statements.

Consolidated statement of comprehensive expense

for the year ended 31 March 2018

	2018 £'000	2017 £'000
Loss for the year	**(132,328)**	(65,916)
Other comprehensive (expense)/income:		
Items that will not be reclassified to the income statement		
Re-measurement loss in respect of defined benefit pension scheme	**(138)**	(546)
Unrecognised re-measurement movement arising from movements on defined benefit scheme in surplus to which the group has no recourse	**-**	286
Total comprehensive expense for the year	**(132,466)**	(66,176)
Attributable to:		
Owners of the parent	**(132,487)**	(66,188)
Non-controlling interests	**21**	12
	(132,466)	(66,176)

Movements above are disclosed net of income tax.

The notes on pages F-29 to F-74 form part of these financial statements.

Consolidated balance sheet
at 31 March 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Goodwill	*15*	**247,909**	317,664
Other intangible assets	*15*	**372,721**	422,843
Property, plant and equipment	*16*	**92,433**	98,796
Deferred income tax assets	*26*	**16,490**	12,753
		729,553	852,056
Current assets			
Inventories	*18*	**21,270**	19,709
Trade and other receivables	*19*	**41,244**	41,484
Current income tax		**104**	-
Derivative financial instruments	*23*	**-**	7
Cash and cash equivalents	*21*	**16,192**	12,593
		78,810	73,793
Assets classified as held for sale	*20*	**3,343**	265
Total assets		**811,706**	926,114
Equity attributable to the owners of the parent			
Share capital	*27*	**410,961**	410,961
Accumulated losses	*28*	**(332,919)**	(201,092)
		78,042	209,869
Non-controlling interest		**133**	101
Total equity		**78,175**	209,970

Consolidated balance sheet *(continued)*
at 31 March 2018

	Note	**2018 £'000**	2017 £'000
Liabilities			
Non-current liabilities			
Borrowings	*24*	**547,641**	540,166
Other payables	*22*	**2,462**	1,237
Deferred income tax liabilities	*26*	**36,686**	43,801
Post employment benefits	*32*	**517**	321
Provisions	*25*	**7,022**	6,964
		594,328	592,489
Current liabilities			
Trade and other payables	*22*	**137,031**	121,246
Current income tax		**24**	237
Provisions	*25*	**1,981**	1,536
Derivative financial instruments	*23*	**167**	636
		139,203	123,655
Total liabilities		**733,531**	716,144
Total equity and liabilities		**811,706**	926,114

The notes on pages F-29 to F-74 form part of these financial statements.

The financial statements on pages F-20 to F-74 were approved by the Board of Directors on 26 June 2018 and were signed on its behalf by:

O Shafi Khan
Director

Company balance sheet
at 31 March 2018

	Note	**2018** **£'000**	2017 £'000
Assets			
Non-current assets			
Investments	*17*	**172,007**	411,011
Total assets		**172,007**	411,011
Equity			
Share capital	*27*	**410,961**	410,961
Brought forward accumulated losses	*28*	**(30)**	(24)
Current year losses	*14*	**(239,012)**	(6)
Total equity		**171,919**	410,931
Liabilities			
Current liabilities			
Other payables	*22*	**88**	80
Total equity and liabilities		**172,007**	411,011

The notes on pages F-29 to F-74 form part of these financial statements.

The financial statements on pages F-20 to F-74 were approved by the Board of Directors on 26 June 2018 and were signed on its behalf by:

O Shafi Khan
Director

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

	Share capital £'000	Accumulated losses £'000	Total equity attributable to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 April 2016	410,961	(134,904)	276,057	89	276,146
Comprehensive (expense)/income for the year					
(Loss)/profit for the year	-	(65,928)	(65,928)	12	(65,916)
Other comprehensive expense					
Items that will not be reclassified to the income statement	-	(260)	(260)	-	(260)
Total comprehensive (expense)/income for the year	-	(66,188)	(66,188)	12	(66,176)
Balance at 31 March 2017	410,961	(201,092)	209,869	101	209,970
Comprehensive (expense)/income for the year					
(Loss)/profit for the year	-	(132,349)	(132,349)	21	(132,328)
Other comprehensive expense					
Items that will not be reclassified to the income statement	-	(138)	(138)	-	(138)
Total comprehensive (expense)/income for the year	-	(132,487)	(132,487)	21	(132,466)
Transactions with owners recognised directly in equity					
Value of employee services arising from shares granted to directors and employees (note 29)	-	808	808	-	808
Deferred tax in relation to the above	-	(137)	(137)	-	(137)
Total transactions with owners	-	671	671	-	671
Changes in ownership interests					
Minority interests acquired through business combinations	-	(11)	(11)	11	-
Balance at 31 March 2018	**410,961**	**(332,919)**	**78,042**	**133**	**78,175**

The notes on pages F-29 to F-74 form part of these financial statements.

Company statement of changes in equity

for the year ended 31 March 2018

	Share capital £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 April 2016	410,961	(24)	410,937
Comprehensive expense for the year			
Loss and total comprehensive expense for the year	-	(6)	(6)
Balance at 31 March 2017	410,961	(30)	410,931
Comprehensive expense for the year			
Loss and total comprehensive expense for the year	-	(239,012)	(239,012)
Balance at 31 March 2018	**410,961**	**(239,042)**	**171,919**

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

The notes on pages F-29 to F-74 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 March 2018

	Note	**2018**	2017
		£'000	£'000
Cash flows from operating activities			
Cash generated from operations	*34*	**65,935**	72,936
Net cash inflow from operating activities		**65,935**	72,936
Cash flows from investing activities			
Acquisitions (net of cash acquired)		**(6,709)**	(9,924)
Contingent consideration paid		**(2,379)**	(1,577)
Unpaid contingent consideration returned to the group from escrow arrangements		**-**	1,044
Purchase of property, plant and equipment		**(19,101)**	(19,986)
Purchase of freehold property held for sale		**-**	(741)
Proceeds from business and asset disposals		**1,184**	1,024
Government grants received		**-**	2
Interest received		**16**	38
Net cash outflow from investing activities		**(26,989)**	(30,120)
Cash flows from financing activities			
Drawdown of bank loans		**15,000**	7,000
Repayment of bank loans		**(10,000)**	(46,000)
Proceeds from the issue of senior secured and second lien notes		**-**	549,700
Redemption of previous senior secured and second lien notes including early redemption fees		**-**	(506,188)
Arrangement fees and associated professional costs		**-**	(11,143)
Bank and bond interest paid		**(40,347)**	(38,534)
Net cash outflow from financing activities		**(35,347)**	(45,165)
Net increase/(decrease) in cash and cash equivalents		**3,599**	(2,349)
Cash and cash equivalents at the start of the year		**12,593**	14,942
Cash and cash equivalents at the end of the year		**16,192**	12,593

The notes on pages F-29 to F-74 form part of these financial statements.

Company

No cashflow statement has been presented for the company as there have been no cashflows during either the current or previous financial year.

Reconciliation of movement in net cashflow to movement in net debt
for the year ended 31 March 2018

	Note	**2018 £'000**	2017 £'000
Increase/(decrease) in cash for the year		**3,599**	(2,349)
Drawdown of bank loans		**(15,000)**	(7,000)
Repayment of bank loans		**10,000**	46,000
Issue of senior secured and second lien notes		**-**	(549,700)
Redemption of previous senior secured and second lien notes		**-**	500,000
Arrangement fees and associated professional costs		**-**	11,143
Total cash movement in net debt		**(1,401)**	(1,906)
Release of unamortised arrangement fees upon redemption of previous notes	*11*	**-**	(6,941)
Amortisation of debt issue costs and related fees	*11*	**(1,700)**	(2,025)
Other non-cash movements in net debt		**(775)**	225
Total non-cash movement in net debt		**(2,475)**	(8,741)
Total movement in net debt		**(3,876)**	(10,647)
Net debt at the start of the year		**(527,573)**	(516,926)
Net debt at the end of the year		**(531,449)**	(527,573)

The notes on pages F-29 to F-74 form part of these financial statements.

Notes to the consolidated financial statements

1 Company information

Turnstone Midco 2 Limited (the 'company') is a private company, limited by shares, incorporated and domiciled in England. The address of the registered office is: Europa House, Europa Trading Estate, Stoneclough Road, Kearsley, Manchester M26 1GG.

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

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

2 Accounting policies

(a) Basis of preparation

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

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

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

The group meets its day to day working capital requirements through cash generated from operations and its borrowing facilities. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group is able to operate within the level of its current facilities. At 31 March 2018, the group currently has £93.2 million of available headroom under its £100 million SSRCF, which is available until 2022, with no significant covenant restrictions over drawdown. The group's other principal borrowing facilities, which comprise £150 million of senior secured fixed rate notes, £275 million of senior secured floating rate notes, and £130 million second lien notes, are available until 2022 or 2023.

Furthermore, the group remains cash generative at the operating level, with the reported operating loss and loss before tax arising principally from non-cash items, including the amortisation and impairment of goodwill and intangible assets, depreciation, and non-cash interest accrued on shareholder loan notes. The group's net current liability position is structural, as a result of the way in which the NHS pays the group in respect of the NHS dentistry contracts.

Further information on the group's available borrowing facilities and covenants can be found in notes 24 and 31 respectively to the financial statements.

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

(b) Basis of consolidation

Subsidiaries
The group controls an entity when the group has power over that entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

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

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

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

(c) New standards, amendments and interpretations

Standards, amendments and interpretations effective and adopted by the group:
No new standards, amendments or interpretations that impact these financial statements have become effective during the year ended 31 March 2018.

