Care UK Health & Social Care Investments Limited
(formerly Care UK Health & Social Care Newco Limited)

Annual report for Bondholders
for the year ended 30 September 2012

INDEX TO THE ANNUAL REPORT

SUMMARY

Care UK has continued to deliver a good operational and financial performance in the year ended 30 September 2012 as well as taking a number of important steps to enhance future performance. All figures and percentages quoted below are quoted, unless stated, as excluding the effects of IFRIC 12.

- **Group Highlights**
  - Good full year operational and financial performance, ahead of management's expectations
  - Financial leverage of 4.09x based on LTM EBITDA at 30 September 2012 with cash balances of £38.3 million
  - Continued high standards of care and patient satisfaction
  - At 30 September 2012, following the transfer into the Residential Care division of over 1,700 beds in homes formerly operated by Southern Cross, 39.5 per cent. (2011: 63.0 per cent.) of the Residential Care division's beds were operated under block contracts with public sector customers, a key competitive advantage.

- **Strategic Developments**
  - Social Care
    - A total of 29 former Southern Cross homes, with over 1,750 beds, were transferred into Care UK during the year. All but two were transferred into the Residential Care division, adding over 1,700 beds to that division, with the remaining two homes, with 29 beds, transferring into the Community Services division. Significant reductions in rent levels were negotiated on these home transfers
    - Three other homes, with over 200 beds, were opened or acquired in Residential Care
    - Care UK was appointed as preferred bidder for a major new long-term block contract for the provision of elderly residential care in Suffolk initially involving the transfer of over 500 beds, to be replaced by 680 beds in ten new purpose-built homes; financial close on this contract expected shortly
    - Strong greenfield development programme in Residential Care
    - Two bolt-on acquisitions completed in Community Services
    - New Complex Care Rehabilitation centre in Mental Health opened in June 2012.

  - Health Care
    - Retention of the North East London ISTC; Wave I transition now complete and Care UK now operates seven former Wave I ISTCs
    - Two new general healthcare contracts won, both commenced operating in September/October 2012, with aggregate annual revenue, when fully operational, of around £11 million
    - Since the year-end Care UK has acquired HWH Group Limited ("Harmoni"), a significant provider of out of hours and offender health care to NHS patients as well as a leader in the emerging provision of non-emergency unscheduled care through "111" services, making Care UK the leading provider in these market segments.

- **Financial Highlights**
  - Group
    - Total Revenue of £490.3 million and Adjusted EBITDA of £52.6 million
    - Good cash flow performance, ending the year with £38.3 million of cash
    - As at 30 September 2012, total assets, excluding cash and cash equivalents, amounted to £511.7 million including the freehold and long leasehold assets independently valued during 2010.
  - Social Care
    - Residential Care: Revenue and Adjusted EBITDA growth of 37.4 per cent. and 18.8 per cent. respectively, driven by increases in bed numbers through the transfer of former Southern Cross homes and the opening or acquisition of other homes, an increase in average weekly fees and organic improvement in existing services
    - Community Services: Revenue and Adjusted EBITDA growth of 1.5 per cent. and 1.4 per cent. respectively, driven by the addition of former Southern Cross homes and the two bolt-on acquisitions in the year more than balancing pressures on both volumes and fee rates in domiciliary care.
  - Health Care
    - Revenue of £189.7 million compared with £193.6 million in 2011; Adjusted EBITDA of £16.0 million compared with £20.5 million in 2011
    - ISTC Wave I transition now complete with all buyback proceeds, amounting to £54.0 million in total, received as planned.

FORWARD-LOOKING STATEMENTS

This Annual report contains, among others, forward-looking statements, including statements about market consolidation and Care UK's strategy, investment programme, future operations, industry forecasts, expected acquisitions and investments and target levels of leverage and indebtedness. Forward-looking statements provide Care UK's current expectations, intentions or forecasts of future events. Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as "anticipate", "believe", "continue", "ongoing", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "target", "seek" or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Care UK's actual results could differ materially from those anticipated in its forward-looking statements for many reasons, including the factors described in the section entitled "Risk Factors" in this Annual report. In addition, even if Care UK's actual results are consistent with the forward looking statements contained in this Annual report, those results or developments may not be indicative of results or developments in subsequent periods. For example, factors that could cause its actual results to vary from projected future results include, but are not limited to:

- Care UK's ability to renew or replace contracts as they expire;
- patient and service user choice;
- changes in health and/or social care policy;
- Care UK's ability to support organic growth and capital investment;
- Care UK's ability to accurately predict and account for future cost increases and to estimate its ability to efficiently deliver the services that it contracts to provide;
- material adverse changes in economic and industry conditions in the health market;
- failure to achieve anticipated contract volumes or reach those volumes over a longer period of time than originally anticipated under Care UK's contracts;
- the quality of Care UK's services, consumer and patient perception of that quality, and Care UK's ability to market these services effectively;
- Care UK's ability to attract, retain and train qualified management, nursing and medical personnel;
- Care UK's ability to make and integrate acquisitions successfully;
- factors affecting Care UK's leverage and its ability to service debt, including interest rates;
- the effect of operating and financial restrictions in Care UK's debt instruments;
- the accuracy of Care UK's estimates regarding its capital requirements;
- high levels of competition in the health industry;
- Care UK's ability to comply with relevant laws and standards regulating the health industry; and
- other factors discussed under "Risk Factors".

Accordingly, actual or prospective bondholders should not rely on these forward-looking statements, which speak only as of the date of this Annual report or as otherwise indicated. Care UK has no obligation to revise publicly any forward-looking statement to reflect circumstances or events after the date of the forward-looking statement or to reflect the occurrence of unanticipated events.

In addition, from time to time Care UK and its representatives, acting in respect of information provided by Care UK, have made or may make forward-looking statements orally or in writing and these forward-looking statements may be included in but are not limited to press releases (including on Care UK's website), reports to Care UK's security holders and other communications. Although Care UK believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Care UK undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

The risks described in the "Risk Factors" section of this Annual report are not exhaustive. Other sections of this Annual report describe additional factors that could adversely affect Care UK's business, financial condition or results of operations. Moreover, Care UK operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for Care UK to predict all such risk factors, nor can it assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, actual or prospective bondholders should not place undue reliance on forward-looking statements as a prediction of actual results.

PRESENTATION OF FINANCIAL INFORMATION

Financial Statements

Consolidated Financial Statements of Care UK Health & Social Care Investments Limited and its Subsidiaries

The audited consolidated financial statements of Care UK Health & Social Care Investments Limited, set out on pages F-2 to F-50, reflect the two financial years ended 30 September 2011 and 30 September 2012. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and are presented in pounds sterling.

Certain amounts that appear in this Annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them and amounts expressed as percentages may not total 100 per cent. when aggregated.

The adjusted financial information and financial statements presented before giving effect to the provisions of IFRIC 12 contained herein are unaudited and have not been prepared in accordance with SEC requirements or IFRS, or the accounting standards of any other jurisdiction.

IFRS differs in certain respects from generally accepted accounting principles in the United States ("US GAAP"). Care UK has not prepared and does not currently intend to prepare its financial statements in, or reconcile them to, US GAAP. Investors should consult their own professional advisers for an understanding of the differences between US GAAP and IFRS.

IFRIC 12 - "Service Concession Arrangements"

The European Union endorsed IFRIC 12 "Service Concession Arrangements" on 25 March 2009 and this interpretation is mandatory for accounting periods commencing after that date. Care UK applied IFRIC 12 for the first time in connection with its audited consolidated financial statements as of and for the year ended 30 September 2010.

IFRIC 12 applies to public-to-private service concession arrangements in which the public sector controls or regulates the service provided with the infrastructure and their prices, and is contractually guaranteed to, at a future time, gain ownership of the infrastructure through which the service is provided.

At the time of its original implementation, Care UK identified a number of existing contractual arrangements in its Health Care and Residential Care divisions to which IFRIC 12 was applicable. IFRIC 12 applied both to the majority of Care UK's ISTC Wave I contracts in the Health Care division, which have now all expired, as well as to certain "PFI Handback" contracts in the Residential Care division, where ownership of the property reverts to the Local Authority upon expiry of the service contracts. Care UK has not entered into any contract to which IFRIC 12 applies since the ISTC Wave I contracts entered into in 2004 and 2005, and does not currently anticipate any such contract being entered into in the future. As a consequence the differences between Care UK's results reported prior to the application of IFRIC 12 and its fully IFRS compliant results are expected to be lesser in extent in future years than has been the case in the three financial years ended 30 September 2010, 30 September 2011 and 30 September 2012. In addition, such differences are expected to reduce over time insofar as they relate to the remaining PFI Handback contracts within the Residential Care division.

Prior to the adoption of IFRIC 12, Care UK accounted for service concession arrangements as follows:

- infrastructure constructed or upgraded was capitalised as property, plant and equipment; and

- all contract derived revenue was recognised over the life of the service concession arrangement at the point when care services were performed in accordance with Care UK's accounting policy for revenue recognition.

Following the adoption of IFRIC 12, Care UK accounts for service concessions as follows:

- revenue and operating profit are separately recognised during the construction and operational phases of the service concession arrangement; and
- consideration receivable that relates to the construction phase of a contract is recognised as:
  - a financial asset in the balance sheet – where Care UK has an unconditional right to receive a specified amount of cash over the life of the arrangement; or
  - an intangible asset – where Care UK's future cash flows are not specified (e.g. where they will vary according to the usage of the infrastructure asset); or
  - both a financial asset and an intangible asset.

There is no impact on cash or total profit that will ultimately be recognised throughout the life of the service concession arrangement. However, IFRIC 12 has an impact on Care UK's reported revenue and EBITDA because a proportion of the overall revenue to be earned under the contract is recognised as revenue during the construction phase of the underlying asset rather than being recognised as the contracted services are delivered. The corresponding right to receive cash in the future in relation to this proportion of the total contract revenue is accounted for on Care UK's balance sheet as a financial asset, which is recovered in cash over the period of the concession arrangement. Prior to the adoption of IFRIC 12, this amount would have formed part of the balance sheet heading of property, plant and equipment and was depreciated on a periodic basis through the Consolidated statement of comprehensive performance. In addition, a further proportion of the overall revenue to be earned from contracts to which IFRIC 12 applies is accounted for as financial income and not as revenue. Any capital expenditure incurred in relation to infrastructure assets that are accounted for under IFRIC 12 is now charged to cost of sales in the Consolidated statement of comprehensive performance in the year it is incurred. Prior to the adoption of IFRIC 12, such expenditure was capitalised and depreciated over its estimated useful life.

In addition to the audited consolidated financial statements that are presented in this Annual report, unaudited consolidated non-statutory financial information as of and for the years ended 30 September 2012 and 30 September 2011, without giving effect to the provisions of IFRIC 12, are also presented, on pages F-51 to F-60 of this Annual report. This information has been subject to review by Care UK's independent auditor.

Non-IFRS Financial Measures

The financial measures Adjusted operating profit, Adjusted EBITDA, free cash flow, net debt and cash conversion ratio as against Adjusted EBITDA as presented in this Annual report, are non-IFRS measures that are supplemental measures of Care UK's performance.

Adjusted operating profit is defined as Operating profit before financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items.

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation and before giving effect to adjustments for IFRIC 12.

Free cash flow is defined as Adjusted EBITDA less maintenance capital expenditure.

Net debt is defined as Care UK's bonds, bank loans (net of unamortised arrangement fees), overdrafts and finance lease liabilities, less cash and cash equivalents.

Cash conversion ratio as against Adjusted EBITDA is defined as operating cash flow as a percentage of Adjusted EBITDA.

Care UK presents these supplemental non-IFRS measures because it believes, when considered in conjunction with related IFRS financial measures, these measures provide investors with important additional information to evaluate operating performance and financial position. Care UK believes that Adjusted operating profit is useful to investors because it provides additional useful information on the underlying performance of the business. Care UK presents Adjusted EBITDA because it believes, when considered in conjunction with related standard IFRS financial measures, Adjusted EBITDA provides investors with important additional information to evaluate operating performance. Free cash flow is primarily a liquidity measure, however Care UK also believes that it is an important indicator of its overall operational performance as it reflects the cash it generates from operations after maintenance capital expenditure. Adjusted operating profit, Adjusted EBITDA, free cash flow and net debt, however, are not measures of financial performance under IFRS, have not been audited and should not be considered alternatives to, or more meaningful than, profit before taxation as a measure of operating performance. Since Adjusted operating profit, Adjusted EBITDA, free cash flow and net debt are non-IFRS measures and thus are susceptible to varying interpretations and calculations, these measures may not be comparable to similarly titled measures used by other companies. These measures have limitations as analytical tools, and investors should not consider them in isolation from, or as a substitute for analysis of, financial information prepared in accordance with IFRS.

The financial information included in this Annual report is not intended to comply with the reporting requirements of the SEC and will not be subject to review by the SEC.

CERTAIN DEFINITIONS

In this Annual report:

- "Board" or "Directors" means the Board of Directors of Care UK Health & Social Care Investments Limited;
- "Care UK" means the Care UK Health & Social Care Investments Limited group or the operational business thereof as the context determines;
- "Department of Health" or "DoH" means the United Kingdom Department of Health;
- "EU" means the European Union;
- "Executive Directors" means the executive directors of Care UK Health & Social Care Investments Limited;
- "Executive Management Team" means Mike Parish and Paul Humphreys;
- "Harmoni" means HWH Group Limited;
- "IFRS" means International Financial Reporting Standards, as adopted by the European Union;
- "Local Authorities" means local councils throughout the United Kingdom;
- "LTM" means Last Twelve Months;
- "Mercury" means Mercury Health plc;
- "NHS" means the National Health Service in England;
- "PCTs" or "Primary Care Trusts" mean NHS trusts that provide primary care and/or community services or commission them from other providers and are also involved in commissioning secondary care;
- "PHG" means Partnership Health Group; originally a joint venture owned 50 per cent. by Care UK and subsequently owned 100 per cent., and created for the establishment of Wave I ISTCs;
- "Revolving Credit Facility" means the revolving credit facility established under the Senior Revolving Facility Agreement;
- "Security Agent" means ING Bank N.V., London Branch;
- "Security Documents" means the agreements to be entered into between, among others, the Security Agent, the Issuer and the Guarantors pursuant to which security interests in the Collateral are granted to secure the Senior Secured Notes;
- "Senior Secured Notes" means the £250,000,000 9¾ per cent. Notes due 1 August 2017 issued by Care UK Health & Social Care Plc in July 2010;
- "Trustee" means Citibank N.A., London Branch;
- "UK" or "United Kingdom" means the United Kingdom of Great Britain, Northern Ireland, Guernsey, Jersey and the Isle of Man; and
- "UK Government" means the government of the United Kingdom.

RISK FACTORS

The risks described below should be carefully considered, together with all of the other publicly available information regarding Care UK, in assessing any investment decision regarding Care UK. The risks below are not the only risks facing Care UK. Additional risks and uncertainties not currently known to Care UK, or that Care UK currently considers to be immaterial, may also materially and adversely affect its business or operations. Any of the risks described herein could have a material adverse effect on Care UK's results of operations and financial condition and its ability to service its debt, including the Senior Secured Notes.

Care UK relies on providing services to publicly funded entities in the United Kingdom such as Local Authorities and the NHS, typically through Primary Care Trusts, for a substantial proportion of its revenue and any material reduction in the revenue earned from such services could adversely impact Care UK's business, results of operations and financial condition.

UK publicly funded entities accounted for over 91 per cent. of Care UK's revenues in the year ended 30 September 2012. Care UK expects to continue to rely primarily on the ability and willingness of publicly funded entities to contract and pay for Care UK's services. There is a risk that budget constraints and public spending cuts could cause such publicly funded entities to allocate less money to the types of services that Care UK provides, or that political or policy changes mean that fewer such services are purchased by publicly funded entities from independent sector providers such as Care UK. Although the outsourcing by the NHS of the provision of health care services has been increasing in recent years and the current UK Government has pledged to maintain overall health care spending over the period to March 2014, while at the same time allocating additional funding to Local Authorities to fund improvements in social care, there is no guarantee either that this policy will not be curtailed if economic conditions worsen or that the outsourcing trend will not be reversed. In either case, there is a risk that the relevant publicly funded entities could reduce their spending on the types of services that Care UK provides either by reducing the volume of such services that are purchased or by seeking to re-tender services at lower fee rates. In addition, it is possible that alternative models of health and social care may emerge. Any such reversal of policy, reduction in funding or emergence of an alternative model could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Changes in public policy for health and social care and uncertainty as to the future of such policies, particularly given the UK Government's commitment to reducing public deficit spending, could have an adverse impact on Care UK and delay or prevent its ability to achieve its strategic goals or increase the costs of achieving them.

As Care UK relies on publicly funded entities, its ability to predict changing political trends is important to its success. Any uncertainty as to political trends or changes in policies in relation to outsourcing of health care and social care services could cause Care UK to delay or cancel its strategic plans and/or increase the cost of implementing those plans. Policies introduced by the current Government are resulting in reduced central funding to Local Authorities, who are as a consequence making choices about where to reduce their spending. In certain cases this has resulted in funding to social care services being reduced. With continued macro-economic pressures, there can be no guarantee that the current or a future Government might not aim to achieve the required public sector deficit reduction by making further cuts in health or social care spending or by re-directing spending to areas where Care UK currently does not provide services. In such circumstances, any new contracts for which Care UK tenders could be negatively impacted, as could the overall number of contracts that Care UK receives. Additionally, the government may favour cheaper types of outsourcing in health and social care such as utilising higher volumes of home care services at the expense of residential care provision. Whilst Care UK operates across most areas of social care any such change in commissioner preference could result in Care UK's revenues reducing overall and also see a reduced level of profitability. While Care UK may benefit from alternative austerity measures such as increased outsourcing, Care UK's ability to profit from some of those austerity measures may or may not outweigh the negative impact of those measures on Care UK. Any government objection to the outsourcing trend of recent years may result in a reduction in government contracts or delay in awarding those contracts could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Care UK's strategy is partly based on growth derived from increased levels of consumer demand for its services or the increased influence of consumers in the choice of the provider of care to them and, as a result, its future growth is dependent on maintaining the quality of its services, consumer and patient perception of that quality and on its ability to market these services effectively.

Changes in government policies, such as the introduction of the "Choose and Book" system for NHS patients or the introduction of "Individualised Budgets" and the "Personalisation Agenda" for social care service users, have increased the ability of the consumers of those services also to determine who provides them with those services, while still being funded by the NHS or Local Authorities. Care UK's medium- to long-term strategic plan recognises the increasing importance both of service users who pay directly for their own care, particularly in residential care for older people, as well as the need to attract service users who continue to be funded by publicly funded entities but who also are able to exercise greater choice in determining the actual provider of the required service. Care UK's future growth will therefore partly depend on its ability to maintain its existing high quality services and, through successful sales and marketing activities, increase demand for its services.

Any number of factors such as health and safety incidents, problems in its facilities, media attention or general customer dissatisfaction could lead to a deterioration in the public perception of the quality of Care UK's services, which in turn could lead to a loss of business support for Care UK. Any impairment of the value of the brand name could then have a material adverse effect on Care UK's business, results of operations, financial condition or prospects. Additionally, the transition towards a business model that will focus more on individuals making the choice of who will be the provider of their care services will require Care UK to develop its sales and marketing efforts in order to increase consumer, as well as purchaser, awareness of Care UK's services. There can be no guarantee that Care UK will make this transition successfully, nor that such public sector bodies will continue to allow service users to make such choices and either such failure could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

The risk of an extended recessionary period and weak macro-economic conditions generally may have an adverse effect on personal disposable income.

Care UK's strategy is partly based on growth derived from an increased use of its services by service users who pay directly for their own care, particularly in residential care for older people and, as a result, its future growth is dependent on the ability and willingness of customers to pay premium market rates for private nursing home beds. The capacity for prospective customers to pay these rates depends on the level of disposable income available to such actual and potential customers. During such recessionary periods there tends to be a decline in the level of disposable income available to individuals to utilise in areas such as self-funded health and social care services. Unfavourable changes in the general economic conditions affecting actual and potential customers could result in an unwillingness to pay premium prices for the services that Care UK offers. This may result in Care UK being required to sell its services at rates lower than expected thereby impacting margins and investment returns and also impacting its ability to achieve full potential against the business plan for any new development. There can be no guarantee that these market conditions will not transpire, and as such this could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Care UK earns revenue from long-term contracts and, as a result, a failure accurately to predict and account for future cost increases or to overestimate its ability efficiently to deliver the services that it contracts to provide could affect its profitability.

A significant portion of Care UK's revenue is derived from long-term contracts. Some of these contracts allow for the negotiation of price changes on an annual basis, while others have prescribed indexation mechanisms that automatically determine annual price increases, largely tied to a combination of general inflation measures and/or industry specific wage cost indices. In certain cases prices are set either at or by reference to NHS tariffs, which have been subject in recent years to general reductions as part of the NHS plan to achieve certain efficiency targets. Across this range of different contract pricing arrangements, Care UK is exposed to the risks of:

- increases in costs (including wage inflation, attributable to such contracts beyond those anticipated and provided for within the financial forecasts underpinning the original pricing for such contracts), which are not met through corresponding price increases in the relevant contract;
- being bound to fulfil a contract that becomes onerous as a result of inaccurate pricing and forecasting by Care UK; and
- increases in general costs and overheads (not attributable to specific contracts), which cannot be met through corresponding attributable increases in revenues from Care UK's range of contracts, such as general inflationary increases, uplifts in the National Minimum Wage and the introduction of the National Employment Savings Trust pension scheme in March 2013.

An increasingly common feature of new contracts in a number of Care UK's operating businesses are employment transfers arising under the Transfer of Undertakings (Protection of Employment) ("TUPE") legislation, often involving the transferring of employees' terms and conditions, which may require Care UK to provide certain defined benefit pensions. This situation may also arise in relation to contracts operated or entered into by businesses that Care UK acquires. The long-term liabilities associated with these terms and conditions can be difficult to predict as can the potential consequences of Care UK seeking to amend inherited terms and conditions in accordance with the relevant legislation. Failure to properly predict certain cost increases or the price at which Care UK is able to deliver its various services profitably could therefore have a material adverse impact on Care UK's financial performance. Such difficulties could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Care UK operates in a highly regulated business environment and failure to comply with regulations could lead to substantial penalties, including the loss of the registration certificates necessary to continue to trade.

The provision of services by Care UK's businesses, in common with the health and social care sector, are subject to a high level of regulation and oversight. These regulatory requirements relevant to Care UK's business cover the entire range of Care UK's operations, from the initial establishment of new facilities, which are subject to registration and licensing requirements, to the recruitment and appointment of staff, occupational health and safety, duty of care to users of Care UK's services, the administration of controlled drugs, clinical standards, conduct of Care UK's professional and support staff, new regulations in relation to the provision of offender health care services and other stringent requirements. The requirements of the regulations differ between Care UK's various businesses, though almost all of Care UK's activities in England are regulated by the same body, the Care Quality Commission (the "CQC"), or its equivalent in Scotland and Wales. See "Business — Regulation" for further details on the material regulation Care UK is subject to. Care UK is unable to predict the content of new legislation and regulations and their effect on its business. There can be no assurance that Care UK's operations will not be adversely affected by regulatory developments.

Inspections by regulators can be carried out on both an announced and unannounced basis depending on the specific regulatory provisions relating to the different health and social care services Care UK provides. A copy of each inspection report, once completed, is available to the public and is published on the website of the relevant regulator. A failure to comply with government regulations, the non-compliance of any service with regulatory requirements or the failure of Care UK to cure any areas of non-compliance noted in an inspection report could result in reputational damage, fines, the cancellation of the registration of any facility or service or a decrease in, or cessation of, the services provided by Care UK at any given facility.

Regulatory action could also result in Care UK deciding to cease providing a service or to close a particular service because of negative publicity. In addition, regulatory action in relation to one or more of Care UK's services or Care UK itself, regardless of the substantive merit or the eventual outcome of such action, may have a material adverse effect upon Care UK's reputation and its ability to attract and/or retain customers and/or service users, expand its business or seek licences for new services, either nationally or within the area in which the service which is subject to the regulatory action is located. Any failure to comply with applicable regulations could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Care UK may fail to achieve anticipated contract volumes or it may reach those volumes over a longer period of time than originally anticipated under its contracts, which could have a negative impact upon its results of operations and the financial performance of Care UK.

The commercial basis of many of Care UK's contracts require it to reach certain volumes within a certain period of time in order to generate the targeted financial return. The contracts that Care UK enters into may either not guarantee any revenues or only guarantee a certain level of revenue and, in these cases, may only do so for a limited period of time. Therefore, the ability to drive volume through Care UK's various services will often determine the ability of those services to deliver both revenue and operating profit targets. Care UK may not always be able to meet its expectations with respect to volume numbers, which depend, among other factors outside its control, on customer demand and availability of qualified staff. For example, the two ISTC Wave II contracts that Care UK operates, in Southampton and Manchester, did not achieve their targeted volumes in the first two to three years of the contracts being in operation as a result of the need to change GP commissioning behaviour and because the way in which patient volumes actually materialised was different to the contracted basis, meaning that insufficient capacity was available for certain types of procedure. Care UK initiated increased marketing and customer service activity in response to this as well as adjusting the balance of capacity provision between different types of procedure, with the result that patient volumes have subsequently steadily increased. There can be no guarantee that Care UK will be able to meet such targets in the future and any such failure could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects, which could include the potential termination of contracts by their commissioning public sector entities. Any such termination would be subject to contractual provisions that would determine the basis and extent of any compensation that might be payable to Care UK.

Care UK's revenue is derived from contracts and if Care UK is unable to renew them or replace them with comparable contracts, it could suffer a substantial reduction in revenues.

A large number of Care UK's contracts are individually relatively low in value, but collectively they are material to Care UK's financial performance. The regular periodic renewal of contracts when they reach their expiry dates, either in whole or in part, has contributed to the continued growth of Care UK's revenues and operating profit. However, the substantial majority of Care UK's contracts are with publicly funded entities and can be subject to complex bidding and public procurement rules as well as Government funding pressures generally. The typical tender process for public sector contracts is a competitive and specialised one that requires an experienced management team. Care UK has a proven track record over many years of being able to win a sizeable number of the public sector contracts for which it has chosen to bid, but there can be no guarantee that it will continue to be successful. Any failure to renew its existing contracts could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

The failure in 2011 of the UK's then largest care home operator, Southern Cross Healthcare Group Plc ("Southern Cross"), led to negative publicity for the private residential elderly care sector.

Negative publicity arising from the collapse of Southern Cross in 2011 continues to have an impact on the perception of the privately run residential elderly care sector by commissioners, regulators and individuals. There has also been similar negative publicity in relation to the interpretation and understanding of financing structures, particularly the use of leasehold arrangements as well as corporate debt levels. Any misunderstanding or misconception by commissioners or individuals relating to these aspects of Care UK's business, or the introduction by Government of intrusive economic or market regulations, could have an adverse effect on Care UK's business, results of operations, financial condition or prospects.

Care UK has a different asset ownership structure to that which prevailed within the former Southern Cross business, with only around one third of Care UK's residential care homes being subject to commercial leasehold arrangements. Consequently, Care UK's key financial metrics in relation to this aspect of its business, such as rent cover ratios on commercial leasehold care homes, are substantially more favourable than those reported by Southern Cross prior to its collapse. Care

UK also typically serves a different geography and also has higher average fee rates compared to the former Southern Cross business.

Negative publicity generally could adversely impact Care UK.

Many of Care UK's service users, particularly those within the Social Care divisions, are considered vulnerable and often require substantial supervision. There is a risk that one or more service users could be harmed by one or more of Care UK's employees either intentionally or through negligence, or by accident. From time to time Care UK has experienced incidents which have led to negative publicity, such as a failure to carry out the second stage review of patient X-rays at a newly opened Urgent Care Centre in 2011. An increasing trend is evident for coroner's inquests being required for service user deaths. In addition, Care UK is providing its services to an increased number of young people, including in Young Offender Institutions, which carries a higher level of reputational risk. A serious incident involving harm to one or more service users could result in negative publicity, as could a similar incident relating to the provision of health care services. Furthermore, the damage to Care UK's reputation or to the reputation of the impacted facility from any such incident could be exacerbated by any failure on Care UK's part to respond effectively, or to appear to respond effectively, to such incident. While Care UK has implemented rigorous clinical governance procedures, carries out substantial employee training, employee inductions and employment reference procedures, including a criminal background check, for all frontline staff and deploys public relations resources to manage both positive and negative news, there can be no guarantee that an event giving rise to significant negative publicity will not occur and, if such negative publicity were to occur, it could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Certain of Care UK's operations, particularly in Social Care, are capital intensive and require significant capital investment and planning to support successful organic growth.

Care UK's Residential Care and Mental Health facilities generally need to be purpose built in order to be able to deliver the type and quality of service that is required under Care UK's growth plans. Consequently, Care UK must either develop greenfield sites to create facilities to its own specifications or purchase or rent existing facilities, which may require substantial modification. Care UK intends to rely largely on greenfield developments for the greatest proportion of its future growth in both the Residential Care and Mental Health divisions. Bridgepoint, Care UK's controlling shareholder, together with the executive management of Care UK have established an independent, separately funded property development vehicle for greenfield residential care home developments which will finance and own the new freehold residential care homes, which will be leased to Care UK on their satisfactory completion. Generally, Care UK's ability to achieve its development plans will depend upon a variety of factors, many of which are beyond Care UK's control. Infrastructure projects, particularly proposed new social care or health care facilities, require a certain level of expenditure for the purposes of determining the feasibility of a new facility or service before it can be determined whether a project is economically attractive and capable of being financed. The subsequent successful development and construction of a new facility is contingent upon, among other things, the receipt of satisfactory planning consents, the negotiation of satisfactory construction contracts, the receipt of required regulatory certification, the timely and satisfactory completion of construction and the successful commissioning and opening of a new facility. There can be no assurance that Care UK will, in the future, be able to find the necessary number of satisfactory sites for new facilities, negotiate construction contracts and other critical project contracts, obtain environmental planning and other governmental and regulatory permits and approvals, and secure financing commitments necessary for the successful development of its projects on time and within budget. If these development efforts are not successful, Care UK might be required to expense all costs incurred in connection therewith and could incur additional losses associated with any related contingent liabilities. In addition, upon the operational commencement of service delivery from a new care home, particularly if there is no underlying contract in place with a publicly funded entity, there is a start-up period during which the facility will progressively increase its occupancy levels towards the targeted level for the sustainable long-term operation of that facility. Generally speaking, Care UK expects that it will take between 15 to 18 months from the opening of a new residential care home to reach the targeted occupancy level. Any material unremedied delay in, or unsatisfactory completion of the construction of its current or future projects could, under certain circumstances, have an adverse effect on its ability to meet its obligations, including its obligation to pay principal and interest on the

Senior Secured Notes.

Care UK's growth plans require significant IT system development as well as process and efficiency improvement initiatives designed to drive greater operating efficiency within the group's businesses. These initiatives exert competing pressures on the resources of the business, and may impact upon the speed of change the business can cope with in the short-term.

Care UK has initiated significant plans for growth of its business across all of its operating divisions. A key aspect to the success of such new business is the ability of the group efficiently and effectively to mobilise new services to planned timescales and budgets. Similarly a number of divisional and functional areas within the group's central services departments have undergone or are undergoing substantial process re-engineering and change programmes, often accompanied by significant investment in new front and back office IT systems. Any delay in the implementation of these initiatives could defer the identified benefits to be derived from these projects, prevent them from being achieved or increase the costs associated with implementation. Whilst the group's executive management team has established methods of monitoring progress on all new business mobilisations and change programmes and actively manages resources to mitigate any risks to their success, the simultaneous implementation of these programmes could create competing pressures for resources within the business, including the availability of appropriately skilled staff, and may therefore result in Care UK not achieving the full benefits of these investments, which could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Financing for the development of new facilities or modifications of existing facilities may not be available to Care UK on acceptable terms in the future or at all.

Care UK has historically financed the development of its existing facilities through a variety of sources, including corporate debt and, in a limited number of cases, operating leases. While it intends to seek to finance its planned growth activities from similar sources in the future, market conditions, credit agency sentiment and other factors may prevent similar financing being available for future new developments. In addition, market conditions may limit the number of financial institutions that are willing to provide financing to companies in Care UK's industry, either in the form of corporate debt or on a limited recourse basis, or affect the cost of such financing. For example, constrained liquidity in the financial markets since the global banking and financial crisis in 2008 has led to increases in the cost of capital. The prolonged sovereign debt pressure in the Eurozone continues to create market uncertainty and could further exacerbate this issue. Consequently, it is possible that Care UK may be unable to obtain the financing it requires on terms satisfactory to it or at all. On 31 October 2012 Care UK extended its Revolving Credit Facility from £80.0 million to £97.5 million, of which a substantial part remains undrawn.

Care UK's ability to grow its business relies, in part, upon making suitable acquisitions and there can be no guarantee that sufficient appropriate acquisition opportunities will be available to Care UK or that, once acquired, new businesses will be successfully integrated into Care UK or achieve their planned level of performance.

