Voyage Care BondCo plc

Disclosure Supplement to Noteholders

18 April 2017

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Forward-looking statements

This supplemental report contains “forward-looking statements” within the meaning of the securities laws of certain jurisdictions. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the words “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, “plans”, “continue”, “ongoing”, “potential”, “predict”, “project”, “target”, “seek” or “should” or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this supplemental report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. You should not place undue reliance on these forward-looking statements.

Any forward-looking statements are only made as of the date of this supplemental report and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this disclosure supplement.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industries in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this supplemental report.

Certain definitions

References to:

- *"Capital Grant Properties"* are to six of our freehold properties that were purchased with the assistance of capital grants provided by public authorities, and where, under the capital grant arrangements, the repayment of such capital grants will be required on the disposal of or other dealing with (including charging of) such properties. In certain other cases, the amount payable on such an event will be a proportion of the sale proceeds which may be greater than the amount of the initial grant.
- "*IFRS*" are to International Financial Reporting Standards as adopted by the European Union.
- "*Local Authorities*" are to local councils throughout the UK.
- "*pound*", "*pound sterling*" or "*£*" are to the lawful currency of the UK.
- "*SEC*" are to the U.S. Securities and Exchange Commission.
- "*UK GAAP*" are to accounting principles generally accepted in the UK.
- "*U.S. dollar*" or "*$*" are to the lawful currency of the United States.
- "*U.S. Securities Act*" are to the U.S. Securities Act of 1933, as amended.
- *"Valuation Report"* means the valuation report prepared by Christie & Co based on valuation of our portfolio of freehold and long leasehold properties and associated care services on an aggregate portfolio basis and on the basis of the value of our freehold and long leasehold properties on a standalone basis in October 2016. *See "Company update—Valuation report"*.

"*we*", "*us*", "*our*" and the "*Group*" are to Voyage BidCo Limited and its consolidated subsidiaries, unless the context otherwise requires.

Presentation of financial and other information

Financial data

The preliminary results for the two months ended 28 February 2017 have been prepared by management and are solely based on the preliminary financial information used by management. The financial information presented for the twelve months ended 31 December 2016 is derived from adding the unaudited condensed consolidated interim statement of profit and loss for the nine months ended 31 December 2016 to the audited historical condensed consolidated statement of profit and loss for the fiscal year ended 31 March 2016 and subtracting the unaudited condensed consolidated interim statement of profit and loss for the nine months ended 31 December 2015, each of which has been prepared in accordance with IFRS. The statement of profit and loss for the twelve months ended 31 December 2016 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date and is not prepared in the ordinary course of our financial reporting or in accordance with IFRS.

Rounding adjustments have been made in calculating some of the financial information included in this supplemental report. As a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Other financial measures

In this supplemental report, we present certain non-IFRS and non-UK GAAP measures, including EBITDA, EBITDA before non-underlying operating items, Pro forma EBITDA before non-underlying operating items and similar measures (each, a "Non-UK GAAP/IFRS Metric"), which are not required by, or presented in accordance with, IFRS or UK GAAP. As used in this supplemental report, the following terms have the following meanings:

- "EBITDA" means earnings before interest, tax, depreciation (including losses and profits on disposal of fixed assets), impairment of goodwill and amortisation, except as discussed under the section "*Company updates—Valuation Report*", which refers to the EBITDA and fair maintainable trade EBITDA as projected by Christie & Co.

- "EBITDA before non-underlying operating items" and "EBITDA before exceptional operating items" mean EBITDA as adjusted to remove the effects of certain non-underlying charges. We derive EBITDA before non-underlying operating items from our financial information that has been prepared in accordance with IFRS, while we derive EBITDA before exceptional operating items from our financial information that has been prepared in accordance with UK GAAP.

- "Pro forma EBITDA before non-underlying operating items" means EBITDA before non-underlying operating items, as adjusted to give effect to the full-year impact of the EBITDA before non-underlying operating items contribution (or reduction) of (i) certain recent tender wins within our Community Based Care Division, (ii) our recent acquisition of seven registered care services and one community based care service in Cambridgeshire, (iii) the cancellation of certain contracts for the provision of care through our Community Based Care Division and (iv) cost savings with respect to personnel expenses following redundancies, in each case as if they had occurred on 1 January 2016.

