17 October 2017

ANNOUNCEMENT

£350,000,000 of 8.750% Senior Secured Notes due 2019 (the **Senior Secured Notes**)
£175,000,000 of 12.250% Senior Notes due 2020 (the **Senior Notes**)
(Collectively referred to as the **Notes**)

(ISIN: XS0794786011 / ISIN: XS0794785633
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Issued by Elli Finance (UK) Plc and Elli Investments Limited (the **Notes Issuers**)

The Notes are admitted to the Official List of the Irish Stock Exchange and to trading on the Global Exchange Market

Four Seasons Health Care High Yield Bond Group – Proposed Restructuring

The Notes Issuers are today announcing their intention to launch a financial creditor and leasehold estate restructuring (the **Proposed Restructuring**) of the Note Issuers and their subsidiaries (the **High Yield Bond Group**).

Robbie Barr, Chairman, Four Seasons Health Care, said:

"Today the High Yield Bond Group is announcing its intention to launch a restructuring in November.

For the past 18 months we have been very clear that a capital restructuring is needed to ensure the long-term stability of the business and allow it to continue to build on its strong operational turnaround. The proposal being put forward to creditors by the High Yield Bond Group and its shareholders will, we strongly believe, provide certainty and continuity for our residents, patients, and the thousands of colleagues who deliver care across the business, whilst also protecting creditors' value.

There will be no impact on our operations, including our residents and colleagues, as a result of this announcement as the proposal ensures there is appropriate liquidity in place to operate our homes and hospitals whilst a restructuring is implemented."

If successfully implemented, the Proposed Restructuring is expected to deliver:

Improved capital structure

(a) Contribution of the 24 homes that currently sit outside the High Yield Bond Group (the **Non-High Yield Bond Group**) by Terra Firma via FSHC Group Holdings Limited (the **Parent**).

(b) Day one impact of Non-High Yield Bond Group contribution results in EBITDA increase of £18.9m and cash flow[1] increase of £17.1m (each being LTM to June 2017).

(c) Further upside potential from the leasehold estate restructuring.

[1] Before interest, debt amortisation and taxation

Improved financial profile

(d) Senior secured net leverage reduced from 7.2x to 5.7x and total net leverage reduced from 10.3x to 6.5x assuming no rent savings are delivered through the leasehold estate restructuring (Pro-forma for the envisaged transaction as at year end 2017 comparing the High Yield Bond Group in the existing capital structure to the High Yield Bond Group and Non-High Yield Bond Group combined in the proposed new capital structure).

(e) The existing £40m super senior term loan facility was refinanced on 16 October 2017 with a new £40m super senior term loan with a maturity date in March 2019, the lenders under which have agreed, subject to certain conditions, to support the Proposed Restructuring and to negotiate with a view to entering into a new super senior term loan facility with a further maturity extension as part of the Proposed Restructuring.

(f) Two year maturity extensions via the new senior secured notes and the new senior notes.

(g) Reduction of cash interest burden via partial equitisation of the Senior Notes and reduction in the cash pay notes coupons.

Enhanced noteholder protections

(h) New senior secured notes receive a tighter covenant regime.

(i) New senior secured notes and new senior notes benefit from extended security, which includes access to the business and assets that currently sit within the Non-High Yield Bond Group (and therefore outside the existing security package).

Why is the Proposed Restructuring being announced now?

Despite recent improvements in the High Yield Bond Group's operational and financial performance, with care quality ratings, customer satisfaction and occupancy being above historical norms, the business has faced significant industry-wide challenges over the past five years, which have adversely impacted earnings. These challenges in the health care services sector include historical and on-going underfunding, increased regulation and related compliance obligations and costs, and own staff shortages resulting in an increase in agency costs.

The factors outlined above contributed to a decline in reported EBITDAR for the High Yield Bond Group from £143.9m for FY2013 to a low point of £88.5m for FY2015. Despite the industry-wide challenges, the High Yield Bond Group's management and colleagues have delivered an operational turnaround over the last two years that has resulted in significant operational and financial improvements, including an increase in EBITDAR from the 2015 low point to £99.9m for LTM to June 2017. This provides a platform that can be successfully built upon if a suitable capital structure for the business can be implemented. The High Yield Bond Group's current annual payments of (a) third-party rent to landlords (the **Landlords**) of c.£51m, (b) interest payable to its super senior term loan lenders, Senior Secured Notes and Senior Notes creditors of c.£55m, and (c) annual maintenance capex requirements of in excess of £24m are, in the aggregate, unsustainable when compared to the earnings generated by the business (for LTM to June 2017).