Standards, amendments and interpretations which are not effective or early adopted by the group:
The following new standards, interpretations and amendments, which have not been applied in these financial statements, may have an effect on the group's future financial statements:

	EU endorsement status	**Effective date (periods beginning)**
IFRS 9 – Financial Instruments	Endorsed on 22 November 2016	1 January 2018
IFRS 15 – Revenue from Contracts With Customers	Endorsed on 22 September 2016	1 January 2018
IFRS 16 – Leases	Endorsed on 31 October 2017	1 January 2019

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

- **Classification and measurement:** New classification and measurement criteria require financial instruments to be classified into one of the following three categories: amortised cost; fair value through other comprehensive income; or fair value. Classification will be determined by the business model and contractual cash flow characteristics of the instruments.
- **Expected credit losses (ECL):** The requirement to recognise impairment losses based on ECL methodology is a change to the current requirements whereby losses are only recognised once an impairment event has happened.
- **Hedge accounting:** The general hedge accounting mechanisms of IAS 39 have been retained, however greater flexibility has been introduced over the instruments eligible for hedge accounting and effectiveness testing has been more closely aligned with the underlying risk management practices of the entity.

The group has carried out an assessment of the impact of IFRS 9 upon the group's existing accounting policies. This assessment has confirmed that there are likely to be no material adjustments resulting from the adoption of IFRS 9, although the group expects to report a small increase to the provision for impairment of trade receivables as a result of moving from the existing 'incurred credit loss' methodology to the ECL methodology.

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

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

IFRS 15 – Revenue from Contracts With Customers

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

The group is in the process of carrying out a detailed review of the impact of IFRS 15 upon each of the group's revenue streams. The preliminary findings from this review have confirmed that no material changes to the group's existing revenue recognition policies are likely. In particular, revenue derived from the group's NHS dentistry contracts will likely continue to be recognised based upon the volume of treatments completed and private dentistry revenues will likely continue to be recognised over time based upon the stage of completion of each treatment. 'Point in time' recognition is likely to continue to apply to revenue generated from the sale of goods by Dental Directory. The adoption of IFRS 15 is likely to require minor changes to the way the group recognises revenue from the sale of certain equipment servicing contracts by Dental Directory to more closely align the revenue recognition with achievement of the performance obligations. However, these revenue streams are likely to be immaterial in the context of the group's operations and are unlikely to lead to any material adjustments.

IFRS 16 – Leases

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

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

The group expects to apply the 'cumulative catch up' approach, which is available as a practical expedient upon initial adoption of IFRS 16. Under the cumulative catch up approach, the cumulative effect of adopting the standard is recognised at the date of initial application which, for the group will be 1 April 2019, and there is no restatement of comparative information.

The group is currently undertaking a detailed assessment to both quantify the adjustments arising from the adoption of IFRS 16 upon its financial statements and to determine the changes to existing systems and processes that will be required. As part of this assessment, the group is investigating system solutions that can capture the relevant data and assist with the computation of the accounting entries. This assessment is not yet complete and therefore the adjustments that will be required to the financial statements have not been finalised. However it should be noted that the group's total outstanding operating lease commitments at 31 March 2018 were £122.1 million on an undiscounted basis (note 30) and the charge arising from operating leases that was recognised within administrative expenses in the income statement for the year ended 31 March 2018 was £15.9 million (note 16).

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

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(d) Foreign currency translation

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

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

(e) Business combinations

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

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

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

(f) Intangible assets

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

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

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

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

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

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

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

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(g) Impairment of non-financial assets

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

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

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

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

(h) Property, plant and equipment

Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset into its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

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

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

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

Fixtures, fittings and equipment: 4-10 years

Fixtures, fittings and equipment include short leasehold improvements.

The residual values and useful lives are reviewed, and adjusted if appropriate, at each accounting reference date.

(i) Inventories

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

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

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

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

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(j) Trade receivables and prepayments

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables and is measured as the difference between carrying value and present value of estimated future cash flows. Subsequent recoveries of previously impaired trade receivables are recognised as a credit to the income statement as they are realised.

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

(k) Assets classified as held for sale

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

Assets held for sale at 31 March 2018 include a small number of dental practices that are currently being marketed for sale, having been identified for disposal through the portfolio review programme. Assets held for sale at 31 March 2017 include freehold properties that the group has acquired as part of the acquisition of dental practices. The group only acquires these properties where necessary to facilitate the acquisition of dental practices and looks to dispose of these properties as soon as an appropriate lease and sale price can be negotiated.

(l) Cash and cash equivalents

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

(m) Trade and other payables

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

(n) Government grants

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

(o) Borrowings

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

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

(p) Provisions

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

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(q) Derivative financial instruments

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

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

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

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

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

The use of financial derivatives is governed by the group's policies approved by the Board of Directors, which provide written principles in the use of financial derivatives consistent with the group's risk management strategy. The group does not use derivative financial instruments for speculative purposes. See note 31 for further details.

(r) Share capital

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

(s) Revenue

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

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

(t) Leases

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

(u) Net finance costs

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

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

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(v) Income tax

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

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

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

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

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

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

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

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

(w) Segment reporting

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

(x) Employee benefits: pension obligations

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

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

Notes to the consolidated financial statements *(continued)*

2 Accounting policies *(continued)*

(y) Share based payments

As set out in more detail in note 29, certain employees of the group have been, or will be, gifted 'E1' or 'E2' ordinary shares in Turnstone Equityco 1 Limited for nil consideration. The gift of shares for nil consideration is a share based payment. The fair value of the employee services received in exchange for the gift of the shares is recognised as an expense, within administrative expenses in the income statement.

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

3 Critical accounting judgements and estimates

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

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

(a) Critical judgements

Impairment of goodwill and other intangibles
Determining whether goodwill or other intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill and other intangible assets have been allocated. The value in use calculation requires the group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Management have conducted impairment reviews during the period and at the reporting date, which have resulted in impairment charges totalling £66.3 million (2017: £30.0 million) being recognised within non-underlying items in the income statement for the year ended 31 March 2018. More details, including carrying values and the outcomes of the reviews conducted are included in note 15.

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

Notes to the consolidated financial statements *(continued)*

3 Critical accounting judgements and estimates *(continued)*

(b) Critical estimates

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

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

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

Application of tax laws
The group is subject to complex tax laws. Changes in tax laws could adversely affect our tax position, including our effective tax rate or tax payments. We often rely on generally available interpretations of applicable tax laws and regulations. In certain instances we have secured clearance from HMRC on the application to tax law within the group. We have regular, open, discussions with HMRC over issues that could affect either the group or the industry generally, such as the partnership acquisition model, the self-employed status of dentists under the model BDA contract and the VAT treatment of dental facilities. This includes providing additional information to HMRC to support our current tax positions. There cannot be certainty that HMRC will always be in agreement with our interpretation and application of these laws. If our tax positions are subject to a successful challenge by HMRC, the imposition of additional taxes could require us to pay taxes that we currently do not collect or pay, or increase the costs of our services to track and collect such taxes, which could increase our costs of operations or effective tax rate. However the likelihood of any such challenge being successful is considered by management as remote and accordingly these accounts do not include any provision in relation to our ongoing tax discussions in these areas.

4 Segmental analysis

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

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

Through mydentist, the group is the leading provider of dental services in the United Kingdom. mydentist owns and manages a national chain of dental practices with 643 sites at 31 March 2018 (2017: 674).

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

All services are provided in the United Kingdom.

Revenue is analysed by category as follows:

	2018	2017
	£'000	£'000
Provision of services	**477,783**	493,095
Sale of goods	**102,707**	92,728
Total revenue	**580,490**	585,823

Notes to the consolidated financial statements *(continued)*

4 Segmental analysis *(continued)*

Year ended 31 March 2018

	mydentist £'000	Dental Directory £'000	Central costs, and intra-segment eliminations £'000	**Total £'000**
Revenue				
NHS dentistry	368,498	-	-	**368,498**
Private dentistry	99,866	-	-	**99,866**
Dental Directory	-	142,909	(30,783)	**112,126**
Total revenue	468,364	142,909	(30,783)	**580,490**
Gross profit	220,372	40,612	(8,266)	**252,718**
Gross margin	*47.1%*	*28.4%*		***43.5%***
Overheads	(173,704)	(33,828)	7,919	**(199,613)**
Overheads as % revenue	*37.1%*	*23.7%*		***34.4%***
Other income	2,010	-	-	**2,010**
EBITDA before non-underlying items	48,678	6,784	(347)	**55,115**
EBITDA margin	*10.4%*	*4.7%*		***9.5%***
Amortisation of intangible assets	(28,659)	(3,420)	-	**(32,079)**
Depreciation	(19,659)	(2,364)	278	**(21,745)**
Amortisation of government grant income	55	-	-	**55**
Impairment of goodwill and intangible assets	(65,460)	(816)	-	**(66,276)**
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	(29,754)	-	-	**(29,754)**
Differences between contingent consideration paid and estimates initially recognised	(2,889)	-	-	**(2,889)**
Value of employee services arising from shares granted	-	-	(808)	**(808)**
Other non-underlying items	(1,412)	(1,042)	-	**(2,454)**
Unrealised gains on derivative financial instruments	-	75	-	**75**
Segment operating loss	(99,100)	(783)	(877)	**(100,760)**
Net finance costs				**(43,003)**
Loss before income tax				**(143,763)**
Segment assets	701,004	113,572	(2,870)	**811,706**
Segment liabilities	(161,870)	(117,286)	(454,375)	**(733,531)**
Additions				
Goodwill	1,082	3,522	-	**4,604**
Other intangible assets	817	1,994	-	**2,811**
Property, plant and equipment	17,668	1,737	(637)	**18,768**

