Four Seasons Health Care

Q1 2017 Investor Presentation

25 May 2017

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Q1 2017 Overview

Group financial highlights

- Q1 2017 turnover for Elli Investments Limited is £10.7m, or 7.0%, higher than Q1 2016 after adjusting for the impact of disposals and closures (an average reduction of c3,100 effective beds)
- Q1 2017 EBITDA of £11.8m is £2.6m or 28% higher than Q1 2016
- Group occupancy % in Q1 2017 saw a 2.8 percentage point increase (Four Seasons Health Care: 3.6 percentage point increase; brighterkind: 1.1 percentage point decrease; The Huntercombe Group (THG): 0.3 percentage point decrease) compared to Q1 2016, and only a slight (0.2 percentage point) decrease compared to Q4 2016 despite a high winter death rate
- Q1 2017 group average weekly fee was £783, 2.3% higher than the Q4 2016 (Four Seasons Health Care: 1.3%; brighterkind 2.2%; THG: 8.9%). The increase in THG average weekly fee was driven by the disposal of a number of lower acuity sites during December 2016
- Continued and significant progress on quality, with approximately 64% of the group's care homes rated as Good or Outstanding, or the equivalent under the different regulators, as at 31 March 2017 – an increase from around 50% in March 2016 and 5% above the relevant sector comparator
- Q1 2017 payroll as a percentage of turnover in the group's care homes improved by 0.3 percentage points compared to Q4 2016 and 1.6 percentage points compared to Q1 2016. Within THG, payroll as a percentage of turnover improved by 1.1 percentage points on the previous quarter
- Agency as a percentage of payroll of 8.4% in Q1 2017 in the group's care homes, whilst stable on the previous quarter, shows the impact of the on-going shortage of nurses across the wider healthcare sector. Agency spend continues to represent a challenge in THG
- £6.3m net cash inflow from operations in Q1 2017
- Closing Q1 2017 cash balance of £44.8m; net debt of £520.2m at March 2017 (excluding amounts owed to related undertakings and debt issue costs)

Results – KPIs

	2016					2017
	Q1	Q2	Q3	Q4	Year [2]	Q1
Turnover (£m)	170.7	177.0	171.7	166.8	686.2	163.9
EBITDAR (£m)[5]	21.8	25.8	32.1	20.1	99.8	23.2
EBITDA (£m)[4]	9.2	13.6	19.7	13.0	55.4	11.8
Effective beds - group	21,045	20,438	19,338	18,532	19,838	17,831
Occupied beds - group	18,183	17,822	17,205	16,573	17,446	15,911
Occupancy % - FSHC and brighterkind	86.7%	87.5%	89.6%	90.0%	88.4%	89.7%
Occupancy % - THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%
Average weekly fee (£) - FSHC and brighterkind	629	669	675	681	663	692
Average weekly fee (£) - THG	2,390	2,425	2,386	2,395	2,399	2,607
Payroll (% of turnover)[1] - FSHC and brighterkind	65.3%	63.6%	62.1%	64.0%	63.8%	63.7%
Payroll (% of turnover)[1] - THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%
EBITDARM (% of turnover)[4][5] - FSHC and brighterkind	18.9%	22.2%	24.4%	21.0%	21.6%	21.3%
EBITDARM (% of turnover)[4][5] - THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%
Agency (% of payroll)[1]	7.9%	6.9%	8.2%	9.0%	8.0%	9.1%
Expenses (% of turnover)	14.9%	13.7%	13.1%	14.5%	14.1%	14.4%
Central costs (% of turnover)	6.1%	5.9%	6.0%	6.1%	6.0%	6.3%
Maintenance capex (£m)[3]	6.5	6.8	6.1	7.9	27.3	4.9

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Four Seasons Health Care, brighterkind and THG operational capex
4. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period
5. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)

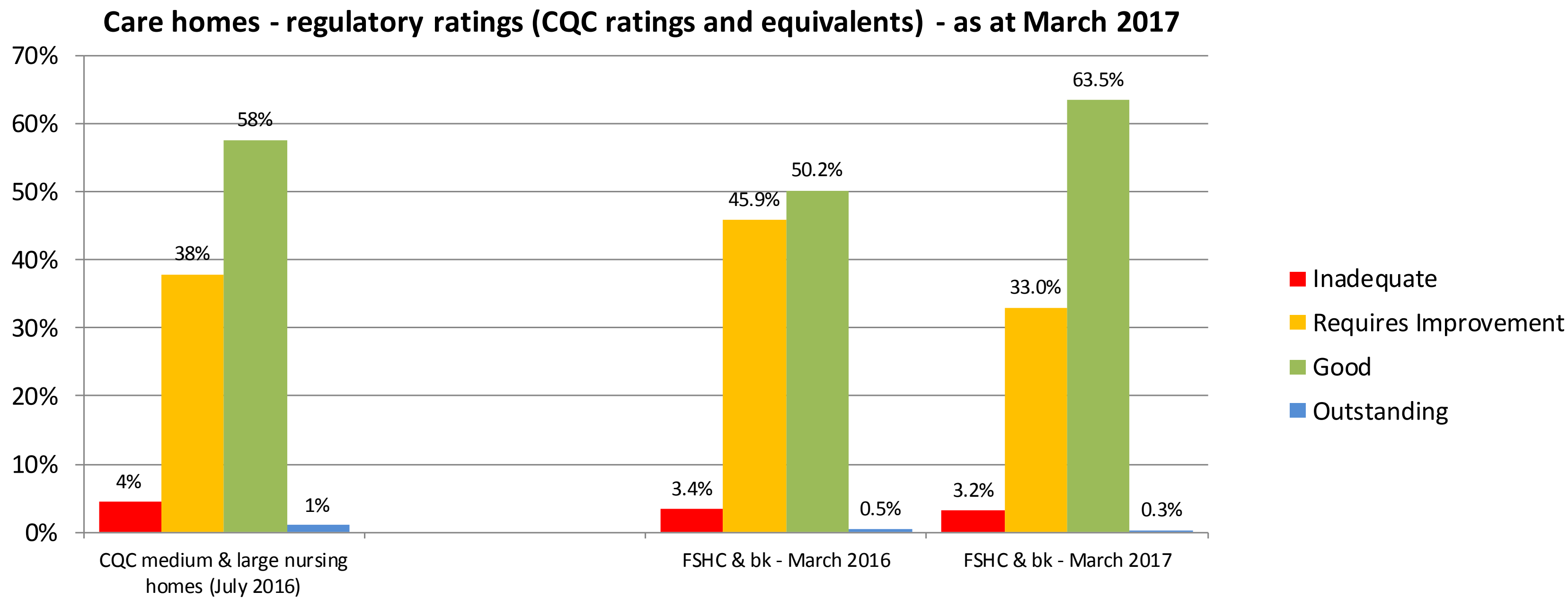
Results – KPIs by business

	2016					2017
	Q1	Q2	Q3	Q4	Year [2]	Q1
Turnover (£m)						
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3
- THG	29.0	29.5	28.0	27.2	113.7	27.3
Effective beds						
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934
Occupancy %						
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%
Average weekly fee (£)						
- FSHC	603	640	645	648	634	657
- brighterkind	831	891	899	917	885	937
- THG	2,390	2,425	2,386	2,395	2,399	2,607
Payroll % (of turnover)[1]						
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%
Agency % (of payroll)[1]						
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%
EBITDARM % (of turnover)						
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Q2 and Q3 2016 KPIs include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period