To date, Care UK's growth has been, in part, attributable to acquisitions of other businesses or operations in sectors in which it already operates, and Care UK plans to continue to expand its business in the future partly through acquisitions. The success of Care UK's acquisition strategy depends on the ability of management to identify suitable acquisition candidates, to assess the value, strengths, weaknesses, contingent or other liabilities and potential profitability of such acquisition candidates, to negotiate acceptable purchase terms, to obtain any necessary permits or approvals and to integrate the operations of such businesses, once acquired. Care UK's success in making further acquisitions depends on the availability of, and competition for, suitable acquisition candidates. Successful integration of acquired businesses will depend on Care UK's ability to effect any required changes in operations or personnel or improvements in the quality of service provision, and may require the refurbishment of operating facilities or other capital expenditures or the funding of unforeseen liabilities. The integration and operation of any future acquisitions may expose Care UK to certain risks, including the following: difficulty in integrating the acquired businesses in a cost-effective manner, including the establishment of effective management information and financial control systems; unforeseen legal, regulatory, contractual, labour or other issues arising out of the acquisitions; significant unexpected liabilities or contingencies arising from the acquisitions, for which Care UK is not fully indemnified including potential unprovided corporate or employment tax liabilities; potential disruptions to Care UK's ongoing business caused by its senior management's focus on the acquired companies; and performance of acquired assets not meeting Care UK's expectations or plans. There can be no assurance that Care UK will find sufficient businesses to acquire that fit its stringent selection criteria or that any future acquisition targets that are identified can be acquired on appropriate terms or at an acceptable cost or can be successfully integrated. A failure to identify appropriate acquisitions or to properly integrate them once acquired could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Care UK's insurance may be inadequate or premiums may increase substantially.

Health care and social care generally, and the care of vulnerable adults in particular, involves an inherent risk of liability. Participants in the health and social care industries are subject to claims alleging negligence, medical malpractice or mistreatment, many of which may involve significant legal costs. Care UK currently maintains liability insurance intended to cover claims of this nature and other claims, which insurance it believes is adequate and consistent with industry practice. However, claims in excess of Care UK's insurance coverage or claims not covered by Care UK's insurance could arise. Furthermore, there can be no assurance that Care UK will be able to obtain liability insurance coverage in the future on acceptable terms or at all. A successful claim against Care UK not covered by or in excess of Care UK's insurance coverage could have a material adverse effect on Care UK's business, results of operations and financial condition. Claims against Care UK, regardless of their merit or eventual outcome, may also have a material adverse effect upon Care UK's reputation and its ability to attract or retain customers and/or service users or expand its business. Any such claims may also increase the premiums payable by Care UK for its insurance coverage.

UK Government outsourcing of the provision of health care services to private providers is a relatively new development in the United Kingdom and the observed growth in this area may not be sustained or could be reversed.

In the Social Care divisions of Care UK, the trend of public sector outsourcing of the provision of care to private or third sector providers is well established and such providers currently account for approximately 80 per cent. of the market. However, this trend is a relatively recent one in the health care sector. The early activity in this sector, through the ISTC Wave I and similar contracts, was designed to increase overall capacity and reduce waiting times for NHS patients, rather than to increase long-term market efficiency, and a perception has developed in some market observers and relevant special interest groups that the terms of such contracts were overly generous to the private sector. As a result of this perception, there has been some public support for the groups and individuals that oppose outsourcing. In addition, the NHS in England is required to achieve efficiency savings of £15 to £20 billion per annum over the period to 2014 and the commissioning and economic regulatory landscape is also changing through the reforms set out in the Health and Social Care Act, which was given Royal Assent in 2012, and through the increasing role of Monitor as a licensing body for health care providers generally. Nevertheless, Care UK's strategic proposition in the health market is based upon a belief that the rationale for outsourcing in health care is similar to the observed rationale for social care and that the NHS will increasingly rely in the future on outsourcing for the efficient delivery of health care services, as a result of the need to achieve substantial cost savings. Care UK has positioned itself to take advantage of this future growth if it emerges, but there can be no assurance that the outsourcing trend will continue. The absence of future growth in outsourcing in the health care sector could have a material adverse impact on Care UK's business, results of operations, financial condition and prospects.

Care UK's activities are exposed to significant medical, clinical and health and safety risks and the risk of acute service failure.

Medical, clinical and health and safety risks, including the provision of controlled drugs, are inherent in the services that Care UK provides and are constantly present in the facilities that Care UK operates in all of its divisions, particularly within the Offender Health service stream within the Health Care division. A medical, clinical or health and safety incident could be particularly serious, as the residents and patients at Care UK facilities are predominantly dependent persons and therefore highly vulnerable. From time to time, Care UK has experienced, like other providers of similar services, undesirable medical, clinical and health and safety incidents. Care UK's activities are, in particular, exposed to significant medical risks, relating for example to the transmission of infections or the prescription and administration of drugs for residents and patients. Care UK's activities are also exposed to risks relating to health and safety, primarily in respect of food and water quality, as well as, in the residential parts of its Social Care divisions, fire safety.

If any of the above medical, clinical or health and safety risks were to materialise, Care UK may be held liable, fined and any registration certificate could be suspended or withdrawn for failure to comply with applicable regulations. This may have a material adverse impact on Care UK's reputation, business, financial condition, results of operations and prospects.

Care UK operates in a competitive environment and faces competition with other for-profit, public and not-for-profit entities for contracts, patients and service users as well as for appropriate sites on which to expand and build new facilities.

Care UK faces current and prospective competition for patients and service users from numerous local, regional and national providers of health and social care. Care UK also expects to compete for suitable sites for development opportunities and for the acquisition of existing businesses or facilities. In addition, some of Care UK's competitors operate on a not-for-profit basis or are charitable organisations and have the ability to finance capital expenditures on a tax-exempt basis or through the receipt of charitable contributions, neither of which is available to Care UK. Furthermore, if the development of new facilities outpaces the demand for such facilities in the regions in which Care UK has or is developing or acquiring them, such regions may become saturated. An oversupply of such facilities could result in decreased occupancy, reduced operating margins and lower profitability. Competition could limit Care UK's ability to attract and retain residents and expand its business and could have a material adverse effect on Care UK's business, results of operations, financial condition and prospects.

Care UK depends on its ability to attract, retain and train experienced and/or qualified staff in a number of disciplines and any reduction in the number of such individuals or an increase in the wages and salaries necessary to attract and retain them could negatively impact Care UK.

Care UK competes with various health and social care providers, including the NHS and other employers, with respect to attracting and retaining qualified management, medical, nursing and care personnel. In general, Care UK recruits such personnel from the local area where the relevant facility is located.

Accordingly, the availability in certain areas of suitably qualified personnel can be extremely limited, particularly in certain "shortage professions" within the health care sector. Care UK has consequently recruited a limited number of both medical and nursing staff from outside the United Kingdom for its Health Care business. There can be no assurance that the factors making overseas recruitment possible, for example lower wages in those countries and, for the few non-EU nationals that Care UK employs, permissive immigration rules in the United Kingdom, will continue. Furthermore, recruits from overseas may have difficulty in communicating with residents or patients if not rigorously tested prior to their employment. Communication difficulties between non-native English speaking staff and residents or patients could lead to incidents that might materially adversely affect Care UK's reputation or even result in a claim against Care UK if an employee's inability to communicate in English results in harm to one or more residents or patients.

An inability to recruit qualified English-speaking personnel at reasonable compensation levels could have a negative impact on Care UK's business and profitability. Also, regulatory changes, such as an increase in the minimum number of qualified nurses in a residential care facility, could require Care UK to hire more nurses or, if Care UK cannot find and recruit more nurses, to reduce the number of individuals cared for in a residential care facility. Further, if Care UK hires inadequately trained or qualified personnel, the quality of its services, including its publicly reported metrics, could be negatively affected. Additionally, a reduction in the number of non-EU doctors or nurses who are allowed to practice within the country could have a similar effect. Likewise, wage pressures due to competition from the public sector or competing private sector facilities could increase Care UK's operating costs and decrease its operating margins. Further, Care UK spends substantial resources and time in training its staff, and any increase in staff turnover in an industry where high staff turnover is common could increase its operating costs and impact the quality of the services it provides. Care UK's development could be hampered by any such staff shortage and the quality of its services could be adversely affected. If Care UK could not find or train qualified personnel at reasonable wages, that failure could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

The senior management team is critical to Care UK's continued performance.

Care UK relies upon the members of its senior management team and, in particular, their relationships with, and their understanding of the requirements of, the relevant regulatory authorities in the industry in which Care UK operates and the publicly funded entities with whom Care UK contracts to provide its services. Care UK has put in place policies and remuneration designed to retain and properly incentivise management; however, there can be no guarantee that it will be able to retain its senior management or to find suitable replacements for them should any of them leave Care UK. If senior management were to leave en masse or if a critical member of senior management were to leave unexpectedly, there could be a material adverse impact on Care UK's business, results of operations, financial condition or prospects.

Care UK's business could be disrupted if its information systems fail or if its databases were destroyed or damaged.

Care UK and its key suppliers use several information technology tools and information systems, in particular for managing confidential service user and patient data as well as for the management of its employees. Increasingly, patients' choice of Care UK as their health care supplier is driven by Care UK's interaction with software systems such as the NHS "Choose and Book" system and patients ability to make direct bookings for both outpatient appointments and elective surgical procedures either personally or through their GP. These tools also play an important role in exercising management control over Care UK's operations. Given the large number of service users and patients that Care UK serves, and its significant employee base, Care UK's business could be materially disrupted if these information systems or databases and any back-up systems were to fail, and/or if the databases were to be destroyed or damaged.

Care UK handles sensitive consumer data in the ordinary course of its business and any failure to maintain the confidentiality of that data could result in legal liability for, and reputational harm to, Care UK.

Care UK processes sensitive personal data as part of its business. There is a risk that this data could become public if there were a security breach at Care UK in respect of such data. While Care UK has policies and procedures in place to prevent such breaches, if one were to occur, Care UK could face liability under data protection laws, could lose the goodwill of its clients and could have its reputation damaged, all of which could have a material adverse effect on Care UK's business, results of operations, financial performance or prospects.

Care UK's business is subject to laws and regulations relating to the environment and public health.

As part of its normal business activities, Care UK produces and stores waste, in particular waste from its Health Care division, which carries infection and related risks and which may produce effects harmful to the environment or human health. The storage, treatment and transportation of such waste are strictly regulated. Should Care UK or the relevant waste disposal service provider fail to comply with these regulations, Care UK could face sanctions or fines, which could adversely affect its business or financial condition. Any such situation could also have an adverse effect on Care UK's reputation and image.

More generally, Care UK's business is subject to laws and regulations relating to the environment and public health. If applicable laws and regulations were to become stricter, Care UK could incur additional compliance expenses which could in turn have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

Loss of Care UK's ability to use certain key properties subject to long-term leases through termination or frustration of the relevant lease, compulsory purchase or other events or circumstances outside its control would have a material adverse effect on its ability to operate its business and meet its financial obligations.

Certain of Care UK's properties are used by Care UK through long-term leases and the operation of Care UK's businesses in those properties depends on its right to use the premises demised by the relevant lease. Under the typical terms of the relevant leases, in the event of certain material breaches by Care UK, the landlord may enforce its right to forfeit the lease. The tenant has customary rights to apply for relief from forfeiture, which is likely to be successful if the relevant breach is remedied at the same time. There can be no assurances that any affected landlord would continue to allow Care UK to use the land demised by the lease if Care UK fails to meet its contractual obligations thereunder.

Furthermore, Care UK's business could be materially adversely affected if a compulsory purchase order was made in respect of any substantial properties in which Care UK has a freehold or long leasehold interest, since Care UK would no longer be able to use and occupy the relevant property. Any property in the United Kingdom may at any time be compulsorily acquired by, among others, a Local Authority or a government department generally in connection with proposed redevelopment or infrastructure projects, which are to the benefit of the public at large. Such compulsory orders can be challenged, but Care UK can provide no assurance as to what the result of such a challenge might be. Care UK is not aware of any such compulsory purchase proposals in respect of any of Care UK's properties.

If the Trustee or the Security Agent for the Senior Secured Notes were to acquire title to any lease (upon the enforcement of the Security Documents or otherwise), the rights of such persons for the benefit of the holders of the Senior Secured Notes would be subject to the same types of limitations as set forth above.

Care UK may become involved in legal proceedings based on environmental, health and public liability and the duty of care it assumes for its service users.

Because of the nature of Care UK's operations, it may become involved in a variety of legal proceedings such as complaints or claims based on common law rights related to the actions of Care UK or Care UK's employees or management. Lawsuits may be filed based on these claims by any party, either individually or as a class in a class-action lawsuit. These types of lawsuits are often lengthy and can be expensive to defend. A successful claim could materially hinder Care UK's business, results of operations, financial conditions or prospects.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of Care UK's financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and unaudited pro-forma supplementary condensed consolidated financial statements and the related notes thereto contained in this Annual report. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For the reasons explained under "Forward-looking Statements" and "Risk Factors" Care UK's future results may differ materially from those expected or implied in these forward-looking statements.

The financial information in this report comprises two elements for Care UK Health & Social Care Investments Limited and its subsidiaries: (i) the audited consolidated financial statements and (ii) the unaudited pro-forma supplementary condensed consolidated financial statements before giving effect to the provisions of IFRIC 12. For further information refer to "Presentation of Financial Information". The commentary included within this section of the Annual report primarily discusses the financial condition and results of operations before giving effect to the provisions of IFRIC 12. In addition, a short separate discussion and analysis is provided dealing with the group results on a fully compliant IFRS basis, including the effects of applying IFRIC 12.

Overview

Care UK is a significant provider of outsourced health care services to the NHS in England and a leading provider of social care services in the United Kingdom. Care UK is the most diversified provider operating across both the social and health care markets in the United Kingdom, which are markets that provide multiple opportunities for growth. Unless stated, all figures and percentages quoted below exclude the effects of applying IFRIC 12.

Social Care	Health Care
• ***Residential Care:*** Care homes (89 care homes with over 5,500 beds) providing care for older people, particularly those suffering from dementia and related conditions, plus 130 day care places • ***Community Services:*** Care worker visits and live-in support for people in their own homes, facilitating daily living needs and promoting independence (around 151,000 care hours per week delivered to more than 13,000 people) • ***Mental Health:*** Providing care to individuals suffering from a range of enduring mental health conditions through a range of facilities including independent hospitals, mental health homes and specialist facilities for eating disorders and self-harm	• Broad range of health care services in over 50 locations including elective surgery centres, specialist Clinical Assessment and Treatment Services ("CATS"), general practitioner ("GP") practices, diagnostic centres, out-of-hours and urgent care services, walk-in centres and offender health services • Over one million patients per annum treated or supported by the Health Care division

Key figures, in £ million	Q4 / 2011	Full Year 2011	Q4 / 2012	Full Year 2012
Revenue	118.3	450.7	122.6	490.3
Adjusted EBITDA [1)]	16.9	52.2	16.3	52.6
Adjusted operating profit [1)]	10.8	29.1	11.1	31.8
Net loss for the period	(11.7)	(23.0)	7.3	(4.1)
Operating cash flow	19.9	36.9	25.2	53.4

[1)] See Non-IFRS Financial Measures

Financial leverage	As of and for the 12 month period ended			
Amounts in £ million	31 December 2011	31 March 2012	30 June 2012	30 September 2012
Adjusted EBITDA	54.6	54.6	53.2	52.6
Net debt	187.6	203.7	211.7	215.2
Net debt / Adjusted EBITDA	3.44x	3.73x	3.98x	4.09x

Operations

Care UK's operations are divided into four operating divisions: Residential Care, Community Services, Mental Health and Health Care. The Residential Care, Community Services and Mental Health divisions form Care UK's Social Care business.

The social care services provided by Care UK include care services to older people, people with learning disabilities and/or mental illness in various settings including care homes, in their own homes and in mental health hospitals. With 89 care homes providing over 5,500 beds, and 130 day care places, Care UK is one of the five largest operators of care homes for older people in the United Kingdom measured by bed numbers, with a strong focus on high dependency care, in particular dementia and related conditions. Care UK is also one of the five largest providers of community services in the United Kingdom measured by the number of hours of care delivered, providing around 151,000 hours of care per week to over 13,000 people, including both older people and service users with learning disabilities. Care UK currently operates 18 mental health facilities including independent hospitals, mental health homes and specialist facilities for those with eating disorders or prone to self harm.

Care UK's health care services are provided almost entirely to NHS patients and paid for by Primary Care Trusts or the Department of Health directly. This business consists of a range of over 50 health care services including elective surgery centres, specialist Clinical Assessment and Treatment Services ("CATS"), general practitioner ("GP") services, diagnostic centres, out of hours and urgent care services, walk-in centres and offender health services. Care UK serves more than one million patients per annum through the group's Health Care division. Following the acquisition of Harmoni on 5 November 2012, Care UK is now the market leader in independent sector provision of both out of hours care and offender health services to the NHS in England.

In total, Care UK operates over 200 facilities across the United Kingdom. In the year ended 30 September 2012, Care UK employed 15,659 people on average across the United Kingdom, including surgeons, GPs, nurses and registered carers. Care UK's principal sources of revenue are publicly funded entities in the United Kingdom, principally Local Authorities and Primary Care Trusts and, in Care UK's health care business, the NHS. In the year ended 30 September 2012, over 91 per cent. of Care UK's revenue was derived from contracts with publicly funded entities, with the remainder derived from self-paying individuals in Care UK's Social Care business.

In Residential Care, contracts with publicly funded entities take the form of either block contracts or spot contracts. In a block contract, the relevant Local Authority or Primary Care Trust agrees to pay a fixed per bed rate for an agreed number of beds, which is paid whether or not these beds are physically occupied, such that the financial risk for a bed being unoccupied remains with the publicly funded entity that is commissioning the service. Block contracts typically have a term of 10 to 25 years. As at 30 September 2012, approximately 39.5 per cent. of the beds in Care UK's residential care homes were covered by long-term block contracts with publicly funded entities with an average unexpired contract term of over seven years. The remaining beds, after those taken up under block contracts, are sold on a spot contract basis to the public sector (because their needs typically exceed the number of beds for which the publicly funded entity has block contracted) or, increasingly, to self-paying individuals. Spot contracts are contracts for the delivery of a specified service to a specific individual and therefore are for a much shorter period of time than block contracts. In this case the financial risk of a given bed being unoccupied lies with Care UK. As contracts with self-paying individuals typically generate higher fee rates than contracts with publicly funded bodies, even after allowing for the change in void risk, Care UK intends gradually to shift the mix of its services in Residential Care towards a higher proportion of self-funded care whilst still seeking opportunities for the further provision of beds under public sector block contracts where available.

Care UK's services in the Community Services division are also provided under block and spot contracts. Local Authorities sign block contracts for the provision of a set number of hours of care in a given period of time or framework agreements that generally set out the service requirements, but do not commit either party to provide or purchase care until a specific individual in need of that care is identified. Increasingly the provision of community based services is being undertaken under framework agreements where a provider is accredited as an approved provider of services by the contracting entity but where no guarantee of volume is given and with the services for each individual requiring care being procured as and when required.

In Mental Health, Care UK operates under a mix of block and spot contracts, although block contracts represent a significantly lower proportion of revenues than in Residential Care with approximately 24 per cent. of beds being operated under block contracts within this division. Block contracts in Mental Health generally mirror the structure of block contracts in Residential Care although the contract duration is typically not more than five years. The balance of services within the Mental Health division are provided on spot contracts.

The commercial bases of Care UK's health care contracts are typically customised to the type of service being provided and often specify the volume, duration and other details of the services to be provided in considerable detail. One differentiator between health care contracts is the extent to which they include revenue guarantees. Care UK's ISTC Wave II contracts and some general health care contracts have partial revenue guarantees whereas others, such as the arrangements for the former Wave I ISTCs following the expiry of the original contracts, have no revenue guarantees because the initial contract period has facilitated a market position to be created.

Care UK's operating expenses principally comprise staff costs, as well as costs relating to property services and facility management, utilities, medical consumables including prostheses, food and rent. In the year ended 30 September 2012, total staff costs accounted for approximately 72 per cent. of Care UK's operating expenses before depreciation, amortisation and impairment and non-recurring charges. Care UK expects operating expenses to continue to grow as Care UK's overall business grows, although the rate of growth will also depend on the mix of services that Care UK provides.

Significant Factors Affecting Care UK's Results of Operations

The most significant factors affecting Care UK's results of operations are the following:

Social Care

The main drivers affecting results of operations in Social Care are the number of beds and the occupancy rates at Care UK's care homes and mental health facilities, the hours of care provided to service users within their own homes, the prevailing fee rates for all such services as well as the level of operating costs, particularly staff costs.

Number of Beds at Care UK's Residential Care Homes and Mental Health Facilities

The results of operations are impacted by the number of beds at Care UK's care homes and mental health facilities because its bed capacity determines the maximum number of service users that Care UK can serve.

In the year ended 30 September 2012 Care UK transferred into the group a total of 29 homes formerly operated by Southern Cross Healthcare Group plc ("Southern Cross"), of which 27 homes, with over 1,700 beds, were transferred into the Residential Care division with the remaining two homes, with 29 beds, transferring into the Community Services division as these are specialist facilities serving individuals with either severe learning disabilities or complex care requirements, including acquired brain injuries. In addition Care UK opened or acquired a total of three further care homes with over 200 beds and closed one small care home with 28 beds, thus increasing Residential Care net bed capacity in the financial year by more than 1,850 beds. Consequently, as at 30 September 2012, Care UK operated more than 5,500 beds across 89 care homes, and an additional 130 day care places. Approximately half of Care UK's beds are dedicated to caring for dementia sufferers. Additionally, as at 30 September 2012, Care UK operated more than 270 beds across its range of 18 mental health facilities. Two of these facilities, comprising approximately 40 beds, are expected to be closed during the year ending 30 September 2013 as the final part of the rationalisation of the service provision within this division. Also, within the Mental Health division, a number of new developments are in progress termed Complex Care Rehabilitation centres; the first of these opened in June 2012.

In Residential Care, Care UK intends to expand its beds dedicated to service users with high dependency needs, in particular older people suffering from dementia and related conditions. Dementia is a large and underserved segment of the care home market and typically generates higher fee rates due to the intensive care required by dementia sufferers. Care UK believes that dementia sufferers are among the least likely individuals to be impacted by the industry trend to move patients out of residential care and into home based care as they typically require more intensive care. Additionally, service users with high dependency needs of this nature can be expected to have a longer average length of stay than the industry standard average length of stay for frail elderly service users, which leads to a lower turnover in residents and thus tends to reduce the time for which beds are unoccupied.

In line with this strategy, Care UK opened two new build homes with a total of 140 beds during the year ended 30 September 2012 in Halstead in Essex and in East Grinstead in West Sussex. Care UK also acquired an existing home near Brightlingsea in Essex with 64 beds. All of these homes were developed or acquired without any underlying block contract in place and are focused on providing complex dementia care. The occupancy ramp-up of these two new facilities is generally in line with the expected profile for newly opened care homes. In addition, there are a number of similar new developments in the pipeline that will be funded and owned by the independent and separately financed development group referred to in the section entitled "Certain Relationships and Related Party Transactions", with Care UK having the right to enter into an operating lease on completion of each new property. Currently, five sites are in various phases of construction with several more approved, subject either to final commercial negotiations and/or the receipt of satisfactory planning permission. The first three of these homes are expected to open in spring 2013 with the remaining two due to open early in the 2014 financial year.

The homes recently opened and the currently planned homes are purpose built predominantly to care for dementia and other high dependency service users, but they will have the flexibility to convert beds to provide other care home services if required.

Occupancy Rate

Care UK's results of operations are significantly affected by the physical occupancy rates at its care homes and its mental health facilities. Physical occupancy rates are particularly relevant for beds not covered by a block contract as publicly funded entities are contractually bound to pay for beds covered by block contracts, regardless of actual occupancy. These rates are calculated by measuring the number of beds occupied as a percentage of total available beds, on a weekly basis. In view of Care UK's strategy in Residential Care gradually to increase its focus on the self-pay market, proportionally fewer beds are expected in future to be covered by block contracts with publicly funded entities. Consequently Care UK expects that physical occupancy rates will be an increasingly important factor affecting Care UK's results of operations going forward.

Occupancy in the group's mature residential care homes, excluding the transferred former Southern Cross homes and the new homes opened in the year ended 30 September 2011 and the year ended 30 September 2012, averaged 92.2 per cent. in the year ended 30 September 2012 compared with 92.4 per cent. in the year ended 30 September 2011. The average mature financial occupancy, measured on the same basis and reflecting the proportion of beds paid for, was 96.2 per cent. in the year ended 30 September 2012 compared with 97.8 per cent. in the year ended 30 September 2011. This measure reflects the beneficial effect of Care UK's block contracted beds and the movement in this ratio results from the gradual change in Care UK's business away from block contracts to greater self-pay. The overall average residential care home physical occupancy rates, including all services, for the years ended 30 September 2011 and 30 September 2012 were 90.3 per cent. and 86.3 per cent., respectively. This measure reflects in particular the transfer in of the 27 former Southern Cross homes. In addition, two new homes were opened in the third quarter of the year ended 30 September 2012 and an existing operational home was acquired in May 2012. One of the former Southern Cross homes was acquired on a freehold basis in February 2012 and was only recommissioned in August 2012. The former Southern Cross homes, excluding the freehold home, had occupancy of approximately 76-77 per cent. at the time of their transfer into Care UK and have been improved over the course of the year ended 30 September 2012 to achieve average occupancy during the fourth quarter of 82.4 per cent.

In Care UK's mental health facilities, the average physical occupancy rates were 80.4 per cent. and 81.4 per cent. for the years ended 30 September 2011 and 30 September 2012 respectively, with the increase reflecting increased occupancy in a number of services, particularly the Rhodes Farm acute eating disorders business acquired in February 2011, offset by reduced occupancy in those homes closed during the year ended 30 September 2012 and the expected lower occupancy during the ramp-up period in the new CCR centre opened in June 2012. The physical occupancy in mature mental health facilities, excluding new, closed and closing facilities, was 87.7 per cent. in the year ended 30 September 2012 compared with 91.1 per cent. in the year ended 30 September 2011.

When new residential care homes or mental health services are built, there is a natural ramp-up period between when they open and the achievement of a sustainable occupancy level as it is necessary to stagger the introduction of new residents into these services in order to ensure the high level of service quality that Care UK typically achieves. This is particularly the case where the new service is targeted at complex or high needs residents. It typically takes 15 to 18 months for newly opened care homes or mental health services to reach their targeted occupancy levels depending on the size and type of service. During the initial part of this period, the level of operating costs, particularly staffing costs, will run ahead of the revenue earned as a percentage of the expected final run rate. As a result, new homes negatively impact operating profit and operating margin until they achieve sufficient occupancy to reach their breakeven point. The occurrence of an occupancy ramp-up period in a new home, the speed at which that ramp-up occurs and the number of new homes that Care UK is developing at any one time all can impact the financial results and operating profit of the business.

Hours of Care Provided and Number of Users of Learning Disability Services

Care UK's results of operations are also affected by the number of hours of care provided to various service user groups in their own homes, predominantly older people and service users with a range of learning disabilities. These services are typically charged on a rate per hour basis. In Community Services, Care UK provided approximately 150,000 and 151,000 hours of care per week as at 30 September 2011 and 30 September 2012 respectively. The change is primarily due to the effect of the additional hours that came from the Housecall acquisition in February 2012 offset by a net reduction in the number of hours provided under Local Authority contracts as a result of public sector bodies reducing the amount of care that they fund to a certain extent. Care UK expects to achieve future growth within this division by tendering for new contracted services, developing a self-pay service proposition and by making selective acquisitions.

In addition to the hours based services provided in service users own homes, Care UK also provides services to a number of learning disabled service users in registered residential units. The number of beds available in such services increased from 47 at 30 September 2011 to 132 at 30 September 2012 following the transfer into Care UK of two former Southern Cross specialist care homes and the acquisition of Whitwood Care Limited in July 2012. The average occupancy in these services was 94.9 per cent. for the year ended 30 September 2012 compared with 86.7 per cent. in the year ended 30 September 2011, the increase reflecting the higher occupancy achieved in the services acquired and transferred in during the year.

Fee Rates

The results of operations of Care UK are also significantly affected by the fee rates it charges for its services.

Fee rates in Care UK's Social Care business generally depend on the nature of the contract and the level of dependency of the service users. People with high dependency needs, such as dementia and related conditions, require more intensive care services and therefore services provided to such individuals generate higher average fees.

In its Residential Care contracts, Care UK's fee rates are typically charged on a weekly basis. Fee rates under contracts with Local Authorities and Primary Care Trusts are generally lower than fee rates charged to self-paying individuals on a spot basis particularly because, where a block contract is involved, the financial risk of an unoccupied bed stays with the publicly funded entity that is commissioning the service.

In contracts for Community Services payment is typically charged on an hourly basis with services in domiciliary care being provided in 15-, 30-, 45-, 60- or 120-minute blocks, and/or overnight rates, or on a time attended basis in accordance with a price schedule. In learning disabilities, a number of the care packages provided to service users are based on care being provided on a 24/7 basis because of the generally higher level of dependency in such service users. In either case, as Care UK is only paid for actual services provided, the majority of Care UK's Community Services employees are similarly paid only for the direct periods of care actually provided to service users. Fees for residential learning disabled service users are typically funded in the same way as for residential care homes, on a weekly basis. In the Mental Health division, Care UK typically operates under spot contracts with Primary Care Trusts, and to a lesser extent Local Authorities, with a small proportion of block contracted beds. Fee rates are also typically agreed on a weekly basis. There are virtually no self-paying individuals in the Mental Health business.

The fee rates Care UK charges for its social care services are generally subject to annual adjustments on 1 April, depending on the nature of the contract. Under block contracts with Local Authorities and Primary Care Trusts, prices are typically adjusted annually based on a mix of inflation measures, either RPI or CPI, and sector specific wage indices. Spot contracts with Local Authorities and Primary Care Trusts are renegotiated annually. Fee rates for self-paying individuals are also adjusted by Care UK on an annual basis, depending primarily on market comparisons and Care UK's capacity and demand in the relevant local market.

Care UK's average weekly fee rates in Residential Care for the years ended 30 September 2011 and 30 September 2012 were £663 and £646, respectively. The change in overall fee rates primarily reflects the impact of the former Southern Cross homes, where average fees are typically around £100 per week below the Care UK average because of the different geography that these homes serve and the generally higher intensity services provided by the pre-existing Care UK services. Average weekly fee rates in the mature pre-existing Care UK portfolio of homes increased from an average of £662 in the year ended 30 September 2011 to an average of £672 in the year ended 30 September 2012, an increase of 1.5 per cent.

Care UK's average per hour fee rates in Community Services are measured separately for the two key service types provided. In domiciliary care, the average rates were £13.19 for both the two years ended 30 September 2011 and 30 September 2012. Within the learning disabilities business, the average rates were £14.28 and £14.70 for the years ended 30 September 2011 and 30 September 2012 respectively. This increase, which amounted to 2.9 per cent., was mainly due to annually negotiated fee increases. Average weekly fee rates in the residential learning disabilities business were £1,427 and £1,458 for the years ended 30 September 2011 and 30 September 2012 respectively. This increase, of 2.2 per cent., reflects the new services acquired and transferred into Care UK during the year ended 30 September 2012, which have higher average fee rates than the pre-existing Care UK business.

Care UK's average weekly fee rates in the Mental Health business were £1,517 and £1,693 for the years ended 30 September 2011 and 30 September 2012 respectively. This increase, of 11.6 per cent., reflects the impact of a full year contribution from the Rhodes Farm acute eating disorders business, which carries higher fee rates than the divisional average, together with the effect of closing mental health homes with lower fee rates than the divisional average.

Health Care

In Health Care, the main drivers affecting results of operations in the periods under review were the impact of the transition of former Wave I ISTCs to the expected post-contract commercial arrangements, the impact of new business and revenue growth in previously won contracts as well as operating expenses, particularly staff costs.

Care UK expects that the main drivers going forward will be Care UK's ability to win new contracts, its continued operation of Wave I ISTC facilities and the management of its operating expenses, particularly staff costs. All of Care UK's former Wave I ISTC facilities have now passed their original contract expiry date and Care UK now operates seven former Wave I centres. The results of operations in future for this part of the Health Care division will depend on the continued retention of these centres, the ability to attract patients and the management of operating costs.

During the year ended 30 September 2011 Care UK won five new general healthcare contracts, which are all now fully operational, and during the year ended 30 September 2012 Care UK won a further two general healthcare contracts with these services having commenced operations in September and October 2012 respectively. These included a GP practice in Newcastle and a significant out of hours service to be operated across Hampshire.