We believe that EBITDA is a useful indicator of our ability to incur and service our indebtedness and can assist certain investors, security analysts and other interested parties in evaluating us. We believe that EBITDA before non-underlying operating items is a relevant measure for assessing our performance because it is adjusted for certain items which, we believe, are not indicative of our underlying operating performance, and thus aid in an understanding of EBITDA. We believe that Pro forma EBITDA before non-underlying operating items is a useful measure of our recent performance because it reflects the estimated full-year EBITDA contribution to our results of operations of (i) certain recent tender wins within our Community Based Care Division, (ii) our recent acquisition of seven registered care services and one community based care service in Cambridgeshire, (iii) the cancellation of certain contracts for the provision of care through our Community Based Care Division and (iv) cost savings with respect to personnel expenses following redundancies, in each case as if they had occurred on 1 January 2016.

The Non-UK GAAP/IFRS Metrics in this supplemental report are used by different companies for differing purposes and are often calculated in ways that reflect the particular circumstances of those companies. You should exercise caution in comparing the Non-UK GAAP/IFRS Metrics reported by us to such metrics or other similar metrics as reported by other companies. None of our Non-UK GAAP/IFRS Metrics is a measurement of performance under IFRS or UK GAAP and you should not consider those measures as an alternative to net income or operating profit determined in accordance with IFRS or UK GAAP, as the case may be. The Non-UK GAAP/IFRS Metrics do not necessarily indicate whether cash flow will be sufficient or available to meet our cash requirement and may not be indicative of our historical operating results, nor are such measures meant to be predictive of our future results. Our Non-UK GAAP/IFRS Metrics have limitations as analytical tools, and you should not consider them in isolation.

The unaudited pro forma financial information presented herein is based upon available information and assumptions that we believe are reasonable but are not necessarily indicative of the results that would actually have been achieved if certain events described in more detail herein had occurred on the dates indicated or that may be achieved in the future, and is provided for information purposes only.

Other data

Valuation Report

In October 2016, Christie & Co carried out a valuation of our portfolio of freehold and long leasehold properties and associated care services on an aggregate portfolio basis and on the basis of the value of our freehold and long leasehold properties on a standalone basis (the "Valuation Report"). The market value determined by Christie & Co is based on certain qualifications and assumptions, estimates and projections and only a representative sample of our properties were inspected in accordance with the terms of the report. We cannot assure you that the projections or assumptions used, estimates made or procedures followed in the valuation of our property portfolio are correct, accurate or complete. See "*Company update—valuation Report*".

Neither Christie & Co, nor any person acting on Christie & Co's behalf, makes any warranty, express or implied, or assumes any liability with respect to the reliance upon or use of any information or analysis disclosed in the Valuation Report. Any opinions or conclusions reached in the Valuation Report are dependent upon a number of assumptions and economic conditions that may or may not occur.

Christie & Co stated that it conducted its analysis and prepared its report applying methods of analysis consistent with normal industry practice in accordance with applicable professional valuation standards. All conclusions are based on information available at the time of review. Changes in factors upon which the review was based could affect the results. Forecasts are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including the actions of government, individuals, third parties and competitors. There is no implied warranty of merchantability or fitness for a particular purpose to apply.

Data based on the Valuation Report that is included in this supplemental report involves risks and uncertainties and is subject to change based on a variety of external factors.

Recent developments

Trading update

Based on our preliminary financial results for the two month period ended 28 February 2017, we believe our business is continuing to perform in line with expectations.

We generated revenue for the two month period ended 28 February 2017 of £35.7 million compared to £33.8 million for the two month period ended 29 February 2016. The increase in revenue for the two month period ended 28 February 2017 compared to the two month period ended 29 February 2016 was £1.9 million, primarily as a result of the growth in our Community Based Care Division as well as increased fees primarily in our Registered Care Home Division, partially offset by decreased revenue resulting from the closure of certain of our services that were not generating a profit and due to the loss of certain smaller contracts for care.

We generated EBITDA before non-underlying operating items for the two month period ended 28 February 2017 of £6.2 million compared to £6.6 million for the two month period ended 29 February 2016. The decrease in EBITDA before non-underlying operating items for the two month period ended 28 February 2017 compared to the two month period ended 29 February 2016 was £0.4 million, primarily as a result of increased staff costs due to increases in both the national minimum wage and the national living wage, as well as certain other discretionary pay rises and increased spend on external agency and professional fees, partially offset by increased profit generated from the growth in our Community Based Care Division.