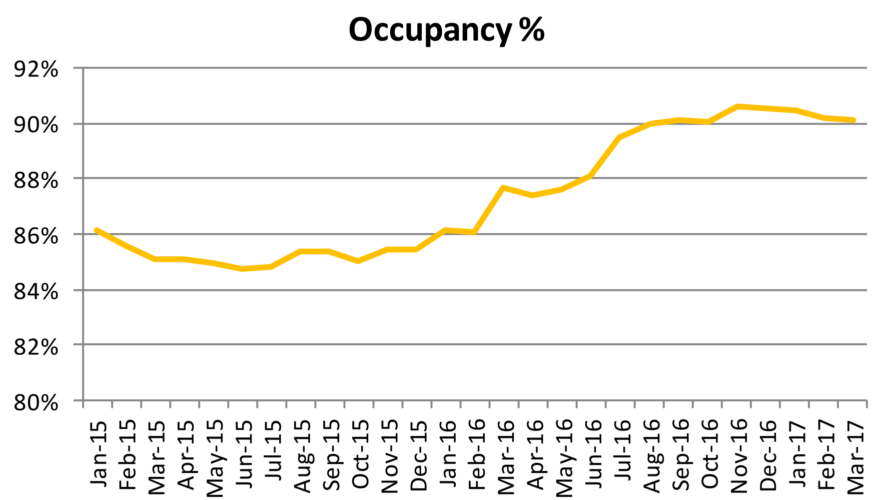
Regulatory Ratings

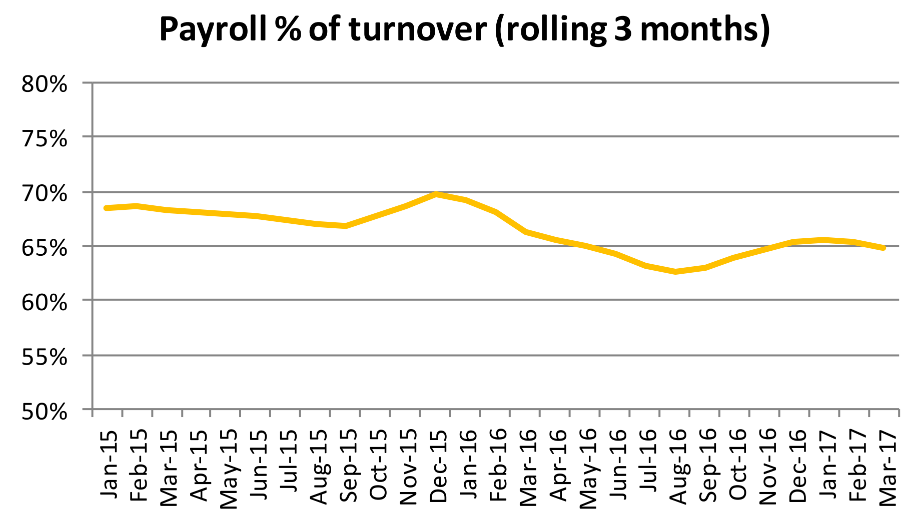


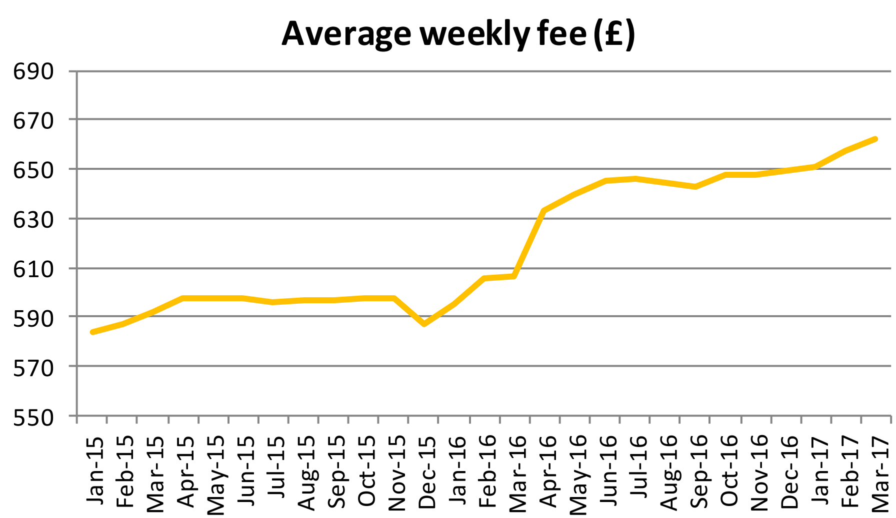
- The group's regulatory ratings have improved over time, as shown above, and are now ahead of the relevant market comparator
- The most appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- The proportion of Four Seasons Health Care homes rated as 'Good', or the equivalent under the different regulators, has increased over the past 12 months by more than 10 percentage points
- brighterkind has no homes rated as 'Inadequate' or equivalent
- THG has 74% of facilities rated as 'Good' which is higher than the national average of independent mental health providers, which, as at 31 July 2016, had 64% of facilities rated as 'Good'

Note: Scottish and Northern Irish homes are rated using different scales, which have been translated to the CQC equivalents and included in this chart

