CPUK FINANCE LIMITED

Operating and financial review for the 52 weeks ended 20 April 2017

In accordance with the reporting requirements of its financing, CPUK Finance Limited is pleased to present its operating and financial review for the 52 weeks ended 20 April 2017.

All figures presented in this report relate to the group of companies headed by Center Parcs (Holdings 1) Limited ("the Group"). All financial results referred to in this document exclude exceptional and non-underlying items, unless otherwise stated.

Financial highlights

52 weeks ended 20 April 2017

- Revenue up 4.8% to £440.3 million (2015/16: £420.2 million) and Adjusted EBITDA up 7.5% to £213.0 million (2015/16: £198.2 million).
- ADR and RevPAL up 6.7% and 6.3% to £178.60 and £173.80 respectively (2015/16: £167.31 and £163.51).
- The Group's capital investment programme has continued, with 2.2% of accommodation offline for upgrade during the 52 weeks ended 20 April 2017 (52 weeks ended 21 April 2016: 1.5%).

16 weeks ended 20 April 2017

- Q4 revenue and EBITDA growth of 7.1% and 13.8% to £127.7 million and £57.8 million respectively (2015/16: £119.2 million and £50.8 million respectively).
- Significantly less accommodation upgrade work took place during the quarter compared to the same period in the prior year, with 1.5% of accommodation offline for upgrade (2015/16: 2.5%).
- The New Year break occurred in Q4 of FY17 but in Q3 of FY16. The beneficial EBITDA impact of this timing difference is estimated to be approximately £2 million.

Key performance indicators

	FY17 52 weeks	FY16 52 weeks	Variance
Revenue	£440.3m	£420.2m	4.8%
Adjusted EBITDA	£213.0m	£198.2m	7.5%
Occupancy	97.3%	97.7%	(0.4)%
ADR	£178.60	£167.31	6.7%
RevPAL	£173.80	£163.51	6.3%

	FY17 Q4	FY16 Q4	Variance
Revenue	£127.7m	£119.2m	7.1%
Adjusted EBITDA	£57.8m	£50.8m	13.8%
Occupancy	98.0%	97.0%	1.0%
ADR	£163.93	£150.72	8.8%
RevPAL	£160.68	£146.15	9.9%

	Sherwood Forest	Elveden Forest	Longleat Forest	Whinfell Forest	Woburn Forest	Central overheads	Group
FY17							
Net revenue	£91.3m	£92.0m	£86.7m	£84.1m	£86.2m	-	£440.3m
Adjusted EBITDA	£51.1m	£49.9m	£46.4m	£44.4m	£46.5m	£(25.3)m	£213.0m
Occupancy	97.5%	96.9%	97.1%	97.5%	97.5%	-	97.3%
FY16							
Net revenue	£87.4m	£88.2m	£83.0m	£79.6m	£82.0m	-	£420.2m
Adjusted EBITDA	£48.3m	£46.7m	£43.4m	£40.6m	£44.4m	£(25.2)m	£198.2m
Occupancy	97.5%	98.8%	97.9%	97.2%	97.2%	-	97.7%

Results of operations for the 52 week period ended 20 April 2017

Revenue

Revenue increased by £20.1 million, or 4.8%, during the 52-week period ended 20 April 2017 to £440.3 million compared to £420.2 million in the 52-week period ended 21 April 2016. This increase was as a result of a 6.4% increase in accommodation revenue and a 2.5% increase in on-village spend.

The average number of units of accommodation during the 52-weeks ended 20 April 2017 was 4,132, compared to 4,129 in the 52-week period ended 21 April 2016. The number of units of accommodation at 20 April 2017 was 4,123 compared to 4,133 as at 21 April 2016. Movements reflect the net effect of new build accommodation across the five villages and the demolition of the 88-bedroom Hotel at Elveden.

Occupancy decreased from 97.7% in the 52-week period ended 21 April 2016 to 97.3% during the 52-week period ended 20 April 2017 due to a higher number of accommodation units being offline for upgrade during the 52-week period ended 20 April 2017. Approximately 2.2% of the Group's accommodation was offline in the 52 weeks ended 20 April 2017, compared to approximately 1.5% in the 52 weeks ended 21 April 2016.

ADR growth continued at all five villages and overall ADR increased by 6.7% to £178.60 in the 52 weeks ended 20 April 2017 compared to the 52 weeks ended 21 April 2016. This increased ADR combined with the slightly lower occupancy rate delivered RevPAL growth of 6.3% to £173.80 in the 52 weeks ended 20 April 2017.