Wave I ISTCs

Care UK currently operates a total of eight ISTCs plus the Greater Manchester Clinical Assessment and Treatment Service ("Manchester CATS"). Seven of these centres were originally established under the Wave I ISTC programme, a major initiative by the Department of Health to create additional capacity within the NHS to reduce waiting times and introduce choice for patients.

The Wave I ISTCs typically operated for a period of approximately five years under their initial contract periods, during which Care UK received guaranteed revenues based on a prescribed mix of procedures and pricing that reflected the market creation nature of these services. All of the initial contract periods for these centres have now expired and the commercial basis for their operation has moved to a "Payment by Results" basis, whereby Care UK is paid at NHS tariff prices for actual procedures undertaken. Consequently, a key factor in the future profitability of these centres will be their ability to attract patients. Care UK now directly markets its services to patients and their GPs in order to increase patient volumes through the ability of patients to choose the hospital in which to have an elective procedure undertaken.

In addition to increasing patient numbers at the ISTCs that it operates in the future, Care UK will continue to actively manage the operating cost base of its Wave I ISTCs.

On expiry of the ISTC Wave I contracts the Department of Health was contractually obligated to buy back the assets built or refurbished by Care UK in connection with the ISTC Wave I contracts, at a guaranteed value. The aggregate buyback proceeds across all Wave I centres amounted to approximately £54.0 million, all of which was received by 31 December 2011.

ISTC Wave II Contracts

The two ISTC Wave II contracts operated by Care UK, in Southampton and Manchester, commenced in 2008 and 2009 respectively and are scheduled to expire in December 2015 and January 2016, respectively. Under these contracts, Care UK has a proportion of its revenue guaranteed. However, that guarantee is structured in a way as to incentivise Care UK to maximise the volume that it provides under each contract. For a further discussion of Care UK's ISTC centres see "Business — Health Care Services — ISTCs".

Effect of Increases in Staff Costs and Other Costs

Care UK's results of operations are significantly affected by cost levels, in particular staff costs. Care UK's staff costs include wages and salaries, social security costs and pension costs. Other operating costs consist primarily of costs relating to medical services and consumables, property services and facilities management costs, utilities, food and other variable expenses and rent. Care UK's total staff costs amounted to £314.7 million in the year ended 30 September 2012, compared to £254.4 million in the year ended 30 September 2011. The average monthly number of employees of Care UK increased from 13,867 in the year ended 30 September 2011 to 15,659 in the year ended 30 September 2012, an increase of 12.9 per cent with this increase being driven mainly by new services opened or acquired during the year, particularly the transfer into Care UK of the 29 former Southern Cross care homes. As a percentage of group revenue, Care UK's total staff costs accounted for 56.4 per cent. and 64.2 per cent. of group revenue respectively in the 2011 and 2012 financial years.

Care UK's operating sites have historically reflected a mix of freehold and leasehold tenure and the level of rent payable on the leasehold interests has not represented a material cost to Care UK. Going forward, Care UK expects that the proportion of leaseholds will increase. During the year ended 30 September 2012 Care UK transferred in 28 leasehold care homes formerly operated by Southern Cross, as well as acquiring another such site on a freehold basis. The lease assignments relating to these transferred homes included substantial reductions to previous rent levels and changes to the annual rent uplift mechanisms. In addition, those former Wave I ISTCs that Care UK continues to operate are leased, which will also lead to higher rent costs in the Health Care division.

Government Policy

In Health Care, Care UK's strategy is predicated upon the increasing involvement of independent sector operators in providing health care services to NHS patients. Care UK has positioned its elective surgery centres to compete for patients making their choice of hospital directly through the Choose and Book system via a competitive market. Other than these centres, further growth in the Health Care division is generated primarily by winning new contracts to provide various services to NHS patients. If the UK Government were to open further areas of health care services, such as operating and managing full service hospitals or the outsourcing of community health services, Care UK's scope for future growth would substantially increase. Likewise, if the UK Government were to reverse the policies promoting either the competitive market or general outsourcing of health care services, Care UK's operations would be likely to be impacted. Following the granting of Royal Assent to the Health & Social Care Act in 2012 ("HSCA"), Care UK is closely monitoring the change in the commissioning of health care services from Primary Care Trusts to the combination of Clinical Commissioning Groups, national and regional NHS Commissioning Boards and Local Area Teams.

As part of the changes engendered by the HSCA the body that has historically regulated NHS Foundation Trusts, Monitor, is being given wider responsibility to act as economic and market regulator for all providers of health care services to the NHS, including independent sector providers. Monitor has published a range of consultation papers setting out proposed terms and conditions for the future licensing of providers across a range of health care services. Care UK is working directly with Monitor, as well as through industry bodies, to provide input into the final structure of these license conditions in order to ensure that they are appropriate and create a fair playing field between different types of provider.

As part of its austerity measures, the current Government has reduced the level of central funding provided generally to Local Authorities. The specific decisions regarding how Local Authorities react to this reduced level of funding are the responsibility of each Local Authority and some Local Authorities have included certain social care services in the cuts in funding that have been implemented. There are further cuts in central funding yet to be implemented by Local Authorities in future fiscal years. Care UK has seen the impact of reduced funding most obviously within the domiciliary care service within the Community Services division, where many Local Authorities have reduced the number of people to whom they will provide funding, the number of hours provided to those individuals that they do continue to fund as well as fee rates for such services. Whilst recent market indications show some signs of this situation stabilising, recognising the highly vulnerable nature of many of the service users to whom such services are provided, Care UK continues to monitor closely the impact of these funding pressures in determining where to focus the provision of services.

IFRIC 12 - "Service Concession Arrangements"

The European Union endorsed IFRIC 12 "Service Concession Arrangements" on 25 March 2009 and this interpretation is mandatory for accounting periods commencing after that date. Care UK applied IFRIC 12 for the first time in connection with its audited consolidated financial statements as of and for the year ended 30 September 2010.

IFRIC 12 applies to public-to-private service concession arrangements in which the public sector controls or regulates the service provided with the infrastructure and their prices, and is contractually guaranteed to, at a future time, gain ownership of the infrastructure through which the service is provided.

At the time of its original implementation, Care UK identified a number of existing contractual arrangements in its Health Care and Residential Care divisions to which IFRIC 12 was applicable. IFRIC 12 applied both to the majority of Care UK's ISTC Wave I contracts in the Health Care division, which have now all expired, as well as to certain "PFI Handback" contracts in the Residential Care division, where ownership of the property reverts to the Local Authority upon expiry of the service contracts. Care UK has not entered into any contract to which IFRIC 12 applies since the ISTC Wave

I contracts entered into in 2004 and 2005, and does not currently anticipate any such contract being entered into in the future. As a consequence the differences between Care UK's results reported prior to the application of IFRIC 12 and its fully IFRS compliant results are expected to be lesser in extent in future years than has been the case in the three financial years ended 30 September 2010, 30 September 2011 and 30 September 2012. In addition, such differences are expected to reduce over time insofar as they relate to the remaining PFI Handback contracts within the Residential Care division.

Prior to the adoption of IFRIC 12, Care UK accounted for service concession arrangements as follows:

- infrastructure constructed or upgraded was capitalised as property, plant and equipment; and
- all contract derived revenue was recognised over the life of the service concession arrangement at the point when care services were performed in accordance with Care UK's accounting policy for revenue recognition.

Following the adoption of IFRIC 12, Care UK accounts for service concessions as follows:

- revenue and operating profit are separately recognised during the construction and operational phases of the service concession arrangement; and
- consideration receivable that relates to the construction phase of a contract is recognised as:
    - a financial asset in the balance sheet – where Care UK has an unconditional right to receive a specified amount of cash over the life of the arrangement; or
    - an intangible asset – where Care UK's future cash flows are not specified (e.g. where they will vary according to the usage of the infrastructure asset); or
    - both a financial asset and an intangible asset.

There is no impact on cash or total profit that will ultimately be recognised throughout the life of the service concession arrangement. However, IFRIC 12 has an impact on Care UK's reported revenue and EBITDA because a proportion of the overall revenue to be earned under the contract is recognised as revenue during the construction phase of the underlying asset rather than being recognised as the contracted services are delivered. The corresponding right to receive cash in the future in relation to this proportion of the total contract revenue is accounted for on Care UK's balance sheet as a financial asset, which is recovered in cash over the period of the concession arrangement. Prior to the adoption of IFRIC 12, this amount formed part of the balance sheet heading of property, plant and equipment and was depreciated on a periodic basis through the Consolidated statement of comprehensive performance. In addition, a further proportion of the overall revenue to be earned from contracts to which IFRIC 12 applies is accounted for as financial income and not as revenue. Any capital expenditure incurred in relation to infrastructure assets that are accounted for under IFRIC 12 is now charged to cost of sales in the Consolidated statement of comprehensive performance in the year it is incurred. Prior to the adoption of IFRIC 12, such expenditure was capitalised and depreciated over its estimated useful life.

In addition to the audited consolidated financial statements that are presented in this Annual report, unaudited pro-forma supplementary condensed consolidated financial statements are also presented, which show financial information without giving effect to the provisions of IFRIC 12. This financial information has been subject to review by Care UK's independent auditor.

Key Line Items in the Consolidated Statement of Comprehensive Performance

The following is a brief description of the most significant line items that are included in the Consolidated statement of comprehensive performance.

Revenue

Revenue represents the fair value of sales and services to third party customers, stated net of any applicable value added tax, rebates and discounts. Following the application of IFRIC 12, a proportion of the overall revenue to be earned from contracts to which IFRIC 12 applies is now accounted for as financial income and not as revenue. See "— Significant Factors Affecting Care UK's Results of Operations — IFRIC 12 'Service Concession Arrangements'" for further information regarding IFRIC 12 and its impact on Care UK's financial statements. Revenue from services provided by the various businesses within the Care UK group is recognised as follows:

Social Care: Revenue from long-term contracts relating to residential based services is recognised on a time-elapsed basis as the principal contractual obligation is to provide bed capacity. Units of care under these contracts are typically provided on a daily basis and there is no obligation to carry forward any non-utilised capacity.

Revenue from spot contracts relating to residential based services is recognised when Care UK's principal contractual obligation is fulfilled, that is typically when a service user has received care services from Care UK, which are usually provided on a daily basis.

Revenue from services delivered in community based settings, including domiciliary care and supported living services to learning disabled service users, is recognised on the actual delivery of care services. Revenue attributable to any unused capacity under "block" contracts relating to such services, where Care UK is able to submit invoices for contracted services that have not actually been provided, is only recognised when the recovery of income is considered virtually certain.

Health Care: Revenue from capacity related contracts is recognised on a time-elapsed basis as the principal contractual obligation is to provide an agreed level of capacity over a fixed term. There is no obligation under these contracts to carry forward non-utilised capacity.

Revenue from service related contracts (where these do not fall under IFRIC 12) is recognised only on the delivery of services, either surgical procedures or other treatments, under contractual obligations that are intended to provide a pre-determined volume of services over a fixed term. Revenue attributable to unused capacity is only recognised when recovery of income is considered virtually certain.

Cost of sales

Cost of sales comprises the direct operating expenses incurred in the delivery of services in each of Care UK's operating divisions, in particular direct staff costs, medical consumables and prostheses, property services and facilities management costs, utilities, food and other variable care related expenses and rent.

Administrative expenses

Administrative expenses include all operating expenses that are not directly attributable to the actual delivery of Care UK's services, principally central staff costs, employee support costs, premises costs, legal and professional costs and marketing and development costs. In addition, this expense heading includes the amortisation of intangible assets and any impairment charges and/or non-recurring items.

Adjusted operating profit

Adjusted operating profit is a non-standard IFRS performance measure and is defined as operating profit before financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items.

Care UK believes that adjusted operating profit provides additional useful information on the underlying performance of the business. This measure is consistent with how business performance is monitored internally. Adjusted operating profit is not a recognised profit measure under adopted IFRS and may not be directly comparable with "adjusted" profit measures used by other companies.

Amortisation of intangible assets: Intangible assets comprise the value attributed to ongoing customer relationships or customer contracts within acquired businesses. Under IFRS 3, all business combinations are reviewed in order to identify any intangible assets required to be recognised. Such intangible assets are then amortised over their estimated useful lives, which do not exceed ten years.

Impairment charges: Impairment charges reflect impairment losses of goodwill, other intangible assets and tangible assets and are recognised whenever the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount.

Financing expenses

Financing expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and gains and losses, if any, on hedging instruments that are recognised in the Consolidated statement of comprehensive performance. In addition, in the IFRS compliant financial statements, a proportion of the overall revenue to be earned from contracts to which IFRIC 12 applies is accounted for as financial income and not as revenue.

Results of Operations for the Years Ended 30 September 2011 and 30 September 2012

The following table sets out the key line items from the Consolidated statement of comprehensive performance for the years ended 30 September 2011 and 30 September 2012. The figures shown as Adjusted for IFRIC 12 are audited figures; those shown as Excluding IFRIC 12 have been reviewed by the group's independent auditor but are not classed as audited.

Consolidated statement of comprehensive performance	**Year ended 30 September**			
	(Audited) Adjusted for IFRIC 12		**(Unaudited) Excluding IFRIC 12**	
	2011 £m	**2012 £m**	**2011 £m**	**2012 £m**
Revenue	445.7	487.5	450.7	490.3
Cost of sales	(375.9)	(412.6)	(380.2)	(415.5)
Gross profit	**69.8**	**74.9**	**70.5**	**74.8**
Administrative expenses	(76.9)	(64.4)	(76.1)	(64.0)
Operating (loss)/profit before financing expenses	**(7.1)**	**10.5**	**(5.6)**	**10.8**
Adjusted EBITDA	45.4	49.3	52.2	52.6
Depreciation of tangible assets	(17.2)	(17.4)	(23.1)	(20.8)
Adjusted operating profit	28.2	31.9	29.1	31.8
Amortisation of intangible assets	(25.1)	(17.2)	(24.5)	(16.8)
Impairment of tangible assets	(3.2)	-	(3.2)	-
Non-recurring items	(7.0)	(4.2)	(7.0)	(4.2)
Operating (loss)/profit before financing expenses	(7.1)	10.5	(5.6)	10.8
Financial income	2.1	3.6	0.3	2.5
Financial expenses	(27.7)	(29.3)	(27.7)	(29.3)
Financing expenses	**(25.6)**	**(25.7)**	**(27.4)**	**(26.8)**
Loss before taxation	**(32.7)**	**(15.2)**	**(33.0)**	**(16.0)**
Taxation	9.5	11.7	10.0	11.9
Loss for the period	**(23.2)**	**(3.5)**	**(23.0)**	**(4.1)**

Year ended 30 September 2012 compared to the year ended 30 September 2011 – excluding IFRIC 12

The comparisons presented within this section of the Management discussion and analysis use the financial information presented before giving effect to the provisions of IFRIC 12.

Revenue

Revenue increased by 8.8 per cent., or £39.6 million, from £450.7 million for the year ended 30 September 2011 to £490.3 million for the year ended 30 September 2012. This increase was primarily attributable to a 37.4 per cent. increase in revenue in the Residential Care division, reflecting the addition of over 1,850 beds during the year through new, transferred and acquired services, partly offset by small expected decreases in the revenue from the Health Care and Mental Health divisions.

The following table shows a breakdown of revenue by segment for each of the periods reported, in absolute numbers and as a percentage of group revenue.

Revenue	**For the year ended 30 September**				
	2011		**2012**		**% Change**
	(£ in millions, except %)		**(£ in millions, except %)**		
Residential Care	122.6	27.2%	168.4	34.4%	37.4%
Community Services	111.2	24.7%	112.9	23.0%	1.5%
Health Care	193.6	43.0%	189.7	38.7%	(2.0)%
Mental Health (1)	19.9	4.4%	19.3	3.9%	(3.0)%
Discontinued activities (1)	3.4	0.7%	-	-	N/A
Total	**450.7**	**100.0%**	**490.3**	**100.0%**	**8.8%**

(1) Reported under Other in the segmental analyses in the financial statements on pages F-2 to F-61

Revenue for the Residential Care division increased by 37.4 per cent., or £45.8 million, from £122.6 million for the year ended 30 September 2011 to £168.4 million for the year ended 30 September 2012, due to growth resulting from the former Southern Cross care homes transferred into Care UK during the year as well as the opening and acquisition of new homes during the year ended 30 September 2012 and the maturing of new homes opened during the year ended 30 September 2011. In addition, organic growth in existing services was achieved from increased fee rates.

The total number of beds at the end of the financial year, excluding day care places, was over 5,500 compared with more than 3,650 at the beginning of the year. This increase in capacity, of more than 1,850 beds, was generated by the transfer into Care UK of 27 former Southern Cross homes with more than 1,700 beds, the opening of two new homes, the acquisition of one further home and the closure of one small home. The two new build homes opened during the year were in Halstead in Essex and East Grinstead in West Sussex, with a combined total of 140 beds. Following the opening of the home in Halstead, an existing, smaller home was closed in the same area. A home near Brightlingsea in Essex, with 64 beds, was acquired on a leasehold basis in May 2012. These homes are focused on providing a range of services, including residential and nursing dementia care. At the end of the financial year a total of 39.5 per cent. of beds were operated under block contracts compared with 63.0 per cent. as at 30 September 2011. This aspect of Care UK's residential care business is considered to provide a clear competitive advantage to most other providers in the residential care market, who do not have the necessary capabilities to compete for such block contracts.

Fee rates in the financial year ended 30 September 2012 averaged £646 per week compared with £663 per week in the previous financial year, a decrease of 2.6 per cent. The change in average weekly fee rate reflects the effect of the former Southern Cross homes that were transferred into Care UK during the year ended 30 September 2012 as these homes typically attract average fee rates approximately £100 per week lower than the average for the pre-existing Care UK portfolio, mostly as a result of the different geographic areas that these homes serve. The underlying fee rates in the pre-existing Care UK portfolio of homes averaged approximately £672 per week in the year ended 30 September 2012, an increase of 1.5 per cent. This increase reflects the effect of an increased RPI index level compared with the previous year, benefiting block contract fee rates, and increases in self-pay fee rates partly offset by the mix effect from new services commenced during the year ended 30 September 2011, particularly the three homes operated under a long term contract with the London Borough of Croydon. The level of physical occupancy achieved, excluding the new homes opened or transferred in during the years ended 30 September 2011 and 30 September 2012, was 92.2 per cent. compared with 92.4 per cent. in the year ended 30 September 2011. Total physical occupancy, including all homes, was 86.3 per cent. in the year ended 30 September 2012 compared with 90.3 per cent. in the year ended 30 September 2011. This reduction was expected as a result of the former Southern Cross homes that were transferred in during the year ended 30 September 2012 as these homes had occupancy of approximately 76-77 per cent. at the time of transfer. The level of occupancy in these homes has been improved during the course of the year ended 30 September

2012 with average occupancy of 82.4 per cent. being achieved for the homes in the fourth quarter of the year ended 30 September 2012.

Revenue for the Community Services division increased by 1.5 per cent., or £1.7 million, from £111.2 million for the year ended 30 September 2011 to £112.9 million for the year ended 30 September 2012. The two acquisitions that were completed during the year ended 30 September 2012 contributed aggregate revenue in the year of £5.1 million and the two former Southern Cross residential learning disabilities homes transferred into the division during the year contributed revenue of £1.7 million. Offsetting these increases in revenue were the impacts of the pressure on both price and volumes within the domiciliary care segment of this division, which continued to see Local Authority commissioners seeking to ensure that the support that they fund is focused only on more dependent service users, and also to seek reductions in fee rates where possible. These pressures have been much less evident within the learning disabilities segment of the Community Services division due to the more acute needs of the service users to whom these services are provided.

The total number of hours delivered per week within the Community Services division averaged approximately 150,000 throughout the year, compared with an average of 153,000 in the year ended 30 September 2011 and at the period end the average weekly hours of care delivered were 151,000 compared with 150,000 as at 30 September 2011. Average fee rates in the Community Services division for domiciliary care for the year ended 30 September 2012 were unchanged at £13.19 per hour compared with the year ended 30 September 2011. Average fee rates for the learning disabilities business were £14.70 per hour for the year ended 30 September 2012 compared with £14.28 per hour for the year ended 30 September 2011, an increase of 2.9 per cent. This increase mostly reflects the mix impact of new services and the negotiation of fee rate increases.

Revenue for the Health Care division decreased by 2.0 per cent., or £3.9 million, from £193.6 million for the year ended 30 September 2011 to £189.7 million for the year ended 30 September 2012. This decrease in revenue reflects the final stages of the transition of the group's Wave I ISTCs to their expected post contract basis, with two of the group's former Wave I ISTCs, in Maidstone and Sussex, having been absorbed by the NHS during the year. The group now operates seven former Wave I ISTCs. Offsetting this, revenue growth was achieved from a full year contribution of the five new services that commenced during the year ended 30 September 2011. In addition, further revenue growth was achieved from the two ISTC Wave II contracts in Southampton and Manchester.

Revenue for the Mental Health division, which is reported within the Other segment within the group's segmental reporting, decreased by 3.0 per cent., or £0.6 million, from £19.9 million for the year ended 30 September 2011 to £19.3 million for the year ended 30 September 2012. This expected decrease in revenue was due to the planned closure of a number of under-performing mental health homes offset by revenue growth achieved from the Rhodes Farm acute eating disorders business acquired in February 2011 and fee rate increases.

Revenue for discontinued activities, comprising the group's former children's services business, decreased from £3.4 million for the year ended 30 September 2011 to £nil for the year ended 30 September 2012. The group fully disposed of this business in February 2011.

Cost of Sales

Care UK's cost of sales increased by 9.3 per cent., or £35.3 million, from £380.2 million for the year ended 30 September 2011 to £415.5 million for the year ended 30 September 2012. Measured as a percentage of revenue, cost of sales increased from 84.4 per cent. for the year ended 30 September 2011 to 84.7 per cent. for the year ended 30 September 2012. The increase in cost of sales predominantly reflects the increase in the overall level of services provided by Care UK.

Administrative Expenses

Care UK's administrative expenses decreased by 15.9 per cent., or £12.1 million, from £76.1 million for the year ended 30 September 2011 to £64.0 million for the year ended 30 September 2012. This decrease in administrative expenses mainly reflects the reduction in the amortisation charge for intangible assets, the reduction in the charge for non-recurring items and there being no impairment charge for tangible assets. For the year ended 30 September 2012 the aggregate charge for these three items amounted to £21.0 million compared with £34.7 million for the year ended 30

September 2011, a reduction of £13.7 million. The reduction of £7.7 million in the amortisation charge, from £24.5 million for the year ended 30 September 2011 to £16.8 million for the year ended 30 September 2012, results from the amortisation profile adopted for the intangible assets that were recognised on the acquisition of Care UK Limited in 2010. The reduction of £3.2 million in impairment charges, from £3.2 million for the year ended 30 September 2011 to £nil for the year ended 30 September 2012, reflects there being no write down of tangible assets being required for the year ended 30 September 2012 whereas a charge was required for the year ended 30 September 2011 for a mental health home that was closed during that year. The reduction of £2.8 million in non-recurring charges, from £7.0 million for the year ended 30 September 2011 to £4.2 million for the year ended 30 September 2012 reflects a number of items and is explained further below. Excluding amortisation, impairment charges and non-recurring items, underlying administrative expenses increased by £1.6 million from £41.4 million for the year ended 30 September 2011 to £43.0 million for the year ended 30 September 2012, an increase of 3.9 per cent. Measured as a percentage of revenue, underlying administrative expenses decreased from 9.2 per cent. for the year ended 30 September 2011 to 8.8 per cent. for the year ended 30 September 2012. The absolute increase in underlying administrative expenses reflects the overall growth in the level of services delivered by Care UK whilst the reduction when measured as a percentage of revenue reflects the overall scale benefit from the increasing size of the group.

Operating Profit before Financing Expenses

Care UK's operating profit before financing expenses increased by £16.4 million, from a loss of £5.6 million for the year ended 30 September 2011 to £10.8 million for the year ended 30 September 2012, primarily due to the material reduction in amortisation, impairment and non-recurring charges, which accounted for £13.7 million of the improvement. The balance was driven by the growth in the group's services, particularly the transfer into Care UK of the former Southern Cross care homes, organic growth in the group's core businesses and the acquisitions made during the year in the Community Services division.

The following table shows a breakdown of operating profit before financing expenses by division for each of the periods indicated, in absolute numbers and as a percentage of Care UK's operating profit before financing expenses. The Other category within all of the segmental profit information provided within this Management discussion & analysis comprises the Mental Health division, the group's central costs and, for the year ended 30 September 2011 only, the group's former children's services business that was disposed of in February 2011.

Operating profit before financing expenses	**For the year ended 30 September**				
	2011		**2012**		**% Change**
	(£ in millions, except %)		**(£ in millions, except %)**		
Residential Care	5.2	n/a	13.5	125.0%	159.6%
Community Services	(1.7)	n/a	0.3	2.8%	n/a
Health Care	(3.6)	n/a	2.7	25.0%	n/a
Other	(5.5)	n/a	(5.7)	n/a	n/a
Total	**(5.6)**		**10.8**		n/a

Operating profit for Care UK's Residential Care division increased by 159.6 per cent., or £8.3 million, from £5.2 million for the year ended 30 September 2011 to £13.5 million for the year ended 30 September 2012. This increase was due to the contribution from the former Southern Cross homes transferred into the division during the year ended 30 September 2012, organic growth in the pre-existing Care UK portfolio of homes and a reduction of £4.1 million in the non-recurring items recorded in this division. In the year ended 30 September 2012 a non-recurring charge of £2.7 million was incurred in relation to the integration of the former Southern Cross homes transferred into the division. In the year ended 30 September 2011 there were two non-recurring items recorded – an asset disposal gain of £0.7 million and a contract change cost of £7.5 million – amounting to a net charge of £6.8 million.

Operating profit for Care UK's Community Services division increased by £2.0 million, from a loss of £1.7 million for the year ended 30 September 2011 to a profit of £0.3 million for the year ended 30 September 2012. This increase was due to the contribution from the two business acquired during the year ended 30 September 2012, a reduction in non-recurring charges of £2.2 million and a reduction in the charge for amortisation of intangible assets of £0.6 million, more than offsetting the impact of external funding pressures on the volume of domiciliary care hours provided. No non-recurring charges were incurred in the Community Services division in the year ended 30 September 2012; in the year ended 30 September 2011 a charge of £2.2 million was incurred relating to contract change costs. The trading contribution of the Community Services division benefited from the two former Southern Cross residential learning disabilities homes transferred into the division during the year as well as the two acquisitions made during the year ended 30 September 2012. This increase in operating profit was offset by the effects referred to above in relation to public sector funding for domiciliary care.

Operating profit for Care UK's Health Care division increased by £6.3 million, from a loss of £3.6 million for the year ended 30 September 2011 to a profit of £2.7 million for the year ended 30 September 2012. This increase in operating profit resulted from a reduction in the charge for amortisation of intangible assets of £7.1 million and an increase of £0.6 million resulting from the change in non-recurring items, offsetting a reduction in the trading contribution of the Health Care division of £0.7 million. The charge for amortisation of intangible assets reduced from £12.5 million for the year ended 30 September 2011 to £5.4 million for the year ended 30 September 2012. This reduction resulted from the amortisation profile adopted in relation to the intangible assets created on the acquisition of Care UK Limited in 2010, which was linked in particular to the contract periods for the former Wave I ISTCs. Non-recurring items changed from a charge of £0.3 million for the year ended 30 September 2011 to a gain of £0.3 million for the year ended 30 September 2012. The charge in the year ended 30 September 2011 comprised a charge of £1.9 million in respect of contract change costs offset by property disposal gains and insurance recoveries amounting to £1.6 million in total. The gain of £0.3 million for the year ended 30 September 2012 resulted mostly from the writing back of contingent acquisition consideration that did not become payable in relation to an acquisition made during the year ended 30 September 2011. The trading contribution within the Health Care division decreased during the year by £0.7 million with an increase in the operating profit from both the two Wave II ISTCs as well as organic growth in other existing services and a contribution from new services commenced during the year ended 30 September 2011; these increases in operating profit were offset by the effects of the final transition of the Wave I ISTCs from their previous contractual basis to their expected ongoing commercial basis. All of the group's former Wave I contracts have now expired and Care UK now operates seven former Wave I ISTCs on a "Payment by Results" basis with pricing at NHS tariff.

Operating profit for Care UK's Other segment decreased by £0.2 million from a loss of £5.5 million for the year ended 30 September 2011 to a loss of £5.7 million for the year ended 30 September 2012. The Other classification includes the Mental Health division, the group's central costs and, for the year ended 30 September 2011 only, the group's former children's services business that was fully disposed of in February 2011. The reduction in operating profit is attributable to an increase of £4.1 million in non-recurring charges, offset by a reduction in impairment charges of £3.2 million and other movements amounting to an increase in operating profit of £0.7 million in total. Non-recurring items amounted to a charge of £1.8 million in the year ended 30 September 2012 compared with a gain of £2.3 million in the year ended 30 September 2011. The charge in the year ended 30 September 2012 includes £0.8 million in relation to the transfer into Care UK of the former Southern Cross care homes, £0.8 million of abortive transaction costs in relation to a potential acquisition reviewed by Care UK earlier in the year but not completed and £0.2 million for additional contingent consideration paid by the Mental Health business for the Rhodes Farm business acquired in February 2011, where performance has exceeded the original projections that underpinned the amount initially provided for the payment of contingent consideration. The gain of £2.3 million in the year ended 30 September 2011 included a gain of £1.7 million arising on the disposal of the group's former children's services business, a gain of £1.3 million arising from the writing back of acquisition contingent consideration not payable in relation to a 2008 acquisition and a non-cash writedown of £0.7 million on certain assets held for resale. An impairment charge for tangible assets of £3.2 million was recorded in the year ended 30 September 2011 relating to a mental health home that was closed during that year. No impairment charges have been recorded in the year ended 30 September 2012.

The operating profit contribution from the Mental Health business increased in the year ended 30 September 2012 compared with the year ended 30 September 2011 as a result of the increased contribution from the Rhodes Farm acute eating disorders business acquired in February 2011 more than offsetting the decrease arising from the closure of certain underperforming mental health homes. The group's central costs also increased in the year ended 30 September 2012 compared with the year ended 30 September 2011 due to the growth in scale and breadth of the group's activities. The year ended 30 September 2011 included an operating loss of £0.3 million from the former children's services business prior to its final disposal in February 2011.

Adjusted Operating Profit

Care UK's Adjusted operating profit increased by 9.3 per cent., or £2.7 million, from £29.1 million for the year ended 30 September 2011 to £31.8 million for the year ended 30 September 2012. This increase in Adjusted operating profit essentially reflects the factors discussed above, excluding the non-cash amortisation and impairment charges and the non-recurring items discussed further below.

The following table presents a reconciliation of Adjusted operating profit to Operating profit before financing expenses for the two financial years ended 30 September 2011 and 30 September 2012.

Adjusted operating profit	**For the year ended 30 September**	
	2011	**2012**
	(£ in millions)	
Operating (loss)/profit before financing expenses	**(5.6)**	**10.8**
Amortisation of intangible assets	24.5	16.8
Impairment of tangible assets	3.2	-
Non-recurring items	7.0	4.2
Adjusted operating profit	**29.1**	**31.8**

The non-cash amortisation charge for the year ended 30 September 2012 amounted to £16.8 million, compared to £24.5 million in the year ended 30 September 2011. This reduction, of £7.7 million, reflects the amortisation profile adopted in relation to the intangible assets recognised on the acquisition of Care UK Limited in 2010, particularly in relation to the intangible assets recognised in relation to the group's former Wave I ISTC contracts.

There was no impairment charge recorded in the year ended 30 September 2012. The impairment charge of £3.2 million for the year ended 30 September 2011 resulted from the closure of a mental health home and the subsequent writing down of the value of this tangible asset to its estimated recoverable value.

Non-recurring items in the year ended 30 September 2012 amounted to a charge of £4.2 million in aggregate. The non-recurring charges in the year ended 30 September 2011 amounted to £7.0 million in aggregate. The key elements of the charges for both years are set out below.

Non-recurring items	**For the year ended 30 September**	
	2011	**2012**
	(£ in millions)	
Transfer and integration of former Southern Cross care homes	-	(3.5)
Acquisition & disposal related gains and losses	3.0	(0.7)
Contract change costs	(11.0)	-
Property related gains and losses	1.6	-
Integration and restructuring costs	(0.6)	-
Total	**(7.0)**	**(4.2)**

Transfer and integration of former Southern Cross care homes. During the year ended 30 September 2012 Care UK transferred in 29 care homes formerly operated by Southern Cross, 27 being transferred into the Residential Care division and two into the Community Services division. Total transaction and integration costs of £3.5 million were incurred in relation to the transfer of these homes and their subsequent integration into the Care UK group.

Acquisition and disposal related gains and losses. In the year ended 30 September 2012 the group settled contingent consideration amounts due in relation to two acquisitions made in 2011, resulting in a net gain of £0.3 million. A charge of £0.8 million was incurred in relation to an abortive acquisition reviewed by Care UK earlier in the year but not completed and a charge of £0.2 million arose on the disposal of a property. In the year ended 30 September 2011, the group agreed a settlement of contingent consideration for an acquisition made in 2008 that resulted in a gain of £1.3 million. In addition, a gain of £1.7 million was recorded in relation to the disposal of the former children's services business.