Results – Four Seasons Health Care

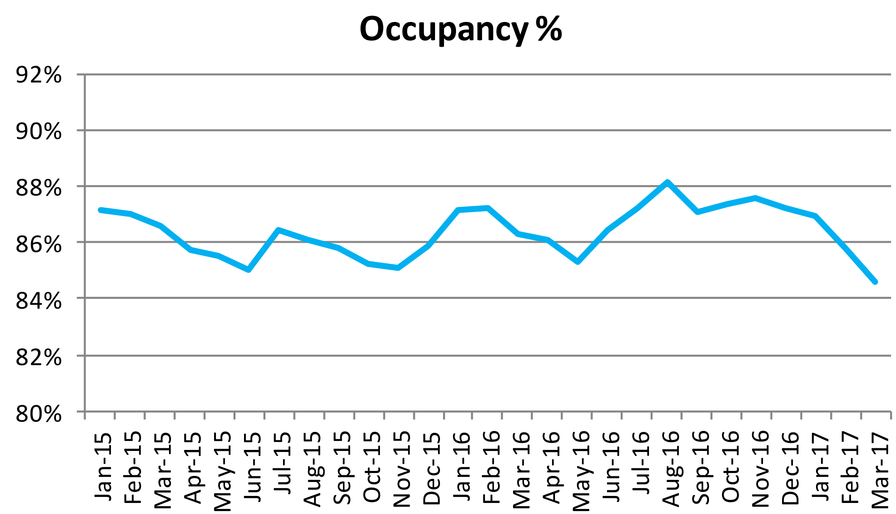


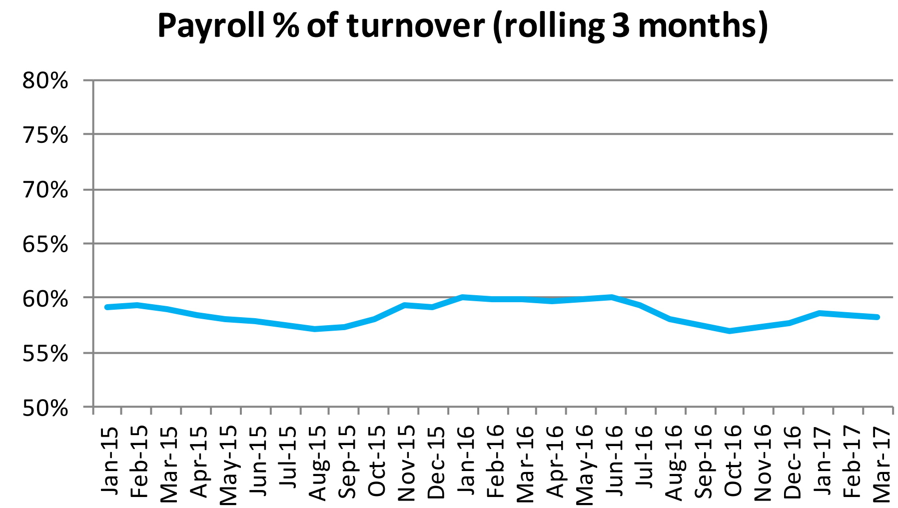


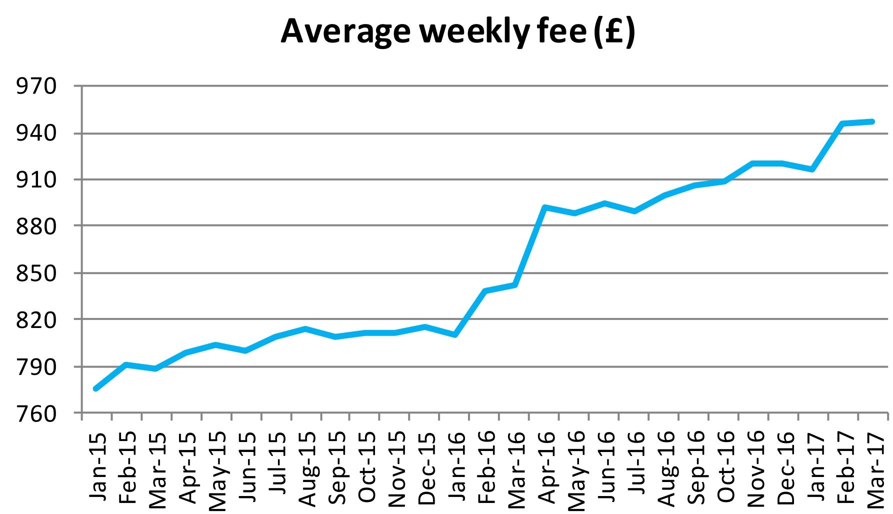


- Q1 2017 occupancy of 90.2% was 3.6 percentage points above the corresponding quarter in 2016
- Average weekly fee of £657 in Q1 2017 was 9.0% higher than the comparative quarter in 2016 and 1.4% higher than Q4 2016, in part due to the NHS Funded Nursing Care increase from 1 April 2016
- Payroll as a % of turnover improved by 0.5 percentage points in Q1 2017 in comparison to Q4 2016 and by 1.5 percentage points in comparison to Q1 2016
- Agency as a percentage of payroll increased from 8.9% in Q4 2016 to 9.0% in Q1 2017, reflecting the continuing difficulties in the nurse recruitment market