For the past 18 months the High Yield Bond Group has publicly stated that its capital structure is not appropriate for the long term stability and requirements of the business. Terra Firma, the Parent and certain stakeholders have been engaged in discussions and efforts to bring about a consensual solution to the capital structure of the High Yield Bond Group. As part of these discussions, non-binding and confidential negotiations and proposals, including but not limited to restructuring the debt and capital structure of the High Yield Bond Group and the provision of new funding to refinance existing liabilities, have been exchanged.

The backdrop to these discussions and exploring the various options has been continued tight liquidity in the High Yield Bond Group which, in part, has been supported by Terra Firma's additional £50.0m cash equity contribution made into the High Yield Bond Group at the end of 2014 and the funding of capital expenditure by property disposals. These disposals have comprised a mixture of closed, loss making, non-core and underperforming homes.

The High Yield Bond Group's current cash position and projected cash generation are no longer sufficient to ensure the High Yield Bond Group has adequate financial resources and liquidity for the short to medium term, including the payment of the December 2017 coupons due on the Notes. Accordingly, in light of these forthcoming December 2017 coupon payments and notwithstanding the fact that to date, despite considerable time and effort on the part of Terra Firma, the Parent and certain stakeholders, no agreement has been reached with those stakeholders, the directors of the Notes Issuers consider that it is now the appropriate time to announce their intention to launch the Proposed Restructuring.

The Notes Issuers consider that the Proposed Restructuring will provide a capital structure that ensures the stability of the business in the long term and that the Proposed Restructuring is in the best interests of all stakeholders. Our clear priority is to ensure a good and sustainable outcome for the High Yield Bond Group's homes and hospitals, residents and staff. To this end the Care Quality Commission (the **CQC**), as the regulator of the majority of the High Yield Bond Group's homes and hospitals, has been kept fully informed and is aware of the key terms of the Proposed Restructuring. The making of this announcement and the subsequent launch of the Proposed Restructuring will not impact the day to day running of our homes and hospitals.

Key terms of the Proposed Restructuring

The formal launch date for the Proposed Restructuring is currently anticipated in November (the **Launch Date**) subject to finalisation of the relevant documentation and obtaining the requisite approvals. An indicative timeline for the implementation of the Proposed Restructuring from the Launch Date is set out in Annex 1 to this announcement.

The key terms of the Proposed Restructuring include:

Further Terra Firma Equity Value

(a) Terra Firma, via the Parent, will contribute significant further equity value into the Restructured Group (as defined below) by way of the transfer or contribution of the 24 high quality earning homes that currently sit in the Non-High Yield Bond Group. The Non-High Yield Bond Group's reported earnings before interest, tax, depreciation and amortisation was £18.9m on a June 2017 LTM basis and as at 30 June 2017 it had approximately £32m of net financial liabilities secured on its business and assets (the **Non-High Yield Bond Group Financial Indebtedness**).

New Group

(b) By way of a series of share and business and asset transfers, the High Yield Bond Group will be split into two separate groups:

    (i) a new group sitting under a newly incorporated holding (newco) company structure which will comprise existing High Yield Bond Group freehold operating companies, property owning companies and leasehold operating companies where the relevant Landlord has consented to its Landlord Proposal (as defined below) (the **Restructured Group**); and

    (ii) a transition group, sitting under the existing High Yield Bond Group holding companies including the Notes Issuers, which will comprise leasehold operating companies where the relevant Landlord has not consented to its Landlord Proposal (as defined below) (the **Transition Group**).

Senior Secured Notes

(c) The holders of the existing Senior Secured Notes (the **Existing SSN Noteholders**) will exchange the £350,000,000 Senior Secured Notes for new senior secured notes to be issued by the Restructured Group in a principal amount of £350,000,000 (the **New SSNs**).

(d) The New SSNs will pay a semi-annual cash coupon of 4.375% per annum and will apply a semi-annual PIK toggle coupon of 4.375% per annum and will mature on 15 June 2021. The New SSNs will benefit from an extensive guarantee and first ranking security package granted by the Restructured Group, including the business and assets of the Non-High Yield Bond Group. The Notes Issuers have been advised that third parties have expressed an interest to refinance the existing Senior Secured Notes on terms broadly consistent with those being proposed for the New SSNs.