Contract change costs. During the year ended 30 September 2011 Care UK commenced the delivery of services on three outsourced contracts, including two offender health contracts and a joint residential care and community services contract that required significant restructuring in order to achieve the expected returns. An aggregate charge of £11.0 million was incurred during the year between the Residential Care, Community Services and Heath Care divisions in respect of these changes to service delivery.

Property related gains and losses. The buyback of Wave I ISTCs by the NHS resulted in an accounting gain on disposal of certain of these assets in the year ended 30 September 2011. In addition, in the year ended 30 September 2011, the group recovered insurance proceeds in respect of costs previously incurred at one of its ISTCs. These items amounted to a gain of £1.6 million, reported in the Health Care division. The Residential Care division also disposed of a surplus site during the year, which resulted in a gain of £0.7 million. A write down of the book value of certain mental health homes that are expected to be disposed of was also made during the year, amounting to £0.7 million.

Integration and restructuring charges. During the year ended 30 September 2011 the group merged the formerly separate Community Care and Learning Disabilities businesses to form the Community Services division, resulting in integration and restructuring charges of £0.6 million, reported within the Community Services segmental result.

The following table shows a breakdown of Adjusted operating profit by division in each of the periods indicated, in absolute numbers and as a percentage of Care UK's Adjusted operating profit.

Adjusted operating profit	**For the year ended 30 September**				
	2011		**2012**		**% Change**
	(£ in millions, except %)		**(£ in millions, except %)**		
Residential Care	18.1	62.2%	22.3	70.1%	23.2%
Community Services	6.4	22.0%	5.6	17.6%	(12.5%)
Health Care	9.2	31.6%	7.8	24.5%	(15.2%)
Other	(4.6)	(15.8%)	(3.9)	(12.2%)	15.2%
Total	**29.1**		**31.8**		**9.3%**

Adjusted operating profit for Care UK's Residential Care division increased by 23.2 per cent., or £4.2 million, from £18.1 million for the year ended 30 September 2011 to £22.3 million for the year ended 30 September 2012. This increase in Adjusted operating profit was due to the same factors as drove the growth in operating profit other than the reduction of £4.1 million in the charge for non-recurring items.

Adjusted operating profit for Care UK's Community Services division reduced by 12.5 per cent., or £0.8 million, from £6.4 million for the year ended 30 September 2011 to £5.6 million for the year ended 30 September 2012. This outcome was driven by the same factors as for Operating profit, other than the reduction of £0.6 million in the charge for amortisation of intangible assets and the reduction in non-recurring charges of £2.2 million.

Adjusted operating profit for Care UK's Health Care division decreased by 15.2 per cent., or £1.4 million, from £9.2 million for the year ended 30 September 2011 to £7.8 million for the year ended 30 September 2012. This decrease reflects the same factors as for operating profit other than the reduction in the charge for amortisation of intangible assets of £7.1 million and the change in non-recurring items of £0.6 million.

Adjusted operating profit for Care UK's Other segment, comprising the Mental Health division, the group's central costs and, for the year ended 30 September 2011 only, the group's former children's services business, increased by £0.7 million from a loss of £4.6 million for the year ended 30 September 2011 to a loss of £3.9 million for the year ended 30 September 2012. This change was driven by the same factors as for operating profit other than the change in the aggregate amount for non-recurring items and impairment charges, which moved from an aggregate charge of £0.9 million for the year ended 30 September 2011 to an aggregate charge of £1.8 million for the year ended 30 September 2012.

Adjusted EBITDA

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation and before giving effect to the application of IFRIC 12. Care UK presents Adjusted EBITDA because it believes, when considered in conjunction with related IFRS financial measures, Adjusted EBITDA provides investors with important additional information to evaluate operating performance. Adjusted EBITDA is not a measure of financial performance under IFRS, has not been audited and should not be considered an alternative to, or more meaningful than, net income as a measure of operating performance. Adjusted EBITDA is materially the same as, but not exactly equivalent to, the definition of "Consolidated EBITDA" for the purposes of the covenants under the Senior Secured Notes.

The table below provides a reconciliation of Adjusted operating profit to Adjusted EBITDA.

Adjusted EBITDA	**For the year ended 30 September**	
	2011	**2012**
	(£ in millions)	
Adjusted operating profit	**29.1**	**31.8**
Depreciation	23.1	20.8
Adjusted EBITDA	**52.2**	**52.6**

Care UK's Adjusted EBITDA increased by 0.8 per cent., or £0.4 million, from £52.2 million for the year ended 30 September 2011 to £52.6 million for the year ended 30 September 2012. The increase in Adjusted EBITDA was driven by the factors discussed above in relation to Operating profit and Adjusted operating profit as well as a reduction in the depreciation charge in the year ended 30 September 2012 compared with the year ended 30 September 2011 of £2.3 million.

The table below shows a breakdown of Adjusted EBITDA by division in each of the periods indicated, in absolute numbers and as a percentage of Care UK's Adjusted EBITDA.

Segmental Adjusted EBITDA	**For the year ended 30 September**				
	2011		**2012**		**% Change**
	(£ in millions, except %)		**(£ in millions, except %)**		
Residential Care	26.0	49.8%	30.9	58.7%	18.8%
Community Services	6.9	13.2%	7.0	13.3%	1.4%
Health Care	20.5	39.3%	16.0	30.4%	(22.0%)
Other	(1.2)	(2.3%)	(1.3)	(2.4%)	8.3%
Total	**52.2**		**52.6**		**0.8%**

Financing Expenses

Care UK's financing expenses decreased by 2.2 per cent., or £0.6 million, from £27.4 million for the year ended 30 September 2011 to £26.8 million for the year ended 30 September 2012. Financing expenses mostly comprise interest payable on the group's Senior Secured Notes as well as interest and commitment fees payable on the group's Revolving Credit Facility. There has been no material change in the group's financing expenses between the years ended 30 September 2011 and

30 September 2012.

Taxation

Care UK's taxation credit increased from £10.0 million for the year ended 30 September 2011 to £11.9 million for the year ended 30 September 2012.

The reported results for Care UK, before taxation, were a loss of £33.0 million for the year ended 30 September 2011 and a loss of £16.0 million for the year ended 30 September 2012. The tax rate that results from applying the reported taxation credits to these reported figures is subject to distortion resulting from the impairment and non-recurring charges recognised in both financial years. Care UK's underlying tax rate is higher than the current statutory tax rate of 24 per cent., mainly as a result of the proportion of Care UK's capital expenditure that is non-qualifying for tax purposes.

Loss for the Period

As a result of the factors discussed above, Care UK's loss for the period decreased from a loss of £23.0 million for the year ended 30 September 2011 to a loss of £4.1 million for the year ended 30 September 2012.

Year ended 30 September 2012 compared to the year ended 30 September 2011 – IFRS compliant basis

The comparisons presented within this section of the Management discussion and analysis use financial information presented on an IFRS compliant basis, including the effects of applying the provisions of IFRIC 12. For further information on the impact of IFRIC 12, see "Presentation of Financial Information – Financial Statements – IFRIC 12 – Service Concession Arrangements".

The table below shows the effects of IFRIC 12 on the Consolidated statement of comprehensive performance.

Consolidated statement of comprehensive performance	**Year ended 30 September 2012**		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Revenue	490.3	(2.8)	487.5
Cost of sales	(415.5)	2.9	(412.6)
Gross profit	**74.8**	**0.1**	**74.9**
Administrative expenses	(64.0)	(0.4)	(64.4)
Operating profit/(loss) before financing expenses	**10.8**	**(0.3)**	10.5
Adjusted EBITDA	52.6	(3.3)	49.3
Depreciation of tangible assets	(20.8)	3.4	(17.4)
Adjusted operating profit	31.8	0.1	31.9
Amortisation of intangible assets	(16.8)	(0.4)	(17.2)
Non-recurring items	(4.2)	-	(4.2)
Operating profit/(loss) before financing expenses	10.8	(0.3)	10.5
Financial income	2.5	1.1	3.6
Financial expenses	(29.3)	-	(29.3)
Financing expenses	**(26.8)**	**1.1**	**(25.7)**
(Loss)/profit before taxation	**(16.0)**	**0.8**	**(15.2)**
Taxation	11.9	(0.2)	11.7
(Loss)/profit for the period	**(4.1)**	**0.6**	**(3.5)**

The application of IFRIC 12 does not change the overall profit or loss recorded on a contract accounted for in accordance with its provisions. However, both the disposition of income and operating costs change within the Consolidated statement of comprehensive performance and the timing of recognition of both revenue and profit also changes. The net effect of these changes in the year ended 30 September 2012 is to decrease the loss for the period by £0.6 million.

The table below shows the effects of IFRIC 12 on the Consolidated balance sheet.

Consolidated balance sheets - extract	**As at 30 September 2012**		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Property, plant and equipment	284.8	(32.7)	252.1
Intangible assets	161.3	9.4	170.7
Other financial assets	-	23.2	23.2
Total non-current assets	454.9	(0.1)	454.8
Other financial assets	-	1.0	1.0
Total current assets	95.1	1.0	96.1
Trade and other payables	(92.4)	(9.8)	(102.2)
Total current liabilities	(93.7)	(9.8)	(103.5)
Deferred tax liabilities	(25.2)	1.9	(23.3)
Total non-current liabilities	(285.9)	1.9	(284.0)
Net assets	**170.4**	**(7.0)**	**163.4**

The principal effect of IFRIC 12 on the group's Consolidated balance sheets is to de-recognise amounts formerly accounted for as Property, plant and equipment and to recognise amounts as either Intangible assets or Other financial assets. The net impact on the Consolidated balance sheet reflects the aggregate timing differences regarding the recognition of profits or losses on IFRIC 12 related contracts.

The table below shows the effects of IFRIC 12 on the Consolidated cash flow statement.

Consolidated cash flow statement - extract	**Year ended 30 September 2012**		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Net cash flow from operating activities	53.4	(0.5)	52.9
Net cash flow from investing activities	(42.7)	0.5	(42.2)
Net cash flow from financing activities	(12.6)	-	(12.6)
Net decrease in cash and cash equivalents	(1.9)	-	(1.9)
Cash and cash equivalents carried forward	38.3	-	38.3

As noted previously, IFRIC 12 has no effect on total cash flow movements in any year. It does have an effect on the disposition of cash flow movements within the group's Consolidated cash flow statement, as set out in the above table.

Net Debt and Liquidity

The following table shows the comparative net debt position as at 30 September 2011 and 30 September 2012.

Net debt	**As at 30 September**	
	2011	**2012**
	(£ in millions)	
Senior Secured Notes	250.0	250.0
Cash and cash equivalents	(40.2)	(38.3)
Finance lease obligations	0.1	0.2
Bank loans	-	11.9
Deferred financing costs	(10.4)	(8.6)
Total net debt	**199.5**	**215.2**

Liquidity and Capital Resources

Care UK has historically financed its capital investment and working capital requirements through a combination of cash flows from its operating activities and short- and long-term bank borrowings. Care UK expects that its key sources of liquidity for the foreseeable future will continue to be cash flows from operations together with drawings under Care UK's Revolving Credit Facility. In the year ended 30 September 2012 Care UK's working capital cash flows generated positive inflows amounting to £6.5 million compared with an outflow in the year ended 30 September 2011 of £7.9 million. The outflow in the year ended 30 September 2011 was largely driven by the payment in that year of the final amount of £7.1 million relating to the transaction costs incurred in relation to the acquisition of Care UK Limited in 2010. The inflow in the year ended 30 September 2012 reflects enhanced working capital management, resulting in no increase in working capital requirements despite the revenue growth of 8.8 per cent. compared with the previous year. In addition, certain timing differences on amounts payable have benefited the overall working capital requirement for the year ended 30 September 2012. These timing differences will result in cash outflows in the year ending 30 September 2013 of approximately £6.5 million.

The following table sets forth selected information concerning Care UK's Consolidated cash flow during the periods indicated.

Consolidated cash flows	**For the year ended 30 September**	
	2011	**2012**
Net cash flow from operating activities	36.9	53.4
Net cash flow from investing activities	(3.9)	(42.7)
Net cash flow from financing activities	(26.8)	(12.6)
Net increase/(decrease) in cash and cash equivalents	6.2	(1.9)
Cash and cash equivalents carried forward	40.2	38.3

Year ended 30 September 2012 compared to the year ended 30 September 2011 – movement in net debt

The following table shows a summary of cash flows and change in net debt for the periods indicated.

	2011	2012
	(£ in millions)	
Adjusted operating profit	29.1	31.8
Depreciation and other non-cash movements	21.3	20.7
Change in working capital and non-recurring items	(14.9)	2.3
Cash flow from operations	**35.5**	**54.8**
Cash flows resulting from financing expenses and taxation	(25.2)	(25.6)
Proceeds from disposal of fixed assets	23.2	17.9
Cash proceeds from business disposals	4.7	-
Cash available for discretionary investment	**38.2**	**47.1**
Capital expenditure	(23.0)	(41.0)
Loans to related party undertakings	(3.6)	(5.1)
Cash consideration paid for acquired businesses	(5.3)	(14.7)
Movement in net debt arising from cash flows	**6.3**	**(13.7)**
Other non-cash movements in net debt	(1.8)	(2.0)
Total movement in net debt	**4.5**	**(15.7)**
Net debt at 30 September	(199.5)	(215.2)
Cash conversion ratio (Cash flow from operations/Adjusted EBITDA)	68.0%	104.2%

Cash flow from operations for the year ended 30 September 2012 was £54.8 million compared with £35.5 million for the year ended 30 September 2011. The cash flow from operations measured against Adjusted EBITDA showed a cash conversion ratio of 104.2 per cent. in the year ended 30 September 2012 compared with a conversion ratio of 68.0 per cent. for the year ended 30 September 2011, the increase arising because of a stronger working capital performance in the year ended 30 September 2012, a reduction in the cash flow from non-recurring items and also because the year ended 30 September 2011 included the payment of final transaction costs of £7.1m resulting from the acquisition of Care UK Limited in 2010.

Cash flows resulting from financing expenses and taxation were a net outflow of £25.6 million in the year ended 30 September 2012 compared with £25.2 million for the year ended 30 September 2011.

Proceeds from the disposal of fixed assets amounted to £17.9 million for the year ended 30 September 2012 compared with £23.2 million for the year ended 30 September 2011. In both years the majority of the proceeds received arose from the repurchase by the NHS of certain of the group's Wave I ISTC facilities. The repurchase programme is now complete and the group now operates seven such facilities. In the year ended 30 September 2011 the group also received net proceeds of £4.7 million from the disposal of the former children's services business. The cash flow available for discretionary capital investment consequently amounted to £47.1 million for the year ended 30 September 2012 compared with £38.2 million for the year ended 30 September 2011.

Against this available cash flow, total capital expenditure amounted to £41.0 million for the year ended 30 September 2012 compared with £23.0 million for the year ended 30 September 2011. Care UK provided loans to related parties of £5.1 million for the year ended 30 September 2012 compared with £3.6 million for the year ended 30 September 2011 see "Certain Relationships and Related Party Transactions". Cash consideration for acquired businesses amounted to £14.7 million for the year ended 30 September 2012 compared with £5.3 million for the year ended 30 September 2011. In the year ended 30 September 2012 Care UK made two acquisitions, both within the Community Services division, being the acquisitions of Housecall Care & Support Limited ("Housecall") in February 2012 and of Whitwood Care Limited ("Whitwood") in July 2012. Housecall delivers approximately 8,000 hours of care per week to a range of service users. Whitwood provides care to service users with relatively severe learning disabilities, through three registered care facilities with a combined total of 48 beds.

As a result of the above cash flows, net debt increased by £13.7 million for the year ended 30 September 2012 compared with a reduction for the year ended 30 September 2011 of £6.3 million. Taking into account non-cash movements, net debt increased for the year ended 30 September 2012 by £15.7 million compared with a reduction of £4.5 million for the year ended 30 September 2011.

Cash and Cash Equivalents

Care UK's cash and cash equivalents comprise cash at bank and in hand and short-term bank deposits, net of related bank overdrafts. As at 30 September 2012, Care UK had net cash and cash equivalents of £38.3 million, compared to £40.2 million as at 30 September 2011.

Borrowings and Capital Funding

Revolving Credit Facility

Care UK carries a Revolving Credit Facility of £97.5 million with ING Bank NV (London Branch), HSBC Bank PLC, Lloyds TSB Bank PLC and Citibank N.A. (London Branch). This facility was increased from its former level of £80.0 million on 31 October 2012. See "Description of Other Indebtedness—Revolving Credit Facility" for further information.

Performance Bonds

Certain performance bonds have been provided in favour of Primary Care Trusts and other public bodies in relation to Care UK's performance of contracts and services. These performance bonds are provided as part of the Revolving Credit Facility described above. An aggregate value of approximately £15.1 million was in place as at 30 September 2012 in relation to the amounts provided under these bonds as well as other ancillary facility utilisations. The outstanding amounts under these performance bonds will continue to reduce over the remaining underlying contract periods.

Intercreditor Agreement

The various parties to the Revolving Credit Facility and the Senior Secured Indenture have entered into an intercreditor agreement which governs the relationships and relative priorities among (i) the lenders under the Revolving Credit Facility (the "Lenders"); (ii) the Lenders, or any affiliates of the Lenders, or other persons that accede to the intercreditor agreement as counterparties to certain hedging agreements; (iii) the holders of the Senior Secured Notes and (iv) intra-group creditors and debtors. See "Description of Other Indebtedness—Intercreditor Agreement" for further information.

Capital Expenditure

Care UK's historical capital expenditure has largely been driven by expansionary capital expenditure in Residential Care and Health Care. Over the last three financial years, Care UK's total capital expenditure amounted to £78.4 million, compared with disposal proceeds received over the same period of £57.4 million. Within this period total maintenance capital expenditure has amounted to £28.1 million with expansionary capital expenditure amounting to £50.3 million. The most significant areas of expansionary capital expenditure for Care UK over the past three years have been the construction and acquisition of new freehold residential care homes as well as commissioning costs related to new leasehold residential care homes, the construction of CCR centres within the Mental Health division and expenditure associated with new contracts in the Health Care division. These projects have accounted for approximately £39.0 million of expansionary capital expenditure over the past three financial years with the balance being invested in a range of smaller projects across the group, including certain key systems investments.

As at 30 September 2012, Care UK had total capital commitments of £3.0 million compared with £8.9 million as at 30 September 2011. Future capital expenditure is expected to be focused on the commissioning of planned new care homes in the Residential Care division, expenditure in the Mental Health division on planned new complex care rehabilitation centres and investment required for the delivery of new contracts within the Health Care division. In addition, spend will be required on the maintenance of existing properties and the replacement or upgrade of certain of Care UK's IT systems.

A substantial portion of these future capital expenditure amounts are discretionary, and Care UK may adjust spending in any period according to its needs. Care UK currently intends to finance its projected capital expenditure through a combination of operating cash flows and, if necessary, by drawings under the Revolving Credit Facility.

Following the acquisition of Care UK Limited in 2010, Bridgepoint and management have established an independent, separately funded property financing vehicle for the development and ownership of new greenfield residential care home developments, which will be leased to Care UK on completion of each new property. Care UK expects that the majority of new residential care home developments will be financed and owned by this independent entity or by certain third party developers or funders. See also “Certain Relationships and Related Party Transactions”.

Contractual Obligations

The following table summarises Care UK’s contractual obligations as of 30 September 2012.

Contractual obligations	**Payments due by period**			
	Total	**Less than 1 year**	**1-5 years**	**More than 5 years**
	(£ in millions)			
Finance lease obligations	0.2	0.2	—	—
Operating lease obligations	357.8	22.0	69.9	265.9
Other long-term liabilities	7.4	—	6.1	1.3
Total	**365.4**	**22.2**	**76.0**	**267.2**

Off Balance Sheet Arrangements

Care UK leases various offices and operational facilities as well as equipment under non-cancellable operating lease agreements.

Qualitative and Quantitative Disclosures about Market Risk

Care UK’s activities and debt financing expose it to a variety of financial risks, the most significant of which are market risk (cash flow interest rate risk and price risk), credit risk and liquidity risk (changes in the debt market). Care UK’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Care UK’s financial performance. Care UK may use derivative financial instruments to hedge certain risk exposures: no such instruments are currently employed.

Cash Flow Interest Rate Risk

Following the issuance of the Senior Secured Notes by Care UK Health & Social Care Plc in July 2010 the majority of Care UK’s borrowings have carried a fixed interest rate as only limited use has been required of the Revolving Credit Facility outlined above. In addition, Care UK currently carries an amount of short-term cash deposits. Therefore Care UK’s current income and cash flows are only affected to a certain degree by changes in market interest rates. Short-term deposits are placed with financial institutions in accordance with Care UK’s treasury policy. Interest rates obtained on deposits are variable and linked to LIBOR.

In managing interest rate risks, Care UK aims to reduce the impact of short-term fluctuations in Care UK’s earnings. Over the longer term, however, changes in interest rates would have an impact on consolidated earnings.

Care UK would expect to make increased use of the Revolving Credit Facility in the future. Any such borrowings would potentially increase Care UK’s exposure to cash flow interest rate risk as they would be issued at a floating rate linked to LIBOR. Care UK has historically used a range of derivative financial instruments, including interest rate swaps, caps and collars, to hedge its exposure to floating rates and would expect to do so in future where considered appropriate, dependent on the expected duration of such underlying borrowings.

Price Risk

Care UK is not exposed to commodity price risk but as a provider of services is subject to both general and industry specific wage pressures, including legislative changes concerning the minimum wage level. Contracts with Local Authorities, Primary Care Trusts and other NHS Trusts are also subject to annual price review. For the year ended 30 September 2012, a 1 per cent. increase in salary costs would have decreased profit before tax by £3.1 million.

In common with the majority of government-funded providers, most of Care UK's price changes take effect annually on 1 April. Around 26 per cent. of Care UK's revenue is linked to general inflation indices.

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. Credit exposures in relation to customers is limited given that the majority of Care UK's revenue is attributable to publicly funded entities such as Local Authorities, Primary Care Trusts and other NHS Trusts. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted. For an analysis of trade receivables which are past due but not impaired and trade receivables which are past due and impaired, see note 12 of the audited consolidated financial statements as at and for the year ended 30 September 2012.

Liquidity Risk

A policy of prudent liquidity risk management is applied. Care UK's operational cash flow is largely stable and predictable given the contractual and recurring nature of the core business activity. Care UK prepares annual and shorter term cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance projected requirements, including capital expenditure. Adequate headroom in available facilities is maintained.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Management bases its estimates and associated assumptions on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Care UK uses estimates in accounting for allowances for uncollectible receivables, depreciation, amortisation and impairment, pensions, taxes and contingencies. The estimates and underlying assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period that an adjustment is determined to be required.

Significant accounting judgements in applying Care UK's accounting policies have been applied by Care UK in order to prepare the consolidated financial statements with respect to the value of other intangible assets and goodwill and pensions.

Intangible Assets

The group uses forecast cash flow information and estimates of future growth to initially value other intangible assets, to assess whether goodwill and other intangible assets are impaired, and to determine the useful economic lives of its intangible assets. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required.

Pensions

Details of the principal actuarial assumptions used in calculating the recognised liability for the defined benefit plans are given in note 22 to the audited financial statements as at and for the financial year ended 30 September 2012. Changes to the discount rate, mortality rates and actual return on plan assets may necessitate material adjustments to this liability in the future.

BUSINESS

Overview

Care UK is a significant independent sector provider of outsourced health care services to the NHS in England and a leading provider of social care services in the United Kingdom. Care UK considers itself to be the most diversified provider operating across both the social and health care markets in the United Kingdom, which are markets that provide multiple opportunities for growth.

In total, Care UK operates over 200 facilities across the United Kingdom. In the year ended 30 September 2012, Care UK employed on average over 15,650 people including surgeons, GPs, nurses and care workers. Care UK's principal sources of revenue are publicly funded entities in the United Kingdom, primarily Local Authorities and Primary Care Trusts, on behalf of the NHS. In the year ended 30 September 2012, over 91 per cent. of Care UK's revenue was derived from publicly funded entities, with the remainder derived from services delivered to self-paying individuals almost wholly in Care UK's social care business.

Care UK's Social Care and Health Care businesses accounted for 61.3 per cent. and 38.7 per cent. respectively of Care UK's revenue in the year ended 30 September 2012.

Industry Background

Care UK believes that its health and social care services benefit from attractive and long term industry dynamics, in particular:

- **Sizeable market and growing public spending.** At c£137 billion, the United Kingdom is one of the largest health care markets in Europe according to the Clearwater UK Health & Social Care Report 2012 ("Clearwater"). Within this total, the social care market is valued at c£37 billion, according to both Clearwater and Laing & Buisson. The UK Government's total spending on health services through the NHS as a percentage of GDP has more than doubled over the last decade, but total health spending as a percentage of GDP still remains behind comparable European countries such as France and Germany. Both the health and social care markets are predominantly publicly funded, with over 77 per cent. of the total UK health and social care market publicly funded, according to Clearwater. In the year ended 30 September 2012, over 91 per cent. of Care UK's revenue was derived from publicly funded entities.
- **Growing demand for social care and health care services.** Growth in demand for health and social care services has been partly driven by the demographic trend of an ageing population. Growth in demand for the types of services that Care UK provides is also driven by the fact that an increasing proportion of the population is living longer but spending more years suffering from high dependency health conditions, such as dementia and other related conditions. In addition to the demographic trends, increasing consumer expectations for enhanced care and the availability of more and costlier treatment techniques have driven the growth in demand for health and social care services. Care UK expects that these trends will continue to drive the growth in demand for health and social care services, with the 85+ age population set to grow by one third over the next 10 years and double by 2030, according to the Office for National Statistics and Laing & Buisson. The number of older people with late-onset dementia in the UK is currently estimated at around 820,000 by the Alzheimer's Research Trust, with an overall annual funding cost of approximately £23 billion. By 2038 this figure is predicted to increase to approximately 1.4 million people by the Department of Health, with an overall funding cost of around £50 billion according to the Alzheimer's Society. As a consequence the Department of Health launched the National Dementia Strategy in 2011 with a five year roll-out plan covering three key themes: raising awareness and understanding; early diagnosis and support; and living well with dementia. Care UK is one of the five largest providers of dementia care within the UK with a clear strategy of developing high quality services focused around managing this increasingly prevalent condition.
- **Social Care funding.** In July 2010 the current Government commissioned an independent body, the Commission on Funding of Care and Support, led by Andrew Dilnot, to review the funding system for care and support in England (the "Dilnot

Commission"). The conclusions of the Commission are designed to make it easier for people to get affordable care through increasing the level of state support, which Care UK believes would – if fully implemented – lead to an expansion of the overall care market, including both public and self-funded care. The Commission recommended introducing a cap on an individual's contribution to the cost of care (in order to encourage the evolution of an insurance-based market to fund the cost) as well as broadening eligibility for state support and eliminating the need for individuals to sell their homes during their own lifetime to pay for their own and/or their spouses' care. The Commission also recommended further integration of health and social care.

The UK Government issued a draft Care and Social Support Bill in July 2012 based on the Dilnot Commission's key principles. Although the current Government accepted the principles set out by the Commission, neither the timetable for implementation nor the level of state funding have yet been determined.

Care UK's believes that the growth of self-funding of residential and community care for older people to complement state funding is both inevitable and beneficial and Care UK is developing its services accordingly (see "-Strategy" later in this section).

- **Outsourcing trend.** Given the increasing demand for health and social care services and the funding pressures that are increasingly evident in the funding of publicly funded entities within the United Kingdom, there is an increasing focus on efficiency improvements. In comparison to other EU countries such as France and Germany, the UK health and social care systems have long been regarded as inefficient, in part due to the significant majority of services being provided by the public sector. Outsourcing to independent service providers in the United Kingdom social care market began in the 1980s, whereas health care services have only begun to be outsourced on any meaningful scale during the last 10 years. Care UK believes that the outsourcing in the UK health care market, where currently only around three per cent. of the market is outsourced, is set for further growth, with the competitive provisioning of services to the NHS now having become an established feature of the market.
- **Supportive political policies.** Public sentiment in the United Kingdom strongly supports the provision of health and social care services by the UK Government and all the major political parties have reacted to that support. The previous Government increased public spending on health care services by a compound annual average of eight per cent. over the decade to 2010. The current Government has confirmed its intention to protect the real spending growth in health care through the currency of the Comprehensive Spending Review that covers the three year period to March 2014, whilst also supporting the potential for an increased use of outsourcing through the independent sector.
- **Consolidation trends**. Most segments within the social care market remain relatively fragmented with a large number of small to medium sized operators. The business environment supports a trend towards larger groups, given it is more challenging for smaller providers both to meet increasingly stringent service quality requirements as well as to bid for, win and fulfil larger contract opportunities due particularly to financial and staffing constraints. This landscape presents an opportunity for Care UK to continue to develop its business through selective acquisitions that meet its rigorous financial and return criteria.
- **NHS reforms.** Following the granting of Royal Assent to the Health & Social Care Act in 2012 ("HSCA"), Care UK is closely monitoring the change in the commissioning of health care services from Primary Care Trusts to the combination of Clinical Commissioning Groups, national and regional NHS Commissioning Boards and Local Area Teams. The reforms proposed by the HSCA aim to promote competition between providers of NHS services to create a more efficient, innovative and productive healthcare system, and are expected to lead to increased business opportunities amongst independent sector providers such as Care UK. These reforms have not yet been implemented, and are subject to change through the implementation process.

  As part of the changes engendered by the HSCA, Monitor (the body that has historically regulated NHS Foundation Trusts) is being given wider responsibility to act as economic and market regulator for all providers of health care services to the NHS, including independent sector providers. Monitor has published a range of consultation papers setting out proposed terms and conditions for the future licensing of providers across a range of healthcare services. As a key player within the industry, Care UK is working directly with Monitor to provide input into the final structure of these license conditions in order to ensure that they are appropriate and create a fair playing field between different types of provider.

Competitive Strengths

Care UK's business benefits from a number of competitive strengths, including:

- **Leading market positions and broad range of services.** Care UK is a significant independent sector provider of outsourced health care services to the NHS in England and a leading provider of social care services in the United Kingdom. Among independent providers of health and social care services in the United Kingdom, Care UK provides the broadest range of services. Care UK has an extensive network of health and social care facilities across the United Kingdom. It believes that its leading market positions, broad range of services and scale and scope of its operations enable it to focus on the most attractive outsourcing opportunities, benefit from economies of scale and adjust quickly to any changes in the UK Government's health and social care agenda. Following the acquisition of Harmoni on 5 November 2012, Care UK is now the leading provider of both out of hours care and offender health to the NHS in England, as well as having a strong market entry point to the new "111" market segment.
- **Strong, contracted revenue streams with a high degree of visibility and high cash conversion ratio.** In the year ended 30 September 2012, over 91 per cent. of Care UK's revenue was derived from publicly funded entities in the United Kingdom. This provides Care UK with a strong, contracted revenue stream and high visibility with respect to future revenue for the term of these contracts. Care UK estimates that the total of Care UK's forward contracted revenue at 30 September 2012, including forward revenue at the preferred bidder stage, was approximately £1.25 billion. Care UK also benefits from attractive working capital conditions as Care UK's primary customers are various publicly funded entities who pay promptly, on average within 30 days of the billing date. In addition, Care UK has only modest maintenance capital expenditure requirements. This in turn allows Care UK to maintain high cash conversion ratios as against Adjusted EBITDA, which amounted to 81.4 per cent. and 112.2 per cent., adjusted for non-recurring items, in the 2011 and 2012 financial years, respectively.
- **Strong track record of winning and managing health and social care contracts**. Care UK has a strong track record of winning and managing contracts to provide health and social care services to the public sector. Based on this strong track record and its long-standing relationships with Local Authorities, Primary Care Trusts and the Department of Health, Care UK believes that it is well positioned to take advantage of the trend towards increased outsourcing of health and social care services. For example, Care UK has recently commenced operating under two new contracts within the Health Care division, for a GP service in the North East of England and an out of hours service across Hampshire; Care UK has also been appointed as preferred bidder on a major outsourcing contract for the provision of elderly residential care across Suffolk, which is the single largest contract that Care UK has ever been awarded. This latter contract is expected to reach financial close shortly.
- **Strong reputation for quality.** Care UK has historically achieved industry leading ratings for both service quality and patient satisfaction metrics. Not all of Care UK's services have yet been assessed under the relatively recently introduced CQC regulatory rating system although, of the outcome measurements inspected to date, more than 86 per cent. have been found to be fully compliant with another 9 per cent. having only Minor concerns raised. No Care UK service inspected to date has had a Major concern raised. Care UK's health care services have a proven record of positive clinical outcomes and significantly higher scores than the top 20 per cent. of NHS hospitals on several service quality and patient satisfaction metrics. An independent report that reviewed clinical procedures for NHS patients, the Dr Foster "Hospital Guide 2011" named Care UK as being the UK's best performing provider of hip replacements and in the top seven providers of knee replacements. The assessments used objective clinical outcome measures such as length of stay and the need for follow-up operations as their key criteria. The top four

providers of hip replacements and the top seven providers of knee replacements named within this report are all independent sector providers, providing further strong endorsement of the independent sector's impact on the quality of patient care achieved to date. This provides encouragement for wider patient choice to be exercised and the consequent anticipated further success of the independent sector in the provision of services to NHS patients.