Results – brighterkind

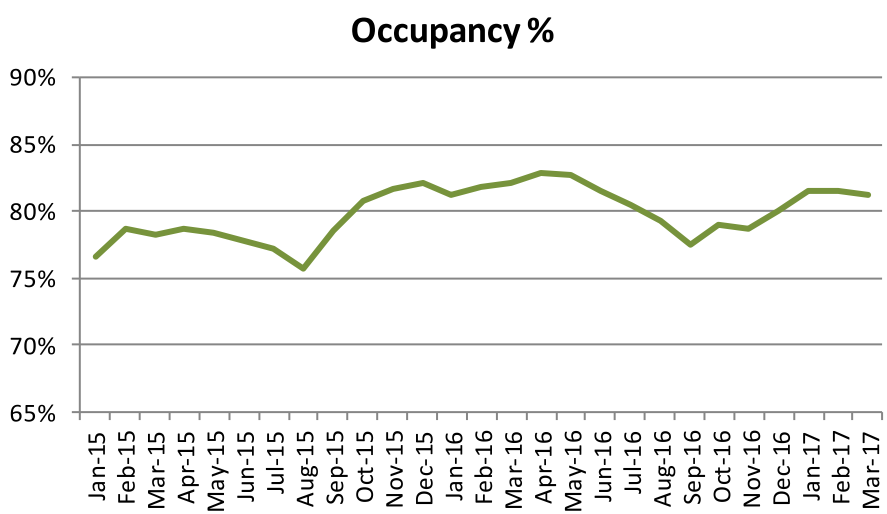


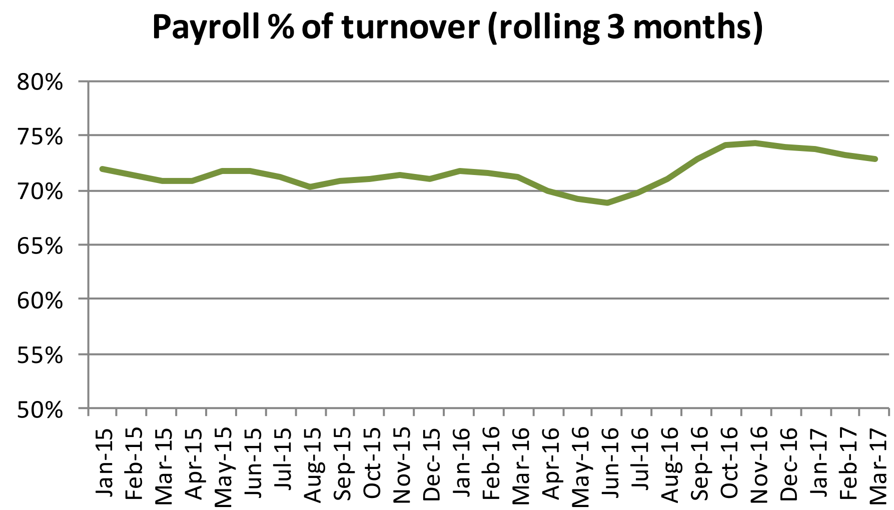


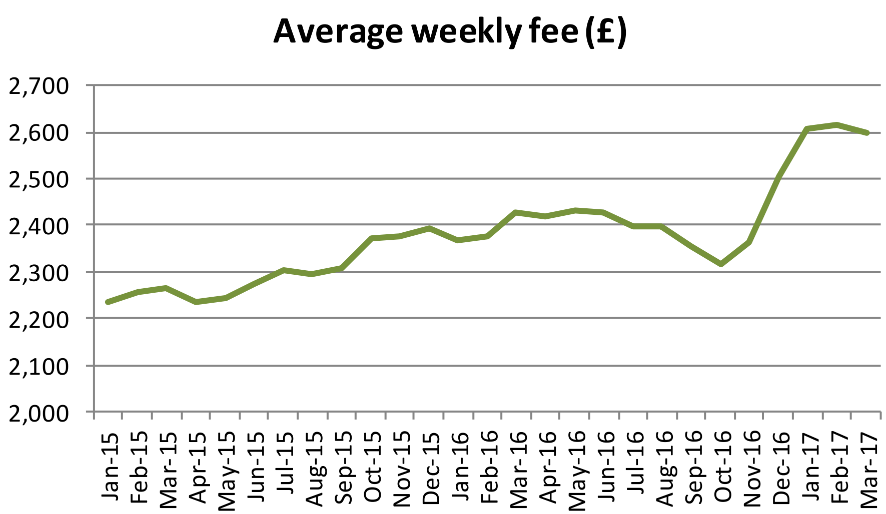


- Q1 2017 occupancy of 85.8% was 1.6 percentage points lower than Q4 2016
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee in Q1 2017 was 2.2% higher than the prior quarter and 12.8% higher than the comparative quarter in 2016, in part due to the NHS Funded Nursing Care increase from 1 April 2016
- Payroll as a % of turnover in Q1 2017 increased by 0.5 percentage points in comparison to Q4 2016, although agency as a percentage of total payroll continues to be well controlled and reduced by 0.7 percentage points over the same period

Results – THG

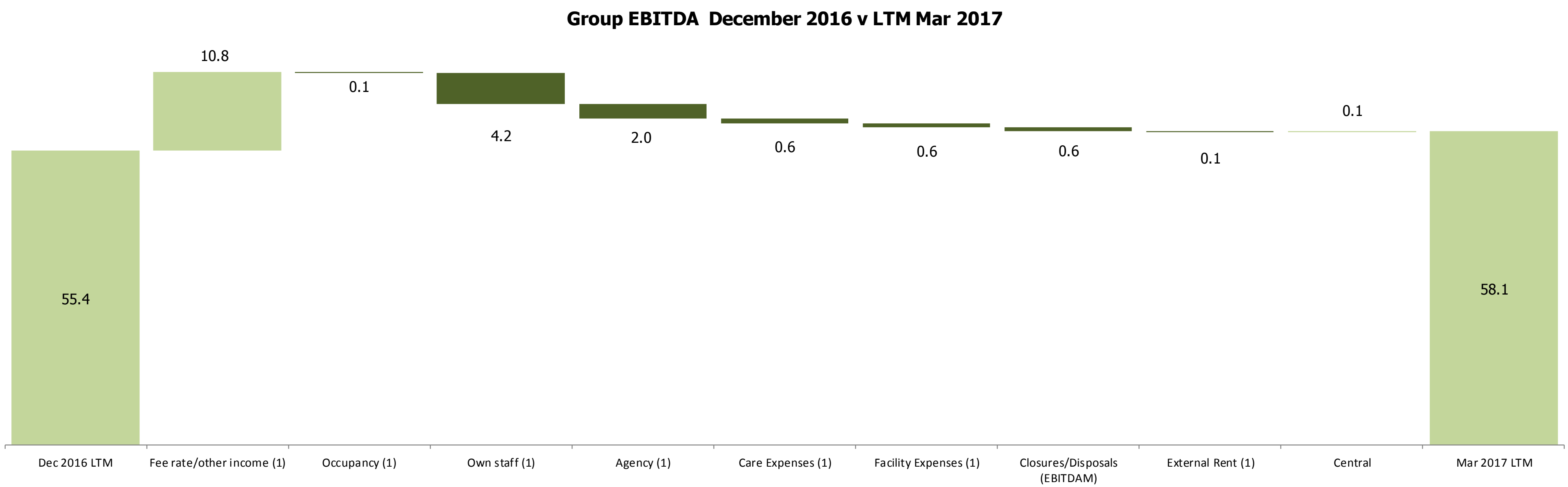






- Occupancy percentage of 81.4% in Q1 2017 was 2.2 percentage points above Q4 2016
- Average weekly fee of £2,607 in Q1 2017 was 8.9% higher than in Q4 2016, driven by the disposal of a number of lower acuity sites during December 2016
- Q1 2017 payroll as a % of turnover of 72.9% was a 1.1 percentage point improvement on Q4 2016, despite a 1.1 percentage point increase in agency as a percentage of total payroll