Notes to the consolidated financial statements *(continued)*

4 Segmental analysis *(continued)*

Year ended 31 March 2017

	mydentist £'000	Dental Directory £'000	Central costs, and intra-segment eliminations £'000	**Total £'000**
Revenue				
NHS dentistry	385,060	-	-	**385,060**
Private dentistry	95,827	-	-	**95,827**
Dental Directory	-	134,980	(30,044)	**104,936**
Total revenue	480,887	134,980	(30,044)	**585,823**
Gross profit	225,098	40,182	(4,278)	**261,002**
Gross margin	*46.8%*	*29.8%*		***44.6%***
Overheads	(166,895)	(30,667)	3,404	**(194,158)**
Overheads as % revenue	*34.7%*	*22.7%*		***33.1%***
Other income	1,965	-	-	**1,965**
EBITDA before non-underlying items	60,168	9,515	(874)	**68,809**
EBITDA margin	*12.5%*	*7.0%*		***11.7%***
Amortisation of intangible assets	(29,452)	(3,332)	-	**(32,784)**
Depreciation	(18,918)	(2,002)	218	**(20,702)**
Amortisation of government grant income	60	-	-	**60**
Impairment of goodwill and intangible assets	(30,000)	-	-	**(30,000)**
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	(1,667)	-	-	**(1,667)**
Differences between contingent consideration paid and estimates initially recognised	2,152	-	-	**2,152**
Other non-underlying items	(7,966)	(856)	-	**(8,822)**
Unrealised gains on derivative financial instruments	-	261	-	**261**
Segment operating (loss)/profit	(25,623)	3,586	(656)	**(22,693)**
Net finance costs				**(54,452)**
Loss before income tax				**(77,145)**
Segment assets	818,436	110,632	(2,954)	**926,114**
Segment liabilities	(153,499)	(109,056)	(453,589)	**(716,144)**
Additions				
Goodwill	5,734	135	-	**5,869**
Other intangible assets	6,233	-	-	**6,233**
Property, plant and equipment	19,013	2,166	(849)	**20,330**

Notes to the consolidated financial statements *(continued)*

5 Other non-underlying items

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

	Group 2018 £'000	Group 2017 £'000
Restructuring costs	**2,518**	5,910
Rebranding costs	**-**	2,475
Acquisition related professional fees and expenses	**318**	665
Release of unutilised fair value provisions arising from business combinations	**(422)**	-
Loss/(profit) on disposal of freehold properties	**1**	(241)
Loss/(profit) on disposal of property, plant and equipment	**18**	(7)
Expenses in respect of defined benefit pension scheme (note 32)	**21**	20
Other non-underlying items	**2,454**	8,822
Differences between contingent consideration paid and estimates initially recognised	**2,889**	(2,152)
Impairment of non-current assets reclassified as held for sale and profit/(loss) on closure or disposal of dental practices	**29,754**	1,667

Restructuring costs
Costs incurred during the year ended 31 March 2018 and the year ended 31 March 2017 principally relate to senior management changes, and other staff and business restructuring, including related professional fees.

Rebranding
Costs recognised during the year ended 31 March 2017 reflect the cost of rolling out the mydentist brand and includes expenditure on signage, decoration and uniforms.

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

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

Profit on disposal of freehold properties
During the year ended 31 March 2017 the group disposed of its freehold interest in four dental practices under sale and lease-back arrangements. The loss of £1,000 for the year ended 31 March 2018 relates to fees associated with a property sold in the previous year.

Loss/(profit) on disposal of property, plant and equipment
The loss on disposal of property, plant and equipment arose from the write off of old or scrapped assets. The profit for the year ended 31 March 2017 arose from the sale of motor vehicles and certain other IT assets at amounts in excess of their carrying values.

Differences between contingent consideration paid and estimates initially recognised
During the years ended 31 March 2018 and 31 March 2017, the group settled certain contingent consideration obligations for amounts which were different to the initial fair value estimates recognised in the balance sheet. The net difference of £2,889,000 was charged (2017: £2,152,000 released) to the income statement.

Notes to the consolidated financial statements *(continued)*

5 Other non-underlying items *(continued)*

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

Starting in the latter part of the year ended 31 March 2017 and continuing through the year ended 31 March 2018, management have conducted a thorough review of the group's portfolio of dental practices to identify those which are no longer viable due to structural issues such as, for example, very low UDA contract values or where geographical isolation has made it difficult to recruit dentists. As a result of this review, decisions were taken to close or sell 49 dental practices. By 31 March 2018, the group had sold 13 practices and closed 19 practices, including two which were closed at the end of the year ended 31 March 2017. The remaining 17 practices are expected to be closed or sold by 30 September 2018.

The charge of £29,754,000 for the year ended 31 March 2018 (2017: £1,667,000) includes realised gains and losses, including closure costs, associated with the 13 practices sold (2017: none), and the 17 practices closed (2017: two), during the year. In addition the amount also includes impairments recorded in writing down the carrying value of goodwill, intangible, tangible and other assets of practices which have been identified for sale at the year end, and therefore reclassified as assets held for sale, to their recoverable amounts.

6 Auditor's remuneration

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

	2018	2017
	£'000	£'000
Audit services		
Audit of the parent company and the consolidated financial statements	**8**	6
Audit of the company's subsidiaries and other group companies	**348**	276
	356	282
Other services		
Tax advisory services	**90**	111
Other advisory services	**244**	272
Total remuneration payable to PricewaterhouseCoopers LLP	**690**	665

Fees for other advisory services during the year ended 31 March 2018 relate to a review of the group's strategy. During the year ended 31 March 2017, other advisory services relate to work conducted as part of the group's re-financing and the review of strategic options.

Notes to the consolidated financial statements *(continued)*

7 Employees

The company has no employees (2017: None).

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

	Group 2018 No of employees	Group 2017 No of employees
Business unit		
mydentist - surgery staff	**4,193**	4,294
mydentist - administration staff	**2,907**	2,684
Dental Directory	**556**	543
	7,656	7,521

The staff costs of these persons were as follows:

	Group 2018 £'000	Group 2017 £'000
Wages and salaries	**132,580**	118,678
Social security costs	**9,086**	8,211
Other pension costs	**879**	836
	142,545	127,725

8 Directors' remuneration

The directors received no emoluments from the company for their services during the year (2017: £nil).

	Group 2018 £'000	Group 2017 £'000
Aggregate emoluments including benefits	**1,003**	3,284

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

The aggregate of remuneration, excluding share based payments, for the highest paid director was £515,000 (2017: £2,894,000), which included compensation for loss of office of £nil (2017: £2,415,000) and benefits in kind of £5,000 (2017: £7,000).

9 Other income

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

10 Other net gains

	Group 2018 £'000	Group 2017 £'000
Unrealised losses at fair value through profit or loss on foreign exchange forward contracts	**(42)**	(823)
Realised foreign exchange gains	**106**	1,044
Unrealised gains at fair value through profit or loss on option contracts	**11**	40
	75	261

Notes to the consolidated financial statements *(continued)*

11 Finance costs

	Group 2018 £'000	Group 2017 £'000
Recurring finance costs		
Senior secured fixed rate notes	**17,188**	15,867
Senior secured floating rate notes	**9,714**	10,446
Second lien notes	**12,350**	10,506
Bank loans and overdrafts	**118**	644
Fixed rate interest swap charges	**332**	1,811
Amortisation of debt issue costs and related fees	**1,700**	2,025
Other interest payable – unwinding of discount (notes 25, 31)	**250**	373
Syndicate charges	**1,297**	1,241
Finance expense in respect of defined benefit pension scheme (note 32)	**9**	-
Total recurring finance costs	**42,958**	42,913
Non-recurring finance costs		
Charge arising from change in discount rate applied to non-current liabilities (notes 25, 31)	**554**	-
Release of unamortised arrangement fees upon redemption of borrowings	**-**	6,941
Fees payable in respect of the early redemption of senior secured fixed rate notes and second lien notes	**-**	6,188
Total non-recurring finance costs	**554**	13,129
	43,512	56,042

12 Finance income

	Group 2018 £'000	Group 2017 £'000
Bank deposit interest	**16**	38
Finance income in respect of defined benefit pension scheme (note 32)	**-**	12
Change in the fair value of interest rate swap classified at fair value through profit or loss	**493**	1,540
	509	1,590

Notes to the consolidated financial statements *(continued)*

13 Income tax credit

	Group 2018 £'000	Group 2017 £'000
Current income tax		
Adjustments in respect of previous years	**4**	84
Deferred income tax		
Origin and reversal of temporary differences	**(10,913)**	(7,831)
Adjustments in respect of previous years	**(526)**	(1,256)
Effect of change in income tax rate	**-**	(2,226)
Total deferred income tax (note 26)	**(11,439)**	(11,313)
Total income tax credit	**(11,435)**	(11,229)

The income tax charge for the financial year is higher (2017: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2018 of 19% (2017: 20%). The differences are explained below:

	Group 2018 £'000	Group 2017 £'000
Loss before income tax	**(143,763)**	(77,145)
Loss before income tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	**(27,315)**	(15,429)
Effects of:		
Expenses not deductible for tax	**15,860**	6,930
Utilisation of losses not previously recognised	**-**	(50)
Effect of rate changes on opening balances	**-**	(2,226)
Adjustments in respect of previous years	**(522)**	(1,173)
Unrelieved losses carried forwards	**542**	719
Total income tax credit for the year	**(11,435)**	(11,229)

The permanent differences principally arise from the impairment of goodwill which is not tax deductible.

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

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

14 Parent company result

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

The company's loss of £239,012,000 principally arises from an impairment to the carrying value of the company's investment in Turnstone Bidco 1 Limited, see also note 17. The company's loss of £6,000 for the year ended 31 March 2017 arises from the company's share of the group audit fee.