Cost of sales

Cost of sales increased to £115.7 million in the 52 weeks ended 20 April 2017 from £111.7 million in the 52 weeks ended 21 April 2016, in line with the increase in on-site revenue and reflecting the impact of the introduction of the National Living Wage on 1 April 2016.

Administrative expenses

Administrative expenses increased slightly to £111.6 million in the 52 weeks ended 20 April 2017 from £110.3 million in the 52 weeks ended 21 April 2016, primarily due to increased payroll costs, including as a result of the introduction of the National Living Wage from April 2016.

Adjusted EBITDA

As a result of the factors described above, Adjusted EBITDA increased by £14.8 million or 7.5% in the 52 weeks ended 20 April 2017 as compared to the 52 weeks ended 21 April 2016. Strong growth was achieved in Q4, with EBITDA being 13.8% higher than the comparative period in 2015/16.

It should be noted that comparisons to the prior year are beneficially affected by the timing of the New Year break which took place in Q3 in the prior year, but Q4 in FY17. The approximate beneficial EBITDA impact in the period under review is estimated to be £2 million. The quarter also benefited from less accommodation being offline for upgrade in comparison to the same period in the prior year.

Depreciation and amortisation

Depreciation and amortisation for the 52 weeks ended 20 April 2017 was £47.9 million, an increase of £5.3 million compared to the 52 weeks ended 21 April 2016. This increase was primarily due to the Group's ongoing capital investment programme.

Finance costs and income

For the 52 weeks ended 20 April 2017, the annual interest payable on the Group's secured debt was £85.4 million with all tranches of secured debt having a fixed rate of interest.

Finance costs in the 52 weeks ended 20 April 2017 represent interest payable on secured debt and the amortisation of associated deferred issue costs. Finance costs in the 52 weeks ended 21 April 2016 also included interest payable to related parties.

The Group accelerated the amortisation of deferred debt issue costs in respect of the Class B2 tranche of the secured debt in light of the expected refinancing of such notes, which resulted in an exceptional/non-underlying finance cost of £5.2 million in the 52 weeks ended 20 April 2017.

Finance income represents bank interest receivable and amounted to £0.2 million for the 52 weeks ended 20 April 2017 as compared to £0.4 million for the 52 weeks ended 21 April 2016.

Taxation

Corporation tax of £1.1 million was paid during the 52 weeks ended 20 April 2017 compared with £1.0 million in the 52 weeks ended 21 April 2016.

Cash Flow

As at 20 April 2017, the Group had cash and cash equivalents of £34.0 million (21 April 2016: £47.7 million) and negative working capital of £125.2 million (21 April 2016: £119.7 million). Working capital is defined as the net value of the Group's inventories, trade and other receivables and current trade and other payables (excluding taxation creditors and capital and interest accruals).

Net cash from operating activities was £216.9 million and net cash used in investing activities was £95.4 million in the 52 weeks ended 20 April 2017 (2015/16: £200.9 million and £199.2 million respectively). Cash used in investing activities in the comparative period included £140.5 million in respect of the acquisition of CP Woburn (Operating Company) Limited.

As permitted under the terms of its financing, the Group declared and paid a dividend of £11.4 million during the quarter, bringing the total for the year-to-date to £48.5 million.

Investment Programme

Accommodation upgrades

The second phase of the 'Project Summer' refurbishment cycle commenced during the quarter under review, covering 125 units of accommodation at Elveden; all of these upgrades were completed by the end of May 2017. As previously outlined, the Project Summer refurbishment cycle is not as transformational as the previous Project Spring programme, with accommodation units offline for roughly half the time and costs approximately half those of the previous upgrades.

New builds

In April 2017 six new three-bedroom Executive lodges were opened at Longleat.

Construction is ongoing in respect of ten four-bedroom Exclusive lodges at Whinfell (expected to complete in July 2017) and 57 new lodges at Woburn (which are expected to be complete in September 2017). Work also continues on the redevelopment of the old 88-bedroom Hotel site at Elveden, which is being replaced with a new 51-bedroom apartment complex, nine three-bedroom Executive lodges and three Waterside Lodges; this project is expected to be completed in Spring 2018.

During the quarter under review, the construction of a further 28 lodges at Sherwood commenced, with an anticipated completion date of December 2017.