Results – December 2016 v LTM March 2017



- The March 2017 LTM EBITDA was £58.1m, £3.3m up on December 2016 LTM after adjusting for the £0.6m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
  - Income was £10.7m higher in March 2017 LTM than December 2016 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £10.8m
    - Occupancy related income was broadly stable resulting in a £0.1m adverse variance
  - Own staff payroll costs increased by £4.2m, driven largely by the introduction of the NLW from April 2016, and the increase in the National Minimum Wage in October 2016
  - Agency spend in March 2017 LTM was £2.0m higher than the spend in December 2016 LTM, reflecting the ongoing difficulties in the nurse recruitment market

Notes
1. Excludes closures/disposals

Results – Cash flow and net debt

External Debt			
£m	**Debt Principal**	**Coupon/ Interest**	**Maturity**
High yield bonds			
Senior secured notes	350.0	8.75%	Jun 2019
Senior notes	175.0	12.25%	Jun 2020
Total HYB	**525.0**		
Term loan	40.0	L. + 6% margin	Dec 2017
Total amount outstanding on external debt	**565.0**		
Cash at 31 March 2017	44.8		
Net debt (before debt issue costs)	**520.2**		

- At 31 March 2017 the group's cash balance was £44.8m
- The resulting net debt balance was £520.2m

Cash flow		
£m	**Period ended March 2017**	**Period ended March 2016**
Net cash inflow from operating activities	**6.3**	**0.7**
Returns on investment and servicing of finance	-	-
Acquisition of tangible fixed assets	(5.3)	(8.2)
Proceeds from sale of tangible fixed assets	10.8	4.3
Net cash inflow / (outflow) before financing	**11.7**	**(3.2)**
Financing	-	-
Increase / (decrease) in cash in the period	**11.7**	**(3.2)**
Opening cash balance	33.0	55.1
Closing cash balance	**44.8**	**51.9**

- Capital expenditure in Q1 2017 was £5.3m, whilst proceeds from the disposal of 13 homes totalled £10.8m
- The increase in net cash inflow from operating activities in comparison to Q1 2016 was a function of the increased EBITDA, working capital timing and cash exceptional items

Developments and disposals

- Developments
  - Following the completion of the 8 bed extension at La Haule Care Home in Jersey and the 28 bed new hospital unit at Frenchay prior to the end of 2016, a number of refurbishments are on-going across the group
  - We expect the development and refurbishment capital spend programme to continue to be offset by disposals in 2017
- Disposals
  - The group has taken the opportunity to dispose of, or close, certain care homes which are uneconomic or do not fit with the group's segmentation strategy
  - In Q1 2017 the group disposed of 13 freehold properties, realising £10.8m in cash proceeds
  - We have reached agreement with one of our largest landlords to hand back some of our closed homes, and are continuing discussions with certain landlords with a view to handing back further unprofitable or closed homes
  - The group continues to evaluate offers that have been received on other loss-making, underperforming or non-core sites with expected disposal dates through 2017

Q&A

- Further questions can be addressed to:
  - Email: investorinfo@fshc.co.uk
  - Telephone: Ben Taberner +44 1625 417800
- An investor relations page is available on the FSHC website: www.fshc.co.uk

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 31 March 2017

Contents

Presentation of financial data

This report summarises the consolidated financial and operating data derived from the unaudited consolidated financial statements of Elli Investments Limited. The summary financial information provided has been derived from our records for the quarter ended 31 March 2017 which are maintained in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. These interim results are not necessarily indicative of the results to be expected for the full year.

We have presented certain non-GAAP information in the quarterly report. This information includes "EBITDA" and "EBITDAR", which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items (and rent). Our Management believes that EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because EBITDA is used by our chief operating decision makers to track our business evolution, establish operational and strategic targets and make important business decisions. In addition, we believe that EBITDA is a measure commonly used by investors and other interested parties in our industry.

Group financial highlights

- Q1 2017 turnover for Elli Investments Limited is £10.7m, or 7.0%, higher than Q1 2016 after adjusting for the impact of disposals and closures (an average reduction of c3,100 effective beds)
- Q1 2017 EBITDA of £11.8m is £2.6m or 28% higher than Q1 2016
- Group occupancy % in Q1 2017 saw a 2.8 percentage point increase (Four Seasons Health Care: 3.6 percentage point increase; brighterkind: 1.1 percentage point decrease; The Huntercombe Group (THG): 0.3 percentage point decrease) compared to Q1 2016, and only a slight (0.2 percentage point) decrease compared to Q4 2016 despite a high winter death rate
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- Continued and significant progress on quality, with approximately 64% of the group's care homes rated as Good or Outstanding, or the equivalent under the different regulators, as at 31 March 2017 - an increase from around 50% in March 2016 and 5% above the relevant sector comparator
- Q1 2017 payroll as a percentage of turnover in the group's care homes improved by 0.3 percentage points compared to Q4 2016 and 1.6 percentage points compared to Q1 2016. Within THG, payroll as a percentage of turnover improved by 1.1 percentage points on the previous quarter
- Agency as a percentage of payroll of 8.4% in Q1 2017 in the group's care homes, whilst stable on the previous quarter, shows the impact of the on-going shortage of nurses across the wider healthcare sector. Agency spend continues to represent a challenge in THG
- £6.3m net cash inflow from operations in Q1 2017
- Closing Q1 2017 cash balance of £44.8m; net debt of £520.2m at March 2017 (excluding amounts owed to related undertakings and debt issue costs)

Commentary on results

Four Seasons Health Care is pleased to announce its results for the quarter ended 31 March 2017.

The results and KPIs for the group since Q1 2016 are summarised below.