Notes to the consolidated financial statements *(continued)*

15 Intangible assets

Group

	Goodwill £'000	Contractual arrangements £'000	Customer relationships £'000	Brands and trademarks £'000	Total £'000
Cost					
At 1 April 2016	339,020	485,046	68,269	25,073	917,408
Acquired through business combinations	6,712	6,012	221	-	12,945
Re-measurement of provisional amounts from prior year business combinations	(843)	-	-	-	(843)
Impairment charge	(26,935)	(3,065)	-	-	(30,000)
Disposals	(290)	(1,092)	(120)	-	(1,502)
At 31 March 2017	317,664	486,901	68,370	25,073	898,008
Accumulated amortisation					
At 1 April 2016	-	100,495	21,064	3,468	125,027
Charge for the year	-	24,436	6,676	1,672	32,784
Disposals	-	(268)	(42)	-	(310)
At 31 March 2017	-	124,663	27,698	5,140	157,501
Net book value					
At 31 March 2017	317,664	362,238	40,672	19,933	740,507

	Goodwill £'000	Contractual arrangements £'000	Customer relationships £'000	Brands and trademarks £'000	Total £'000
Cost					
At 1 April 2017	317,664	486,901	68,370	25,073	898,008
Acquired through business combinations (note 35)	4,705	803	1,316	692	7,516
Re-measurement of provisional amounts from prior year business combinations	(101)	-	-	-	(101)
Impairment charge	(60,103)	(5,260)	(633)	(280)	(66,276)
Disposals	(6,123)	(7,606)	(286)	-	(14,015)
Transfer to assets held for sale	(8,133)	(11,584)	(1,788)	-	(21,505)
At 31 March 2018	**247,909**	**463,254**	**66,979**	**25,485**	**803,627**
Accumulated amortisation					
At 1 April 2017	-	124,663	27,698	5,140	157,501
Charge for the year	-	23,789	6,592	1,698	32,079
Disposals	-	(2,153)	(172)	-	(2,325)
Transfer to assets held for sale	-	(3,397)	(861)	-	(4,258)
At 31 March 2018	**-**	**142,902**	**33,257**	**6,838**	**182,997**
Net book value					
At 31 March 2018	**247,909**	**320,352**	**33,722**	**18,647**	**620,630**

Notes to the consolidated financial statements *(continued)*

15 Intangible assets *(continued)*

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

The weighted average unamortised useful life of intangible assets at 31 March 2018 was 13.3 years (2017: 14.3 years).

Cash Generating Units ('CGUs')

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

Net book value of goodwill by CGU	**Group 2018 £'000**	Group 2017 £'000
mydentist	**212,808**	286,183
Dental Directory	**35,101**	31,481
	247,909	317,664

Annual impairment review

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

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

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

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

Key assumptions by CGU	**Group 2018 %**	Group 2017 %
Long term growth rate		
mydentist	**1.50**	1.50
Dental Directory	**1.50**	1.50
Discount rate		
mydentist	**9.72**	9.54
Dental Directory	**11.27**	11.23

Notes to the consolidated financial statements *(continued)*

15 Intangible assets *(continued)*

Annual impairment review *(continued)*

At each reporting date an impairment review was performed by comparing the estimated recoverable amount of each CGU with its carrying amount, including goodwill. In light of recent UDA delivery performance, management conducted an additional impairment review at 30 September 2017. This identified an impairment totalling £60.2 million to the carrying value of goodwill within the mydentist CGU. Management have then conducted a further impairment review at 31 March 2018 which has not identified any additional impairment to the carrying value of the goodwill in either the mydentist or Dental Directory CGUs. An equivalent impairment of £26.9 million against the carrying value of goodwill in the mydentist CGU was recognised during the year ended 31 March 2017.

The impairment review performed at 31 March 2018 was based upon management's budgeted UDA delivery percentage for the year ended 31 March 2019 and management's current medium term plan which shows the UDA delivery percentage recovering to the group's long term average of approximately 96%. For the year ended 31 March 2018, the UDA delivery percentage, before handbacks, was 82.7%.

As part of the impairment review, management have considered the impact upon the value in use calculations from a range of sensitivities to the key assumptions. As at 31 March 2018, a change of £2.0 million in the assumed long term average annual pre-tax cashflows generated from the mydentist CGU, which equates to a change of approximately 1% in the assumed UDA delivery percentage, would change the calculated value in use by approximately £17 million. A change of 0.25% in the assumed WACC would change the calculated value in use by approximately £24 million.

The review did not identify any impairment to the carrying value of assets within the Dental Directory CGU. As at 31 March 2018, a change of £0.5 million to the assumed annual pre-tax cashflows generated from the Dental Directory CGU would change the calculated value in use by approximately £3 million. A change of 0.25% in the assumed WACC would also change the calculated value in use by approximately £3 million.

During the year ended 31 March 2018, the group has agreed some further permanent contract hand-backs with the relevant NHS Regions, principally relating to dental practices which have consistently failed to deliver the contractual volumes due to structural issues such as a shortage of patients, or where there are persistent dentist shortages, making it difficult to recruit. Where we have agreed these permanent contract hand-backs, management have reduced the carrying value of the associated contractual arrangement intangible asset, to reflect this reduced earning potential. This has resulted in a total impairment charge of £5.3 million being recorded in the income statement for the year ended 31 March 2018 (2017: £3.1 million).

A further impairment of £0.8 million has also been recognised against the carrying value of certain intangible assets and goodwill within the Dental Directory CGU, specifically in relation to our acquisition of PDS Dental Laboratory Leeds Limited, following the loss of a contract significant to that business during the year.

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

Company

The company does not own any intangible assets (2017: none).

Notes to the consolidated financial statements *(continued)*

16 Property, plant and equipment

Group

	Fixtures, fittings and equipment £'000
Cost	
At 1 April 2016	167,838
Acquired through business combinations	315
Re-measurement of provisional amounts from prior year business combinations	477
Additions	19,538
Transfer from assets held for sale	175
Disposals	(470)
At 31 March 2017	187,873
Accumulated depreciation	
At 1 April 2016	68,486
Charge for the year	20,702
Disposals	(111)
At 31 March 2017	89,077
Net book value	
At 31 March 2017	98,796

	Fixtures, fittings and equipment £'000
Cost	
At 1 April 2017	187,873
Acquired through business combinations (note 35)	190
Re-measurement of provisional amounts from prior year business combinations	(18)
Additions	18,596
Transfer from assets held for sale	265
Disposals	(2,588)
Transfer to assets held for sale	(4,997)
At 31 March 2018	**199,321**
Accumulated depreciation	
At 1 April 2017	89,077
Charge for the year	21,745
Disposals	(1,212)
Transfer to assets held for sale	(2,722)
At 31 March 2018	**106,888**
Net book value	
At 31 March 2018	**92,433**

Notes to the consolidated financial statements *(continued)*

16 Property, plant and equipment *(continued)*

As at 31 March 2018, no assets are held under finance leases or hire purchase contracts (2017: none).

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

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

Operating lease charges of £14,529,000 (2017: £14,614,000) and £1,367,000 (2017: £1,305,000) relating to the lease of property, and vehicles, plant and equipment respectively, have been recognised within administrative expenses in the income statement.

Company

The company does not own any property, plant and equipment (2017: none).

17 Investments

Company

	£'000
Investment at cost in subsidiary undertakings	
At 1 April 2017	411,011
Impairment of investment in Turnstone Bidco 1 Limited	(239,004)
At 31 March 2018	**172,007**

The company owns 100% of its immediate subsidiaries, Turnstone Bidco 1 Limited and IDH Finance Plc.

The cost and book value of its investment in Turnstone Bidco 1 Limited is £171,957,479 (2017: £410,961,479). The cost and book value of its investment in IDH Finance Plc is £50,000 (2017: £50,000).

Given the deterioration in profitability of the group, principally due to a decline in UDA delivery performance, the directors have carried out an impairment review over the carrying value of the company's investments where indicators of impairment were considered to exist at 31 March 2018. This review concluded that the carrying value of the company's investment in Turnstone Bidco 1 Limited exceeded its estimated recoverable amount by £239,004,000. As a result, an impairment charge equal to this amount has been recorded in the income statement for the year ended 31 March 2018. See also note 14.

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

The group holds 100% of the ordinary share capital of all of the companies listed, with the exception of Denture Excellence Limited and Denture Excellence (Franchising) Limited in which the group holds a 90% interest in the ordinary share capital (2017: 90%). During the year, the group acquired the remaining 10% interest in the ordinary share capital of PDS Dental Laboratory (Leeds) Limited for consideration of £1,000 to take its ownership in that company and its subsidiary, A-List Dentistry Limited, to 100%. All companies are included in the consolidation.

Turnstone Equityco 1 Limited has provided a guarantee to the members of certain subsidiary companies (marked [1] below), over all of their respective outstanding liabilities, under section 479C of the Companies Act 2006. As a result, having also received agreement from all members of each company, the companies identified below are exempt from audit of their individual company financial statements for the year ended 31 March 2018 by virtue of section 479A of the Companies Act 2006.