- **Strong asset backing.** Care UK operates over 200 facilities across the United Kingdom. As at 30 September 2012, the group's total property, plant and equipment assets, before applying IFRIC 12, amounted to £284.8 million. This includes the freehold and long-term leasehold properties within the Residential Care and Mental Health divisions that were independently valued by Knight Frank in February 2010, which resulted in a valuation surplus of approximately £85 million against their then book value.
- **Experienced and proven management team.** Care UK benefits from the extensive experience and industry know-how of its senior management team, led by Chief Executive Mike Parish, who joined Care UK in 2001, and Group Finance Director Paul Humphreys, who joined in 2002. Mike Parish has both chaired and participated in a number of industry forums for both the Department of Health and the independent sector and is a Trustee and Non-Executive Director of the NHS Confederation. The senior management of Care UK currently holds 19.7 per cent. of the issued ordinary share capital of Care UK Health & Social Care Holdings Limited, the Company's ultimate parent company.
- **Strong support from principal shareholder.** Care UK benefits from the relationships, investment experience and knowledge of its sponsor, Bridgepoint, one of Europe's leading mid-market private equity managers with a 27 year track record of investing in European businesses and significant knowledge and track record in the social care and health care markets. Bridgepoint has significant experience delivering improved strategy, operations and management within its portfolio businesses. Bridgepoint has significant funds under management and is currently investing Bridgepoint Europe IV, a €4.8 billion fund. Bridgepoint holds 79.4 per cent. of the issued ordinary share capital of Care UK Health & Social Care Holdings Limited.

Strategy

Care UK's strategy is to be the leading provider of outsourced health and social care services to the public in the United Kingdom, by delivering high quality services cost efficiently. The key elements of Care UK's strategy are:

- **Continue to leverage its leading market positions.** Care UK intends to continue to leverage its leading market positions in both the health and social care markets, and the spread of its operations to target the most attractive outsourcing opportunities available to it. Care UK also intends to take advantage of the extensive expertise and experience it has gained as one of the leading independent sector providers of outsourced health care services to the NHS in England to pursue further such opportunities in health care, where currently only around three per cent. of NHS funded health care services are estimated to be outsourced to independent sector providers.
- **Continue to deliver profitable growth.** Care UK intends to continue to deliver profitable growth, principally through expanding and growing its range of care services dedicated to more intensive and higher dependency conditions, such as dementia, where Care UK generates higher margins, and pursuing increased outsourcing opportunities, particularly in health care where it expects to see increased benefits from greater scale. Furthermore, Care UK intends to maintain its strong operating cash flows and balance sheet ratios through the efficient management of its working capital.
- **Continue to deliver high levels of service quality and patient satisfaction.** Care UK believes that the recognised quality of its services is a key advantage in a market where consumer expectations of quality are increasing and regulatory standards are becoming more stringent.
- **Develop a strong customer service capability for the self-pay market.** Care UK intends to grow its social care services targeted at self-pay service users, in line with the

expected direction for social care funding generally in the UK. In order to do so Care UK has invested, and will continue to invest, in customer service and marketing capability to be able to provide a compelling service proposition to self-pay customers.

- **Selectively consider acquisitions to increase its market share or to provide complementary care services to its current customer base.** The market for social care services in the United Kingdom is very fragmented. Although the market for the provision of outsourced health care services to the NHS in England is less fragmented it still may provide acquisition opportunities for Care UK to consider. Care UK intends to selectively consider acquisitions as and where appropriate to increase its market share and provide complementary health and social care services to its current customer base.

History

Care UK Limited was incorporated on 29 September 1982 as Anglia Secure Homes Limited. In 1994 its name was changed to Care UK Plc, having been listed on the London Stock Exchange in 1988. It expanded into the provision of nursing homes, home care and learning disability and mental health services in the 1990s.

The current senior management team consists of Mike Parish and Paul Humphreys, who were appointed in 2001 and 2002 respectively. In 2004 Care UK entered the health care market, initially by winning tenders for the ISTC Wave I contracts and subsequently, by using the market leverage that this provided, by being contracted to deliver a number of general healthcare services. Care UK increased its position in the health care sector through the acquisitions of Mercury in 2007 and the outstanding 50 per cent. of Partnership Health Group, originally a joint venture with Life Healthcare Group (Proprietary) Limited ("Life Healthcare"), from Life Healthcare, in 2008.

Following the acceptance by the shareholders of Care UK Plc of the offer made on behalf of funds managed by Bridgepoint Capital in March 2010, Care UK delisted from the London Stock Exchange on 27 April 2010, changing its legal form to Care UK Limited on the same date, and the acquisition closed on 11 May 2010.

Social Care Services

Care UK is a leading provider of social care services in the United Kingdom. The social care services provided by Care UK consist of care homes for older people, community based services to a range of service user groups and mental health services in mental health homes and hospitals.

Residential Care Homes

Care UK is the fifth largest operator of care homes in the United Kingdom, measured by the number of beds available in what is still a fragmented market. It provides care for older people with a strong focus on high dependency care, in particular dementia and related conditions. Care homes are classified generally into nursing homes and residential homes. Nursing homes supply all of the services offered by residential homes, but also have qualified nurses as part of the care team to provide nursing care for those with medical conditions or more complex care needs. Care UK operates 89 care homes across England and Scotland, including 27 homes transferred or acquired from the former Southern Cross since 30 September 2011, which together provide over 5,500 beds. A substantial number of Care UK's care homes are dual registered, which allows Care UK to offer residential and nursing care within the same facility. Funding for Care UK's residents comes from a balance of Local Authority block contracted and spot rate beds plus a growing proportion of self-pay.

Care UK has recently won a long term contract with Suffolk County Council ("SCC") that will initially see the transfer to Care UK of 16 care homes with over 520 beds currently operated by SCC. These homes will progressively be entirely replaced by ten new build homes with a total of 680 planned beds. SCC will fund approximately 55 per cent. of the planned new beds under a 25 year block contract, with Care UK having the ability to sell the remaining beds either on a spot basis to SCC or other Local Authorities, to PCTs as continuing healthcare beds or to self-pay service users. Care UK is intending to fund the development of the ten new build homes by introducing a strong, independent institutional funding partner with Care UK entering into leases for the operation of the homes when completed. Care UK expects to reach financial close of this contract shortly, with the transfer to Care UK's operation of the 16 existing Council care homes then due to be implemented.

Care UK specialises in care for residents living with dementia and other specialist services for residents with complex needs, such as convalescent or post-operative care, respite care and palliative and end of life care. As an operator, Care UK manages, recruits and trains the necessary care staff in order to provide a full range of services to support the group's residents in their daily activities. It operates both from a large number of freehold properties that it owns, properties under long term leasehold arrangements and a number of shorter term commercial leaseholds or managed contract homes.

Dementia is one of the most common health conditions amongst older people. According to the Alzheimer's Research Trust there are currently approximately 800,000 people in the UK with dementia with an aggregate funding cost of approximately £23.0 billion per annum. By 2038 this number is projected by the Department of Health to be approximately 1.4 million people with a total funding cost of approximately £50.0 billion, according to the Alzheimer's Society. People living with dementia are nonetheless an underserved segment of the care home population. Only one third of those individuals suffering from dementia are placed into a care home that specifically caters for dementia. The majority of Care UK's homes have specialist dementia care units with qualified and experienced staff and appropriate facilities for dementia care.

Older people living with dementia and related conditions exhibit various symptoms, including loss of memory, confusion and speech problems. Individuals suffering from these symptoms often require intense professional care and observation, which their relatives usually do not have the time or training to provide. Care UK believes that dementia sufferers requiring nursing care are amongst the least likely individuals to be moved out of residential care facilities and into home care as they have more intensive care needs. Dementia care services are typically provided at a price premium over non-dementia services.

Convalescent and post-operative care is short-term care for those recovering from an accident, illness or an operation. Through Care UK's provision of these services, Care UK's care homes act as an intermediate location for the provision of nursing care and focused rehabilitation for patients who no longer require a hospital bed for intensive care and monitoring, but are not yet ready to return home. These rehabilitation programmes are delivered by specially trained multi-disciplinary teams and provide support for the service user to progress towards optimal independence and assist with a safe return to the service user's home. Care UK also provides respite services designed to provide care for individuals whose regular carers are unavailable. This places Care UK well to meet the growing need for step up / step down services to the NHS.

Palliative and end of life care offers services for those with chronic or terminal illnesses. Palliative care focuses on the control of pain and symptoms to improve quality of life.

A number of Care UK's residential facilities have day centres, which allow them to provide a range of services to non-residents.

While Care UK's care homes are located across England and Scotland, the majority have historically been located in South East England reflecting Care UK's origins, the greater tendency for Local Authorities in this region to tender for care home contracts, the prevailing affluence of the population and a shortage of quality care homes. With the transfer into Care UK of 27 former Southern Cross homes, with more than 1,700 beds, the Residential Care Services division now has a broader geographic spread, with many of these homes being in Scotland and the North East of England.

Community Services

Care UK is among the top five providers of community based home care services in the United Kingdom, measured by market share, with an increasing number of customers paying directly for their own services (either by way of topping up Local Authority provision or by paying entirely for their own private care). Older people and people diagnosed with dementia were estimated to comprise approximately 70 per cent. of Care UK's home care service users during the year ended 30 September 2012, with the remaining 30 per cent. made up of individuals with a learning disability, substance abuse issues, physical disabilities and those who require post-hospital discharge rehabilitation.

Care UK's community based services comprise a comprehensive range of flexible home support packages, tailored specifically to service users needs. Service users are typically extremely dependent and require support with personal care and daily living tasks to enable them to continue to live independently in their own homes. Packages typically range in size from 15-30 minute daily 'pop-in calls' to full time live-in care and allow service users to avoid care home or hospital admissions, in addition to exiting hospital care on an accelerated basis. Services also include re-ablement to assist service users in regaining confidence and skills at home following a stroke, accident, operation or any lengthy stay in hospital.

Care UK has traditionally delivered service to users who are in some way funded by public money and have been subject to assessment under Fair Access to Care-services criteria. Increasingly and in response to customer and market demands, Care UK has begun to deliver a self pay product under the brand name 'Homecare Select'. If an individual fails to secure funding for all or part of their care needs from the Local Authority, they may choose to self fund and approach Care UK directly as a potential customer.

In the year ended 30 September 2012, Care UK provided its community based services through a local branch and office network of more than 60 registered services, delivering on average approximately 150,000 hours of care to over 13,000 people each week. Each branch or office holds contractual arrangements (to supply home care to the local community) with between one and three Local Authorities, with some holding up to five contracts with Local Authorities and PCTs. In addition more than 40 registered services across the UK (including Scotland, England and Wales) held contracts with self-pay customers, who accounted for just under 7 per cent. of Care UK's total revenue from community services.

As well as approximately 6,000 community based care workers Care UK also employs around 1,000 individuals with professional qualifications and extensive practical experience in supporting individuals with a range of learning disabilities. These include autistic spectrum disorders, complex health needs, physical disabilities or sensory impairment.

Through this specialist team Care UK provides services to approximately 500 people with a learning disability, many of whom have been resettled out of long stay institutional hospitals where challenging behaviour and complex conditions are a feature of service delivery into a supported living setting. In addition Care UK provides placements in 14 community based residential homes for individuals with learning disabilities. These include the successful integration in 2012 of an acquired business, Whitwood Care, which offers a non-medicalised model of assessment and treatment of people who present a significant challenge to mainstream services.

An additional specialist segment of Care UK's community services is the provision of support to physically disabled individuals, including those with spinal and brain injury. In 2012 Care UK transferred in Craig Court, a 16 bed former Southern Cross home that provides short term re-ablement services in Aberdeen, providing a platform from which to deliver community based support to people challenged by brain injury. This service, delivered in partnership with a dedicated on site NHS staff team focuses on regaining lost skills and maximising independence for people who have sustained brain injuries through deep strokes, road traffic accidents and substance misuse.

Mental Health Homes and Hospitals

Care UK supplies a range of mental health services across the country through its 18 independent mental health hospitals and homes, including three specialist facilities for eating disorders and self harm and an acute young person's eating disorder service. It serves 77 PCTs and Local Authorities.

Care UK's independent hospitals and mental health homes provide service user-led residential services, delivered across a progressive pathway, including community based outreach programmes. These services provide 24-hour support to enable individuals to understand and cope with their mental illness and ultimately to recover and develop day-to-day skills, including shopping, personal care, personal hygiene, preparation of meals and social skills in order to move out into as independent living as possible. The core treatments focus on cognitive skills, relapse prevention, symptom reduction and living with mental illness. Individuals are encouraged to access and participate in local community life through local facilities. Care UK's mental health homes and independent hospitals have approximately 275 beds and treat patients detained under the Mental

Health Act 2007 in addition to voluntary patients. See “Business — Regulation — Mental Health Act 2007” for further information regarding the Mental Health Act 2007.

Some of the group’s hospitals are registered as “Locked Rehabilitation” step-down services for adults with a mental illness, personality disorders and a history of criminal behaviour. They provide continuing treatment and rehabilitation in a safe, secure and therapeutic environment. The provision of these services presents an intensive treatment and support option for mentally disordered offenders and those with high-risk behaviour who no longer require costly psychiatric intensive care, intense or higher security environments. The group have recently developed a connected care pathway across residential and supported living services tailoring the support package to individual need and offering financial savings to the health and social care economy.

Within its mental health business, Care UK operates four specialist facilities, with a total of 35 beds that offer a residential alternative to a hospital for adolescent and adult females diagnosed with eating disorders or with extreme self harm tendencies that have had previous treatment in a hospital or specialist service. This includes the acute eating disorder service for young people between the age of 8 and 18 years, Rhodes Farm, that was acquired in February 2011. Care UK’s programmes in these facilities are specifically designed to help service users make life changes and include education services.

Health Care Services

Care UK’s Health Care division is a significant independent sector provider of outsourced health care services to the NHS in England.

Care UK’s health care services are concentrated in seven service sectors: GP medical practices, out-of-hours centres, unscheduled care services, diagnostic services, Clinical Assessment and Treatment Services (“CATS”), elective surgery services (through the group’s ISTCs) and offender health services

The vast majority of services are currently operated entirely for NHS patients and are provided free of cost to the service user, although the potential for self pay options is being assessed at a number of Care UK’s ISTCs. Care UK is paid for its services primarily by PCTs and works in close partnership with both PCTs and Strategic Health Authorities (“SHAs”) as those entities monitor the quality and volume of care provided and any change in types of service provided are discussed with the relevant public entity. The PCTs and SHAs are presently the NHS commissioning bodies and although operationally independent of the Department of Health they operate within the general budget and priorities of the NHS.

Under the UK Government’s Health and Social Care Act 2012 the commissioning responsibility for the provision of the great majority of health care services to NHS patients will transfer to Clinical Commissioning Groups (“CCGs”) with effect from April 2013. In practice, this means the abolition of the current PCTs and their replacement by a combination of more than 200 CCGs, national and regional NHS Commissioning Boards (“NCBs”) and Local Area Teams. The NCBs will take over responsibility for the commissioning of primary care, specialised services for patients with rare or very rare conditions, health services for people in custody and military healthcare.

CCGs are statutory corporate bodies and comprise the GP practices in a specific geographical area, typically one or more Local Authority areas. Each CCG will be allocated an amount of money annually to cover its commissioning and running costs. The figure will be based on the size of the population it serves.

GP Medical Practices

Care UK operates 13 GP medical practices on behalf of the NHS with approximately 56,000 registered patients. Each GP medical practice employs a range of health care professionals including GPs and nurses and is dedicated to providing high quality GP diagnosis and services to its local communities. Care UK’s GP medical practices are primarily located in low-income areas that have been historically underserved by the health care community and, in some cases; these include innovative services such as street doctors for the homeless and community facing sexual health services.

Urgent Care Centres, Out-of-Hours Centres and Walk-in Centres

Care UK operates 12 walk-in centres and seven urgent care centres and out-of-hours services These are used by more than 500,000 patients per annum and the services are often co-located with Care UK's GP practices in order to lower costs and allow for faster patient treatment directly in the health centres. Each of these facilities serves unregistered patients at times which are convenient or essential for the patient. These services are not designed to replace local GP or hospital services but instead complement them by providing a greater number of patients with convenient access to treatment for a range of minor illnesses and injuries. The centres operate on a first come, first served basis, unless someone is acutely unwell and needs immediate attention.

Walk-in centres provide free care services, including health information, advice and treatment for a range of illnesses and minor injuries preventing the patient having to make an appointment. The walk-in centres operate between 8am and 8pm, 365 days a year and offer care for health issues such as emergency contraception, minor scalds and burns, coughs, colds and flu-like symptoms, strains and sprains and other common illnesses.

The urgent care and minor injury centres deal with the entire range of injuries from the "walking wounded" to those who come in on stretchers with immediate and urgent needs and are open twenty-four hours a day, seven days a week. Out of hours services are available overnight and through weekends and holiday periods. Out of hours and urgent care centres deal with all levels of patient needs and try to maintain patients in their own home where possible and only transfer them into hospital care when necessary. Care UK commenced a new five year contract for the delivery of unscheduled care services in Hampshire, Portsmouth and Southampton in October 2012. It is anticipated that this new service will be accessed by up to 275,000 patients per annum.

Offender Health

Care UK provides a full range of health care services to prisons on behalf of Primary Care Trusts and is currently the largest independent provider of offender health care services, covering 16 prisons with a total prison population amounting to almost 10,000 individuals. Services include mental health inpatients through to GP services, nursing, dentistry, optometry, substance misuse and sexual health services. Care UK has gained significant experience in understanding prisoners' health needs and has the proven experience of delivering effective, quality care within the constraints of the prison environment.

Clinical Assessment and Treatment Services ("CATS") & Diagnostic Centres

Care UK provides a number of Clinical Assessment and Treatment Services ("CATS") in different regions across the United Kingdom. Health care services provided at these centres include gynaecology, ear, nose and throat, musculoskeletal, urology, audiology, ophthalmology and dermatology as well as physiotherapy and occupational therapy and some minor general surgery.

Care UK currently operates nine smaller CATS and direct access diagnostic services across the country, plus several small ultrasound clinics, as well as the much larger specialist mobile service in Greater Manchester, which it established as part of the ISTC Wave II programme. The Manchester CATS operates from seven locations across Manchester.

CATS are designed to give patients greater choice about when and where they are treated, providing convenient, easy access to diagnostics and assessment and treatment services for a range of conditions. CATS were intended to help maintain short NHS waiting times and offer convenient local services for patients in community settings closer to home. Many CATS treatment centres also offer extended opening hours during the week as well as weekend services, providing greater flexibility and accessibility to patients. Instead of going to local hospital outpatient service for tests or treatments or therapies, GPs may refer patients to their local CATS service.

Elective surgery

Care UK delivers a range of elective surgery procedures through its six fixed centres plus the Greater Manchester CATS, all of which were originally established under the ISTC Programme, a programme initiated by the previous Government that was designed to reduce hospital waiting lists, expand total capacity in the health care system and give patients a choice as to when and where to receive treatment.

Care UK's ISTCs have an excellent track record and patient satisfaction ratings, short waiting times and excellent clinical outcomes. Care UK's ISTCs, measured by regular patient satisfaction surveys, have consistently outperformed the top quintile of NHS hospitals.

In April 2009 the government introduced the Choose & Book Scheme, creating a right of free choice for patients to decide where to have their planned surgical treatment. On referral to a specialist by their GP, patients can choose any hospital or treatment centre in England so long as it will accept reimbursement at NHS rates, meets NHS quality standards and is registered to accept referrals of NHS patients. Through the Choose & Book Scheme it is possible to book an appointment immediately at the GP's surgery or for patients to research the services offered by the various care providers, and book later.

Quality of Care

Care UK is focused on providing services that achieve high quality and service user satisfaction rankings. Care UK has consistently maintained high quality ratings across all of its services, in part as a result of the work carried out by both the operating division managers and by the audit and compliance function performed by Care UK's clinical governance teams. Care UK is primarily monitored and regulated by the CQC, which inspects and rates all of the health and social care providers and facilities in England.

Clinical Governance

Clinical governance is central to Care UK's delivery of high quality care. Care UK's various clinical governance teams implement a framework of clinical governance by focusing on protecting patient and resident safety and improving the quality of care. An example of this is the prevention of infections that are easily spread in hospitals and similar settings. It also looks to minimise service user accidents while aspiring to ensure that patients and service users of Care UK's services are treated with compassion, dignity and respect through an individualised system that communicates effectively with, and responds to, individuals' needs in a timely and effective manner.

Through its integrated governance reporting structure, Care UK directs and controls the health and safety performance of its various business segments and subcontractors, in order to achieve Care UK's organisational objectives and safely delivers continuously improving high quality services. Care UK's clinical governance teams conduct periodic audits and site visits of Care UK's various facilities and maintains a robust index of key performance indicators. Additionally, the clinical governance team interacts with outside organisations such as the Royal College. Care UK regularly surveys its service users and their relatives to monitor their satisfaction with the care provided.

The heads of clinical governance in each business segment meet regularly with representatives from the CQC to demonstrate Care UK's governance infrastructure and assurances of quality and safety.

CQC Regulation

The CQC, as the regulator of all health and social care services in England, inspects and determines compliance with the CQC's Essential Standards of Quality and Safety for the majority of Care UK's services and facilities. The CQC regulates all health and adult social care services, ranging from treatment centres to home care services, whether provided by the NHS, Local Authorities, private companies or voluntary organisations. It also protects the rights of people detained under the Mental Health Act 2007.

The CQC now monitors all registered services across a range of standards, focused around outcome based measurements, in order to assess provider compliance. CQC inspections will typically select a range of these outcome based measurements to focus on during an assessment visit rather than attempt to cover all such measurements. Those outcomes that are inspected are assessed as either being fully compliant or non-compliant, with those outcomes that are assessed as being non-compliant being graded in terms of the severity of concerns raised into Minor, Moderate and Major. In common with all large providers, not all of Care UK's services have yet been inspected under this system. Of the outcomes inspected to date, over 86 per cent. have been assessed as fully compliant with a further 9 per cent. having Minor concerns raised and the balance of under 5 per cent. having Moderate concerns raised. No Care UK service has had a Major concern raised in relation to any of the more than 700 outcomes that have currently been assessed. In Scotland and Wales respectively, the Care Inspectorate and the Care and Social Services Inspectorate Wales perform a similar function with regard to Care UK's services.

Health Care Service Quality

Whilst the CQC regulates health and social care services, there is no central agency that publicly publishes ratings regarding the quality of the health care services that Care UK and its competitors provide. Contractually, PCTs do monitor the quality of services provided by the various private sector managed treatment centres and primary care services and compare them against the hospitals and other primary care services that the NHS continues to manage directly or commission. However, there are a number of industry benchmarks with which Care UK's healthcare services can be compared, as noted below.

- The Joint Advisory Group for Endoscopy ("JAG") provides independent inspection and accreditation of endoscopy services; all assessed Care UK services have been awarded JAG accreditation and many have been rated 'A', the highest possible rating;
- The National Health Service Litigation Authority last year assessed the risk management procedures at Care UK's Treatment Centres and assessed them as being compliant with the required standards;
- Dr Foster listed Care UK as the best provider of NHS hip replacements and in the top seven providers of NHS knee replacements in 2011; and
- Infection control – Care UK has reported zero cases in the last twelve months of the three main hospital acquired infections, MRSA, MSSA and Clostridium Difficile.

Additionally, Care UK monitors patient satisfaction at its various health care services using the widely applied "Net Promoter Score" measurement tool so that it can react to reports received from these internal surveys.

Customers and Contracts

Social Care

Care UK provides its social care services primarily through outsourcing contracts with publicly funded entities, mainly Local Authorities. In addition to the Local Authorities, Care UK contracts with Primary Care Trusts for a small portion of its social care services and an increasing number of self-pay service users.

- *Residential Care Home Contracts*

Care UK provides its residential care home services under two general types of contracts, block and spot contracts.

In a block contract, the relevant publicly funded entity commits to pay a fixed rate per bed with a pre-agreed mechanism for determining that rate for a certain number of beds for a fixed term, regardless of whether or not these beds are physically occupied. Block contracts for care home services typically have a term of 10 to 25 years, which gives Care UK substantial visibility over the future revenue that those contracts will provide. The current average maturity of Care UK's outstanding care home block contracts is more than seven years, before taking into account the effect of the Suffolk contract due to be signed shortly. As at 30 September 2012, approximately 39.5 per cent. of Care UK's care home beds were contracted under block contracts.

The remaining beds in a care home which are not subject to block contracts are sold either on a spot purchase basis to publicly funded entities (where their needs exceed the number of beds for which that publicly funded entity has block contracted) or to self paying individuals. Spot contracts are linked to a specific individual and are therefore typically much shorter in duration terms and are more bespoke than block contracts. Spot contracts also typically have higher average weekly fee rates than block contracts.

The average weekly fee rate for both block and spot contracts is determined based on an assessment of the level of a resident's needs made by the service purchaser (if the purchaser is a publicly funded entity) or Care UK (in those cases where the purchaser is a self-pay individual).

Payment is then scaled according to the level of care required by the service user. In the case of a block contract, the assessment will normally form part of the overall agreement with the relevant Local Authority as the particular individuals to whom care will be provided will not usually have been identified at that stage. In the case of spot contracts either with Local Authorities or for self-pay users, the assessment is carried out as part of the admission procedures to the care home. In circumstances where Care UK believes that a service user requires a different level of care than that for which they were initially admitted, the resident's required level of care is reassessed and weekly fee rates are adjusted appropriately. In addition to adjusting fees based on the level of care each service user requires, fees for block contracted beds are tied to one or more contractually specified inflation indices, which are subject to annual adjustment.

The termination provisions of block contracts vary depending on the contract, and, in some cases, include some of (i) voluntary termination by the purchaser of the contract (by giving notice to Care UK), (ii) where Care UK fails to meet its obligations by committing a material breach which is capable of being remedied but remains uncured for a specified time period, (iii) where Care UK commits a fundamental breach of the contract which is not capable of being remedied, (iv) where Care UK commits a prohibited act in relation to the making of a corrupt gift or fraud, or (v) where there is a winding up, liquidation or taking possession of the facility where the services are intended to be delivered. In the case of voluntary termination of a contract, compensation will normally be payable to Care UK.

- *Community Services Contracts*

Care UK's community services are provided largely under framework contracts that generally set out the service requirement, but do not commit either party to provide or purchase care until a specific individual in need of that care is identified. Contracts set performance standards for the provision of care as well as qualification and service requirements for care workers.

One substantive difference in the contracts for community services, as opposed to residential care home services, is that payment is dependent on the duration of the service visits that are delivered to service users. The majority of community services for older people are delivered in 15, 30 or 45 minute blocks in accordance with an agreed price schedule, which may vary depending on the location where the care is provided. A number of learning disabilities services are provided on a 24/7 basis to more dependent people. As monitoring technology has improved over time, a number of purchasers of home care services have imposed tighter conditions on providers such as electronic call monitoring and "minute by minute" billing. Using this technology, providers are only paid for the time actually spent by its care workers delivering services, 'contact time'. In turn, Care UK hires almost all of its carers on zero hour contracts. By structuring its business in this way, Care UK matches the quantum of its costs to its revenues as Care UK only pays care workers for hours for which it also receives revenues. The current typical duration of Care UK's contracts for community services is for three years.

- *Other Social Care Services Contracts*

Care UK's mental health services and residential learning disabilities services are predominantly provided through contracts with Primary Care Trusts and Local Authorities, respectively.

Care UK also has almost 2,000 individual self pay customers, who choose to part fund their care by topping up their Local Authority care provision with additional services contracted directly with Care UK, or completely fund their care with a private contract with Care UK. Contracts range from a minimum one hour to 24 hour live-in care per week.

Health Care

- *General Healthcare Contracts*

Care UK contracts with Primary Care Trusts for the provision of general healthcare services primarily under contracts based on NHS Standard Alternative Provider of Medical Services ("APMS") Contract requirements and NHS Standard Community Services Contract, which set out certain standard terms, such as the list of patients who can be treated, performance monitoring provisions and termination provisions. Under these regulations, there are no specifications as to price, subcontracting or dispute resolution terms, which are negotiated individually for each contract and adapted as necessary to reflect the particular requirements of the services provided under the contract.

The terms of the general health care contracts set out required standards that Care UK must maintain in certain areas including the training of medical staff, prescription of drugs, infection control and vaccine storage and the treatment of patients and patients' records. Care UK must also maintain an effective system of clinical governance. In many cases, Care UK must meet key performance indicators ("KPIs") as set out in the relevant general healthcare contract. Failure to meet a KPI may lead to a deduction in payment or, in extreme circumstances, the termination of a contract. Other termination events may include breach of any term of the agreement such that a material financial loss would occur or the safety of a patient is at serious risk. The contracting Primary Care Trust makes its payments according to a monthly fixed sum plus additional payments tied to a variety of relevant metrics, such as the number of patients seen during the month for walk-in clinics.

- *ISTC Contracts*

Care UK originally provided its treatment centre services through ISTCs commissioned by the Department of Health under two programmes: the ISTC Wave I contracts and the ISTC Wave II contracts. The ISTC Wave I contracts were signed with the NHS as part of a government programme to increase the capacity of the health care system and reduce waiting lists in certain areas. Likewise, the ISTC Wave II contracts, although they are subject to different arrangements with regard to pricing and guaranteed revenue levels, were designed to increase the capacity of the health care system in certain specific areas and at the same time provide an intermediate step towards the full competition between secondary health care service providers that was envisioned once the ISTC Wave I contracts expired. The Wave I contracts have all now expired and these Treatment Centres are now contracted on an Any Qualified Provider ("AQP") basis at NHS Tariff prices on NHS Standard Acute Contracts.

Care UK currently operates a total of nine ISTCs including the Greater Manchester CATS contract, two on ISTC Wave II contracts, five on NHS Standard Acute Contracts and two centres that provide only diagnostic services. Care UK operates two ISTC Wave II contracts, one in Southampton and the Greater Manchester CATS contract. Both of these ISTC Wave II contracts were commissioned during the first half of the 2009 financial year. These contracts are structured with the intention that a contractual level of guaranteed revenue should cover the fixed costs of establishing and maintaining the facility with Care UK being incentivised through the pricing structure to achieve higher activity levels than the guaranteed minimum.

The five ISTCs contracted on the NHS Standard Acute Contract have no volume guarantees. The PCTs expect Care UK to be able to provide the number of procedures that they forecast will be demanded by service users and which are included as the "Activity Plan" within the overall contractual arrangements. Care UK is required to provide at least this number of procedures if patients choose Care UK's centres but the actual volume will depend on local demand. Following a transitional period Care UK has re-established volumes at these ISTCs by increasing marketing activity and attracting service users under "Patient Choice" in competition with other secondary health care service providers, including NHS hospitals. The responsibility for the commissioning of these services will move to CCGs from 1 April 2013 but the structure of the contracts will remain substantially unchanged.

Forward Contracted Revenue

As at 30 September 2012, Care UK estimates that it had £1.25 billion in forward contracted revenue, including forward income at the preferred bidder stage. Care UK's forward contracted income is calculated by multiplying the remaining life of each contract, including the minimum termination period, as against the revenue that the contract states will be earned for providing the services specified in the contract, using current prices and, to the limited extent necessary, making certain factual assumptions regarding user demand and delivery of services. Care UK does not take account of potential future price increases in making this estimate, even where specified indexation measures are used.

The amount of actual revenues earned and the actual periods during which revenues are earned may differ from the assumptions made with respect to the amounts of revenue earned and periods during which they are earned which have been used to calculate forward contracted revenue. This difference is due to various factors, including, but not limited to, any failure to reach the volumes set out in Care UK's contracts due to the lack of demand for those services or otherwise. In addition, amounts included in the calculation of forward contracted revenue may change because contracts may be varied or modified by mutual consent or counterparties may exercise early termination rights. As a result, the estimated forward contracted revenue as of any particular date may not be indicative of its actual operating results for the subsequent periods for which the forward contracted revenue is calculated. Forward contracted revenue provides a snapshot of committed revenues as at 30 September 2012 on the basis of certain assumptions and the actual revenues to be earned under certain contracts may be lower than the estimated amount of forward contracted revenues, and Care UK may in the future generate additional revenues which are not included in the estimated amount of forward contracted revenue as at 30 September 2012.