While we have not finalized the review of our results for the three months ended 31 March 2017, our unaudited preliminary results for this period indicate that our EBITDA for the three months ended 31 March 2017 is expected to be in line with our EBITDA for the three months ended 31 December 2016. Accordingly we expect that our EBITDA for the three months ended 31 March 2017 will be slightly lower than our EBITDA for the three months ended 31 March 2016. Such decrease has been driven by increased staff costs resulting from increases in the national minimum wage and the national living wage that came into effect in April 2016, which has been partially offset by fee increases.

These preliminary results have been prepared by, and are the responsibility of, management and are solely based on the preliminary financial information used by management. Our annual financial statements for the year ended 31 March 2017 have not been completed. During the course of our financial statement closing process, we could identify items that would require us to make adjustments that could affect the results of operations for this period and the results discussed above. These results are preliminary and are subject to change, and they may not be indicative of the remainder of the financial year or any other period. See "*Forward-looking statements*". KPMG LLP has not audited, reviewed or compiled these preliminary results.

Company updates

Pro Forma adjustments

Pro forma EBITDA before non-underlying operating items reflects EBITDA before non-underlying operating items, as adjusted to give effect to the full-year impact of the EBITDA before non-underlying operating items contribution (or reduction) of (i) certain recent tender wins within our Community Based Care Division, (ii) our recent acquisition of seven registered care services and one community based care service in Cambridgeshire, (iii) the cancellation of certain contracts for the provision of care through our Community Based Care Division and (iv) cost savings with respect to personnel expenses following redundancies, in each case as if they had occurred on 1 January 2016. The pro forma financial information is based upon available information and certain assumptions that we believe are reasonable under the circumstances. The pro forma financial information is for informational purposes only, and does not purport to present what our results of operations and financial condition would have been had these transactions actually occurred on these dates, nor does it project our results of operations for any future period or our financial condition at any future date. While certain pro forma financial information has been derived from historical financial information prepared in accordance with or on the basis of IFRS, such financial information contains financial measures other than those used in accordance with IFRS and should not be considered in isolation from or as a substitute for our historical financial information. The pro forma financial information presented below is not intended to represent pro forma financial information prepared in accordance with the requirements of Regulation S-X promulgated under the U.S. Securities Act or other SEC requirements, the Prospectus Directive or any generally accepted accounting standards.

The following table provides a reconciliation of EBITDA before non-underlying operating items to Pro forma EBITDA before non-underlying operating items for the twelve months ended 31 December 2016:

(£ in millions)	**Twelve months ended 31 December 2016**
EBITDA* before *non-underlying operating items	39.1
Estimated full-year impact of EBITDA before non-underlying operating items from new tender contracts[(a)]	0.3
Estimated full-year impact of EBITDA before non-underlying operating items from Metropolitan acquisition[(b)]	0.3
Estimated impact of certain Community Based Care contract cancellations[(c)]	(0.3)
Headcount reduction[(d)]	0.4
Pro forma EBITDA before non-underlying operating items	**39.7**

(a) Represents the estimated full-year impact on our EBITDA before non-underlying operating items for the twelve months ended 31 December 2016 of the successful tender bids for:

(i) placements in Stoke, where we commenced providing care on 18 April 2016, as if such placements commenced on 1 January 2016. This estimate is based on our results with respect to these placements from May 2016 through January 2017, which have been annualized for the twelve months ended 31 December 2016. This operating data consists of the revenue that we have recognized from these placements during the stated period, as well as the staff costs (including agency staff costs) and other expenses that we have incurred during such period. This estimate also assumes that we will provide care for the people occupying these placements for a full twelve months.

(ii) placements in Hampshire, where we commenced providing care on 1 November 2016, as if such placements commenced on 1 January 2016. This estimate is based on our results with respect to these placements from January 2017, which we have extrapolated to cover a twelve-month period. This estimate is based on our operating data for January 2017 because we believe that our results in that period provide a more accurate indication of our estimated results from these placements compared to the results from November and December 2016, during which time we were ramping up our operations with respect to this business. This operating data consists of the revenue that we have recognized from these placements during the stated period, as well as the staff costs (including agency staff costs) and other expenses that we have incurred during the stated period. This estimate also assumes that we will provide care for the people occupying these placements for a full twelve months.

(b) Represents the estimated full-year impact on our EBITDA before non-underlying operating items for the twelve months ended 31 December 2016 of our acquisition of seven registered care services and one community based care service and related assets located in the Cambridgeshire area, which we acquired on 1 November 2016, as if such placements acquisition had been completed on 1 January 2016. This estimate is based on our results with respect to these registered care services from November 2016 through to January 2017, which we have annualized for the twelve months ended 31 December 2016, excluding certain nursing staff costs, which we eliminated on 3 April 2017. This operating data consists of the revenue that we have recognized from these registered care services during the stated period, as well as the staff costs (excluding the agency staff costs we eliminated on 3 April 2017) and other expenses that we have incurred during the stated period.