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

Name of subsidiary	Principal activity	Country of incorporation
Turnstone Bidco 1 Limited	Non-trading	England [a]
IDH Finance Plc	Group financing	England [a]
[2]@TheDentist Ltd	Dormant	England [a]
1A Dental Practice Limited	Dental practices	England [a]
[1]A-List Dentistry Limited	Dental practices	England [a]
[1]Adelstone Dental Care Limited	Dental practices	England [a]
[1]ADP Ashford Ltd	Dental practices	England [a]
[1]ADP Healthcare Acquisitions Limited	Non-trading	England [a]
[2]ADP Healthcare Limited	Dormant	England [a]

Notes to the consolidated financial statements *(continued)*

17 Investments *(continued)*

Name of subsidiary	Principal activity	Country of incorporation
[1]ADP Healthcare Services Limited	Non-trading	England [a]
[1]ADP Holdings Limited	Non-trading	England [a]
[1]ADP No.1 Limited	Non-trading	England [a]
[2]ADP Yorkshire Ltd	Dormant	England [a]
[1]Aesthetic Dental Care Limited	Dental practices	England [a]
[1]Aesthetix Limited	Dental practices	England [a]
[1]Alemdent Limited	Dental practices	England [a]
[1]Alison Brett Dental Care LLP	Dental practices	England [a]
[2]A-Z Dental Holdings (Subsidiary Number 1) Limited	Dormant	England [a]
[2]A-Z Dental Holdings (Subsidiary Number 2) Limited	Dormant	England [a]
[1]A-Z Dental Holdings Limited	Non-trading	England [a]
[1,5]BF Mulholland Limited	Healthcare goods and services	Northern Ireland [c]
[3,5]BF Mulholland Ire Limited	Dormant	Ireland [f]
Billericay Dental Supply Co. Limited	Healthcare goods and services	England [a]
[2]Bramora Limited	Dormant	England [a]
[2]Butler and Finnigan Dental Practice Ltd	Dormant	England [a]
[1]Castle Hill Dental Practice Limited	Dental practices	England [a]
Chapel Road Orthodontics Limited	Dental practices	England [a]
[1]Church Street Dentists Limited	Dental practices	England [a]
[1]Clarendon Dental Practice Limited	Dental practices	England [a]
Community Dental Centres Limited	Dental practices	England [a]
[1]Confident Dental Practices Limited	Dental practices	England [a]
[1]Cromwell Dental Practice Limited	Dental practices	England [a]
[1]D and L Jordan Limited	Dental practices	England [a]
DBG (UK) Limited	Healthcare goods and services	England [a]
DBG Acquisitions Limited	Non-trading	England [a]
[2]DBG Subsidiary Limited	Dormant	England [a]
DBG Topco Limited	Non-trading	England [a]
[1]Dental Aesthetics Limited	Dental practices	Northern Ireland [c]
[1]Dental Excellence Group Limited	Non-trading	Northern Ireland [c]
[1]Dental Excellence Limited	Dental practices	Northern Ireland [c]
[2]Dental Health Care Limited	Dormant	England [a]
[2]Dental Talent Tree (Recruitment) Limited	Dormant	England [a]
Denticare Limited	Dental practices	England [a]
[2]Denticare Properties Limited	Dormant	England [a]
Denture Excellence Limited	Dental practices	England [a]
[2]Denture Excellence (Franchising) Limited	Dormant	England [a]
[1]DH Dental Holdings Limited	Non-trading	England [a]
[1]Diverse Acquisitions Limited	Non-trading	England [a]
[1]Diverse Holdings Limited	Non-trading	England [a]
[2]Diverse Property Investments Limited	Dormant	England [a]
[1]DM and LJ Jordan Limited	Dental practices	England [a]
[1]DM Jordan Limited	Dental practices	England [a]
DMJ Norwich Limited	Dental practices	England [a]
[1]Dolby Medical Limited	Equipment servicing	Scotland [b]
[1]Dolby Medical EBT Trustee Limited	Non-trading	Scotland [b]
[1]Du Toit and Burger Partnership (Harwich) Ltd	Dental practices	England [a]
[1]Du Toit and Burger Partnership (Ipswich) Ltd	Dental practices	England [a]
[1]Du Toit and Burger Partnership (Silvertown) Ltd	Dental practices	England [a]
[1]Du Toit and Burger Partnership (Stratford) Ltd	Dental practices	England [a]
[1]Du Toit and Burger Partnership (Sudbury) Ltd	Dental practices	England [a]
[1]Du Toit and Burger Partnership Limited	Dental practices	England [a]
[1]Durgan and Ashworth Dental Care Limited	Dental practices	England [a]
[1]Euxton (No 1) Limited	Dental practices	England [a]
[1]Falchion Orthodontics Limited	Dental practices	England [a]
[1]Fallowfield (No 1) Limited	Dental practices	England [a]
[1]Family Dental Care Limited	Dental practices	Scotland [b]
Ffolliot Bird Associates Limited	Dental practices	England [a]
First Choice Dental Limited	Dental practices	England [a]
[1]Flagstaff Dental Clinic Limited	Dental practices	England [a]
[1]Fleetwood Practice Limited	Dental practices	England [a]
[2]Hackremco (No. 2637) Limited	Dormant	England [a]
[1]Halldent Limited	Dental practices	England [a]
[2]Handpiece Express Limited	Dormant	England [a]

Notes to the consolidated financial statements *(continued)*

17 Investments *(continued)*

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

Notes to the consolidated financial statements *(continued)*

17 Investments *(continued)*

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

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

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

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

[4] *Countries of operation are England, Scotland and Wales*

[5] *Company acquired during the year ended 31 March 2018*

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

[b] *Registered office address: 1 Johnston Street, Paisley, Renfrewshire, Scotland, PA1 1XQ*

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

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

[e] *Registered office address: c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman Ky1-9005, Cayman Islands*

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

Notes to the consolidated financial statements *(continued)*

17 Investments *(continued)*

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

Name of partnership
1A Dental Practice Partnership
1A Group Dental Practice Partnership
Abercromby Health Centre Partnership
Ardent Dental Care Practice Partnership
Armley Dental Practice Partnership
Aspire Dental Practice Partnership
Avante Dental Care Practice Partnership
Avondale Dental Practice Partnership
Bank House Dental Practice
Barber Road Dental Practice Partnership
Berwick Dental Practice Partnership
Bolton and Bury Dental Practice Partnership
Brassey Avenue Dental Practice Partnership
Brighton Hill Dental Practice Partnership
Brinsworth Lane Dental Care Partnership
Brixton Hill Dental Practice Partnership
Broadwalk Dental Centre Partnership
Caldy Road Dental Practice Partnership
Carcroft Dental Practice Partnership
Castle View House Dental Practice Partnership
Castlegate Dental Practice Partnership
Central Dental Practice Partnership
Chantry Dental Practice Partnership
Chequer Hall Dental Practice Partnership
Cherry Orchard Dental Practice Partnership
Colne & Earby Dental Practice Partnership
Cottage Dental Practice Partnership
Crown Dental Practice Partnership
Dalton Dental Surgery Partnership
Dividy Road Dental Practice Partnership
Effingham Square Dental Practice Partnership
Fearnhead Dental Surgery Partnership
Feidr Fair Partnership Dental Practice
Filey Dental Care Centre Partnership
Finchley Dental Care Practice Partnership
Florence House Dental Practice Partnership
Front Street Dental Practice Partnership
Gairloch House Dental Practice Partnership
Green Lane Dental Practice Partnership
Hampton Court Dental Centre Partnership
Harbour Dental Practice Partnership
Hartlepool Dental Practice Partnership
Haslingden Dental Surgery Partnership
Hayle Dental Practice Partnership
Heaton Road and Blakelaw Dental Practice Partnership
Henfield Dental Practice Partnership
High Street Dental Practice Partnership
Hollinwood Dental Practice Partnership
Horncastle Dental Practice Partnership
Ingleby Meadow Dental Practice Partnership
Jefferies Reed and Associates
JF Scott Dental Surgeon Partnership
Kettering Central Dental Practice Partnership
Lambert Coutts & Associates Dental Practice Partnership

Name of partnership
Red Rose Dental Group
Rhos Road Dental Practice Partnership
Rhyl and Abergele Elwy Dental Partnership
Ripponden Road Dental Practice Partnership
Risley Hill Dental Centre Partnership
River Wye Dental Practice Partnership
Roe Lane Family Dental Practice Partnership
Saint Andrews Dental Practice Partnership
Severn Street Dental Practice Partnership
Severnside Dental Practice Partnership
Shaw Family Dental Practice Partnership
Shelldrake Drive Dental Practice Partnership
SK Dental Staines Road Dental Practice Partnership
Sneyd Green Dental Practice Partnership
South England Dental Practice Partnership
Spittal Hill Dental Surgery Practice Partnership
Picton Road Dental Practice Partnership
Stanhope Road Dental Practice Partnership
Stanford Road Dental Practice Partnership
The Bell Lane Practice Partnership
The Birley Moor Dental Practice Partnership
The Boulevard Dental Practice Partnership
The Burnby Dental Practice Partnership
The Burnham Dental Practice Partnership
The Caulfield Dental Surgery Partnership
The Church House Dental Practice Partnership
The Cornhill Dental Practice Partnership
The Cowpen and Waterloo Dental Practice Partnership
The Crab Tree Lane and Church Street Dental Practice Partnership
The Crossgates Lane and Chapeltown Road Dental Practice Partnership
The Dental Surgery Partnership
The Fairfield Dental Practice Partnership
The Fern Dental Practice Partnership
The Grainger Stockton, Birtley and Stanley Dental Practice Partnership
The Gull Coppice Dental Practice Partnership
The Haverflatts Lane Dental Practice Partnership
The Helston Dental Practice Partnership
The Kandy Lodge Dental Practice Partnership
The Kenton Park Dental Practice Partnership
The Killingworth Dental Practice Partnership
The Kings Norton Dental Practice Partnership
The Lacey Dental Practice Partnership
The Llangefni Dental Practice Partnership
The Loddon Dental Practice Partnership
The London Road Dental Practice Partnership
The Lyppard Dental Centre Practice Partnership
The Marden House Dental Practice Partnership
The Nelson Street Dental Practice Partnership
The Newland Avenue and Castle Street Dental Practice Partnership
The Peterborough Dental Practice Partnership
The Peterlee Dental Practice Partnership
The Pon Dental Surgery Dental Practice Partnership
The Sea Road Dental Practice Partnership
The Southwick and Whitburn Dental Practice Partnership