Senior Notes

(e) The holders of the existing Senior Notes (the **Existing SN Noteholders** and, together with the Existing SSN Noteholders, the **Existing Noteholders**) will exchange the £175,000,000 Senior Notes for (i) new senior notes to be issued by the Restructured Group in a principal amount of £60,000,000 (the **New SNs**) and (ii) 20% of the equity in the Restructured Group. The New SNs will apply a semi-annual PIK toggle coupon of 9.0% per annum and will mature on 15 June 2022. The New SNs will benefit from unsecured, senior subordinated guarantees granted by the same guarantors of the New SSNs. The £10.7m Senior Notes December 2017 coupon will not be paid as part of the Proposed Restructuring.

(f) The remaining 80% of the equity in the Restructured Group will be held by the Parent.

Super Senior Term Loan

(g) The existing £40m super senior term loan facility was refinanced on 16 October 2017 with a new £40m super senior term loan maturing in March 2019 (the **Refinanced Term Loan**). The lenders under the Refinanced Term Loan (the **Existing Term Loan Lenders**) have agreed, subject to certain conditions, to support the Proposed Restructuring and to negotiate with a view to entering into a new super senior term loan facility for the Restructured Group to repay the Refinanced Term Loan as part of the Proposed Restructuring.

Additional Funding

(h) Existing SSN Noteholders and/or the Existing Term Loan Lenders will be offered the opportunity to subscribe for additional new senior secured notes to be issued by the Restructured Group or additional commitments under the new super senior term loan facility to be entered into by the Restructured Group in an aggregate principal amount of up to £70,000,000 (the **Additional Funding**). The proceeds from the Additional Funding will be used to, among other things, pay the £15.3m Senior Secured Notes December 2017 coupon, refinance Non-High Yield Bond Group Financial Indebtedness and provide liquidity for the Restructured Group.

(i) The High Yield Bond Group will be seeking a back stop arrangement in relation to the Additional Funding requirement outlined above and would welcome any expressions of interest to participate in such arrangements from Existing SSN Noteholders and the Existing Term Loan Lenders or any similar or alternative proposals from third parties prior to the proposed Launch Date.

Landlords

(j) Landlords who lease properties to the High Yield Bond Group's leasehold operating companies will receive individual proposals (each a **Landlord Proposal**), taking into account the characteristics and performance of their portfolio whilst applying appropriate rent assumptions where required. Where the relevant Landlord has consented to its respective Landlord Proposal (a **Consenting Landlord**) the relevant leasehold operating company or companies (or its business and assets) will be transferred to the Restructured Group. Where the relevant Landlord has not consented to its Landlord Proposal the relevant leasehold operating company or companies will remain in the Transition Group.

Implementation

(k) The financial creditor restructuring will be implemented by (i) a compromise and arrangement between Elli Investments Limited and the Existing SN Noteholders pursuant to a Guernsey scheme of arrangement (the **Elli Investments Scheme**) and (ii) a compromise and arrangement between Elli Finance (UK) Plc and the Existing SSN Noteholders pursuant to an English scheme of arrangement (the **Elli Finance (UK) Scheme** and, together with the Elli Investments Scheme, the **Schemes**).

(l) The leasehold estate restructuring will be implemented by bilateral agreements with individual Landlords as described above.

(m) Implementation of the Proposed Restructuring is not conditional on the number of Landlords that accept their individual Landlord Proposals or the number of leasehold operating companies that are transferred into the Restructured Group. The leasehold estate restructuring is, however, conditional on the Proposed Restructuring being approved by the Existing Noteholders pursuant to the Schemes. Once this occurs, and the various conditions precedent set out in the Schemes and the restructuring documentation are satisfied, the Proposed Restructuring will be implemented.

Full details of the Proposed Restructuring including class constituency will be set out in the practice statement letter (the **Practice Statement Letter**) and the explanatory statement (the **Explanatory Statement**) which will be made available to the Existing Noteholders in relation to the Schemes. Certain figures and ratios in this announcement are estimates only and Existing Noteholders are directed to the Explanatory Statement, when available, in this regard. The Practice Statement Letter will be issued on the Launch Date. A Landlord Proposal will be issued to each Landlord no later than the Launch Date.

What happens if the Proposed Restructuring is not successful?