(c) Represents the estimated full-year impact of the reduction to EBITDA before non-underlying operating items for the twelve months ended 31 December 2016 from the cancellation of our contracts for the provision of care through our Community Based Care Division in (i) Millbank, which was cancelled in March 2017 and (ii) Leicestershire, which will be cancelled in October 2017, as if had these contracts been cancelled on 1 January 2016. For the avoidance of doubt, this adjustment relates only to cancelled contracts in Millbank and Leicestershire and not to those that we have retained with respect to such operations.

(d) Represents the estimated pro forma effect for the twelve months ended 31 December 2016 of cost savings with respect to personnel expenses following redundancies we completed in March 2017, as if such redundancies had been completed on 1 January 2016. We incurred one-off costs of approximately £52,000 in connection with such redundancies.

The cost estimates used to formulate the adjustments related to the new tender contracts and the Metropolitan acquisition were based on historical results. Future costs may vary from these estimates due to, among other things, changes in the type and amount of care required and changes in the local labour market.

While the adjustments related to the new tender contracts and the Metropolitan acquisition assume the relevant contracts with the Local Authorities will be in effect for a full twelve months, the terms of these contracts allow the Local Authorities to terminate the relevant agreement on three to six months' written notice. Based upon our operating history, management believes that early termination of these contracts is unlikely in the absence of a serious and uncorrected violation of applicable laws or regulations.

Valuation report

In September 2016, we retained Christie & Co to perform a valuation of our portfolio of freehold and long leasehold properties and associated care services and to prepare the Valuation Report based on their findings. The Valuation Report includes a valuation on a portfolio basis and also includes a valuation of the aggregate of the individual value of each of our freehold and long leasehold properties on a standalone basis. Christie & Co prepared the Valuation Report in accordance with the Royal Institute of Chartered Surveyors' Professional Standards. The Valuation Report was issued in October 2016.

Basis of valuation

The Valuation Report determined market value on the basis of both a single portfolio approach and a property-by-property approach. Under the single portfolio approach, each freehold and long leasehold property was valued according to its existing use and present condition as a fully equipped operational entity having regard to trading potential, with the entire portfolio sold in a single transaction. Under the property-by-property approach, each freehold and long leasehold property was valued according to its existing use and present condition as a fully equipped operational entity having regard to trading potential, with each property sold on an individual basis. The findings of the Valuation Report are summarised below.

In order to conduct the valuation, we provided Christie & Co with the full year management accounts per property for the fiscal year ended 31 March 2016, management accounts per property for the three months ended 30 June 2016 annualised on a straight line basis to 30 June 2016 and management accounts for the three months ended 30 June 2016, adjusted to reflect anticipated fee increases that have not yet been agreed but that will be applied retroactively from 1 April 2016 once agreed. We also provided Christie & Co information including our occupancy rates (including funding sources and length of stay), individual residents' fee rates, staffing hours, staff pay rates and other specific cost items as required. Additionally, Christie & Co researched registration and inspections reports and planning authority records on a selective basis.

General terms and assumptions

All properties were valued on the basis of their existing use, which Christie & Co assumed to be the authorised use under planning legislation and in accordance with the use registered with the relevant regulatory agency. Christie & Co also assumed that each of the properties was fit for its current purpose.

During the course of the valuation, Christie & Co did not make any detailed statutory enquiries or investigations (such as those relating to registration, planning permissions or site and ground conditions) apart from those made in connection with the properties that Christie & Co inspected on site. For those properties, Christie & Co made statutory enquiries, including site and ground enquiries. Where such enquiries indicated that a particular property falls within an area affected by flooding, coal mining or radon gas, the valuation with respect to such property has been made specifically on the assumption that such properties are covered by the appropriate insurance to mitigate risks related to such areas.

The valuation also assumed a normal repair and maintenance budget and took our capital expenditure plan into consideration. Christie & Co noted that they consider the properties that were subject to on-site inspection to be fit for their current purposes and to generally be in a good state of repair, subject to specific items of disrepair in each case. Christie & Co assumed that the properties that were subject to a "desk top" review (as explained further below) are in a suitable state of repair and condition and that there is no requirement for immediate capital expenditure with respect to such properties. Additionally, the valuation took into account the central and regional costs that would be required to operate the business on an on-going basis.