Notes to the consolidated financial statements *(continued)*

17 Investments *(continued)*

Name of partnership
Low Fell Dental Practice Partnership
Lyme Dental Surgery Partnership
Mayo Dental Clinic Partnership
Mill Dental Practice Partnership
Mostyn House Dental Practice Partnership
Mount Folly Square Dental Practice Partnership
Narborough Road South Dental Practice Partnership
Newcastle and Wallsend Dental Practice Partnership
North Marine Road Dental Practice Partnership
Northgate Dental Health Practice Partnership
Old Brewary Yard Dental Practice Partnership
Old Mill Lane Dental Practice Partnership
Olivers Dental Studio Partnership
Ormesby Dental Practice Partnership
Railway Road Dental Practice Partnership

Name of partnership
The Trewergie Dental Practice Partnership
The Victoria Road Dental Practice Partnership
The Warner Street Dental Practice Partnership
The White House Dental Practice Partnership
The Yeading Lane Dental Practice Partnership
Thomas Street Dental Practice Partnership
Tower Gardens Dental Practice Partnership
Trinity Terrace Dental Practice Partnership
VI Dental Centre Partnership
West Lodge Dental Practice Partnership
Westbury Park Dental Practice Partnership
Weymouth and the Bridges Dental Practice Partnership
Whiston Village Dental Practice Partnership
William Shardlow Dental Practice Partnership
Woodview Dental Health Practice Partnership

** Denotes partnership acquired during the year ended 31 March 2018*

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

Group

The group does not own any investments (2017: none).

18 Inventories

	Group 2018 £'000	Group 2017 £'000
Dental practice consumables	**5,075**	5,539
Goods for resale	**16,195**	14,170
	21,270	19,709

Inventories are shown net of provisions of £2,367,000 at 31 March 2018 in respect of obsolete or slow moving items (2017: £2,120,000).

The cost of inventories recognised as an expense within cost of sales during the year amounted to £99.5 million (2017: £91.4 million).

The amount recognised within cost of sales during the year in respect of the change in the value of inventories of dental practice consumables and goods for resale was a credit of £1,176,000 (2017: charge of £999,000).

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

Company

The company has no inventories (2017: £nil).

Notes to the consolidated financial statements *(continued)*

19 Trade and other receivables

	Group 2018 £'000	Group 2017 £'000
Current		
Trade receivables	**19,630**	19,358
Amounts owed by related undertakings	**272**	263
Other assets	**1,537**	1,847
Prepayments	**8,308**	7,937
Accrued income	**11,497**	12,079
	41,244	41,484

Amounts owed by related undertakings comprise expenses paid on behalf of Turnstone Management Investments Limited, a company registered in England and which holds investments in Turnstone Equityco 1 Limited on behalf of group management.

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

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

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

	Group 2018 £'000	Group 2017 £'000
Sterling	**40,490**	41,416
Euro	**754**	68
	41,244	41,484

As at 31 March 2018, trade receivables of £1,316,000 were past due and partially impaired (2017: £992,000). A provision for impairment is established based on historical experience. The individually impaired receivables principally relate to businesses within Dental Directory. The ageing of these receivables is as follows:

	Group 2018 £'000	Group 2017 £'000
One month to six months overdue	**825**	39
Over six months overdue	**491**	953
	1,316	992

Notes to the consolidated financial statements *(continued)*

19 Trade and other receivables *(continued)*

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

	Group 2018 £'000	Group 2017 £'000
At 1 April	**380**	608
Acquired through business combinations	**-**	30
Impairment losses recognised	**114**	31
Amounts written off as uncollectable	**(33)**	(156)
Amounts collected	**-**	(2)
Unused amounts reversed	**(11)**	(131)
	450	380

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

Company

The company has no trade or other receivables (2017: £nil).

20 Assets classified as held for sale

Assets classified as held for sale at 31 March 2018 comprise the expected recoverable amount of dental practices which have been identified for sale as part of the group's portfolio review. These practices are being actively marketed for sale and the directors have a reasonable expectation that these sales will complete within twelve months of the balance sheet date. Assets classified as held for sale at 31 March 2017 comprise freehold and long leasehold properties which had been acquired as part of dental practice acquisitions. All amounts are denominated in Sterling.

	Group 2018 £'000	Group 2017 £'000
Assets classified as held for sale	**3,343**	265

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

Company

The company has no assets classified as held for sale (2017: £nil).

Notes to the consolidated financial statements *(continued)*

21 Cash and cash equivalents

	Group 2018 £'000	Group 2017 £'000
Cash at bank and in hand	**16,192**	12,593

Cash deposits are principally held with institutions that hold a minimum credit rating meeting two of the following: BBB+ (Standard and Poor's or Fitch); or Baa1 (Moody's). Please also refer to note 31.

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

	Group 2018 £'000	Group 2017 £'000
Sterling	**14,703**	11,708
Euro	**1,401**	760
US Dollar	**10**	88
Other currencies	**78**	37
	16,192	12,593

Company

The company has no cash and cash equivalents (2017: £nil).

22 Trade and other payables

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Current				
Trade payables	**22,861**	**-**	21,650	-
Amounts owed to group undertakings	**-**	**88**	-	80
Accruals	**104,080**	**-**	90,716	-
Deferred income	**1,238**	**-**	1,302	-
Other taxation and social security	**4,484**	**-**	4,408	-
Contingent consideration	**4,313**	**-**	3,115	-
Government grants	**55**	**-**	55	-
	137,031	**88**	121,246	80
Non-current				
Contingent consideration	**2,312**	**-**	1,032	-
Government grants	**150**	**-**	205	-
	2,462	**-**	1,237	-

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

Included within accruals is an amount due to the NHS of £57,216,000 in respect of UDA's not delivered (2017: £40,396,000), along with fees of £23,133,000 payable to self-employed dentists in respect of work completed (2017: £25,639,000).

The fair value of the contingent consideration was estimated by assessing the probability that the performance based targets will be achieved and by discounting the probability weighted future cash flows. The fair value estimates have been calculated using a discount rate of 2% (2017: 5%). The discount rate of 2% was selected as an approximation to a 'risk free' rate of return. This is a level 3 fair value measurement (see note 31).

Notes to the consolidated financial statements *(continued)*

22 Trade and other payables *(continued)*

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

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

	Group 2018 £'000	Group 2017 £'000
Sterling	**135,730**	118,844
Euro	**3,321**	3,451
US Dollar	**274**	120
Other currencies	**168**	68
	139,493	122,483

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

23 Derivative financial instruments

Derivative financial assets/(liabilities)

	Group 2018 £'000	Group 2017 £'000
Current assets		
Unquoted options	**-**	7
Current liabilities		
Interest rate swap contracts	**-**	(493)
Foreign exchange forward contracts	**(167)**	(125)
Unquoted options	**-**	(18)
	(167)	(629)

Fair value of foreign exchange forward contracts

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

The fair value of the foreign exchange forward contracts is calculated as the present value of the estimated future cashflows when comparing the contracted forward rate against observable forward contract rates at the balance sheet date. This is a level 2 fair value measurement (see note 31).

Fair value of unquoted options

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

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

The fair value of these unquoted options (which combine call options held by the group and put options written by the group) have been determined using appropriate option pricing models, including the Black Scholes model. This is a level 3 fair value measurement (see note 31).

Notes to the consolidated financial statements *(continued)*

23 Derivative financial instruments *(continued)*

Fair value of interest rate swap contracts
The group previously entered into fixed-to-floating interest rate swaps to hedge the interest rate risk arising where it has borrowed at floating rates. One contract for a notional principal amount of £62.50 million with interest fixed at 1.9125% expired on 1 June 2017. The second contract, also for a notional principal amount of £62.50 million with interest fixed at 1.9210% also expired on 1 June 2017.

The fair value of the interest rate swap contracts at 31 March 2017 was calculated as the present value of the estimated future cash flows based on observable yield curves. This is a level 2 fair value measurement (see note 31).

The group has not entered into any new fixed-to-floating rate interest swaps.

Company

The company has no derivative financial instruments (2017: £nil).

24 Borrowings

	Group 2018 £'000	Group 2017 £'000
Non-current		
Senior secured fixed rate, floating rate and second lien notes		
Due between two and five years	**424,458**	-
Due after five years	**126,533**	550,216
	550,991	550,216
Bank loans		
Due between two and five years	**5,000**	-
Less: unamortised arrangement fees and related costs	**(8,350)**	(10,050)
	547,641	540,166

All of the group's borrowings are denominated in Sterling and are secured by means of a floating charge against the assets of certain group subsidiary companies.

Senior secured fixed rate, floating rate and second lien notes
Throughout the year ended 31 March 2018, the group had the following available borrowing facilities:

- £275 million of senior secured fixed rate notes. The notes were issued on 5 August 2016 at par, and mature at par on 15 August 2022. Interest is payable semi-annually in arrears on 15 February and 15 August each year, at a fixed coupon of 6.25% per annum.
- £150 million of senior secured floating rate notes. The notes were issued on 5 August 2016 at 99.5, a discount of 0.5% to par. The notes mature at par on 15 August 2022. Interest is payable quarterly in arrears on 15 February, 15 May, 15 August and 15 November each year, at a coupon of 3 month LIBOR plus 6.00%.
- £130 million of second lien notes. The notes were issued on 5 August 2016 at 96.5, a discount of 3.5% to par. The notes mature at par on 15 August 2023. Interest is payable quarterly in arrears on 15 February, 15 May, 15 August and 15 November each year, at a coupon of 3 month LIBOR plus 8.00%. 3 month LIBOR is subject to a 1.00% floor.
- £100 million Super Senior Revolving Credit Facility ('SSRCF'). £5 million had been drawn against the facility at 31 March 2018, and a further £1.8 million committed against a letter of credit (see also note 30). The facility was undrawn at 31 March 2017. Interest is payable in arrears at a rate of LIBOR plus 3.5% per annum. The facility is available until 5 August 2022.