	2016					2017
	Q1	Q2	Q3	Q4	Year(2)	Q1
Turnover (£m)(4)						
- FSHC	119.9	124.6	120.8	116.5	481.9	113.2
- brighterkind	21.8	22.8	22.8	23.2	90.5	23.3
- THG	29.0	29.5	28.0	27.2	113.7	27.3
Effective beds						
- FSHC	17,659	17,086	16,041	15,291	16,519	14,690
- brighterkind	2,298	2,264	2,209	2,209	2,245	2,208
- THG	1,088	1,088	1,088	1,032	1,074	934
Occupancy %						
- FSHC	86.6%	87.7%	89.8%	90.4%	88.6%	90.2%
- brighterkind	86.9%	86.0%	87.5%	87.4%	86.9%	85.8%
- THG	81.7%	82.3%	79.1%	79.2%	80.6%	81.4%
Average weekly fee (£)(4)						
- FSHC	603	640	645	648	634	657
- brighterkind	831	891	899	917	885	937
- THG	2,390	2,425	2,386	2,395	2,399	2,607
Payroll % (of turnover)(1)(4)						
- FSHC	66.3%	64.3%	63.0%	65.3%	64.7%	64.8%
- brighterkind	59.9%	60.1%	57.4%	57.7%	58.8%	58.2%
- THG	71.2%	68.9%	72.9%	74.0%	71.8%	72.9%
Agency to total payroll (%)(1)						
- FSHC	6.9%	6.3%	8.2%	8.9%	7.6%	9.0%
- brighterkind	3.9%	5.7%	4.0%	6.0%	4.9%	5.3%
- THG	14.0%	10.2%	11.1%	11.2%	11.6%	12.3%
EBITDARM % (of turnover)(4)						
- FSHC	17.7%	21.3%	23.4%	19.4%	20.5%	19.8%
- brighterkind	25.5%	27.0%	29.8%	28.8%	27.8%	28.3%
- THG	18.6%	20.1%	16.4%	14.5%	17.4%	16.3%
Total EBITDA (£m)	9.2	13.6	19.7	13.0	55.4	11.8

Notes:

(1) Payroll % excludes central payroll
(2) Full year numbers may include minor rounding differences compared to the four quarter aggregate
(3) "FSHC" Four Seasons Health Care; "THG" The Huntercombe Group
(4) Q2 and Q3 2016 KPIs, other than EBITDA, include the NHS Funded Nursing Care ("FNC") increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period

Commentary on results (continued)

Turnover

After adjusting for disposals and home closures Q1 2017 turnover for Elli Investments Limited was approximately £10.7m higher than Q1 2016. Within the group, total turnover in Four Seasons Health Care was approximately £8.4m higher than Q1 2016 after adjusting for the reduction of approximately 2,900 effective beds.

Average Weekly Fee[(1)]

During Q1 2017 the Average Weekly Fee ("AWF") of £783 across the group was 9.5% higher than the comparative quarter in 2016. Since Q4 2016 FSHC has seen an increase of 1.4% and brighterkind a 2.2% increase, whilst the disposal of THG's lower acuity units largely drove the 8.9% increase in that business.

Occupancy

Average occupancy in the group in Q1 2017 was 89.2%, compared to 86.4% in Q1 2016. Within this number, FSHC occupancy increased by 3.6 percentage points and brighterkind decreased by 1.1 percentage points. THG occupancy remained broadly the same at 81.4%.

Payroll[(1)]

Payroll in the group's care homes as a percentage of turnover was at 63.7% in Q1 2017, a 1.6 percentage point improvement over the same quarter in 2016. However, THG payroll as a percentage of turnover increased by 1.7 percentage points in Q1 2017 compared to the same quarter in the comparative period.

Total agency costs across the group have remained stubbornly high at 9.1%, with a £0.8m increase in Q1 2017 compared to Q1 2016.

Care expenses[(1)]

Q1 2017 expenses (care and facility combined), at 14.4% of turnover have improved by 0.5 percentage points since Q1 2016.

Rent

£11.4m was charged for rent in Q1 2017, a £1.2m reduction from Q1 2016, being a combination of underlying inflationary uplifts, certain rents flexing based on performance, the surrender of certain leases and the non-cash credit resulting from the unwind of the group's onerous lease provision.

Central costs[(1)]

Central costs, at 6.3% of turnover in Q1 2017, were broadly comparable with Q1 2016.

EBITDA

As a consequence of the factors outlined above, the EBITDA of £11.8m for Q1 2017 was £2.6m above the comparable period in 2016 of £9.2m, with a 1.6% increase in the EBITDARM margin. The LTM EBITDA at March 2017 has therefore increased to £58.0m compared to the £55.4m for the year to December 2016.

Capital expenditure and disposals

Capital expenditure in Q1 2017 was £5.3m. Thirteen homes have been sold during Q1 2017, realising over £10.8m cash proceeds.

(1) Q2 and Q3 2016 KPIs other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") increase announced in July 2016 and backdated to 1 April 2016, in the relevant period

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 31 March 2017

Commentary on the unaudited condensed consolidated financial statements

Summary

Profit and loss account and other comprehensive income

The consolidated profit and loss account and other comprehensive income of Elli Investments Limited is for the quarter ended 31 March 2017. The comparative period is for the quarter ended 31 March 2016.

Balance sheet

Elli Investments Limited is an intermediate holding company in a wider group headed by FSHC Group Holdings Limited. There are therefore certain balances between Elli Investments Limited and other members of the wider FSHC Group Holdings Limited group of companies which only net out on consolidation further up the corporate structure.

Profit and loss account and other comprehensive income (page 10)

For an analysis of profit and loss account categories above interest, please see the "Commentary on results" section.

Interest

The interest charge for the period includes £13.0m interest on the £350m 8.75% senior secured notes and the £175m 12.25% senior notes. The balance primarily relates to £14.4m of accrued interest on the balances owed to related party undertakings, £1.9m in respect of the amortisation of debt issue costs and £0.7m interest on the term loan.

Tax

The tax credit for the quarter was £0.4m, being a £0.3m tax charge, reflecting the current estimate of the full year charge, offset by a £0.7m credit for the utilisation of group relief.

Balance sheet (page 11)

Goodwill

The negative goodwill balance is a function of the 12 July 2012 acquisition structure, the fair value of the acquired net assets and the acquisition costs.

Fixed assets

Land and buildings are included in the Elli Investments Limited consolidated balance sheet at their fair value on acquisition plus any subsequent movements for additions, disposals, depreciation or impairment.

Commentary on the unaudited condensed consolidated financial statements (continued)

Balance sheet (continued)

Debtors

The following table presents the debtors at 31 March 2017 and 31 March 2016.

	March 2017	March 2016
	£000	£000
Trade debtors	**26,623**	30,381
Prepayments, other debtors and accrued income	**16,168**	20,216
Amounts owed by related undertakings	**3,112**	2,591
	45,903	53,188

£1.5m shown as corporation tax receivable in Q1 2016 has been reclassified in the comparative figures above – of the total, £2.1m relating to the utilisation of group relief has been reclassified to amounts owed by related undertakings and a £552,000 credit balance is now shown as a corporation tax creditor to be consistent with 2017 and reflect the substance of these balances.

Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 31 March 2017 and 31 March 2016.