Financial covenants

Classes A and B

The Class A FCF: DSCR was 4.3 times for the 52 weeks ended 20 April 2017 (covenant: 1.1 times) and the Class B FCF: DSCR was 2.3 times (covenant 1.0 times).

Class B

The Consolidated Leverage Ratio (Gross Debt: EBITDA) was 7.0 times as at 20 April 2017.

The Directors certify that the calculations of the financial covenants and ratios are undertaken accurately and that the information in this report is true and accurate in all material respects. All covenants were satisfied as at 20 April 2017.

Maintenance and Investment Capital expenditure

Under the terms of its financing, the Group is required to spend a minimum of £18.5 million per annum on maintenance capital expenditure and an average of £6 million per annum over four years on investment capital expenditure. During the 52 weeks ended 20 April 2017 the Group spent £94.5 million (2015/16: £63.2 million) on capital expenditure, consisting of £24.6 million (2015/16: £23.5 million) of maintenance capital expenditure and £69.9 million (2015/16: £39.7 million) of investment capital expenditure, predominantly in respect of new build accommodation and the upgrading of existing units of accommodation.

Contractual commitments and contingencies

As at 20 April 2017 the Group had capital expenditure contracted for but not provided of £27.9 million. The Group has no other material contractual commitments with the exception of the headleases on the Longleat and Woburn properties.

The Group had no material contingent liabilities or assets at 20 April 2017.

The next operating and financial review will be for the 12 weeks ended 13 July 2017 and we expect this report will be published in late August 2017.

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Audited income statement for the 52 weeks ended 20 April 2017

	52 weeks ended 20 April 2017			52 weeks ended 21 April 2016		
	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Revenue	**440.3**	**-**	**440.3**	**420.2**	**-**	**420.2**
Cost of sales	(115.7)	-	(115.7)	(111.7)	-	(111.7)
Gross profit	**324.6**	**-**	**324.6**	**308.5**	**-**	**308.5**
Administrative expenses	(111.6)	-	(111.6)	(110.3)	(4.5)	(114.8)
Adjusted EBITDA	***213.0***	***-***	***213.0***	***198.2***	***(4.5)***	***193.7***
Depreciation and amortisation	(47.9)	-	(47.9)	(42.6)	-	(42.6)
Owners' costs	-	-	-	(0.4)	-	(0.4)
Total operating expenses	(159.5)	-	(159.5)	(153.3)	(4.5)	(157.8)
Operating profit	**165.1**	**-**	**165.1**	**155.2**	**(4.5)**	**150.7**
Movement in fair value of financial derivatives	-	-	-	-	(16.8)	(16.8)
Finance income	0.2	-	0.2	0.4	-	0.4
Finance expense	(89.6)	(5.2)	(94.8)	(98.3)	(42.0)	(140.3)
Profit/(loss) before taxation	**75.7**	**(5.2)**	**70.5**	**57.3**	**(63.3)**	**(6.0)**
Taxation	(12.3)	5.6	(6.7)	(8.5)	20.9	12.4
Profit for the period attributable to equity shareholders	**63.4**	**0.4**	**63.8**	**48.8**	**(42.4)**	**6.4**

Finance expense before exceptional and non-underlying items in the 52 weeks ended 20 April 2017 includes interest payable to related parties of £nil (2015/16: £9.0 million) and amortisation of deferred issue costs of £3.9 million (2015/16: £4.3 million).

Exceptional and non-underlying items

The £5.2 million exceptional/non-underlying finance expense in the current period represents accelerated amortisation of deferred issue costs in respect of the B2 tranche of secured notes. It is anticipated that these notes will be settled shortly after the year-end as part of a wider refinancing of the Group' secured debt. Taxation on this expense has also been treated as an exceptional/non-underlying item, as has the impact of the change in applicable deferred tax rate from 18% to 17%.

The £4.5 million of exceptional/non-underlying administrative expenses in the prior period were costs incurred in respect of the Group's review of its strategic options, which resulted in the Group's acquisition by a fund managed by a subsidiary of Brookfield Asset Management Inc.

The option to repay the B tranche of the Group's secured debt prior to maturity was considered to be a derivative financial instrument. The fair value of this instrument increased by £16.8 million during the 52-week period ended 23 April 2015 and this increase was recognised as an exceptional/non-underlying item. This derivative was extinguished on 3 August 2015 when the B tranche of the secured debt was repaid and hence the previous gain was reversed during the 52 weeks ended 21 April 2016.