Facilities

Care UK owns, leases or operates under certain PFI Handback arrangements (described below) the facilities out of which it provides its services. It now has 89 residential care facilities, 18 mental health facilities and nine ISTC centres, including two diagnostic centres and the Manchester CATS contract. The majority of these are either freehold or long leasehold facilities with around one third being held on short term leasehold arrangements. It also leases and runs its community services business out of over 60 locations and has approximately 40 locations in general healthcare, including 16 prisons.

Social Care

Care UK's primary need for facilities in the provision of social care services is in its residential care home services. Property is held within Care UK's Residential Care division on three different bases: Freehold & Long Leasehold, Short Leasehold & Managed Contracts and "PFI Handback".

For the Short Leasehold & Managed Contract properties, Care UK pays rent to the property owner although in many cases the property owner is the Local Authority for whom Care UK will provide beds in the care home. As a result, the rent and the fee rates charged for the provision of care beds are negotiated in tandem. Under a PFI Handback, the sites at which the facilities are based are also usually owned by the contracting Local Authority with Care UK operating the relevant facility under a licence to occupy, with full ownership of the building also reverting to the Local Authority upon expiry of the underlying service contract. Frequently, the PFI Handback properties are structured so that Care UK is charged either low or negligible rent and in return Care UK charges lower fees on the underlying block contracts for these homes. The underlying service contracts for the PFI Handback facilities are typically for periods of up to 25 years.

The Freehold and Long Leasehold properties benefit from negligible rental costs, improving profitability. In February 2010, Knight Frank valued Care UK's then 31 residential care freehold and long leasehold properties as well as 15 freehold mental health properties at a combined total of £170 million on a trading basis, which was approximately double their recorded book value at the time of the valuation. Care UK currently owns 54 freehold and long leasehold properties across its Residential Care, Community Services and Mental Health divisions.

Care UK provides community services without relying on substantial investments in facilities as almost all of the relevant care takes place in the service user's home. The branches and offices from which Care UK provides these services are leased at a relatively low cost and there is no critical physical infrastructure on which these services are dependent.

Care UK's Mental Health division operates predominantly from facilities that are owned. In providing its mental health services, Care UK operates eight independent hospitals, five mental health homes, four specialist facilities for eating disorders and those with self-harming tendencies and a newly opened community based service. It owns or has a long term lease on all but two of these facilities.

Health Care

Care UK provides general healthcare services out of approximately 40 sites including 16 prisons. It operates these facilities under a range of rental agreements, the terms of which vary depending on the service provided and the individual terms of the agreements.

The majority of Wave I ISTCs had buy-back clauses in their contracts whereby the Department of Health had a contractual obligation to buy back the facilities from Care UK at the end of the contract period. All of these contracts have now expired and Care UK continues to operate seven former ISTC Wave I facilities, including two diagnostic centres, all of which are now operated under short leasehold tenure. As a result of the asset buyback guarantees Care UK has received approximately £54.0 million of cash, with the last payment being received as planned in December 2011.

Greenfield Developments

Care UK intends to establish a number of new residential care homes targeted at service users suffering from dementia and other conditions requiring long term care. Bridgepoint, the controlling shareholder of Care UK, and management have established an independent, separately financed property development company to finance the development of new residential care homes and lease them to Care UK. Care UK will continue to consider building and owning its own residential care homes and other facilities as well as leasing them from third parties. For further information regarding the separately funded property vehicle, see "Certain Relationships and Related Party Transactions".

Competitors

Care UK competes in several fragmented markets with a variety of for-profit and not-for-profit groups in each of the markets it operates in. While some of its competitors compete with it in a range of services, no other competitor is active in as many areas as Care UK. Moreover, most competition is local, based on relevant catchment areas and local procurement initiatives.

Care UK does not compete directly with public entities to provide social care, although it does so indirectly in that Care UK needs to demonstrate better quality services (usually judged on the basis of patient benefit) at lower cost than the applicable public entity, to justify the decision to outsource the relevant service. In health care the group's former Wave I ISTCs now compete with NHS service providers to attract patients to these centres and receive the same national tariffs for procedures undertaken.

Social Care

Care UK's major competitors in the provision of care homes are BUPA Care Homes, Four Seasons Health Care Limited, Barchester Healthcare Limited and HC-One. In addition, a number of voluntary providers serve approximately 15 per cent. of the total care home market. The major voluntary providers include Shaw Homes, Anchor Trust, Orders of St John Care Trust, MHA Care Group and Abbeyfield Society Limited.

The last decade has seen active consolidation in the for-profit care home market, although this trend has slowed in recent years. The residential care sector remains relatively fragmented with a large number of independent providers who own fewer than three homes apiece. In the residential care sector, Care UK competes on price and quality in order to convince Local Authorities that it is the most competent provider of residential care home services and to convince self-pay service users that it provides the highest quality of services.

Care UK's primary competitors in the provision of home care are Saga Group, Mears Group Plc and Housing 21. Secondary level competitors based on volumes include Enara, now owned by Mitie, London Care and Carewatch. However, the market in the UK remains highly fragmented where Care UK competes on the basis of price and quality in order to win contracts from Local Authorities. Whilst Local Authority contracts currently represent in excess of 90 per cent. of the homecare business, an emerging trend within the market is towards private pay opportunities particularly with regard to Local Authority service users being given personal budgets to directly purchase services and allowing those services to be personalised.

Care UK's major competitors in the provision of mental health services and care for individuals with learning disabilities include Voyage Group, the Priory Group and Four Seasons Health Care Limited.

Health Care

Care UK's major competitors in the provision of health care services through outsourcing contracts from the NHS include Ramsay Healthcare UK, Circle Healthcare and UKSH.

Sales and Marketing

Within the health and social care industry generally, marketing remains under-developed, and the concept of market segmentation is rarely recognised. Care UK has focused on attractive segments such as dementia within broader markets such as residential care. The same approach allows Care UK to build a presence in higher value markets with high barriers to entry. Such an approach, with a handful of notable exceptions, is not generally common among Care UK's major competitors. Going forward, Care UK intends to target self pay service users as an additional primary market rather than as an ancillary market to its core state funded clientele. This will require both high quality services and purpose built, properly equipped premises.

Market research has helped to develop the industry's undertaking of consumer preferences in the residential sector. Basic housekeeping and quality of life issues are consumer concerns and are highly visible to both the service user and the service user's relatives who may have been involved in the choice of homes. Other factors that service users and their relatives have ranked as valuable to them in their choice of facilities include the staff and the standard of personal care, the supervision of staff by the management and the accessibility of the home to wheelchair and walking aid users. Care UK intends to use its understanding of these dynamics as well as its consistently high quality scores to expand its provision of services to self pay customers who have greater involvement in the choice of facility and care provider. Generally there is considered to be an increasing public expectation of high levels of service quality to be provided.

Regulation

Care UK is subject to regulation by the UK Government and is particularly impacted by laws relating to the provision of health care as well as the regulations of the Department of Health. Discussed in more detail below are some of the key laws and regulations under which Care UK operates.

HSCA and the CQC

The Health and Social Care Act 2008 (the "HSCA") established a new, independent registration and regulatory body for health and adult social care services in England, called the Care Quality Commission (the "CQC"). The CQC are empowered to (i) register all health and social care providers to ensure they are meeting essential common quality standards, (ii) monitor and inspect all health and adult social care, (iii) utilise enforcement powers, such as public warnings, fines or temporary or permanent closures, if standards are not being met, (iv) undertake regular reviews of how well those who arrange and provide services locally are performing and special reviews of particular care services, pathways of care or themes where there are particular concerns about quality and (v) report the outcomes of the CQC's work so that people who use the services have information about the quality of their local health and adult social care services.

The Care Quality Commission (Registration) Regulations 2009 (the "Regulations") are the explicit standards enacted under the HSCA and published by the CQC. The Regulations detail the principles, and the requisite outcomes that are expected to result from the application of those principles, that apply to any facility that registers with the CQC. The Regulations impact the manner in which each division operates, and if Care UK fails to comply with them it could result in a number of adverse consequences for Care UK including, but not limited to, warnings, orders to implement changes, fines and, in extreme cases, revocation of operating permits.

Scotland and Wales

The Public Services Reform (Scotland) Act 2010 has created the Care Inspectorate in order to ensure that the following functions are undertaken: (a) that the safety and wellbeing of all persons who use, or are eligible to use, any social service are protected and enhanced; (b) that the independence of those persons is promoted; (c) that diversity in the provision of social services is promoted; and (d) good practice in the provision of social services is to be identified, promoted and shared. If Care UK fails to comply with these it could result in warnings, fines or even revocation of operating permits.

The Care Standards Act 2000 provided for the registration and regulatory structure of all non-NHS health care services in Wales. The Care and Social Services Inspectorate Wales is the regulatory body tasked with registering and monitoring health and social care in Wales.

Adult Protection

The Government is in the process of legislating to impose statutory duties on Local Authorities that will clarify and increase their existing role in the protection of vulnerable adults. Local Authority investigations are likely to increase in the sector given the number of vulnerable adults in our care and the wide approach to intervention adapted by some public sector bodies. This may on occasion impact on Local Authority contracting and could, in more extreme cases, even lead to an embargo on new admissions to a care home.

Mental Capacity Act 2005

The Mental Capacity Act 2005 (the "MCA") sets out the process by which the determination that a person no longer has the capacity to reason or make decisions for him or herself is conducted. Additionally, once this determination is made, the MCA sets out the legal framework to assist in deciding appropriate courses of action for that individual. This is particularly relevant to Care UK's residential care services, where it cares for a number of individuals who lack capacity to reason or make appropriate decisions. For example, some individuals refuse necessary medication. Increasingly individuals have appointed attorneys to make decisions for them when they lack capacity. On occasion this can lead to disputes that have to be decided by the Court of Protection and there has been a steady increase in the need to involve the Court.

In addition, the Deprivation of Liberty Safeguards were inserted into the MCA by the Mental Health Act, 2007. Where these particular regulations apply, Care UK must meet substantial requirements and assessment by the Local Authority demonstrating that the deprivation is in the best interests of the individual and that the individual's care and life needs are still met.

Mental Health Act 2007

The Mental Health Act 2007 (the "Mental Health Act"), which amended the Mental Health Act 1983, introduced significant changes in the area of mental health care. In addition, the Mental Capacity Act 2005 also introduced new protections for individuals with diminished mental capacity (see above). These changes included the introduction of supervised community treatment, the broadening of the range of mental health professionals responsible for the treatment of patients without their consent, the introduction of a new definition of mental disorder, and the redefinition of the procedures for involuntary commitment.

Critically, the Mental Health Act regulates the manner in which an individual can be committed or detained and treated against his or her will. In particular, it places the burden on the entity detaining a person to prove that the entity has the right to hold the detainee. This places a substantial regulatory burden on Care UK as it maintains rigorous procedures to ensure compliance with the law. There is also the risk of litigation if this is not dealt with properly.

Corporate Manslaughter Act 2007

The majority of the provisions of the Corporate Manslaughter Act 2007 (the "Corporate Manslaughter Act") came in to force on 6 April 2008. The provisions relating to deaths in custody came in to force on 1 September 2011.

Under the Corporate Manslaughter Act, Care UK would be guilty of an offence if the way in which Care UK's activities are managed or organised causes a person's death, and amounts to a gross breach of a relevant duty of care owed by Care UK to the deceased. As from 1 September 2011 the Act extends to the offender health services provided by Care UK. Offences under this Act could lead to a fine, which may be determined on a percentage of revenue, potentially of the whole group.

Prevention of Illegal Working

Given the shortage of indigenous qualified and willing workers in the industries in which Care

UK is active, which varies from time to time depending on general economic conditions and the condition of local labour markets in the locations where Care UK operates, Care UK relies on foreign workers to the extent required. In such cases, it must pay close attention to relevant immigration laws. In particular, the Immigration, Asylum and Nationality Act 2006 (the "IANA") imposes civil and/or criminal penalties on employers who employ adults (over the age of 16) who are subject to immigration controls and have not been granted leave to enter or remain in the United Kingdom or whose leave is invalid, ineffective or subject to conditions preventing them accepting employment ("illegal workers"). Under this legislation, an employer is subject to civil fines of up to a maximum of £10,000 per worker if it employs an immigrant in a job for which he or she is not authorised. Changes to the law made as of February 2008 created a criminal offence of knowingly employing an illegal worker. Employers prosecuted under the IANA can establish a defence by proving that they checked specific types of documents as specified by the UK Government prior to the commencement of employment.

Health & Safety and Environmental Legislation

Care UK is subject to numerous separate laws and regulations relating to both occupational health and safety and environmental issues, though many of them only affect it tangentially. These laws and regulations are enforced either at national level (health and safety), or at local level: fire safety laws are enforced by local fire inspectors and environmental laws reinforced by local environmental health officers.

The most significant occupational health and safety law is the Health & Safety at Work etc Act 1974 ("Health & Safety Act"). The Health & Safety Act imposes a duty of care upon Care UK not only to its employees but also to its service users and to any visitors to its facilities. Care UK is required to take care to prevent serious accidents and remove from its facilities conditions that could lead to such accidents. This is an area of special concern in services like residential care and mental health care where the service users are residents in Care UK's facilities. To ensure that Care UK remains in compliance with these laws, it maintains a group-wide Health and Safety Committee comprising members of the senior management team and employs health and safety specialists in each of its divisions, who also maintain divisional health and safety committees. Furthermore, Care UK employs an outside consultancy, Santia Health & Safety, to test its compliance with, and improve its policies concerning, health and safety laws.

With regards to environmental legislation, the most significant law is the Environmental Protection Act 1990 - Part II as amended ("Environmental Protection Act"). The Environmental Protection Act mandates that all waste is disposed of through a licensed waste disposal agent and that all hazardous and non-hazardous waste disposal should be supported by approved documentation. The Waste Electrical and Electronic Equipment Directive 2009 as amended ("WEEE Directive") imposes a duty to ensure that electrical and electronic equipment is disposed of through a registered hazardous waste disposal merchant. Care UK ensures that it only uses approved and licensed waste carriers and recyclers.

The Bribery Act 2010

The Bribery Act 2010 (the "Bribery Act") came in to force on 1 July 2011. The Bribery Act creates four criminal offences, which are:

- Bribing another person: offering, promising or giving a financial or other advantage to another person;
- Being bribed: requesting, agreeing to receive or accepting a financial or other advantage;
- Bribery of foreign public officials (not considered relevant to Care UK); and
- A corporate offence of failure to prevent bribery. Care UK would commit an offence if any person associated with it bribes another person intending to obtain or retain business or some other business advantage for Care UK. Care UK would have a defence to this corporate offence if it had in place adequate procedures to prevent persons associated with it from undertaking such conduct. In view of this, Care UK has assessed the risks that it faces, revised its anti-corruption policy, appointed a compliance officer and amended its standard agreements to include reference to the Bribery Act.

It is Care UK's policy to conduct all its business in an honest and ethical way. Care UK takes a zero tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever Care UK operates and implementing and enforcing effective systems to prevent and stop bribery.

Employees

The following table shows the average monthly number of Care UK's employees, including Executive Directors, by function for the last two financial years.

	For the year ended 30 September	
	2011	**2012**
Nursing, care and support staff	12,173	13,927
Management and administration	1,694	1,732
	13,867	15,659

Insurance

Care UK carries a variety of insurance policies including, among others, property and material damage, business interruption, employers liability, public liability, directors and officers liability and medical malpractice. Care UK maintains insurance coverage that is of the type that is customary for a business of the nature and size of Care UK.

Legal Proceedings

In the normal course of its business, Care UK Health & Social Care Investments Limited and its subsidiaries may be involved in legal, arbitration or administrative proceedings. Additionally, Care UK operates in a closely regulated industry. As such, in the ordinary course of business, Care UK is subject to national and local regulatory scrutiny, supervision and control. Such regulatory scrutiny often includes inquiries, investigations, examinations, audits, site visits and surveys, some of which are non-routine.

At the date of this Annual report, to the best of Care UK Limited's knowledge after due inquiry, there were no exceptional events, claims or litigation which have had or are likely to have a material adverse impact on Care UK's business activities, results of operations or financial condition.

MANAGEMENT

Care UK Health & Social Care Investments Limited

Board of Directors

Care UK Health & Social Care Investments Limited's Board of Directors is composed of the following individuals:

Name	Age	Title
Mike Parish	53	**Chief Executive**
Paul Humphreys	54	**Group Finance Director**

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

Mike Parish has been Chief Executive of Care UK Limited since 2001. Prior to joining Care UK, he was appointed to Exel plc's ("Exel") main board of directors as chief executive of Exel's global industrial division. Mike had joined Exel (known at that time as NFC) as a graduate trainee in 1981, and in 1995 he initiated the formation of a joint venture company between Exel and Bass Brewers called Tradeteam and was appointed managing director.

Paul Humphreys has been Group Finance Director of Care UK Limited since 2002. Prior to joining Care UK in November 2002, he was group finance director for almost 10 years at McLeod Russel Holdings Plc ("McLeod Russel"). Prior to working at McLeod Russel, Paul was finance director at Leeda Group, a subsidiary of Porter Chadburn plc, and held various positions at Bluebird Toys plc, including managing director of the Bluebird UK Division. He qualified as a chartered accountant at Ernst & Whinney and then spent three years in ICI's Mond Division.

Senior Management

In addition to the executive directors discussed above, Care UK considers the following personnel to form its senior management team:

Name	Age	Title
Karen McCormick	56	**Group HR Director**
Debi Marriott-Boam	43	**Managing Director, Community Services**
Alison Rose-Quirie	52	**Managing Director, Mental Health**
Toby Siddall	41	**Managing Director, Residential Care**
Belinda Moore	50	**Group Marketing Director**

Set forth below is a brief description of the business experience of the members of Care UK's senior management.

Karen McCormick has been the Group Human Resources Director since October 2012. Karen spent her early career with N&P Building Society and Norman Broadbent Consulting Services and then spent four years with GUS plc in HR and Organisational Development roles before joining J Sainsbury plc as People Performance Director. In 2005 Karen became Chief Executive of the Cheshire Building Society and has subsequently undertaken a number of consulting and interim assignments before joining Care UK.

Debi Marriott-Boam has been the Managing Director of the Community Services division since April 2010. Prior to joining Care UK, she had been a regional operations director for Nestor plc from 1996-2003, director of nursing and allied health professionals at Corinth Healthcare from 2003-05, operations director at Allied Healthcare International Inc. from 2005-07, and from 2007-10, chief operating officer of Anchor Trust, with responsibility for Anchor's home care, extra care and home maintenance business.

Alison Rose-Quirie has been the Managing Director of the Mental Health division since April 2009. Prior to joining Care UK, she was the managing director of the Priory Group's secure and complex care hospitals business. She has over 25 years experience in health and social care within the criminal justice sector, including working with GSL (now G4S) as managing director of their prisons and immigration services.

Toby Siddall has been the Managing Director of the Residential Care Services division since August 2011. Prior to joining Care UK, he held a number of managing director roles with Centrica including the Centrica Service & Repair and Electrical & Dyno Services businesses. Toby previously worked in advisory roles within Goldman Sachs and Accenture.

Belinda Moore joined Care UK in October 2011 from BMI Healthcare where she was Group Sales & Marketing Director. In that role Belinda was responsible for a nationally based sales and marketing team and a significant customer contact centre. Prior to joining BMI, Belinda was Head of Marketing & Operations for Britvic International and has held a series of senior marketing roles in a number of leading FMCG organisations and also spent six years in pharmaceutical sales and marketing for the Wellcome Foundation.

The business address for each member of the Board of Directors and senior management of Care UK is Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex CO4 9QB.

The role of Managing Director of the Health Care division is currently held on an interim basis by the Divisional Finance Director. The Company has approached Jim Easton, currently NHS National Director for Improvement and Efficiency for the NHS in England, regarding the role of Managing Director of Care UK's Health Care division. The movement of senior Department of Health employees to roles in the independent sector is subject to business appointment rules. Dr Mark Hunt left Care UK in March 2012, resigning from the Board of Care UK Health & Social Care Investments Limited at the same time.

Board Committees

Care UK Health & Social Care Investments Limited has not separately established any audit, remuneration or other board committees. The Board of Directors as a whole, or their delegated members, fulfil these functions as and when required. The remuneration committee, audit committee and integrated governance committee of Care UK Health & Social Care Holdings Limited, which indirectly owns 100 per cent. of Care UK Health & Social Care Investments Limited, performs remuneration committee, audit committee and integrated governance functions relating to these companies.

Care UK Health & Social Care Holdings Limited Remuneration Committee

The Care UK Health & Social Care Holdings Limited remuneration committee recommends the remuneration of the executive directors and senior management of Care UK.

Care UK Health & Social Care Holdings Limited Audit Committee

The Care UK Health & Social Care Holdings Limited audit committee has been established to monitor the integrity of Care UK's financial statements. The audit committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the board in relation to the appointment, reappointment and remuneration of the external auditor. The committee also reviews annually Care UK's systems of internal control and the processes for monitoring and evaluating the risks facing Care UK.

Care UK Health & Social Care Holdings Limited Integrated Governance Committee

The Care UK Health & Social Care Holdings Limited Integrated Governance Committee has been established in order to ensure group-wide consistency, dissemination of best practice, the spread of lessons learned from any complaints or incidents and independent expert scrutiny. In January 2012 this Committee was supplemented by the appointment of Dr Martin Morse, an independent expert in the field of health and social care. Integrated governance within Care UK is co-ordinated by this Committee through an Integrated Governance Leadership Team, which meets on a regular basis and considers divisional reports on service quality and risk management together with reports from the group's Health & Safety Committee, Information Security Committee and Medicines Management Committee. A clear escalation protocol ensures that any serious incidents within the group are brought rapidly to the attention of both the Chief Executive and the Board. Care UK's Annual Quality Account is available through the group's website.

Compensation

Remuneration and other benefits

The aggregate remuneration paid to or accrued on behalf of the directors of Care UK Health & Social Care Investments Limited, in relation to their positions of employment within the Care UK group, for the financial year ended 30 September 2012 was £1,452,000 in salaries and fees, cash bonuses and benefits.

The aggregate remuneration paid to or accrued on behalf of Care UK's senior management (other than the directors of Care UK Health & Social Care Investments Limited) for the financial year ended 30 September 2012 was approximately £1,112,000 in salaries, fees, cash bonuses and benefits.

Care UK Health & Social Care Holdings Limited maintains directors' and officers' liability insurance with respect to its directors and senior managers of its direct and indirect subsidiaries.

Defined contribution pension plans

Care UK operates a stakeholder (defined contribution) arrangement. The total expense relating to these plans in the financial year ended 30 September 2012 was £1.2 million (2011: £1.1 million). Pension contributions to defined contribution schemes are subject to HM Revenue & Customs limits. Where such limits would be exceeded, the remaining amount that would otherwise have been paid as a pension contribution is provided as a payment in lieu of pension benefits, at the discretion of the executive director. In the year ended 30 September 2012, a payment of £59,383 was made on this basis to Mike Parish in lieu of pension benefits, which is included within the total of directors remuneration and other benefits stated above.

Executive Management Team Share Ownership

The Executive Management Team's holdings (and the percentage of the total issued share capital of Care UK Health & Social Care Holdings Limited which this represents) as of the date of this Annual report are set out in the table below.

Name	Number of A Ordinary shares	Number of B Ordinary shares	Total number of Ordinary shares	Total per cent. of issued Ordinary shares	Number of Preference shares
Mike Parish	300,000	12,297	312,297	6.481%	398,703
Paul Humphreys	137,500	2,813	140,313	2.912%	91,220
TOTAL	**437,500**	**15,110**	**452,610**	**9.393%**	**489,923**

Management and Employee Share Ownership

In total, 1,000,000 A Ordinary Shares were set aside for issue to Care UK management (the "Management Shares") under a management incentivisation scheme, of which 437,500 have been allocated to the Executive Management Team, as set out in the table above, and a further 487,500 have been allocated to John Allan, the Chairman of Care UK Health & Social Care Holdings Limited, and other managers and employees, of which 97,500 are currently held by the group's Employment Benefit Trust pending allocation to new management. The remaining 75,000 A Ordinary Shares are currently unissued and unallocated.

It is the commercial intention that the Management Shares represent 20.0 per cent. of the value of Care UK Health & Social Care Holdings Limited attributable to its issued Ordinary Shares, subject to a ratchet mechanism to be applied in the event of a sale, listing or winding up that will reduce the value of the Management Shares to 17.5 per cent. if certain performance thresholds are not met.

Restrictions attaching to shareholdings

The Management Shares are subject to certain transfer restrictions and customary drag and tag provisions. A manager may be forced to sell his Ordinary Shares in the event that he/she ceases to be employed by Care UK. In such cases, the consideration payable for the shares depends on the circumstances under which the employment ended and on how long the shares have been held.

Employment Agreements

Care UK's policy is that Executive Directors are employed on rolling contracts subject to twelve months' notice from either party. The existing Executive Directors are employed on these terms. There is no provision in any Executive Director's contract for predetermined compensation or liquidated damages in the event of early termination, but Care UK may make payments in lieu of notice at its discretion. Care UK would review each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances. The contract details for the Executive Directors are:

	Effective Date	Unexpired Term	Notice Period
Mike Parish	5 Nov 2001	12 months	12 months
Paul Humphreys	8 Jul 2002	12 months	12 months

PRINCIPAL SHAREHOLDERS

Care UK Limited is 100 per cent. owned by Care UK Health & Social Care Plc, which is 100 per cent. owned by Care UK Health & Social Care Investments Limited. Care UK Health & Social Care Investments Limited is 100 per cent. owned by Care UK Health & Social Care Finance Limited, which is 100 per cent. owned by Care UK Health & Social Care Holdings Limited. Bridgepoint Europe IV (Nominees) Limited holds 79.4 per cent. of the issued ordinary share capital of Care UK Health & Social Care Holdings Limited as nominee for Bridgepoint Europe IV "A" LP, Bridgepoint Europe IV "B" LP, Bridgepoint Europe IV "C" LP, Bridgepoint Europe IV "D" LP, Bridgepoint Europe IV "E" LP, Bridgepoint Europe IV "F" LP and Bridgepoint Europe IV "G" LP (together the "BEIV Fund"). The BEIV Fund is managed by Bridgepoint.

Bridgepoint is one of Europe's leading mid-market private equity managers with a 25 year track record of investing in European businesses valued up to €1 billion. It has over 70 professionals operating across Europe. Bridgepoint has a Europe-wide network of 10 offices and broad experience from a large number of buy-outs and investments in a wide range of sectors and geographies. Within social care and health care, Bridgepoint is an active investor having made 12 investments across Europe with a total value of €3.5 billion since 2000. Bridgepoint has deep sector knowledge with an excellent track record.

The remaining 20.6 per cent. of the issued ordinary share capital of Care UK Health & Social Care Holdings Limited is held by Mike Parish, Paul Humphreys, John Allan, Chairman of Care UK Health & Social Care Holdings Limited, other members of Care UK's senior management and a number of Care UK's employees, who together hold 19.7 per cent. of the issued ordinary share capital of Care UK Health & Social Care Holdings Limited, as well as John Nash, the former non-executive chairman of Care UK who holds 0.9 per cent. of the issued ordinary share capital of Care UK Health & Social Care Holdings Limited.

In connection with the acquisition of Care UK Limited by Care UK Health & Social Care Plc, Mike Parish and Paul Humphreys and the funds managed by Bridgepoint, that own 79.4 per cent. of Care UK Health & Social Care Holdings Limited, entered into an investment agreement relating to Care UK Health & Social Care Holdings Limited.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Bridgepoint controls Care UK Health & Social Care Investments Limited through the holding of shares in a chain of wholly owned intermediate holding companies - see “Principal Shareholders”. Bridgepoint is therefore considered to be a related party.

Silver Sea Holdings

Subsequent to the acquisition of Care UK Limited, Bridgepoint and the management of Care UK jointly established, as planned, an independent development group of which the parent company is Silver Sea Holdings (“Silver Sea”). The equity interests in Silver Sea are an exact replica of the equity interests in Care UK Health & Social Care Holdings Limited. Silver Sea has been established in order to (i) build residential care homes to Care UK’s specifications; or (ii) to oversee the development of residential care homes by third party property developers who will build the care homes to Care UK’s specifications and sell them to Silver Sea on completion. In each case Silver Sea will enter into an agreement for lease and development with Care UK and will enter into a lease for each such home on its practical completion.

Sites developed by Silver Sea will be funded by a combination of equity contributions from its shareholders, loans from Care UK and loans drawn down under the separate non-recourse debt facilities available to Silver Sea. The loans to be provided by Care UK are on arms length terms and subject to the provisions of both Care UK’s Revolving Credit Facility and Senior Secured Notes. See “Description Of Other Indebtedness”.

Under a technical services agreement, Silver Sea will subcontract certain of its obligations to Care UK and will pay a fee to Care UK for performing these services. Each agreement for lease and development contains an obligation on Silver Sea to grant, and an obligation on Care UK to accept, a lease of the relevant site.

Given the commonality of equity ownership between Silver Sea and Care UK, each of the agreements entered into between these entities in connection with these greenfield development plans is a related party transaction. Since the establishment of Silver Sea, the parties have entered into five such agreements. A number of other sites have been provisionally approved for development subject to the receipt of satisfactory planning permission.

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of the documents listed below governing certain of Care UK's indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. Reference should be made to the Offering Memorandum document published in July 2010, for full definitions of terms.

Amended Revolving Credit Facility

The Issuer entered into a Revolving Credit Facility agreement (the "Senior Revolving Facility Agreement") on 13 July 2010, among a syndicate of banks with Citigroup Global Markets Limited, HSBC Bank plc, ING Bank N.V., London Branch ("ING") and Lloyds TSB Bank plc as mandated lead arrangers and ING as agent and security agent. Care UK Health & Social Care Investments Limited (the "Parent Guarantor") and certain of its subsidiaries are borrowers and guarantors under the Senior Revolving Facility Agreement. The Senior Revolving Facility Agreement has since been amended on (i) 12 August 2010, to reduce certain margins applicable by reference to a total net debt to EBITDA test and (ii) 31 October 2012, to provide additional facilities of up to £17,500,000 for the Harmoni Acquisition (the "Amended Senior Revolving Facility Agreement").

Following the amendment dated 31 October 2012, the Amended Senior Revolving Facility Agreement provides for a revolving facility (the "Amended Revolving Credit Facility") of up to £97.5 million in two tranches as follows:

(a) up to £50.0 million may be drawn under tranche 1 ("Tranche 1"); and

(b) up to £97.5 million may be drawn under tranche 2 ("Tranche 2").

Borrowings under the Amended Revolving Credit Facility may be used:

(a) in respect of Tranche 1, to finance or refinance our working capital and other general corporate needs (but not towards certain excluded purposes) and to replace or collateralise certain letters of credit or performance bonds. In addition to loans, Tranche 1 may also be used to issue bank guarantees and letters of credit or drawn by way of ancillary facilities; and

(b) in respect of Tranche 2, to finance or refinance certain capital expenditure, acquisitions and joint ventures (in each case in accordance with the terms of the Amended Senior Revolving Facility Agreement).

Availability

Tranche 1 is available for drawing until one month prior to the sixth anniversary of the first utilisation under the Amended Revolving Credit Facility. Tranche 2 is available for drawing until the fifth anniversary of the signing of the Amended Revolving Credit Facility Agreement.

Conditions Precedent

Utilisations of the Amended Revolving Credit Facility are subject to customary conditions precedent and also include the following conditions precedent:

- in relation to a Tranche 2 utilisation, certification by the Parent that super senior gross leverage (calculated as the ratio of total super senior gross debt to EBITDA on a pro forma basis taking into account certain matters including the resulting increase in financial indebtedness) does not exceed 2.00:1; and
- other than in the case of a rollover utilisation, in the event that the property portfolio ratio (calculated as the ratio of the value of certain secured properties to the total outstandings under the Amended Revolving Credit Facility following the utilisation) has fallen below 1.15:1 as a result of a disposal or series of disposals, or is already below 1.15:1 and is reduced further by any disposal or series of disposals, certification by the Parent that the property portfolio ratio is at least 1.15:1.

Interest and Fees

The Revolving Credit Facility initially bore interest at a rate per annum equal to LIBOR plus certain mandatory costs and a margin of 4.0 per cent. per annum. The margin is reduced by reference to a total net debt to EBITDA test. As at 30 September 2012 the applicable margin has reduced to 3.5%.

Care UK is also required to pay a commitment fee, quarterly in arrears, on available but unused commitments under the Amended Revolving Credit Facility at a rate of 40 per cent. of the applicable margin.