	March 2017	March 2016
	£000	£000
Extract		
Trade creditors	**24,329**	18,090
Taxation and social security	**8,453**	7,668
Other creditors	**36,384**	36,264
Accruals and deferred income	**27,754**	29,614
Corporation tax	**573**	552
	97,493	92,188

The £552,000 of corporation tax creditor at March 2016, previously included in the overall corporation tax debtor has been reclassified above to corporation tax to be consistent with 2017 and reflect the substance of these balances.

Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous rental contracts on certain of the group's leasehold properties. In addition there is a provision of approximately £12.5m to reflect guaranteed increases in operating leases, other than those linked to RPI, on a straight line basis over the life of the lease.

Long term liabilities

At 31 March 2017 the group's financing arrangements comprised the following:

- Senior Secured Notes: £350m, at a fixed interest rate of 8.75%, due to be repaid in 2019
- Senior Notes: £175m, at a fixed interest rate of 12.25%, due to be repaid in 2020
- Term loan: £40m, at an interest rate of LIBOR + 6%, due to be repaid in December 2017
- Amounts owed to related undertakings: £426.1m, being amounts owed to entities within the wider FSHC Group Holdings Limited group of companies

Commentary on the unaudited condensed consolidated financial statements (continued)

Cash flow statement (page 13)

Cash flow and liquidity

At 31 March 2017 the group's cash balance was £44.8m. Net cash generated from operating activities in the quarter to 31 March 2017 was £6.3m. In the quarter to 31 March 2016, the net cash generated from operating activities was £0.7m.

Working capital

The cash inflow from working capital was £0.5m in the quarter, compared to a £4.4m outflow in Q1 2016.

Interest paid

No interest has been paid on the £525m high yield bonds during the quarter as interest is payable in June and December. No interest has been paid on the £40m term loan during the quarter as interest is payable in May and November.

Elli Investments Limited

Condensed consolidated financial statements - unaudited

Quarter ended 31 March 2017

Contents

Consolidated profit and loss account and other comprehensive income (unaudited)

for the quarter ended 31 March 2017

	Note	**Quarter ended March 2017 £000**	Quarter ended March 2016 £000
Turnover	*5*	**163,850**	170,700
Cost of sales		**(148,076)**	(158,475)
Gross profit		**15,774**	12,225
Administrative expenses – ordinary		**(11,768)**	(11,053)
Administrative expenses – exceptional		**(4,999)**	(2,674)
Other operating income – exceptional	*4*	**-**	780
		(16,767)	(12,947)
Operating loss		**(993)**	(722)
Ordinary activities		**4,006**	1,172
Exceptional activities		**(4,999)**	(1,894)
		(993)	(722)
Interest payable and similar charges		**(30,224)**	(28,364)
Interest receivable and other income		**10**	30
Net interest payable and similar charges		**(30,214)**	(28,334)
Loss on ordinary activities before taxation		**(31,207)**	(29,056)
Tax on loss on ordinary activities	*6*	**363**	184
Retained loss for the financial period		**(30,844)**	(28,872)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA)

Analysed as:

Operating profit before exceptional items as analysed above	**4,006**	1,172
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**8,379**	8,591
Deduct: amortisation of negative goodwill	**(549)**	(549)
EBITDA before exceptional items	**11,836**	9,214

All amounts relate to continuing operations.

There were no recognised gains or losses in the current or prior period other than those reported above and therefore no separate statement of other comprehensive income has been prepared.

Consolidated balance sheet (unaudited)

at 31 March 2017

	Note	**March 2017** £000	March 2016 £000
Fixed assets			
Negative goodwill	*7*	**(33,564)**	(35,761)
Tangible assets	*8*	**532,711**	549,131
		499,147	513,370
Current assets			
Debtors	*9*	**45,903**	53,188
Cash at bank and in hand		**44,780**	51,913
		90,683	105,101
Creditors: amounts falling due within one year	*10*	**(153,160)**	(107,849)
Net current liabilities		**(62,477)**	(2,748)
Total assets less current liabilities		**436,670**	510,622
Creditors: amounts falling due after more than one year	*11*	**(943,685)**	(920,333)
Provisions for liabilities and charges			
Deferred tax liability	*12*	**(5,092)**	(5,050)
Other provisions	*13*	**(40,598)**	(53,624)
		(45,690)	(58,674)
Net liabilities		**(552,705)**	(468,385)
Capital and reserves			
Called up share capital	*14*	**174,368**	174,368
Profit and loss account		**(727,073)**	(642,753)
Shareholder's deficit		**(552,705)**	(468,385)

Consolidated statement of changes in equity (unaudited)

	Note	Called up share capital £000	Profit and loss account £000	**Total £000**
Balance at 1 January 2016		174,368	(613,881)	**(439,513)**
Total comprehensive income for the period				
Loss for the period		-	(28,872)	**(28,872)**
Total comprehensive income for the period		-	(28,872)	**(28,872)**
Balance at 31 March 2016	*14*	174,368	(642,753)	**(468,385)**
Balance at 1 January 2017		174,368	(696,229)	**(521,861)**
Total comprehensive income for the period				
Loss for the period		-	(30,844)	**(30,844)**
Total comprehensive income for the period		-	(30,844)	**(30,844)**
Balance at 31 March 2017	*14*	174,368	(727,073)	**(552,705)**

Consolidated cash flow statement (unaudited)

for the quarter ended 31 March 2017

	Quarter ended March 2017 £000	Quarter ended March 2016 £000
Cash flows from operating activities		
Loss for the period	**(30,844)**	(28,872)
Adjustments for:		
Depreciation and amortisation	**7,830**	8,042
Net interest payable and similar charges	**30,214**	28,334
Loss/(gain) on sale of tangible fixed assets	**745**	(780)
Taxation	**(363)**	(184)
	7,582	6,540
Increase/(decrease) in cash arising from movement in working capital	**481**	(4,387)
Decrease in provisions	**(1,437)**	(915)
	6,626	1,238
Interest received	**10**	30
Tax paid	**(380)**	(545)
Net cash from operating activities	**6,256**	723
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	**10,823**	4,320
Acquisition of tangible fixed assets	**(5,331)**	(8,221)
Net cash from investing activities	**5,492**	(3,901)
Net cash from financing activities	**-**	-
Net increase/(decrease) in cash and cash equivalents	**11,748**	(3,178)
Cash and cash equivalents at 1 January	**33,032**	55,091
Cash and cash equivalents at 31 March	**44,780**	51,913

Notes

(forming part of the financial statements)

1 General information

Elli Investments Limited (the "company") is a company registered in Guernsey. The condensed interim financial statements of the company are for quarter ended 31 March 2017.