Of the £42.0 million exceptional/non-underlying finance expense for the 52 weeks ended 21 April 2016, £19.9 million related to make-whole costs and consent fees in respect of the settlement of the A1 tranche of the Group's secured debt. A further £16.9 million represents the premium paid on the settlement of the B tranche of the Group's secured debt and £5.2m represented accelerated amortisation of deferred issue costs in respect of the B tranche.

Taxation in respect of the above items was also treated as exceptional/non-underlying, as was the impact of the change in applicable deferred tax rate from 20% to 18% that occurred during the prior period.

Unaudited income statement for the 16 weeks ended 20 April 2017

	16 weeks ended 20 April 2017			16 weeks ended 21 April 2016		
	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m	Before exceptional and non-underlying items £m	Exceptional and non-underlying items £m	Total £m
Revenue	**127.7**	**-**	**127.7**	**119.2**	**-**	**119.2**
Cost of sales	(34.7)	-	(34.7)	(33.4)	-	(33.4)
Gross profit	**93.0**	**-**	**93.0**	**85.8**	**-**	**85.8**
Administrative expenses	(35.2)	-	(35.2)	(35.0)	(0.4)	(35.4)
Adjusted EBITDA	***57.8***	***-***	***57.8***	***50.8***	***(0.4)***	***50.4***
Depreciation and amortisation	(15.5)	-	(15.5)	(13.8)	-	(13.8)
Total operating expenses	(50.7)	-	(50.7)	(48.8)	(0.4)	(49.2)
Operating profit	**42.3**	**-**	**42.3**	**37.0**	**(0.4)**	**36.6**
Finance income	-	-	-	0.1	-	0.1
Finance expense	(27.5)	(5.2)	(32.7)	(29.4)	0.6	(28.8)
Profit before taxation	**14.8**	**(5.2)**	**9.6**	**7.7**	**0.2**	**7.9**
Taxation	(12.3)	5.6	(6.7)	(8.5)	20.9	12.4
Profit for the period attributable to equity shareholders	**2.5**	**0.4**	**2.9**	**(0.8)**	**21.1**	**20.3**

Audited balance sheet as at 20 April 2017

	As at 20 April 2017 £m	As at 21 April 2016 £m
Assets		
Non-current assets		
Goodwill	**157.5**	157.5
Other intangible assets	**135.8**	127.6
Property, plant and equipment	**1,451.9**	1,413.5
Deferred tax asset	**15.0**	12.7
	1,760.2	1,711.3
Current assets		
Inventories	**3.7**	3.3
Trade and other receivables	**7.9**	7.6
Current tax asset	**6.4**	5.3
Cash and cash equivalents	**34.0**	47.7
	52.0	63.9
Liabilities		
Current liabilities		
Borrowings	**(0.3)**	(0.3)
Trade and other payables	**(181.3)**	(163.7)
	(181.6)	(164.0)
Net current liabilities	**(129.6)**	(100.1)
Non-current liabilities		
Borrowings	**(1,474.7)**	(1,465.9)
Retirement benefit obligations	**(3.2)**	(2.1)
Deferred tax liability	**(95.0)**	(99.6)
	(1,572.9)	(1,567.6)
Net assets	**57.7**	43.6
Equity attributable to owners of the parent		
Equity share capital	**1.0**	1.0
Share premium	**74.3**	74.3
Other reserve	**(154.0)**	(154.0)
Retained earnings	**136.4**	122.3
Total equity	**57.7**	43.6

Current trade and other payables include interest and capital accruals totalling £25.6 million (21 April 2016: £27.6 million) and taxation group relief creditors of £18.9 million (21 April 2016: £5.5 million).