Notes to the consolidated financial statements *(continued)*

24 Borrowings *(continued)*

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

The group is required to comply with certain financial and non-financial covenants under the terms of its various borrowing facilities. Further details of certain financial covenants can be found in note 31.

The market value of the senior secured fixed rate notes and the senior secured floating rate notes at 31 March 2018 was approximately £388 million (2017: £408 million). The directors do not consider the fair value of the group's other borrowings to be materially different from their carrying values.

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

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

The senior secured floating rate notes may be called by the group at a price of 101% of par between 15 August 2017 and 14 August 2018; or at par between 15 August 2018 and 14 August 2019.

The above call options are not considered by the directors to have any value at 31 March 2018. See also note 23.

Company

The company has no borrowings (2017: £nil).

Notes to the consolidated financial statements *(continued)*

25 Provisions

	Above market rental £'000	Vacant property and dilapidations £'000	Total £'000
At 1 April 2016	4,283	5,106	9,389
Arising through business combinations	-	30	30
Re-measurement of provisional amounts from prior year business combinations	-	(80)	(80)
(Credited)/charged to the income statement	(5)	259	254
Utilised in the financial year	(854)	(466)	(1,320)
Unwinding of discount	171	56	227
At 31 March 2017	3,595	4,905	8,500

	Above market rental £'000	**Vacant property and dilapidations £'000**	**Total £'000**
At 1 April 2017	3,595	4,905	8,500
Arising through business combinations (note 35)	-	33	33
Re-measurement of provisional amounts from prior year business combinations	-	(2)	(2)
(Credited)/charged to the income statement	(9)	1,210	1,201
Utilised in the financial year	(713)	(702)	(1,415)
Unwinding of discount	144	55	199
Charge to the income statement arising from change in discount rate	324	163	487
At 31 March 2018	**3,341**	**5,662**	**9,003**

	Group 2018 £'000	Group 2017 £'000
Current	**1,981**	1,536
Non-current	**7,022**	6,964
	9,003	8,500

Above market rental

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

The gross provision of £3.6 million (2017: £4.3 million) has been discounted to present value using a rate of 2% (2017: 5%). The discount rate of 2% was selected as an approximation to a 'risk free' rate of return.

Vacant property and dilapidations

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

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

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

Company: The company has no provisions (2017: £nil).

Notes to the consolidated financial statements *(continued)*

26 Deferred income tax

Deferred income tax is provided in full on temporary differences using the liability method and a tax rate of 17% (2017: 17%). See also note 13. The movement on the deferred income tax account is as shown below:

	Arising on share based payments £'000	Arising on defined benefit pension obligation £'000	Accelerated capital allowances £'000	Arising on intangible assets £'000	Arising on financial assets £'000	Total £'000
At 1 April 2016	-	-	9,491	(51,052)	240	(41,321)
Recognised in income	-	1	3,707	5,522	(143)	9,087
Change of tax rate recognised in income	-	-	(550)	2,789	(13)	2,226
Recognised in other comprehensive expense	-	54	-	-	-	54
Arising through business combinations	-	-	(34)	(1,060)	-	(1,094)
At 31 March 2017	-	55	12,614	(43,801)	84	(31,048)
Recognised in income	137	5	3,788	7,593	(84)	11,439
Recognised in other comprehensive expense	-	28	-	-	-	28
Recognised directly in equity	(137)	-	-	-	-	(137)
Arising through business combinations	-	-	-	(478)	-	(478)
At 31 March 2018	**-**	**88**	**16,402**	**(36,686)**	**-**	**(20,196)**

The group has estimated non-trade losses of £30.9 million (2017: £27.5 million) available for carry forward against future non-trade profits. A deferred income tax asset of £5.3 million (2017: £4.7 million) in respect of these losses has not been recognised as the future recoverability is uncertain or not currently anticipated.

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

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

Net deferred income tax of approximately £7.3 million is expected to unwind to the income statement during the year ending 31 March 2019.

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

	Arising on share based payments £'000	Arising on defined benefit pension obligation £'000	Accelerated capital allowances £'000	Arising on intangible assets £'000	Arising on financial assets £'000	Total £'000
Assets						
At 31 March 2017	-	55	12,614	-	84	12,753
At 31 March 2018	**-**	**88**	**16,402**	**-**	**-**	**16,490**
Liabilities						
At 31 March 2017	-	-	-	(43,801)	-	(43,801)
At 31 March 2018	**-**	**-**	**-**	**(36,686)**	**-**	**(36,686)**

Company: The company has no deferred income tax (2017: £nil).

Notes to the consolidated financial statements *(continued)*

27 Share capital

Group and company	Number issued	2018 £'000	Number issued	2017 £'000
Allotted, called up and fully paid				
Ordinary shares of £1.00	**410,961,479**	**410,961**	410,961,479	410,961

28 Reserves

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

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

29 Share based payments

On 12 June 2017, Turnstone Equityco 1 Limited issued a total of 82,559 'E1' ordinary shares of £0.10p and 146,771 'E2' ordinary shares of £0.01p. All of the 'E1' ordinary shares, and 28,666 of the 'E2' ordinary shares, were issued to members of the group's management team. The remaining 118,105 'E2' ordinary shares were issued to an Employee Benefit Trust, to be allocated to other employees of the group. 57,333 of the 'E1' ordinary shares and all of the 'E2 ordinary shares have been, or will be, gifted to employees of the group for nil consideration.

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

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

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

The fair value of the shares issued is to be charged to the income statement over the expected life of the shares. As a result, a charge of £808,000 (2017: £nil) has been recognised in the income statement in respect of the period from the commencement date of 1 July 2017 to 31 March 2018.

Notes to the consolidated financial statements *(continued)*

30 Commitments and contingencies

Group

(a) Operating lease commitments

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

Land and buildings	**Group 2018 £'000**	Group 2017 £'000
Within one year	**13,679**	13,817
Between one year and five years	**47,195**	48,850
After five years	**59,401**	65,989
	120,275	128,656

Other	**Group 2018 £'000**	Group 2017 £'000
Within one year	**904**	898
Between one year and five years	**964**	865
After five years	**5**	-
	1,873	1,763

(b) Contingencies

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

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

Partnership guarantees
A number of individuals in the management team have entered into partnerships as part of the group's acquisition of the trade and assets of those partnerships. The partners hold their interest in the partnership under a trust deed on behalf of one of the group companies. In order to indemnify the partners against specific risks in relation to this arrangement, a guarantee is in place supported by a letter of credit from the group's bank for £1.8 million (2017: £1.8 million).

Notes to the consolidated financial statements *(continued)*

31 Financial instruments

Financial risk management

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

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

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

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

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

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

Until 1 June 2017, the group held two fixed interest rate contracts totalling £125 million. Following the expiry of these contracts on 1 June 2017 and with £275 million of the group's senior secured notes being of a fixed rate nature, interest charges are now fixed in respect of 49% of the group's total drawn debt (2017: 72%). Further details are set out in note 24.

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

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

Notes to the consolidated financial statements *(continued)*

31 Financial instruments *(continued)*

Sensitivity analysis

Management have considered the risk of changes in interest rates upon the group's financial performance. 49% (2017: 72%) of the group's external debt is subject to fixed interest rates or is hedged through interest rate swap contracts and therefore the impact of changes to interest rates upon the group's cash flows is significantly mitigated. However a 1% increase or decrease in the rate of LIBOR would have the effect of increasing or decreasing the group's annual cash interest costs by approximately £2.5 million or £1.6 million respectively, based upon the funding structure in place at 31 March 2018.

Capital management

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

Net debt to EBITDA

	Group 2018 £'000	Group 2017 £'000
EBITDA before non-underlying items	**55,115**	68,809
Net bank and bond debt	**531,449**	527,573
Net debt to EBITDA	**9.64**	7.67

Net bank and bond debt includes cash and cash equivalents, the senior secured fixed rate, floating rate and second lien notes, bank loans and unamortised arrangement fees.

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

As at 31 March 2018, the estimated ratio of net debt to Proforma EBITDA was 9.28 times (2017: 7.51 times)

EBITDA interest cover

	Group 2018 £'000	Group 2017 £'000
EBITDA before non-underlying items	**55,115**	68,809
Cash finance costs	**40,998**	40,515
EBITDA interest cover	**1.34**	1.70

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

The group's principal loan covenant is in respect of the ratio of gross debt drawn under the SSRCF to Proforma LTM EBITDA ('Super Senior Gross Leverage Ratio'). However, under the terms of the group's new SSRCF, this covenant is not required to be tested unless a minimum of 35% of the available £100 million facility has been drawn. Therefore, given that only £5 million was drawn against the facility at 31 March 2018 (5%), no covenant test was applicable. In the event that 35% or more of the facility has been drawn, the Super Senior Gross Leverage Ratio is required to be no more than 2.3 times.