This report does not constitute statutory financial statements and is unaudited.

2 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. They do not include all of the information required for full annual statements and should be read in conjunction with the consolidated financial statements of Elli Investments Limited for the year ended 31 December 2016 which were prepared in accordance with UK Generally Accepted Accounting Practice.

3 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the accounting policies set out in the 2016 annual report and accounts of Elli Investments Limited.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment properties. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Direct costs incurred in enabling a care facility to become registered are capitalised together with, where appropriate, finance costs associated with the period of construction, and are included in the cost of the facility.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings – 45 years
- Equipment and fixtures – 3 to 5 years
- Motor vehicles – 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes *(continued)*

(forming part of the financial statements)

3 Accounting policies (continued)

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses.

Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Exceptional items

Items that are material in size and non-recurring in nature are presented as exceptional items in the profit and loss account. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, changes to business processes, gains or losses on the disposal or impairment of assets and other significant non-recurring gains or losses.

Guarantees

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other related parties which are subsidiaries of its ultimate parent, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make payment under the guarantee.

Notes *(continued)*

(forming part of the financial statements)

4 Other operating income

	2017	2016
	£000	£000
Net profit on sale of tangible fixed assets	**-**	780

5 Segmental information

	Quarter ended 31 March 2017				
	Four Seasons Health Care	**brighterkind**	**The Huntercombe Group**	**Unallocated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Turnover	**113,179**	**23,333**	**27,338**	**-**	**163,850**
EBITDARM before exceptional items	**22,443**	**6,601**	**4,441**	**-**	**33,485**
Rent				**(11,364)**	**(11,364)**
Central costs				**(10,285)**	**(10,285)**
EBITDA					**11,836**

	Quarter ended 31 March 2016				
	Four Seasons Health Care	**brighterkind**	**The Huntercombe Group**	**Unallocated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Turnover	119,994	21,754	28,952	-	170,700
EBITDARM before exceptional items	21,222	5,557	5,373	-	32,152
Rent				(12,521)	(12,521)
Central costs				(10,417)	(10,417)
EBITDA					9,214

The above disclosure of financial information correlates with the information presented to the board.

No analysis of individual business assets and liabilities is presented to the board on a monthly basis and therefore no measure of business assets and liabilities is disclosed above. The total group assets and liabilities are as presented in the consolidated balance sheet.

Notes *(continued)*

(forming part of the financial statements)

6 Taxation

	Quarter ended March 2017 £000	Quarter ended March 2016 £000
Total tax expense recognised in the profit and loss account and other comprehensive income and equity		
UK corporation tax		
Current tax on loss for the period	**(668)**	(482)
UK income tax		
Current tax on loss for the period	**285**	279
Foreign tax		
Current tax on income for the period	**10**	8
Total current tax	**(373)**	(195)
Deferred tax (see note 12)		
Origination and reversal of timing differences	**10**	11
Total deferred tax	**10**	11
Total tax	**(363)**	(184)

The group structure results in certain profits being taxable under UK income tax rather than UK corporation tax. This increases the group's tax liability in the quarter by £285,000. This has been offset by a £670,000 credit for the utilisation of group relief.

7 Negative goodwill

	Negative goodwill £000
Net book value	
At beginning of period	**(34,113)**
Amortisation	**549**
At 31 March 2017	**(33,564)**
At 31 March 2016	(35,761)

Negative goodwill is being amortised over 20 years.

Notes *(continued)*

(forming part of the financial statements)

8 Tangible fixed assets

	Total
	£000
Net book value	
At beginning of period	**547,351**
Additions	5,331
Disposals	(11,568)
Depreciation	(8,403)
At 31 March 2017	**532,711**
At 31 March 2016	549,131

9 Debtors

	March 2017	March 2016
	£000	£000
Trade debtors	**26,623**	30,381
Prepayments, other debtors and accrued income	**16,168**	20,216
Amounts owed by related undertakings	**3,112**	2,591
	45,903	53,188

£1.5m shown as corporation tax receivable in Q1 2016 has been reclassified in the comparative figures above – of the total, £2.1m relating to the utilisation of group relief has been reclassified to amounts owed by related undertakings and a £552,000 credit balance is now shown as a corporation tax creditor to be consistent with 2017 and reflect the substance of these balances.

Notes *(continued)*
(forming part of the financial statements)

10 Creditors: amounts falling due within one year

	March 2017	March 2016
	£000	£000
Term loan	**40,000**	-
Trade creditors	**24,329**	18,090
Amounts due to related undertakings	**70**	70
Amounts due to parent undertakings	**201**	-
Accruals and deferred income	**27,754**	29,614
Taxation and social security	**8,453**	7,668
Other creditors	**36,384**	36,264
Corporation tax	**573**	552
Accrued interest and finance costs	**15,396**	15,591
	153,160	107,849

The £552,000 of corporation tax creditor at March 2016, previously included in the overall corporation tax debtor has been reclassified above to corporation tax to be consistent with 2017 and reflect the substance of these balances.

11 Creditors: amounts falling due after more than one year

	March 2017	March 2016
	£000	£000
High yield bonds	**525,000**	525,000
Term loan credit facility	**-**	40,000
Debt issue costs	**(9,346)**	(16,867)
External debt net of debt issue costs	**515,654**	548,133
Amounts owed to related undertakings	**426,088**	370,511
Amounts owed to parent undertakings	**1,943**	1,689
	943,685	920,333

12 Deferred tax liabilities

	March 2017	March 2017
	£000	£000
Deferred tax liabilities are attributable to the following:		
Accelerated capital allowances	**5,092**	5,050

Notes *(continued)*
(forming part of the financial statements)

13 Other provisions

	Provision for operating leases £000	Provision for onerous contracts £000	Total £000
Balance at beginning of period	**12,430**	**29,384**	**41,814**
Provisions made during the period	167	-	167
Provisions used during the period	(109)	(1,495)	(1,604)
Unwinding of discounted amounts	-	221	221
Balance at end of period	**12,488**	**28,110**	**40,598**

£14.3m of the provision for onerous contracts will unwind over the period of the relevant contracts, with the balance expected to unwind in the 15 month period following the balance sheet date.

The provision for operating leases will unwind over the life of the particular leases.

14 Share capital and other comprehensive income

	March 2017		March 2016	
	No.	**£000**	No.	£000
Ordinary shares of £1 each - allotted, called up and fully paid	**174,367,500**	**174,368**	174,367,500	174,368

Other comprehensive income

The group has no recognised gains or losses in the current or prior period other than those reported in the consolidated profit and loss account.