A full form analysis of the impact of the Proposed Restructuring not being successful will be set out in the Practice Statement Letter and Explanatory Statement. By way of summary:

(a) Our clear priority is to ensure a good and sustainable outcome for the High Yield Bond Group's homes and hospitals, residents, patients and colleagues. The duty of the CQC in England is to protect the interests of service users and to provide an early warning system to Local Authorities if required. To this end the CQC, as the regulator of the majority of the High Yield Bond Group's homes and hospitals, has been kept fully informed and is aware of the key terms of the Proposed Restructuring and the implications if the Proposed Restructuring is not implemented.

(b) If the Proposed Restructuring is not implemented, the Notes Issuers believe they will not be in a position to pay the £26.0m of coupon payments due on the Notes on 15 December 2017. If the coupon payments are not paid and following applicable grace periods, the High Yield Bond Group will be in default of its obligations under the existing Notes. Accordingly, in this scenario, the Notes Issuers would request a standstill from the Existing Noteholders in order to maintain stability in the business and preserve value while the terms of an alternative restructuring are explored and negotiated.

(c) The High Yield Bond Group understands that the contribution of the business and assets of the 24 homes that sit within the Non-High Yield Bond Group into a restructured High Yield Bond Group capital structure by the Parent and Terra Firma is conditional upon a successful restructuring on the terms outlined in this announcement. Should this not be achievable the Parent and Terra Firma will continue to progress seeking court orders rectifying certain documents (the **Rectification Claim**) before the English court in a hearing which is currently scheduled to commence between 8 and 14 May 2018. The Parent is confident that the English court will make the rectification orders sought should a hearing of the Rectification Claim be required. For further information on the Rectification Claim and related proceedings see the previous announcements of 7 June 2017, 16 August 2017 and 30 August 2017.

Final comment and immediate next steps

The Notes Issuers and their respective boards of directors strongly believe that implementing the Proposed Restructuring on the terms set out in this announcement is in the best interests of all existing stakeholders of the High Yield Bond Group as the leverage, liquidity and earnings profile will be significantly improved.

Accordingly, between now and the Launch Date, the Notes Issuers and the High Yield Bond Group will:

(a) continue to work with Terra Firma and the Parent to finalise the documentation required to launch and implement the Proposed Restructuring;

(b) continue to explore options to backstop the Additional Funding or any alternative arrangements, in respect of which Existing SSN Noteholders, Existing Term Loan Lenders and third parties are invited to contact the High Yield Bond Group's financial advisers, PJT Partners, at campbell@pjtpartners.com and wilcox@pjtpartners.com with expressions of interest;

(c) welcome any feedback or comments from stakeholders on the proposed terms of the Proposed Restructuring to be submitted to PJT Partners at campbell@pjtpartners.com and wilcox@pjtpartners.com; and

(d) work with Terra Firma, the Parent and the national regulators to ensure the stability of operations so that the High Yield Bond Group can continue to provide excellent care to, and focus on the wellbeing of, residents and their families and to support all our colleagues who work within the business.

This announcement includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this announcement, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things, our future financial condition and performance, results of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "*aim*", "*anticipate*", "*believe*", "*continue*", "*could*", "*estimate*", "*expect*", "*forecast*", "*guidance*", "*intend*", "*may*", "*plan*", "*project*", "*should*", "*will*" or "*would*" or, in each case, their negative, or other variations or comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this announcement. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this offering memorandum, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements are only made as at the date of this announcement and, except as required by law or the rules and regulations of any stock exchange on which the Notes are listed, we undertake no obligation, and do not intend, to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Annex 1

Indicative timeline following launch of the Proposed Restructuring

Indicative key dates for the Proposed Restructuring are set out below:

Launch Date (L+0)	Practice Statement Letter issued to the Existing SSN Noteholders and the Existing SN Noteholders
	Individual Landlord Proposal sent to each Landlord
L+14/15	English and Guernsey court Scheme convening hearings following which the Explanatory Statement will be made available in relation to the Schemes
L+33	First deadline for a Landlord to become a Consenting Landlord
L+39	Existing SSN Noteholders scheme creditors' meeting to vote on the Elli Finance (UK) Scheme and Existing SN Noteholders scheme creditors' meeting to vote on the Elli Investments Scheme
L+41/42	English and Guernsey court Scheme sanction hearings
L+43/64[2]	Restructuring Implementation Date (**RID**)
RID+30	First deadline date for a Landlord to become a Post-RID Consenting Landlord
RID+60	Second deadline date for a Landlord to become a Post-RID Consenting Landlord

[2] Subject to timing of conditions precedent to the implementation of the Proposed Restructuring.