In undertaking its work, Christie & Co has assumed that no contaminative or potentially contaminative uses have been carried out at or on the properties. Christie & Co has not undertaken an asbestos containing material inspection and therefore has not made any allowance for any potential liability in this regard.

The market value determined by Christie & Co assumes that we will produce sustainable EBITDA (which represents Christie & Co's view on where the business is expected to trade) in line with Christie & Co's projections as set forth in the Valuation Report.

In addition, the Valuation Report is subject to the terms and condition set forth therein and the "shelf life" of the Valuation Report is limited due to various macroeconomic factors affecting the UK and Eurozone.

Special terms and assumptions

Christie & Co also conducted on-site inspections of 91 properties, which represented approximately 30% of our 307 freehold and long leasehold properties. Approximately 30% of our freehold properties were inspected. The sample included the top 20 EBITDA providers and the 10 lowest EBITDA providers, plus a random sample of the remainder. We and Christie & Co agreed the sample was representative of our portfolio's freehold properties. The remaining properties that were not inspected were valued on a "desk top" basis. The desk top valuations assume that the quality of the desk top review properties are of a broadly similar quality to that exhibited by the inspected properties and that a physical inspection of any of the properties would not reveal any adverse matters that would otherwise impact upon Christie & Co's opinion of value.

Portfolio attributes

Christie & Co also considered our portfolio's key qualities in comparison to the larger market for care services. Christie & Co noted that we have been providing specialist care services for many years and offer a diverse range of services through our Registered Care Home and Community Based Care Divisions.

Portfolio valuation methodology

Christie & Co considered the existing use approach as the most appropriate methodology for valuing our properties and, on this basis, arrived at its projection of fair maintainable trade EBITDA. In order to reach its fair maintainable trade EBITDA projection, Christie & Co considered the likely level of sustainable EBITDA for each individual property, which was then aggregated. Christie & Co then adjusted the amount of EBITDA to reflect central costs. Such central costs were apportioned to various segments of our business. Lastly, Christie & Co added, as an end allowance, the aggregate of the individual value of a small number of development opportunities, closed assets in the process of being sold and properties that we own but that are operated by other providers. On the basis of the foregoing, Christie & Co projected the fair maintainable trade EBITDA to be in the order of £38.6 million. Christie & Co then assigned a multiple of EBITDA and included the value of the land in order to arrive at its final valuation.

Key findings

In Christie & Co's opinion, the market value of our freehold and long leasehold properties and care services in their existing use and present condition as of the date of the Valuation Report, as fully equipped operational entities having regard to trading potential and assuming that such properties are sold as one business, producing EBITDA as projected by Christie & Co, is in the order of £360.6 million. The following table sets forth the existing use value Christie & Co attributes to the freehold and long leasehold aspects of our business, based on property type and services offered and assuming that these properties are sold in a single transaction.

(£ in millions)	**Value**
Registered Care Home Division (1)	323.2
Community Based Care Division	32.8
Day care centres	0.5
Properties for sale	2.5
Development land	1.2
Properties operated by third-parties	0.4
Total	360.6

(1) Freehold properties include six Capital Grant Properties. The value attributed to such Capital Grant Properties is £5.2 million in the Valuation Report.

Between the date used by Christie & Co to arrive at its valuation contained in the Valuation Report and 31 December 2016, we have deregistered one freehold property and have closed three freehold properties. These properties were attributed an aggregate value (assessed on a property-by-property basis) of £2.8 million in the Valuation Report. We have also added one new freehold property in this period, as a result of an existing freehold property now being categorized as two distinct services.

Update on wage regulation interpretations

If various national minimum wage ("NMW") and national living wage regulations change or are interpreted differently, our payroll costs will increase which may have a material adverse effect on our results of operations and financial condition. Our payroll costs are affected by a number of factors, including the availability of qualified personnel, changes in service models, budgetary pressures, national living wage and other minimum wage regulation and contractual requirements imposed by the entities which commission our services. Increases in the national living wage rate and recent amendments to the relevant regulations are expected to put upward pressure on our payroll costs.

The application of the NMW regulations in relation to sleep-in shifts performed by care workers has recently received both legal and media coverage. Sleep-in shifts are shifts in which a staff member sleeps overnight at a service location in order to provide emergency cover. Sleep-in shifts are currently subject to a flat rate payment for our employees which is lower, on a per-hour basis, than the NMW. However if employees are disturbed during the night and are required to carry out their contractual duties then they are paid their normal hourly rate of pay for the disturbed hours.