Security and Guarantees

The Amended Revolving Credit Facility is guaranteed irrevocably and unconditionally on a joint and several basis by the Initial Guarantors. Following the Harmoni Acquisition, the entire issued share capital of HWH Group Limited is now part of the Collateral as part of the first fixed charge granted by Care UK Clinical Services Limited. HWH Group Limited and Harmoni HS Limited will accede to the Amended Revolving Credit Facility Agreement as additional Guarantors and each will grant security over all of its assets by entering into a Deed of Accession to the Security Documents. Such security will include the interest of HWH Group Limited in the entire share capital of its subsidiaries including Harmoni HS Limited, Amicus ITS Limited, Amicus Technology Limited, BH Health Limited, Harmoni for Health Limited, Harmoni Surrey Limited and Hillingdon Health Limited. None of these companies holds any Material Property. It is expected that such Deeds of Accession and the delivery to the Security Agent of blank transfers and the relevant share certificates in respect of the entire share capital of HWH Group Limited and each of such subsidiaries will be entered into and completed by 26 November 2012. It has been agreed that no security is required to be granted over the shares of Suffolk Integrated Healthcare Ltd. Buckinghamshire Urgent Care Alliance LLP and Gryphon Health LLP (each a part of the group acquired in the Harmoni Acquisition).

The Amended Revolving Credit Facility is secured by the same security interests as for the Senior Secured Notes as set out under “Description of the Senior Secured Notes — Security” within the Offering Memorandum published in July 2010.

Under the terms of the Intercreditor Agreement (as described below), the proceeds of any enforcement of the security would be applied to repayment of the Amended Revolving Credit Facility and certain priority hedging obligations incurred for bona fide and not speculative purposes in priority to repayment of the Senior Secured Notes.

The provision and the terms of the security set out above are in all cases subject to certain limitations and are at all times and in all cases subject to the requirements of applicable law and the other matters set out in the Amended Senior Revolving Facility Agreement. Please see “Risk Factors — Risks Relating to Care UK’s Indebtedness and the Senior Secured Notes — Applicable law and other limitations on the enforceability of the security may adversely affect its validity and enforcement” in the Offering Memorandum published in July 2010

Covenants

Certain of the covenants contained in the Amended Revolving Credit Facility are based upon the covenants contained in the Indenture. See “Description of the Senior Secured Notes—Certain Covenants” in the Offering Memorandum published in July 2010. The Amended Senior Revolving Facility Agreement also contains customary operating and negative covenants, subject to certain agreed exceptions, applying to the Parent Guarantor (together with its subsidiaries, the “Parent Guarantor Group”) and other members of the Parent Guarantor Group including:

- restrictions on: mergers; change to business; acquisitions; joint ventures; holding companies; loans; pensions; amendments; hedging; cash management; COMI; tax residence; investments in non-obligors; the making of dividends; shareholder and Parent Guarantor loans; and issue of shares; a negative pledge; and a requirement for transactions to be on arms’ length terms;
- a restriction on repayments or prepayments, or voluntary redemptions or purchases, of any Senior Secured Notes or similarly ranked debt;
- a restriction on the incurrence of additional indebtedness sharing the same priority and payment ranking as the Amended Revolving Credit Facility;

- a restriction on entering into transactions with any company outside of the Parent Guarantor Group established by Bridgepoint Capital Limited for the purpose of purchasing, owning and/or developing freehold and long leasehold sites; and
- a restriction on the designation of, or the making of an investment in, an Unrestricted Subsidiary.

The Amended Senior Revolving Facility Agreement also requires the Issuer, each borrower and each guarantor to observe certain customary affirmative covenants, subject to certain exceptions, including:

- covenants relating to financial information and accounting; and
- covenants relating to obtaining required authorisations: compliance with laws; compliance with environmental laws; information about environmental claims; payment of taxes; preservation of assets; pari passu ranking; insurance; pensions; access; management service contracts; intellectual property; financial assistance; bank accounts; guarantor coverage (by reference to 85 per cent. (initially 90 per cent.) of consolidated EBITDA, consolidated gross assets and consolidated turnover, subject to certain exemptions); further assurance; conditions subsequent in relation to security; and allocation of priority hedging liabilities.

The Amended Senior Revolving Facility Agreement also requires the Parent Guarantor to ensure compliance with financial covenants relating to:

- Super senior gross leverage (calculated as the ratio of total super senior gross debt at each quarter end to EBITDA for the 12 months ending on that quarter end); and
- Interest cover (calculated as the ratio of EBITDA to total net finance charges, measured at each quarter end for the 12 months ending on the relevant quarter end),

in each case, as such terms are defined in the Amended Senior Revolving Facility Agreement.

In April 2011 an Amendment Request Letter to the Amended Senior Revolving Facility Agreement was signed by the lenders, which has the effect of bringing the terms of the Amended Revolving Credit Facility more closely in line with the Permitted Investments definition of the Senior Secured Notes.

Repayment

Loans made under the Amended Revolving Credit Facility must be repaid in full on the last day of the relevant interest period. All outstanding amounts under the Amended Revolving Credit Facility must be repaid on the sixth anniversary of the utilisation of the Amended Revolving Credit Facility. Amounts repaid by the Issuer in respect of loans made under the Amended Revolving Credit Facility may be re-borrowed, subject to certain conditions.

Prepayment

Subject in certain cases to agreed grace periods, thresholds and other qualifications, there are mandatory prepayments required to be made upon the occurrence of certain other events such as asset sales and receipt of insurance proceeds, and there is an annual clean down obligation in relation to Tranche 1.

There is also a mandatory prepayment requirement in the event that the property portfolio ratio falls below 1.15:1 at any time as a result of a disposal or series of disposals, or is already below 1.15:1 and is reduced further by any disposal or series of disposals, in an amount equal to the lower of (i) up to 100% of the proceeds of the relevant disposal or disposals and (ii) the relevant proportion of the proceeds of the relevant disposal or disposals required to ensure that the property portfolio ratio (*pro forma* for the relevant disposal or disposals and the resulting prepayment) is 1.15:1.

Upon the occurrence of a change of control (as defined in the Amended Revolving Credit Facility) or the sale of all or substantially all of the assets of the Parent Guarantor Group whether in a single transaction or a series of related transactions, the Amended Revolving Credit Facility would be cancelled and all outstanding utilisations and ancillary facility outstandings, together with accrued interest, and all other amounts accrued under the Amended Revolving Credit Facility documents, would become immediately due and payable.

Upon the occurrence of a qualifying bond issue (as defined in the Amended Revolving Credit Facility), 50 per cent. of the bond proceeds (being the proceeds of the qualifying bond issue less costs and expenses and any taxes) shall be applied in prepayment (but not cancellation) of the Amended Revolving Credit Facility.

Events of Default

The Amended Senior Revolving Facility Agreement contains customary events of default the occurrence of which would allow the lenders to accelerate all outstanding loans and terminate their commitments and any bank guarantees, letters of credit and ancillary facilities, and/or declare that cash cover in respect of any bank guarantees, letters of credit and ancillary facilities is immediately due and payable, subject in certain cases to agreed grace periods, thresholds and other qualifications.

The customary events of default, subject to certain agreed exceptions, include:

- a cross default with respect to an Event of Default under the Senior Secured Indenture; and
- an event reasonably likely to have a material adverse effect on: the business or assets of the Parent Guarantor Group (taken as a whole); or the ability of the obligors (taken as a whole) to perform their payment obligations under the Amended Revolving Credit Facility; or the ability of the Parent to comply with its obligations under the financial covenants as tested on the then four immediately succeeding quarter dates; or the validity or enforceability of, or the effectiveness or ranking of any Security.

Governing Law

The Amended Senior Revolving Facility Agreement is governed by English law other than certain covenants, which reflect, *mutatis mutandis*, the provisions of the Senior Secured Notes, which are governed by the law of the State of New York.

Intercreditor Agreement

In connection with entering into the Senior Revolving Facility Agreement, the Parent Guarantor, the Issuer and the Subsidiary Guarantors entered into an intercreditor agreement dated 20 July 2010 (the “Intercreditor Agreement”) to govern the relationships and relative priorities among: (i) the lenders under the Amended Senior Revolving Facility Agreement (the “Lenders”) and the parties to the Amended Senior Revolving Facility Agreement; (ii) persons that accede to the intercreditor agreement as counterparties to certain hedging agreements (the “Hedging Agreements”, and such persons, which shall include the Lenders and their affiliates acting in such capacity, the “Hedge Counterparties”); (iii) the Trustee on behalf of the holders of the Senior Secured Notes; (iv) the Security Agent and (v) certain intra-group creditors and debtors. In addition, the Intercreditor Agreement regulates the relationship between the Parent Guarantor and its subsidiaries, on the one hand, and shareholders of the Parent Guarantor and related parties, on the other hand.

In connection with the issuance of the Senior Secured Notes, the Trustee on behalf of the holders of the Senior Secured Notes, the Issuer and each Guarantor became parties to the Intercreditor Agreement. The Parent Guarantor and each of its subsidiaries that incurs any liability or provides any guarantee under the Amended Senior Revolving Facility Agreement or the Senior Secured Indenture is referred to in this description as a “Debtor” and are referred to collectively as the “Debtors.”

The Intercreditor Agreement sets out:

- the relative ranking of certain indebtedness of the Debtors (including pursuant to their guarantees);
- the relative ranking of certain security granted by the Debtors;

- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of the Collateral.

Unless expressly stated otherwise in the Intercreditor Agreement, the provisions of the Intercreditor Agreement override anything in the Amended Senior Revolving Facility Agreement or the Senior Secured Indenture to the contrary.

By accepting a Senior Secured Note, holders of the Senior Secured Notes are deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement and to have instructed the Trustee to enter into the Intercreditor Agreement. The Lenders and the Hedge Counterparties to the extent that they are owed Priority Hedging Liabilities are "Super Senior Creditors". The Hedge Counterparties to the extent that they are owed non-Priority Hedging Liabilities, holders of Senior Secured Notes, the Trustee and certain additional senior secured creditors (if any) and related trustee (if any), are the "Senior Creditors".

The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement and you are advised to read that document because it, and not the discussion that follows, defines certain rights of the holders of the Senior Secured Notes.

Ranking and Priority

The Intercreditor Agreement provides, subject to the provisions in respect of permitted payments described below, that the liabilities of the Debtors in respect of the Amended Revolving Credit Facility (the "Revolving Creditor Liabilities"), the Hedging Agreements (the "Hedging Liabilities") and, the Senior Secured Notes (the "Senior Secured Notes Liabilities") and certain other liabilities rank in right and priority of payment *pari passu* and without any preference between them.

The Intercreditor Agreement also provides that certain intra-group claims are subordinated to the Revolving Creditor Liabilities, the Hedge Liabilities and the Senior Secured Notes Liabilities.

The parties to the Intercreditor Agreement agree in the Intercreditor Agreement that the security provided by the Debtors and the other parties that provide security for the Amended Revolving Credit Facility and the Senior Secured Notes rank and secure the following liabilities (but only to the extent that such security is expressed to secure those liabilities) in the following order:

- *first*, the fees, costs and expenses owed to the agent for the Lenders (the "Senior Facility Agent"), the Trustee and the Security Agent *pari passu* and without any preference between them;

- *second*, the Revolving Creditor Liabilities and certain Hedging Liabilities to the extent incurred for bona fide and not speculative purposes (the "Priority Hedging Liabilities") *pari passu* and without any preference between them; and

- *third*, the Senior Secured Notes Liabilities and the Hedging Liabilities that are not Priority Hedging Liabilities (the "non-Priority Hedging Liabilities").

Under the Intercreditor Agreement, all proceeds from enforcement of the security would be applied as provided below under "— Application of Proceeds."

The Intercreditor Agreement does not restrict the ability of the Issuer to make certain payments under the Senior Secured Notes, in particular scheduled payments of interest and any additional amounts thereon (arising due to tax deductions or payments) and the permanent repayment of principal on the scheduled maturity date of the Senior Secured Notes.

Permitted Payments

The Intercreditor Agreement permits, *inter alia*,

- in respect of Revolving Creditor Liabilities, Debtors to make payments at any time under the Amended Revolving Credit Facility in accordance with the Amended Senior Revolving Facility Agreement;
- in respect of Senior Secured Liabilities, Debtors to make payments at any time in accordance with, and subject to the provisions of, the Intercreditor Agreement, the Hedging Agreements, the documents relating to the Amended Senior Revolving Facility Agreement, the documents relating to the Senior Secured Indenture and certain other additional senior secured debt which may share the same payment and ranking as the Senior Secured Liabilities (the "Senior Secured Documents"), security documents and certain other documents relating to the intra-group and subordinated obligations of the Debtors (together the "Debt Documents"), provided that this shall not restrict: the payment of interest (but not capitalised interest) and additional amounts thereon payable in the ordinary course in accordance with the terms of the Senior Secured Documents; and the permanent payment of principal on the final scheduled maturity of the relevant Senior Secured Liabilities; and
- in respect of the Hedging Liabilities (provided that no payments may be made if any scheduled payment due to a Debtor under a relevant Hedging Agreement is due and unpaid other than pursuant to rights to withhold payment) subject to the Hedge Counterparty exercising its rights to withhold payment under the Hedging Agreement:
  - (a) if the payment is a scheduled payment arising under the relevant Hedging Agreement;
  - (b) to the extent that the relevant Debtor's obligation to make the payment arises as a result of, among others, the provisions in the Hedging Agreements relating to deduction or withholding for tax, default interest and expenses;
  - (c) to the extent that the relevant Debtor's obligation to make the payment arises from a permitted hedge close out and no default under the Amended Revolving Credit Facility is continuing at the time of such payment; or
  - (d) prior to the later of the date on which all Revolving Creditor Liabilities have been fully and finally discharged (the "Revolving Facility Discharge Date") and the date on which all Senior Secured Notes Liabilities have been fully and finally discharged (the "Senior Secured Notes Discharge Date"), with the consent of the Majority Senior Creditors (as defined below); and
  - (e) to lenders under any intra-group loan agreement (together, the "Intra-group Liabilities") if at the time of payment such payment is permitted under the terms of any agreement or instrument entered into by a Debtor in connection with any Revolving Creditor Liabilities, Hedging Liabilities or Senior Secured Notes Liabilities, any Security Document and any agreement or instrument evidencing the terms of Subordinated Liabilities (as defined below) or intra-group liabilities and if, at the time of payment, no acceleration event has occurred in respect of the Amended Revolving Credit Facility or the Senior Secured Notes or if such an acceleration event occurs prior to the Senior Secured Notes Discharge Date, with the consent of the Majority Senior Creditors.

For the purposes of the Intercreditor Agreement, the "Majority Senior Creditors" are the Senior Creditors, Hedge Counterparties and holders of Senior Secured Notes holding more than 50.1% of the aggregate of commitments under the Amended Revolving Credit Facility, any amount which has become due following the termination or close-out of any Hedging Agreement (and, after the Revolving Facility Discharge Date and the Senior Secured Notes Discharge Date, the amount that would be payable under any of the Hedging Agreements which has not terminated or been closed-out if the date of calculation were an early termination date under such Hedging Agreements) and the Senior Secured Notes at that time; "Majority Super Senior Creditors" are Super Senior Creditors having more than 66.66% of the aggregate amount of commitments under the Amended Senior Revolving Facility Agreement and any amount which has become due following the termination or close-out of any Hedging Agreement which constitutes a Priority Hedging Liability (and, after the Revolving Facility Discharge Date and the Senior Secured Notes Discharge Date, the amount that would be payable under any of the Hedging Agreements which constitutes a Priority Hedging Liability and which has not terminated or been closed-out if the date of calculation were an early termination date under such Hedging Agreements); and "Majority Senior Secured Noteholders" are holders of not less than a simple majority in aggregate principal amount of Senior Secured Notes then outstanding under the Senior Secured Indenture.

No payments may be made on liabilities owed by the Parent Guarantor to creditors that are subordinated in right of payment to the Senior Creditors and the Senior Secured Creditors (as such terms are defined in the Intercreditor Agreement) ("Subordinated Liabilities") without, prior to the Super Senior Discharge Date (as defined in the Intercreditor Agreement), the consent of the Majority Super Senior Creditors; following the Super Senior Discharge Date but prior to the Senior Secured Notes Discharge Date, the consent of the Majority Senior Creditors or except as expressly permitted by the Amended Revolving Credit Facility and the Senior Secured Notes.

Security for Noteholders

At any time prior to the Super Senior Discharge Date (as defined in the Intercreditor Agreement), the Senior Secured Creditors may not take, accept or receive from any member of the Parent Guarantor Group the benefit of any security, guarantee, indemnity or other assurance against loss in respect of the Senior Secured Liabilities other than: the common transaction security; any guarantee, indemnity or other assurance against loss contained in the Senior Secured Indenture (in its relevant form), the Intercreditor Agreement, any common assurance given to all the secured parties in relation to their liabilities and as otherwise contemplated in the context of security permitted to be granted to secure the Revolving Credit Liabilities; or with the consent of the Majority Super Senior Creditors.

Amendments

Except as permitted under the Debt Documents, no amendments, variations or waivers may be made or granted to, under or in respect of the Senior Secured Documents which would result in the final scheduled maturity or other scheduled maturity dates of the relevant Senior Secured Liabilities being earlier than initially provided; result in the guarantees or security granted in respect of the relevant Senior Secured Liabilities or the order of priority in respect thereof being altered, or any additional guarantees or security being granted in respect of the relevant Senior Secured Liabilities from the guarantees and security granted in respect of such Senior Secured Liabilities initially; or alter the prepayment provisions (whether mandatory or optional) of the relevant Senior Secured Documents from those included in such Senior Secured Documents initially.

Enforcement

Entitlement to Enforce

The Intercreditor Agreement provides that the Security Agent may refrain from enforcing the security interests in the Collateral unless instructed otherwise either by the Majority Super Senior Creditors or the Majority Senior Secured Noteholders and subject to any specific exclusions in the Intercreditor Agreement.

Except as provided below, each of the agents under the Amended Revolving Credit Facility, the Trustee and any other representative which has duly acceded to the Intercreditor Agreement (each a "Representative") must deliver a copy of its proposed enforcement instructions to the other Representative and the Security Agent at least 10 business days (or such shorter period as may be agreed) prior to the proposed date for the issuance of such enforcement instructions. If the Security Agent receives conflicting enforcement instructions from the Representatives, then the Representatives must consult with each other in good faith for a period of not less than 30 days from the date of receipt of the latest of such conflicting instructions and, upon the expiry of such consultation period, enforcement instructions may be provided to the Security Agent by the Trustee (or the Senior Facility Agent if agreed by the Trustee). This requirement to consult could lead to delays in enforcement of any Collateral which could, in turn, decrease or eliminate recoveries. The Representatives (acting on behalf of the Majority Super Senior Creditors or the Majority Senior Secured Noteholders, as the case may be) may at any time provide immediate enforcement instructions to the Security Agent and will not be obliged to consult (as described above) if the security interests in the Collateral have become enforceable as a result of an Insolvency Event (as defined in the Intercreditor Agreement) or if the relevant group of creditors determined in good faith that to do so and thereby delay enforcement could reasonably be expected to have a material adverse effect on its ability to enforce the security interests in the Collateral or the proceeds of realisation of the security interests in the Collateral. If the Security Agent receives conflicting instructions, then the Security Agent shall comply with the enforcement instructions received from the Trustee. If, however, the Lenders have not been fully repaid within six months of the date of issuance of enforcement instructions, or the Security Agent has not commenced any enforcement action within three months of the date of issuance of enforcement instructions, or an Insolvency Event occurs, then the instructions of the Majority Super Senior Creditors will prevail (with effect from the date of the earliest to occur of such events).

Exercise of voting rights

After the occurrence of an Insolvency Event in relation to a Debtor or any grantor of transaction security, each Senior Secured Creditor:

- irrevocably authorises the Security Trustee (on the relevant instructions referred to above or in their absence as the Security Agent sees fit), on its behalf, to: take any enforcement action (in accordance with the terms of the Intercreditor Agreement) against that Debtor or that grantor of transaction security (as applicable); and demand, sue, prove and give receipt for any or all of; to the extent legally permissible, collect and receive all distributions on, or on account of, any or all of; and file claims, take proceedings and do all other things the Security Trustee considers reasonably necessary to recover, (as applicable) that Debtor's liabilities or that grantor of transaction security's liabilities;
- will do all things that the Security Trustee (in each case on the relevant instructions referred to above or in their absence as the Security Agent sees fit) requests in order to give effect to this paragraph including in certain cases to grant a power of attorney to the Security Trustee to enable the Security Trustee to take the relevant action.

Turnover

The Intercreditor Agreement provides that if at any time prior to the Senior Secured Notes Discharge Date, subject to certain exceptions; the Trustee or any holder of the Senior Secured Notes receives or recovers:

- any payment or distribution of, or on account of or in relation to, any liability owed by the Debtors which is not a permitted payment under the Intercreditor Agreement or made in accordance with "— Application of Proceeds" below;
- any amount by way of set off in respect of any liability owed by the Debtors which does not give effect to a permitted payment under the Intercreditor Agreement;
- any amount (i) on account of or in relation to any liability owed by the Debtors after the occurrence of an acceleration event under the Amended Revolving Credit Facility or the Senior Secured Indenture or as a result of the enforcement of any Security Document or any other enforcement action against the Parent Guarantor or any of its subsidiaries (other than after the occurrence of an insolvency event in respect of the Parent Guarantor or such subsidiary) (each, a "Distress Event"), or (ii) by way of set off in respect of any liability of the Debtors after the occurrence of a Distress Event;
- the proceeds of any enforcement of any security except in accordance with "— Application of Proceeds" below; or
- (other than where set off applies) receives or recovers any distribution in cash or in kind or payment of, or on account of or in relation to, any liability owed by the Issuer or any of its subsidiaries which is not in accordance with "— Application of Proceeds" below and which is made as a result of, or after, the occurrence of an insolvency event in respect of the Issuer or such subsidiary,

then the Trustee or that holder of the Senior Secured Notes, as the case may be:

- in relation to receipts or recoveries not received or recovered by way of set off, (i) must hold that amount on trust for the Security Agent and promptly pay that amount or an amount equal to that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and (ii) promptly pay an amount equal to the amount (if any) by which receipt or recovery exceeds the relevant liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
- in relation to receipts and recoveries received or recovered by way of set off, must promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement,

provided, in each case, that the Trustee has actual knowledge that such obligation has arisen and it has received and has not distributed to the relevant recipient any such amount.

Application of Proceeds

The Intercreditor Agreement provides that amounts received by the Security Agent pursuant to the terms of the Intercreditor Agreement, the Hedging Agreements, the Amended Senior Revolving Facility Agreement, the Security Documents, the Senior Secured Indenture, the Senior Secured Notes, the Guarantees of the Senior Secured Notes and any agreement evidencing the Intra-Group Liabilities or in connection with the realisation or enforcement of all or any part of the security will be applied in the following order of priority:

- *first*, (i) in discharging any sums owing to the Security Agent and any receiver or any delegate appointed, and (ii) in payment to the Senior Facility Agent and the Trustee for application towards the discharge of the fees, costs and expenses and other indemnification amounts owed by the Debtors to the Senior Facility Agent under the Amended Senior Revolving Facility Agreement and the Trustee under the Senior Secured Indenture and, in the case of (ii) above, arising in connection with any realization or enforcement of the security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent in accordance with the Intercreditor Agreement, on a *pro rata* basis and ranking *pari passu* between them;
- *second*, in payment to the Senior Facility Agent and the Hedge Counterparties for application towards the discharge of the Revolving Creditor Liabilities and the Priority Hedging Liabilities, on a *pro rata* basis;
- *third*, in payment to the Trustee on behalf of the holders of the Senior Secured Notes and the Hedge Counterparties for application in accordance with the Senior Secured Indenture towards the discharge of the Senior Secured Notes Liabilities and of the non-Priority Hedging Liabilities, on a *pro rata* basis;
- *fourth*, if none of the Debtors is under any further actual or contingent liability under the Amended Senior Revolving Facility Agreement, the Hedging Agreements or the Senior Secured Indenture, in payment to any person to whom the Security Agent is obliged to pay in priority to any Debtor; and
- *fifth*, the balance, if any, in payment to the relevant Debtor.

Release of the Guarantees and the Security

Disposals

The Intercreditor Agreement provides that in relation to the disposal of an asset which is being effected: on instructions from the requisite majority of Senior Creditors in circumstances where the transaction security is enforceable; by an enforcement of the transaction security; or after the occurrence of a Distress Event by a debtor to a person outside of the Parent Guarantor Group, the Security Agent is authorised to (i) release the security created by the Security Documents over the relevant asset, (ii) if the relevant asset consists of shares in the capital of a Debtor to release that Debtor and any of its subsidiaries from its liabilities in its capacity as a guarantor or a borrower under the Amended Revolving Credit Facility, the Senior Secured Notes and certain other liabilities and to release any security granted by that Debtor over any of its assets, (iii) if the relevant asset consists of shares in the capital of a holding company of a Debtor, to release that holding company and any of its subsidiaries from their liabilities in their capacity as a guarantor or a borrower under the Amended Revolving Credit Facility, the Senior Secured Notes and certain other liabilities and to release any security granted by that subsidiary or holding company over any of its assets and (iv) if the relevant asset consists of shares in the capital of a Debtor or holding company of a Debtor (the “Disposed Entity”) and the Security Agent decides to transfer to another Debtor (the “Receiving Entity”) all or any part of the Disposed Entity or its obligations or any obligations of any subsidiary of that Disposed Entity in respect of liabilities owed to a Debtor or intra-group lender, transfer all or part of such obligations on behalf of the person to which they are owed and accept the transfer of those obligations on behalf of the Receiving Entity, in the case of paragraphs (ii) to (iv) above:

- at the request of the Majority Super Senior Creditors or of the Majority Senior Creditors (as applicable) in circumstances where the transaction security has become enforceable, in accordance with “—Entitlement to Enforce” above; or in the absence of any instructions, as the Security Agent sees fit; and
- if effected by or at the request of the Security Trustee and subject to certain exceptions, ensuring that the proceeds of the disposal are received in cash, the disposal is effected by public auction or other competitive sale process and the claims of Senior Creditors against any Disposed Entity and its subsidiaries are unconditionally released and discharged concurrently with such disposal and not assumed by the purchaser or any affiliate thereof.

In addition, if (a) a disposal relates to an asset of a Debtor or a grantor of security or an asset which is subject to security to a person or persons within or outside the Group, (b) that disposal is permitted under (prior to the Revolving Facility Discharge Date) the Amended Senior Revolving Facility Agreement and (prior to the Senior Secured Notes Discharge Date) the Senior Secured Indenture, and (c) that disposal is not a disposal being effected in the circumstances described above, the Security Agent is irrevocably authorised (at the cost of the relevant Debtor or the Issuer and without any consent, sanction, authority or further confirmation from any other party to the Intercreditor Agreement) (i) to release the security and any other claim over that asset, (ii) where that asset consists of shares in the capital of a Debtor, to release the security and any other claim (relating to the relevant debt document) over that Debtor’s or that other grantor’s assets and (iii) to execute and deliver or enter into any release of security and any claim described in (i) and (ii) above and issue any certificates of non-crystallisation of any floating charge or any consent to dealing that the Security Agent considers to be necessary or desirable.

New debt

If subject to certain qualifications (i) additional Revolving Creditor Liabilities, or additional Senior Secured Liabilities, incurred in accordance with the Intercreditor Agreement cannot be secured pari passu with the then existing Revolving Creditor Liabilities, or as applicable the additional Senior Secured Liabilities, under the applicable existing security documents without the security under such existing security documents first being released or (ii) if security over any asset under the applicable security documents is released, whether by operation of law or otherwise, in connection with a refinancing or replacement of Revolving Credit Liabilities or Senior Secured Liabilities, then the Security Trustee is authorised to release the security granted pursuant to such existing security documents provided that:

- immediately on such release, security shall be provided in favour of the providers of such Revolving Creditor Liabilities, or as applicable the additional Senior Secured Creditors in respect of such additional Senior Secured Liabilities or as applicable the providers of such refinancing or replacement indebtedness, and the Senior Creditors on terms substantially the same as the terms of the security documents released and subject to the same ranking as set out in “—Ranking and Priority” above; and
- each Representative receives opinions satisfactory to it in relation to such security (in the case of the incurrence of additional Revolving Credit Liabilities or such refinancing or replacement of the Amended Revolving Credit Facility, excluding as to any new hardening periods in respect of any new security securing the Senior Secured Liabilities provided that such period is no longer than the hardening periods in respect of such new security securing such additional Revolving Creditor Liabilities or as applicable such refinancing or replacement Liabilities).

Each party to the Intercreditor Agreement agrees that it shall promptly execute all such documents as may reasonably be considered necessary in order to give effect to the refinancing of the Revolving Creditor Liabilities, the issuance of additional Senior Secured Notes and/or the refinancing of any of the Liabilities contemplated under this paragraph “New debt”, and to give effect to the providing security as contemplated by this paragraph “New debt” in respect of such additional or refinanced Liabilities, including any amendment required to the terms of the Intercreditor Agreement and any amendment, consent, waiver or release in respect of any security document and any grant of security pursuant to a new security document.

Amendment

The Intercreditor Agreement provides that it may only be amended with the consent of the Parent Guarantor, the Senior Facility Agent, the Security Agent and the Trustee (acting at the direction of holders of a majority in aggregate principal amount of the Senior Secured Notes) unless (i) such amendments are made to cure defects, resolve ambiguities or reflect changes of a minor, technical or administrative nature, which amendments may be made by the Parent Guarantor and the Security Agent or (ii) such amendments are made to meet the requirements of any person proposing to act as the Senior Facility Agent or the Trustee which are customary for persons acting in such capacity, which amendments may be made by the Parent Guarantor and the Security Agent. No amendment or waiver of the Intercreditor Agreement may impose new or additional obligations on any party to the Intercreditor Agreement without their prior written consent other than in the case of Senior Creditors in a way which affects or would affect Senior Creditors of that party’s class generally.

The Security Agent may amend the terms of, waive any of the requirements of, or grant consents under, any of the Security Documents acting on the instructions of each of the Senior Facility Agent and the Trustee, with the consent of the Parent Guarantor unless provided otherwise under the relevant documents. No such amendment, waiver or consent may affect the nature or scope of the security or the manner in which the proceeds of enforcement of the security are distributed without the consent of each of the Senior Facility Agent and the Trustee or save as provided under “Disposals” above. Notwithstanding the foregoing, the prior consent of the Senior Facility Agent only is required to authorize any amendment or waiver of, or consent under, any Security Document that is entered into only for the benefit of the Lenders or the Hedge Counterparties to the extent they are owed Priority Hedging Liabilities.

Governing Law

The Intercreditor Agreement is governed by English law.