Audited cash flow statement for the 52 weeks ended 20 April 2017

	52 weeks ended 20 April 2017 £m	52 weeks ended 21 April 2016 £m	**16 weeks ended 20 April 2017 £m**	16 weeks ended 21 April 2016 £m
Cash flows from operating activities				
Operating profit	**165.1**	150.7	**42.3**	36.6
Depreciation and amortisation	**47.9**	42.6	**15.5**	13.8
Working capital movements	**5.5**	8.9	**39.9**	38.5
Profit on disposal of property, plant and equipment	**(0.2)**	(0.1)	**(0.2)**	(0.1)
Difference between the pension charge and contributions	**(0.3)**	(0.2)	**(0.1)**	(0.2)
Corporation tax paid	**(1.1)**	(1.0)	**(0.2)**	(0.2)
Net cash from operating activities	**216.9**	200.9	**97.2**	88.4
Cash flows used in investing activities				
Purchase of property, plant and equipment	**(87.3)**	(56.3)	**(14.0)**	(16.8)
Purchase of intangible assets	**(8.5)**	(2.9)	**(8.5)**	(2.9)
Sale of property, plant and equipment	**0.2**	0.1	**0.2**	0.1
Interest received	**0.2**	0.4	**-**	0.1
Acquisition of CP Woburn (Operating Company) Limited	**-**	(140.5)	**-**	-
Net cash used in investing activities	**(95.4)**	(199.2)	**(22.3)**	(19.5)
Cash flows used in financing activities				
Proceeds from issue of ordinary shares	**-**	75.3	**-**	-
Repayment of external borrowings	**(0.3)**	(738.9)	**(0.2)**	(0.2)
Proceeds from external borrowings	**-**	1,050.0	**-**	(0.5)
Repayment of related party loans	**-**	(330.9)	**-**	-
Proceeds from related party loans	**-**	49.9	**-**	-
Issue costs and consent fees on secured debt	**-**	(16.5)	**-**	-
Break costs on secured debt	**-**	(36.2)	**-**	-
Interest paid	**(86.4)**	(87.7)	**(43.0)**	(45.7)
Dividends paid	**(48.5)**	(23.0)	**(11.4)**	(23.0)
Net cash used in financing activities	**(135.2)**	(58.0)	**(54.6)**	(69.4)
Net (decrease)/increase in cash and cash equivalents	**(13.7)**	(56.3)	**20.3**	(0.5)
Cash and cash equivalents at the beginning of the period	**47.7**	104.0	**13.7**	48.2
Cash and cash equivalents at the end of the period	**34.0**	47.7	**34.0**	47.7
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash and cash equivalents	**(13.7)**	(56.3)	**20.3**	(0.5)
Cash out/(in)flow from movement in debt	**0.3**	(311.1)	**0.2**	0.7
Change in net debt resulting from cash flows	**(13.4)**	(367.4)	**20.5**	0.2
Non-cash movements and deferred issue costs	**(9.1)**	6.5	**(6.4)**	(1.8)
Movement in net debt in the period	**(22.5)**	(360.9)	**14.1**	(1.6)
Net debt at the beginning of the period	**(1,418.5)**	(1,057.6)	**(1,455.1)**	(1,416.9)
Net debt at the end of the period	**(1,441.0)**	(1,418.5)	**(1,441.0)**	(1,418.5)

Dividends paid was included in ‘Cash flows used in investing activities’ in the prior financial period but has been presented above in ‘Cash flows used in financing activities’ to conform to the classification in the current financial period.

Definitions

Adjusted EBITDA (Earnings before interest, taxation, depreciation and amortisation) is before owners' costs and exceptional/non-underlying items.

Occupancy is the average number of units of accommodation occupied as a percentage of the total number available.

ADR (Average Daily Rate) is the average daily rent (excluding VAT) achieved based on total accommodation income divided by the total number of lodge nights sold.

RevPAL (Rent per available lodge night) is the average daily rent (excluding VAT) achieved based on the total accommodation income divided by the total available number of lodge nights.

Critical accounting policies

The following accounting policies are considered to be critical for an understanding of the financial information presented in this document. A full list of accounting policies applied by the Group are presented in the Annual Report of Center Parcs (Holdings 1) Limited.

Revenue
Revenue relates to accommodation rental income on holidays commenced during the period, together with other related income that primarily arises from on-village leisure, retail and food and beverage spend.

Revenue relating to accommodation is recognised on a straight-line basis over the period of the holiday. Non-rental income is recognised when the related product or service is provided to the guest. All revenue is recorded net of VAT.

Payment for accommodation rental income is received in advance of holidays commencing, and is recorded as 'payments on account' within Trade and other payables until the holiday commences.

A number of trading units on each holiday village are operated by concession partners. Revenue due in respect of such units is recognised on an accruals basis.

All revenue arises in the United Kingdom.

Property, plant and equipment
The Group carries property, plant and equipment at cost rather than current valuation. As such, no increases in the value of the Group's property, plant and equipment are recognised in the financial statements. Any impairment to the carrying value of these assets is recognised in the income statement.

Maintenance expenditure
It is the policy of the Group to maintain its land and buildings to a high standard. Where maintenance expenditure increases the benefits that property, plant and equipment is expected to generate, this expenditure is capitalised. All other maintenance costs are charged to the income statement as incurred.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.