Regulations 31 and 32 of the 2015 NMW regulations provide that work which attracts NMW applies to hours when a worker is either working or available for working; availability only includes hours when a worker is awake for the purposes of working, as opposed to being asleep. Regulations 31 and 32 of the NMW regulations have been considered by two Employment Appeal Tribunals which concluded that a worker carrying out a sleep-in duty is working for every hour of the shift even when asleep. Following these two rulings, in February 2015 the Department of Business, Innovation and Skills published amended guidance which suggests that a person may be found to be working whilst asleep if there is a statutory requirement for them to be present at the workplace or they would be disciplined if they left the workplace. On the other hand, the guidance also confirmed that whether somebody is working or not whilst asleep will depend on the nature of the work-related obligations to which the worker is subjected while they are asleep.

However, HMRC guidance on NMW and sleep-ins is clear that it does not consider sleep-ins to be working time for the purposes of NMW. It states that only hours worked when the worker is woken up during a sleep-in for the purposes of working will be regarded as working time for NMW purposes. We were also contacted by HMRC in August 2015 requesting information regarding workers undertaking sleep-in duties. HMRC wrote to us further in February 2016 and reiterated its stance from its own guidance that only time awake and working during a sleep-in shift counts as working time for the purposes of NMW compliance. HMRC consulted with a small number of our employees who carry out sleep-ins and, following this, confirmed in March 2016 that it was satisfied that such employees had been paid the NMW and no evidence of non-compliance was found at the time.

Moreover, a further Employment Appeal Tribunal case in September 2015, applied Regulation 32 of the 2015 NMW regulations, and in short, ruled that a person carrying out a sleep-in shift was not working whilst they were asleep.

Following the publication of this case, the confirmation from HMRC and external legal advice we received at the time, we concluded that our arrangements are fully compliant with NMW rules. Nonetheless we are aware that the NMW regulations have been interpreted differently in respect of some aspects of their application, and we therefore have suffered and may continue to suffer claims that we have not fully complied with these regulations, particularly in relation to sleep-in shifts.

More recently, another provider in our industry lost an employment tribunal case concerning the application of the NMW to sleep-in shifts. This case was taken to the Employment Appeal Tribunal, and we believe that in the event of an adverse ruling to the provider before the Employment Appeal Tribunal, such provider would have the right and opportunity to appeal to the Court of Appeal.

In August 2016 we received a letter from our HMRC inspector which stated that if workers are unable to leave the premises during a sleep-in shift, then time when such workers are asleep could be counted as working time for NMW purposes. This conflicts with HMRC's own guidance and the position HMRC had presented to us in March 2016. Shortly after receiving this letter we challenged HMRC on its apparent adjustment in its opinion. In March 2017, we received a letter from our HMRC inspector maintaining this adjusted opinion and requesting further information about certain of our employees who historically undertake sleep-in duties. We have responded to HMRC and again challenged HMRC's interpretation of the law.

We understand that HMRC has recently informed other providers in our industry that if an employee is unable to leave the premises during sleep-in hours then such time will be deemed to be working time for NMW purposes. In the wake of this action by HMRC, certain of these providers have joined together to seek judicial review of HMRC's position. We are not part of such group of providers, as we have never received a final decision from HMRC imposing this new, contradictory interpretation upon us. In the event that we receive a negative final decision from HMRC, we will consider challenging that decision through the Employment Tribunal and through judicial review proceedings.

Certain industry associations are actively pursuing the government to clarify on an urgent basis the law on sleep-ins in a way which ensures that sleep-ins continue to be affordable and that the financial viability of providers is not affected.

If sleep-ins are deemed to be "working time" for NMW and national living wage purposes, our costs (including any back pay due to employees) and costs across the learning difficulties sector could increase substantially.

In addition, recent legal decisions in relation to holiday pay provide that non-guaranteed overtime pay should be included in the calculation of holiday pay where it is part of "normal remuneration", and that allowances "intrinsically linked" to performing a role should also be included when calculating holiday pay. The outcome of any appeals of such legal decisions could result in media coverage and claims from staff concerning the rates at which their holiday pay is calculated.

The realisation of any of these risks associated with the NMW, the national living wage and holiday pay would increase our payroll costs and could have a material adverse effect on our business, results of operations and financial condition or prospects.