Notes to the consolidated financial statements *(continued)*

31 Financial instruments *(continued)*

Non-derivative financial liabilities

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

At 31 March 2017	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000
Loans and borrowings	-	-	-	550,216
Trade and other payables	115,536	747	470	20
	115,536	747	470	550,236

At 31 March 2018	Less than one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000
Loans and borrowings	-	-	429,458	126,533
Trade and other payables	131,309	2,261	192	9
	131,309	**2,261**	**429,650**	**126,542**

Financial instruments measured at fair value

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

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

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

Fair value measurements	**At 31 March 2018**			At 31 March 2017		
	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets						
Assets held for sale	**-**	**3,343**	**-**	-	265	-
Derivative financial instruments	**-**	**-**	**-**	-	-	7
Financial liabilities						
Derivative financial instruments	**-**	**(167)**	**-**	-	(618)	(18)
Contingent consideration	**-**	**-**	**(6,625)**	-	-	(4,147)

Notes to the consolidated financial statements *(continued)*

31 Financial instruments *(continued)*

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

There were no transfers between levels 1 and 2 or between levels 2 and 3 during the year (2017: none).

Financial instruments in level 2

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

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

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

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

Financial instruments in level 3

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

Contingent consideration

	Group 2018 £'000	Group 2017 £'000
At 1 April	**4,147**	8,647
Arising through business combinations	**1,912**	1,000
Re-measurement of provisional amounts from prior year business combinations	**-**	(297)
Short term retentions	**12**	358
Contingent consideration settled	**(2,379)**	(859)
Contingent consideration settled from escrow funds	**-**	(1,978)
Short term retentions settled	**(74)**	(718)
Differences between contingent consideration paid and estimates initially recognised	**2,889**	(2,152)
Unwinding of discount	**51**	146
Charge to the income statement arising from change in discount rate	**67**	-
At 31 March	**6,625**	4,147

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

Unquoted options

	Assets		**Liabilities**	
	Group 2018 £'000	Group 2017 £'000	**Group 2018 £'000**	Group 2017 £'000
At 1 April	**7**	41	**(18)**	(92)
Change in fair value through profit or loss	**(7)**	(34)	**18**	74
At 31 March	**-**	7	**-**	(18)

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

Notes to the consolidated financial statements *(continued)*

32 Post employment benefits

The group makes contributions to a small number of defined contribution pension schemes on behalf of its employees, including the National Employment Savings Trust ('NEST'). The pension cost charge for the financial year represents contributions payable by the group to the schemes and amounted to £879,000 (2017: £836,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year (2017: £nil).

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

During the year to 31 March 2018 the group did not contribute directly to the scheme, however, the cost of insuring death in service benefits and other trustee expenses were paid by the group and amounted to £60,000 (2017: £51,000). The group does not expect to make contributions to the scheme or for the costs of the scheme to change significantly in the next financial year.

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

The significant actuarial assumptions were as follows:

	Group 2018 %	Group 2017 %
Rate of increase in pensions in payment and deferred pensions	**3.30**	3.40
Discount rate applied to scheme liabilities	**2.60**	2.60
Inflation assumption	**3.30**	3.40

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

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires at the age of 65 in 2018 will on average live for a further 22.7 years (2017: 22.9 years) after retirement if they are male and 24.9 years (2017: 25.3 years) if they are female.

It is also assumed that members retiring in 20 years' time will on average live for a further 24.1 years (2017: 24.2 years) after retirement if they are male and 26.4 years (2017: 26.7 years) if they are female.

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

	Group 2018 £'000	Group 2017 £'000
Present value of funded obligations	**(5,075)**	(5,410)
Fair value of plan assets	**4,558**	5,089
Deficit recognised in the balance sheet	**(517)**	(321)

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

Notes to the consolidated financial statements *(continued)*

32 Post employment benefits *(continued)*

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

	2018			2017		
	Present value of funded obligations	**Fair value of plan assets**	**Deficit**	Present value of funded obligations	Fair value of plan assets	Surplus/ (deficit)
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
At 1 April	**(5,410)**	**5,089**	**(321)**	(4,293)	4,638	345
Scheme expenses paid out	**-**	**(21)**	**(21)**	-	(20)	(20)
Interest (expense)/income	**(134)**	**125**	**(9)**	(159)	171	12
	(134)	**104**	**(30)**	(159)	151	(8)
Re-measurement:						
Return on plan assets excluding interest income	**-**	**(118)**	**(118)**	-	539	539
Re-measurement gain from changes in demographic assumptions	**55**	**-**	**55**	-	-	-
Re-measurement gain/(loss) from changes in financial assumptions	**35**	**-**	**35**	(1,249)	-	(1,249)
Experience (loss)/gain	**(138)**	**-**	**(138)**	52	-	52
	(48)	**(118)**	**(166)**	(1,197)	539	(658)
Benefits paid	**517**	**(517)**	**-**	239	(239)	-
At 31 March	**(5,075)**	**4,558**	**(517)**	(5,410)	5,089	(321)

Plan assets are comprised as follows:

	2018		2017	
	Value	**Percentage of plan assets**		Percentage of plan assets
	£'000	**%**	£'000	%
Equities	**2,178**	**48%**	2,382	47%
Bonds	**2,301**	**51%**	2,615	52%
Property	**63**	**1%**	66	1%
Cash	**16**	**-**	26	-
Total market value of plan assets	**4,558**	**100%**	5,089	100%

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

Assumption	**Change in assumption**	**Change in liabilities**
Discount rate	Decrease by 0.5%	Increase by 11%
Rate of inflation	Increase by 0.5%	Increase by 6%
Life expectancy	Increase by one year	Increase by 2%

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

Notes to the consolidated financial statements *(continued)*

33 Related party transactions

Company

Audit fee recharge

Petrie Tucker and Partners Limited, a wholly owned subsidiary company, recharged the company £8,000 in request of the company's share of the group audit fee (2017: £6,000).

34 Cash generated from operations

	Group 2018 £'000	Group 2017 £'000
Loss before income tax	**(143,763)**	(77,145)
Adjustments:		
Depreciation of property, plant and equipment	**21,745**	20,702
Amortisation of government grants	**(55)**	(60)
Amortisation of intangible assets	**32,079**	32,784
Impairment of goodwill and intangible assets	**66,276**	30,000
Finance costs	**43,512**	56,042
Finance income	**(509)**	(1,590)
Loss on business and asset disposals	**29,771**	1,419
Differences between contingent consideration paid and estimates initially recognised	**2,889**	(2,152)
Defined benefit pension scheme expenses paid	**21**	20
Loss from derivative financial instruments at fair value through profit or loss	**31**	783
Value of employee services arising from shares granted to directors and employees	**808**	-
Cash generated from operations before movements in working capital	**52,805**	60,803
Movements in working capital:		
(Increase)/decrease in inventories	**(1,325)**	682
Decrease in trade and other receivables	**783**	5,078
Increase in trade and other payables	**15,145**	7,676
Decrease in provisions	**(1,473)**	(1,303)
Total movements in working capital	**13,130**	12,133
Cash generated from operations	**65,935**	72,936

Notes to the consolidated financial statements *(continued)*

35 Business combinations

mydentist

During the year mydentist acquired one unincorporated dental practice and Dental Directory acquired the entire issued share capital of BF Mulholland Limited, a wholesaler of dental consumables, materials and equipment located in Northern Ireland, along with the trade, assets and liabilities of a small orthodontic appliances and materials supplier (Torque Orthodontics). The directors consider each of these acquisitions to be individually immaterial to the group having considered a range of qualitative and quantitative factors. Therefore, these acquisitions have been aggregated for disclosure purposes within their respective CGUs. Details of the companies and partnerships acquired are set out in note 17.

	mydentist £'000	**Dental Directory £'000**	**Total £'000**
Consideration			
Cash	1,645	4,625	6,270
Contingent consideration	118	1,794	1,912
Total consideration	**1,763**	**6,419**	**8,182**
Fair value of assets and liabilities acquired			
Intangible assets (note 15)	817	1,994	2,811
Property, plant and equipment	50	140	190
Inventories	1	573	574
Trade and other receivables	-	993	993
Cash and cash equivalents	-	159	159
Trade and other payables	-	(739)	(739)
Deferred income tax	(139)	(339)	(478)
Provisions	(3)	(30)	(33)
Total identifiable net assets	**726**	**2,751**	**3,477**
Goodwill	1,037	3,668	4,705
Total	**1,763**	**6,419**	**8,182**

In addition to the consideration shown above, acquisition related fees and expenses of £0.3 million were incurred. All fees and expenses have been expensed to administrative expenses within the income statement and are shown separately in note 5.

The fair value of the contingent consideration was estimated by assessing the probability that the performance based targets will be achieved and by discounting the probability weighted future cash flows. The fair value estimates have been calculated using a discount rate of 2%. The discount rate of 2% was selected as an approximation to a 'risk free' rate of return. This is a level 3 fair value measurement (see note 31).

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

During the year ended 31 March 2018, the above acquisitions contributed revenue of £3.6 million and EBITDA before non-underlying items of £0.4 million to the group results. If the above acquisitions had all been completed on 1 April 2017, their contribution to group revenue and EBITDA before non-underlying items would have been approximately £6.2 million and £0.8 million respectively.

Notes to the consolidated financial statements *(continued)*

36 Subsequent events

To the date of this report, the group has closed a further four practices and sold a further three practices as part of the ongoing disposal of those practices identified through the portfolio review. In addition, since the year end, the group has taken the decision to close or sell a further 21 practices.

37 Controlling party

The immediate parent undertaking is Turnstone Midco 1 Limited, a company incorporated in England.

The results of the company and of the group are also consolidated in the financial statements of Turnstone Equityco 1 Limited. Turnstone Equityco 1 Limited is the parent undertaking of the largest group to consolidate these financial statements. No other financial statements consolidate the results of the group.

Carlyle and Palamon have joint control of Turnstone Equityco 1 Limited. Carlyle's majority holding is owned by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle. Palamon's ownership of the group is through its fund Palamon European Equity II, L.P. At 31 March 2018 and throughout the year, the ultimate controlling party of Turnstone Equityco 1 Limited is considered by the directors to be CEP III Participations S.a.r.l. SICAR.