INDEX TO THE FINANCIAL STATEMENTS

Care UK Health & Social Care Investments Limited

Financial statements

Registered number 07158140

30 September 2012

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE
For the year ended 30 September 2012

	Notes	2012	2011
		£m	£m
Revenue		**487.5**	445.7
Cost of sales		**(412.6)**	(375.9)
Gross profit		**74.9**	69.8
Administrative expenses		**(64.4)**	(76.9)
Operating profit/(loss) before financing expenses		**10.5**	(7.1)

Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)		**49.3**	45.4
Depreciation of tangible assets	5, 7	**(17.4)**	(17.2)
Adjusted operating profit		**31.9**	28.2
Amortisation of intangible assets	5, 8	**(17.2)**	(25.1)
Impairment of tangible assets	5, 7	**—**	(3.2)
Non-recurring items	2	**(4.2)**	(7.0)
Operating profit/(loss) before financing expenses		**10.5**	(7.1)

Financial income		**3.6**	2.1
Financial expenses		**(29.3)**	(27.7)
Net financing expenses	3	**(25.7)**	(25.6)
Loss before taxation	5	**(15.2)**	(32.7)
Taxation	6	**11.7**	9.5
Loss for the period		**(3.5)**	(23.2)
Other comprehensive (expense)/income			
Actuarial (losses)/gains on defined benefit pension plan		**(2.3)**	1.1
Deferred taxation on actuarial gains		**0.5**	(0.3)
Other comprehensive (expense)/income for the period, net of taxation		**(1.8)**	0.8
Total comprehensive loss for the period		**(5.3)**	(22.4)
(Loss)/profit attributable to			
Equity holders of the parent		**(3.4)**	(23.3)
Non-controlling interest		**(0.1)**	0.1
		(3.5)	(23.2)
Total comprehensive (loss)/profit attributable to			
Equity holders of the parent		**(5.2)**	(22.5)
Non-controlling interest		**(0.1)**	0.1
		(5.3)	(22.4)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
BALANCE SHEETS
As at 30 September 2012

		Group		Company	
	Notes	**2012**	**2011**	**2012**	**2011**
		£m	**£m**	**£m**	**£m**
Assets					
Property, plant and equipment	7	**252.1**	218.1	**—**	—
Intangible assets	8	**170.7**	182.8	**—**	—
Other financial assets	9	**23.2**	24.2	**—**	—
Amounts due from related party undertakings		**8.7**	3.6	**—**	—
Investments in subsidiary undertakings	10	**—**	—	**210.7**	210.7
Other investments		**0.1**	0.1	**—**	—
Total non-current assets		**454.8**	428.8	**210.7**	210.7
Inventories	11	**1.8**	2.9	**—**	—
Trade and other receivables	12	**53.0**	49.8	**10.4**	—
Other financial assets	9	**1.0**	19.6	**—**	—
Cash and cash equivalents	13	**38.3**	40.2	**—**	—
Assets classified as held for sale	14	**2.0**	3.2	**—**	—
Current tax assets		**—**	—	**0.2**	0.2
Total current assets		**96.1**	115.7	**10.6**	0.2
Total assets		**550.9**	544.5	**221.3**	210.9
Liabilities					
Financial liabilities — borrowings	15	**(0.2)**	(0.1)	**—**	—
Trade and other payables	16	**(102.2)**	(95.1)	**(0.3)**	(1.2)
Current tax liabilities		**(1.1)**	(3.6)	**—**	—
Total current liabilities		**(103.5)**	(98.8)	**(0.3)**	(1.2)
Financial liabilities — borrowings	15	**(253.3)**	(239.6)	**(11.9)**	—
Other non-current liabilities	17	**(7.4)**	(5.5)	**—**	—
Deferred tax liabilities	18	**(23.3)**	(31.9)	**—**	—
Total non-current liabilities		**(284.0)**	(277.0)	**—**	—
Total liabilities		**(387.5)**	(375.8)	**(12.2)**	(1.2)
Net assets		**163.4**	168.7	**209.1**	209.7
Equity					
Issued share capital	19	**210.7**	210.7	**210.7**	210.7
Retained earnings		**(47.3)**	(42.1)	**(1.6)**	(1.0)
Total equity attributable to equity holders of the parent		**163.4**	168.6	**209.1**	209.7
Non-controlling interest		**—**	0.1	**—**	—
Total equity		**163.4**	168.7	**209.1**	209.7

The financial statements on pages F-2 to F-50 were approved by the board of directors on 14 November 2012 and were signed on its behalf by:

PAUL HUMPHREYS
Finance Director

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
STATEMENTS OF CHANGES IN EQUITY
As at 30 September 2012

	Attributable to equity holders of the parent				
Group	**Share capital**	**Retained earnings**	**Total parent equity**	**Non-controlling interest**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**
At 30 September 2011	210.7	(42.1)	168.6	0.1	168.7
Total comprehensive income for the period					
Loss for the period	—	(3.4)	(3.4)	(0.1)	(3.5)
Other comprehensive income					
Movement in relation to defined benefit pension scheme (net of deferred taxation)	—	(1.8)	(1.8)	—	(1.8)
Total other comprehensive expense	—	(1.8)	(1.8)	—	(1.8)
Total comprehensive loss for the period	—	(5.2)	(5.2)	(0.1)	(5.3)
At 30 September 2012	**210.7**	**(47.3)**	**163.4**	—	**163.4**

Company	**Share capital**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**
At 30 September 2011	210.7	(1.0)	209.7
Total comprehensive income for the period			
Loss for the period	—	(0.6)	(0.6)
Other comprehensive income			
Total comprehensive loss for the period	—	(0.6)	(0.6)
At 30 September 2012	**210.7**	**(1.6)**	**209.1**

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CASH FLOW STATEMENTS
For the year ended 30 September 2012

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash flows from operating activities					
Loss for the period		**(3.5)**	(23.2)	**(0.6)**	(0.7)
Depreciation		**17.4**	17.2	**—**	—
Amortisation of intangible assets		**17.2**	25.1	**—**	—
Profit on disposal of fixed assets		—	(1.5)	**—**	—
Decrease in IFRIC 12 financial asset		**2.8**	4.9	**—**	—
Decrease in inventory		**2.3**	0.8	**—**	—
(Increase)/decrease in receivables		**(2.2)**	5.0	**—**	—
Increase/(decrease) in payables		**6.3**	(8.8)	**0.9**	0.9
Financial income		**(3.6)**	(2.1)	**—**	—
Financial expense		**29.3**	27.7	**—**	—
Tax credit		**(11.7)**	(9.5)	**(0.3)**	(0.2)
Cash inflow from operations		**54.3**	35.6	**—**	—
Income taxes (paid)/received		**(1.4)**	1.4	**—**	—
Net cash from operating activities		**52.9**	37.0	**—**	—
Cash flows from investing activities					
Decrease in IFRIC 12 financial asset		**15.3**	22.3	**—**	—
Payments to acquire property, plant and equipment		**(40.5)**	(21.4)	**—**	—
Loans to related party undertakings		**(5.1)**	(3.6)	**—**	-
Proceeds from sales of property, plant and equipment		**2.6**	0.9	**—**	—
Interest received		**0.2**	0.1	**—**	—
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)		**(14.7)**	(5.3)	**—**	—
Proceeds from sales of subsidiary undertakings and businesses		—	4.7	**—**	—
Net cash from investing activities		**(42.2)**	(2.3)	**—**	—
Cash flows from financing activities					
Proceeds from new loans		**11.9**	—	**—**	—
Interest paid		**(24.4)**	(28.4)	**—**	—
Payment of capital element of finance lease payments		**(0.1)**	(0.1)	**—**	—
Net cash from financing activities		**(12.6)**	(28.5)	**—**	—
Net (decrease)/increase in cash and cash equivalents		**(1.9)**	6.2	**—**	—
Cash and cash equivalents brought forward		**40.2**	34.0	**—**	—
Cash and cash equivalents carried forward	13	**38.3**	40.2	**—**	—

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
ACCOUNTING POLICIES

The significant accounting policies of the group and parent company are set out below.

The group's annual consolidated financial statements for the year ended 30 September 2012 are prepared in accordance with IFRS adopted for use within the EU ("adopted IFRS"), including International Financial Reporting Interpretations Committee ("IFRIC") interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The directors have elected to prepare the parent company's financial statements on the same basis.

Care UK Health & Social Care Investments Limited ("the company") is a company domiciled in England and Wales. The consolidated financial statements of the company for the year ended 30 September 2012 comprise the company and its subsidiaries (together referred to as the "group").

The financial statements were authorised for issue by the directors on 14 November 2012.

(a) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with adopted IFRS.

(b) BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis or fair value as appropriate.

Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note (y) in these Accounting Policies.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below and on the following pages have been applied consistently to all periods presented in the financial statements. The accounting policies have been applied consistently by group entities. Refer to section (w) of these Accounting Policies for new standards effective and applied in these financial statements.

The financial statements are prepared on a going concern basis, notwithstanding current year total comprehensive losses of £5.3m (2011 losses: £22.4m), which the directors feel to be appropriate for the following reasons. As at 30 September 2012, the group has undrawn borrowing facilities of £53.0m (2011: £63.0m) and cash of £38.3m (2011: £40.2m). The group does not have any significant debt repayments due in the next 12 months. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

(c) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint ventures

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group's share of the profits less losses of joint ventures in the Consolidated statement of comprehensive performance and its interest in their net assets in the consolidated balance sheet in accordance with the equity method of accounting.

(iii) Transactions eliminated upon consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive performance.

The functional currency of all the group entities is sterling.

(e) FINANCIAL INSTRUMENTS

(i) Non-derivative instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. The group has no non-derivative financial instruments measured at fair value through profit or loss. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Accounting for cash and cash equivalents is discussed in note (k); interest bearing borrowings in note (m); and finance income and expense in note (r)(iii). Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The group uses derivative financial instruments to hedge its exposure to interest rate risks arising from its financing activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially and subsequently at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument. The group is also required to demonstrate that the hedge is highly effective on an on-going basis. This effectiveness testing is re-performed at each period end to ensure the hedge remains highly effective.

The fair value of interest rate swaps is the estimated amount the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(iii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The associated cumulative gain or loss is removed from equity and recognised in the statement of comprehensive performance in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the statement of comprehensive performance.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the statement of comprehensive performance.

(iv) Financial guarantee contracts

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, 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 a payment under the guarantee.

(f) PROPERTY, PLANT AND EQUIPMENT

(i) Owned assets

Items of property, plant and equipment are stated at cost and deemed cost less accumulated depreciation and impairment losses.

Certain items of property that had been revalued to fair value prior to 1 October 2004, the date of transition to adopted IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation less any subsequent depreciation and impairments. The fair value adjustments recorded by the group on the acquisition of Care UK Limited in 2010 include uplifts in the valuation of certain tangible assets, as valued independently at the time of the acquisition of Care UK Limited.

Assets in the course of construction are carried in the financial statements at cost, taken from the most recent surveyor's cost certificate received prior to the date of the financial statements.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of land and buildings includes both the costs of financing assets in the course of construction and other costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Capitalisation of finance and other costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

(ii) Leased assets

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is classified as a finance lease. The asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Future instalments under such leases, net of finance charges, are included within creditors.

All other leases are accounted for as operating leases.

The group is required to perform dilapidation repairs on leased properties prior to the properties being vacated at the end of their lease term. Provision for such costs is made where a legal obligation is identified and the liability can be reasonably quantified.

(iii) Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive performance, as an expense, as incurred.

(iv) Depreciation

Depreciation is charged to the statement of comprehensive performance to write off the cost, less estimated residual values, of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold land	— no depreciation provided
Freehold buildings..	— 25 to 50 years
Long leasehold buildings...	— 50 years or, if shorter, the period of the lease or the associated contract
Short leasehold buildings	— the shorter of the period of the lease or the associated contract
Plant and machinery (as an integral part of property assets)	— 25 years or, if shorter, the period of the lease
Motor vehicles	— four years
Furniture, fittings, medical equipment and office equipment...	— three to ten years

The residual value, if not insignificant, is reassessed annually.

(v) Pre-contract costs

Pre-contract costs include the costs attributable to a contract for the period from the date of securing the contract to the date at which financial close is achieved. The award of preferred bidder status is considered as the point at which it is probable that the contract has been secured, although contracts are individually reviewed in order to apply the most appropriate treatment. Costs that relate directly to a contract and which are incurred in this period are included as part of pre-contract costs where they can be separately identified and reliably measured. Such amounts are held within other debtors until such time as financial close of the contract is achieved, at which time they are transferred to assets in the course of construction.

(g) INTANGIBLE ASSETS

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, associates and joint ventures, being the excess of the fair value of the purchase consideration over the fair values attributable to the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on acquisitions before the date of transition to adopted IFRS has been retained at the previous UK GAAP amounts. Goodwill is allocated to cash-generating units and is not subject to periodic amortisation but is tested annually for impairment. As permitted under IFRS 3 "Business Combinations", the fair value of the assets acquired may be reassessed in the instance of further information arising within twelve months from the date of acquisition, provided the initial fair values were determined as provisional.

Negative goodwill arising on an acquisition is recognised directly in the statement of comprehensive performance.

(ii) Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the statement of comprehensive performance, as an expense, as incurred.

(iii) Amortisation

Amortisation is charged to the statement of comprehensive performance on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Customer relationships are amortised over their estimated useful economic lives, which do not exceed ten years. Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. Intangible assets are amortised from the date they are available for use over their estimated useful lives.

(iv) Impairment

The carrying amounts of goodwill and intangible assets that have an indefinite useful life are reviewed at each balance sheet date to determine whether there is any impairment. The group also reviews the carrying amounts of its depreciable tangible and intangible assets to determine if there is any indication that an asset has suffered an impairment loss.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the statement of comprehensive performance.

(h) INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less provisions for impairment.

(i) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their fair value less impairment losses.

(j) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories is based on a first-in first-out cost formula.

(k) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) SHARE CAPITAL

(i) Dividends

Final dividends are recognised as a liability in the period in which they are approved by the company's shareholders. Interim dividends are recorded in the period in which they are paid.

(m) INTEREST BEARING BORROWINGS

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest- bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive performance over the period of the borrowings on an effective interest basis.

(n) EMPLOYEE BENEFITS

The assets of all pension plans are held separately from those of the group, in independently administered managed funds.

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive performance as incurred.

(ii) Defined benefit plans

The group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate applied is the yield at the balance sheet date on AA credit rated bonds that have maturity obligations approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The group recognises all actuarial gains and losses in the statement of comprehensive performance.

(o) TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

(p) SERVICE CONCESSION ARRANGEMENTS

IFRIC 12 "Service Concession Arrangements" (the 'interpretation') addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the interpretation, the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to the usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising. In addition, the timing of profit recognition changes over the life of the contract with no change in the overall project cash flows arising therein.

(q) REVENUE

(i) Services rendered

Revenue represents the fair value of sales and services to third party customers, stated net of any applicable value added tax, rebates and discounts. The stage of completion as defined in IAS 18 "Revenue" is determined by reference to the point at which the group has met its principal contractual obligations. Revenue is recognised as follows:

- **Social Care**

Residential long-term contracts — revenue is recognised on a time-elapsed basis as the principal contractual obligation is to provide bed capacity. Units of care under these contracts are typically provided on a daily basis and there is no obligation to carry forward any non-utilised capacity.

Residential spot purchase contracts — revenue is recognised when the group's principal contractual obligation is fulfilled, that is typically when a service user has received care services from the group, which are usually provided on a daily basis.

Community based services — revenue is recognised only on the actual delivery of care services. Revenue attributable to any unused capacity under "block" contracts, where the group is able to submit invoices for contracted services that have not actually been provided, is only recognised when the recovery of income is considered virtually certain.

- **Health Care**

Capacity related contracts — revenue is recognised on a time-elapsed basis as the principal contractual obligation is to provide an agreed level of capacity over a fixed term. There is no obligation under these contracts to carry forward non-utilised capacity.

Service related contracts — revenue is recognised only on the delivery of services, either surgical procedures or other treatments, under contractual obligations that are intended to provide a pre-determined volume of services over a fixed term. Revenue attributable to unused capacity is only recognised when recovery of income is considered virtually certain.

In all businesses when revenue is invoiced in advance this is accounted for as deferred income until the service is provided.

(ii) Government grants

Capital based Government grants are included within accruals and deferred income in the balance sheet and credited to the statement of comprehensive performance over the estimated useful economic lives of the assets to which they relate. Grants that compensate the group for expenses incurred are recognised as revenue in the statement of comprehensive performance on a systematic basis in the same periods in which the expenses are incurred.

(r) EXPENSES

(i) Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive performance as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the statement of comprehensive performance.

Interest income is recognised in the statement of comprehensive performance as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the statement of comprehensive performance using the effective interest rate method.

(s) TAXATION

The charge for taxation is based on the profit or loss for the year and comprises current and deferred taxation. Income tax is recognised in the statement of comprehensive performance except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill not deductible for taxation purposes, and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

(t) SEGMENT REPORTING

Care UK Health & Social Care Investments Limited operates solely within the UK, hence no geographical segment disclosures are presented.

Segmental information is presented in respect of business segments which are regularly reviewed by the Chief Operating Decision Maker ("CODM") and the disclosure of the measure of profit and revenue used by the CODM. The segments reviewed by the CODM are Residential Care, Community Services, Health Care and Other, which includes the group's central functions and smaller trading operations. The measure of profit used is adjusted earnings before interest, tax, depreciation and amortisation ("adjusted EBITDA"), defined as operating profit before impairment and amortisation of intangible assets, depreciation of tangible assets and non-recurring items. Further details are provided in note 1 to these financial statements.

(u) NON-CURRENT ASSETS HELD FOR SALE

Immediately before their classification as being held for sale, the measurement of the value of any such assets (and all assets and liabilities in a disposal group) is fair valued in accordance with applicable adopted IFRS. On their ensuing initial classification as being held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on the initial classification of non-current assets as being held for sale are included in profit or loss, including where there has been any revaluation of the asset. The same also applies to gains and losses on subsequent measurement.

(v) NON-GAAP PERFORMANCE MEASURES

The board believe that the "adjusted" profit provides additional useful information for the shareholders on the underlying performance of the business. These measures are consistent with how business performance is monitored internally. The adjusted operating profit is not a recognised profit measure under adopted IFRS and may not be directly comparable with "adjusted" profit measures used by other companies.

Adjusted operating profit is defined as Operating profit before net financing costs adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items. Adjusted EBITDA is defined as Adjusted operating profit plus depreciation.

(w) NEW STANDARDS EFFECTIVE AND APPLIED IN THESE FINANCIAL STATEMENTS

There are no new EU adopted standards, interpretations and amendments to standards effective for the year ended 30 September 2012 that apply to these financial statements

(x) NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

The following new EU adopted standards, amendments to standards and interpretations were not effective for the year ended 30 September 2012, and have not been applied in preparing these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to IAS 12 ‘Deferred Tax: Recovery of Underlying Assets’
- Amendments to IAS 1 ‘Presentation of Items of Other Comprehensive Income’
- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements
- IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2013).
- IFRS 13 Fair Value Measurement
- Amendments to IAS 19 ‘Defined Benefit Plans’
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Amendments to IFRS 7 ‘Disclosures – Offsetting Financial Assets and Financial Liabilities’
- Amendments to IAS 32 ‘Offsetting Financial Assets and Financial Liabilities’
- IFRS 9 ‘Financial Instruments’

(y) SIGNIFICANT SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP’S ACCOUNTING POLICIES

The preparation of the financial statements in conformity with adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year then ended. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

Estimates are used in accounting for allowances for uncollectible receivables, depreciation, amortisation and impairment, share based payments, pensions, taxes, contingencies and certain of the non-recurring items reported in the year. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period that an adjustment is determined to be required.

Management regularly discusses with the Audit Committee the development, selection and disclosure of the group’s critical accounting policies and estimates and the application of these policies and estimates.

Significant accounting judgements in applying the group’s accounting policies have been applied by the group in order to prepare the consolidated financial statements with respect to the value of other intangible assets and goodwill (note 8) and pensions (note 22) and are described below.

Intangible assets

The group uses forecast cash flow information and estimates of future growth to initially value other intangible assets, to assess whether goodwill and other intangible assets are impaired, and to determine the useful economic lives of its intangible assets. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required.

Pensions

Details of the principal actuarial assumptions used in calculating the recognised liability for the Defined Benefit plans are given in note 22. Changes to the discount rate, mortality rates and actual return on plan assets may necessitate material adjustments to this liability in the future.

1. SEGMENT REPORTING

Segment information is presented in respect of the group's business segments. The primary format, business segments, is based on the group's management and internal reporting structure. Care UK Health & Social Care Investments Limited operates solely within the UK hence no geographical segment disclosures are presented.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest bearing loans, borrowings and expenses, corporation taxes and corporate assets and expenses.

Business segments

The group comprises the following main business segments:

- Residential Care operates care homes for older people;
- Community Services supports people in their own homes, including older people and others with specialist needs;
- Health Care provides a range of primary and secondary care services; and
- Other includes the group's central functions and smaller trading operations.

	Social Care				
2012	**Residential Care**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	165.9	112.9	189.4	19.3	**487.5**
Adjusted EBITDA	27.9	7.0	15.7	(1.3)	**49.3**
Depreciation	(6.3)	(1.4)	(7.1)	(2.6)	**(17.4)**
Adjusted operating profit/(loss)	21.6	5.6	8.6	(3.9)	**31.9**
Amortisation of intangible assets	(6.6)	(5.3)	(5.3)	—	**(17.2)**
Non-recurring items	(2.7)	—	0.3	(1.8)	**(4.2)**
Operating profit/(loss)	12.3	0.3	3.6	(5.7)	**10.5**
Net financing expenses					**(25.7)**
Taxation					**11.7**
Loss for the period					**(3.5)**
Segment assets	314.4	80.5	83.4	48.1	**526.4**
Unallocated assets	—	—	—	24.5	**24.5**
Total assets	314.4	80.5	83.4	72.6	**550.9**
Total liabilities	(154.8)	(62.8)	(70.9)	(99.0)	**(387.5)**
Capital expenditure					
Property, plant and equipment:					
— acquisitions	—	9.6	—	—	**9.6**
— additions	27.9	1.5	5.7	8.4	**43.5**
Total capital expenditure	27.9	11.1	5.7	8.4	**53.1**
Depreciation	(6.3)	(1.4)	(7.1)	(2.6)	**(17.4)**
Amortisation of intangible assets	(6.6)	(5.3)	(5.3)	—	**(17.2)**
Total depreciation and amortisation	(12.9)	(6.7)	(12.4)	(2.6)	**(34.6)**

2011	Social Care: Residential Care	Social Care: Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Group revenue	119.8	111.2	191.4	23.3	**445.7**
Adjusted EBITDA	22.7	6.9	17.0	(1.2)	**45.4**
Depreciation	(5.6)	(0.5)	(7.7)	(3.4)	**(17.2)**
Adjusted operating profit/(loss)	17.1	6.4	9.3	(4.6)	**28.2**
Amortisation of intangible assets	(6.7)	(5.9)	(12.5)	—	**(25.1)**
Impairment of tangible assets	—	—	—	(3.2)	**(3.2)**
Non-recurring items	(6.8)	(2.2)	(0.3)	2.3	**(7.0)**
Operating profit/(loss)	3.6	(1.7)	(3.5)	(5.5)	**(7.1)**
Net financing expenses					**(25.6)**
Taxation					**9.5**
Loss for the period					**(23.2)**
Segment assets	296.7	62.7	108.8	47.9	**516.1**
Unallocated assets	—	—	—	28.4	**28.4**
Total assets	296.7	62.7	108.8	76.3	**544.5**
Total liabilities	(143.0)	(38.3)	(100.2)	(94.3)	**(375.8)**
Capital expenditure					
Property, plant and equipment:					
— acquisitions	—	—	0.4	1.9	**2.3**
— additions	11.3	1.9	5.0	4.1	**22.3**
Total capital expenditure	11.3	1.9	5.4	6.0	**24.6**
Depreciation	(5.6)	(0.5)	(7.7)	(3.4)	**(17.2)**
Amortisation of intangible assets	(6.7)	(5.9)	(12.5)	—	**(25.1)**
Total depreciation and amortisation	(12.3)	(6.4)	(20.2)	(3.4)	**(42.3)**

2. NON-RECURRING ITEMS

The following non-recurring items have been adjusted for on the face of the statement of comprehensive performance in arriving at Adjusted operating profit:

	2012	**2011**
	£m	**£m**
Non-recurring items:		
— Transfer and integration of former Southern Cross care homes	**(3.5)**	—
— Acquisition and disposal related gains and losses	**(0.7)**	3.0
— Contract change costs	**—**	(11.0)
— Property related gains and losses	**—**	1.6
— Integration and restructuring costs	**—**	(0.6)
	(4.2)	(7.0)

Non-recurring items in the 2012 financial year amounted to a charge of £4.2m in aggregate. The non-recurring charges in the 2011 financial year amounted to £7.0m in aggregate. The key elements of the charges for both years are set out below.

Transfer and integration of former Southern Cross care homes. During the 2012 financial year Care UK transferred in 29 care homes formerly operated by Southern Cross, 27 being transferred into the Residential Care division and two into the Community Services division. Total transaction and integration costs of £3.5 million were incurred in relation to the transfer of these homes and their subsequent integration into the Care UK group.

Acquisition and disposal related gains and losses. In the year ended 30 September 2012 the group settled contingent consideration amounts due in relation to two acquisitions made in 2011, resulting in a net gain of £0.3 million. A charge of £0.8 million was incurred in relation to an abortive acquisition reviewed by Care UK earlier in the year but not completed and a charge of £0.2 million arose on the disposal of a property. In the year ended 30 September 2011, the group agreed a settlement of contingent consideration for an acquisition made in 2008 that resulted in a gain of £1.3 million. In addition, a gain of £1.7 million was recorded in relation to the disposal of the former children's services business.

Contract change costs. During the year ended 30 September 2011 Care UK commenced the delivery of services on three outsourced contracts, including two offender health contracts and a joint residential care and community services contract that required significant restructuring in order to achieve the expected returns. An aggregate charge of £11.0 million was incurred during the year between the Residential Care, Community Services and Heath Care divisions in respect of these changes to service delivery.

Property related gains and losses. The buyback of Wave I ISTCs by the NHS resulted in an accounting gain on disposal of certain of these assets in the year ended 30 September 2011. In addition, in the year ended 30 September 2011, the group recovered insurance proceeds in respect of costs previously incurred at one of its ISTCs. These items resulted in a gain of £1.6 million, reported in the Health Care division. The Residential Care division also disposed of a surplus site during the year, which resulted in a gain of £0.7 million. A write down of the book value of certain mental health homes that are expected to be disposed of was also made during the year, amounting to £0.7 million.

Integration and restructuring charges. During the year ended 30 September 2011 the group merged the formerly separate Community Care and Learning Disabilities businesses to form the Community Services division, resulting in integration and restructuring charges of £0.6 million, reported within the Community Services segmental result.

3. NET FINANCING EXPENSES

	2012	2011
	£m	**£m**
Financial income:		
Interest receivable	**2.5**	0.3
IFRIC-12 interest receivable	**1.1**	1.8
Financial income	**3.6**	2.1
Financial expenses:		
— interest payable on financial liabilities - borrowings	**(30.4)**	(28.1)
— less: amount capitalised to assets in the course of construction at an annual rate of 7.91% (2011: 9.15%)	**1.1**	0.4
Financial expenses	**(29.3)**	(27.7)
Net financing expenses	**(25.7)**	(25.6)

4. EMPLOYEES AND REMUNERATION OF DIRECTORS

(a) Employees

	Group	
	2012	2011
	£m	£m
Staff costs for all employees, including executive directors, consists of:		
— wages and salaries	**290.4**	232.0
— social security costs	**20.9**	19.2
— pension costs	**3.4**	3.2
	314.7	254.4

Other pension costs represent contributions to the group's pension schemes.

The average monthly number of employees of the group during the period, including executive directors, was as follows:

	Group		Company	
	2012	2011	2012	2011
	Number	Number	Number	Number
Nursing, care and support staff	**13,927**	12,173	**—**	—
Management and administration	**1,732**	1,694	**—**	—
	15,659	13,867	**—**	—

In common with other providers in the health and social care sector, Care UK's employed staff base is supplemented from time to time by agency staff and, on certain contracts within the Health Care division, both by staff seconded from the NHS and by self-employed medical professionals. As these categories of staff are not direct employees of Care UK neither the numbers of these staff nor their related costs are shown in the above tables.

(b) Remuneration of directors

	2012	2011
	£m	£m
Directors' emoluments	**1.5**	1.5
Company contributions to money purchase pension plans	**0.1**	0.1
	1.6	1.6

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £0.7m (2011: £0.7m) including contributions in lieu of pension payments totaling £0.1m (2011: £0.1m). No company pension contributions were made on his behalf in either 2012 or 2011.

	Number of directors	
	2012	2011
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	2

5. PROFIT BEFORE TAXATION

The following items have been included in arriving at loss before taxation:

	2012	2011
	£m	**£m**
Depreciation: owned assets	**17.4**	17.2
Impairment of tangible assets	**—**	3.2
Amounts receivable by the auditor in respect of services to the company and its subsidiaries:		
— audit of subsidiaries' financial statements	**0.3**	0.3
— further assurance services	**—**	0.1
— taxation services	**—**	0.1
— other services	**0.2**	—
Land and buildings — operating leases	**14.2**	11.1
Hire of other assets — operating leases	**2.1**	1.4
Profit on disposal of fixed assets	**—**	1.8
Government grants	**(0.3)**	(0.4)
Impairment of trade receivables	**(0.3)**	0.1
Amortisation of intangible assets	**17.2**	25.1
IFRIC 12 infrastructure costs expensed in the period	**0.5**	1.6

Of the auditor's remuneration £5,000 (2011: £5,000) was in respect of the audit of the group and company financial statements.

6. TAXATION

	2012	2011
	£m	**£m**
UK corporation tax payable at 25% (2011: 27%)	**—**	(2.5)
Adjustment relating to previous years	**2.5**	1.5
Total current taxation recognised in statement of comprehensive performance	**2.5**	(1.0)
Deferred taxation:		
— origination and reversal of temporary differences	**5.0**	7.3
— adjustment relating to previous years	**2.5**	0.1
— adjustment relating from change in rate of corporation tax	**1.7**	3.1
Total deferred taxation recognised in statement of comprehensive performance	**9.2**	10.5
Total income tax credit recognised in statement of comprehensive performance	**11.7**	9.5

The taxation charge for the year represents an effective tax rate of (61.8)% (2011: 8.8%) which is lower (2011: lower) than the average standard rate of corporation tax in the UK applied during the year of 25% (2011: 27%). The differences are explained below:

	2012	2011
	£m	**£m**
Loss before taxation	**(15.2)**	(32.7)
Expected tax credit at 25% (2011: 27%)	**3.8**	8.8
Effects of:		
Expenses not deductible for taxation purposes	**(1.0)**	(0.9)
Depreciation related to ineligible assets	**(0.6)**	(0.6)
Impairment of fixed assets	**(0.1)**	(0.6)
Amortisation of intangible assets	**—**	(0.1)
Non-taxable income	**0.1**	0.1
Group relief received	**2.0**	—
Net gains on termination of IFRIC-12 contracts	**—**	(2.2)
Overprovided in previous years	**4.2**	1.6
Adjustment arising from change of rate of corporation tax	**2.1**	2.6
Other	**1.2**	0.8
Total income tax credit recognised in statement of comprehensive performance	**11.7**	9.5

Deferred tax recognised directly in equity

	2012	2011
	£m	**£m**
Deferred tax credit/(charge) on pension liability	**0.5**	(0.3)
Total deferred tax credit/(charge) recognised directly in equity	**0.5**	(0.3)
Total income tax credit/(charge) recognised in equity	**0.5**	(0.3)

Total tax

	2012	2011
	£m	**£m**
Total current tax credit/(charge)	**2.5**	(1.0)
Total deferred tax credit	**9.7**	10.2

7. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings	Furniture, fittings and equipment	Assets in course of construction	Total
	£m	£m	£m	£m
Cost				
At 30 September 2010	198.8	19.8	2.9	221.5
Acquired	1.9	0.4	—	2.3
Additions	3.1	6.1	13.1	22.3
Transfers	3.5	4.1	(7.6)	—
Transfers (to)/from current assets	(2.8)	8.5	1.8	7.5
Disposals	(3.6)	(1.3)	—	(4.9)
At 30 September 2011	200.9	37.6	10.2	248.7
Acquired	9.5	0.1	—	9.6
Additions	2.4	11.8	29.3	43.5
Transfers	27.2	6.2	(33.4)	—
Disposals	(1.9)	(10.1)	(0.8)	(12.8)
At 30 September 2012	**238.1**	**45.6**	**5.3**	**289.0**
Depreciation and impairment				
At 30 September 2010	2.8	1.9	—	4.7
Charge for year	7.9	9.3	—	17.2
Impairment	3.2	—	—	3.2
Transfers to current assets	2.0	5.5	—	7.5
Disposals	(0.9)	(1.1)	—	(2.0)
At 30 September 2011	15.0	15.6	—	30.6
Charge for year	6.1	11.3	—	17.4
Disposals	(0.2)	(10.9)	—	(11.1)
At 30 September 2012	**20.9**	**16.0**	—	**36.9**
Net book value				
At 30 September 2012	**217.2**	**29.6**	**5.3**	**252.1**
At 30 September 2011	185.9	22.0	10.2	218.1

The impairment charge of £nil (2011: £3.2m) relates to a mental health home that was closed during 2011.

Land and buildings include depreciable assets with an original cost of £191.5m (2011: £152.5m) and capitalised interest of £1.2m (2011: £nil). Included within the net book value of land and buildings are long leasehold buildings which have a net book value of £52.1m (2011: £54.4m) and short leasehold buildings which have a net book value of £29.1m (2011: £22.3m).

Assets in the course of construction include capitalised interest of £0.2m (2011: £0.4m).

The net book value of furniture, fixtures and fittings includes assets with a cost of £0.1m (2011: £0.1m) and accumulated depreciation of £0.1m (2011: £nil) held under finance leases. The depreciation charge on fixed assets held under finance leases was £0.1m (2011: £nil).

Refer to note 24 for contractual commitments for the acquisition of property, plant and equipment.

8. INTANGIBLE ASSETS

(a) Acquired intangible assets

Group	Goodwill	Intangible assets	Total
	£m	£m	£m
Cost			
At 30 September 2010	82.7	126.5	209.2
Adjustment	(0.1)	—	(0.1)
Acquired	10.1	—	10.1
At 30 September 2011	92.7	126.5	219.2
Adjustment	(0.1)	—	(0.1)
Acquired	0.7	5.0	5.7
Disposals	(0.5)	—	(0.5)
At 30 September 2012	92.8	131.5	224.3
Amortisation and impairment losses			
At 30 September 2010	—	11.3	11.3
Amortisation charge for period	—	25.1	25.1
At 30 September 2011	—	36.4	36.4
Amortisation charge for year	—	17.2	17.2
At 30 September 2012	—	53.6	53.6
Net book value			
At 30 September 2012	**92.8**	**77.9**	**170.7**
At 30 September 2011	92.7	90.1	182.8

The amortisation of intangible assets of £17.2m (2011: £25.1m) is recognised within administrative expenses in the statement of comprehensive performance.

Intangible assets comprise the value attributed to ongoing customer relationships within acquired businesses and are amortised over their estimated useful economic lives, which do not exceed ten years. The useful economic life is determined by reference to the life of the associated contract.

Management believes that goodwill represents value to the group for which the recognition of a discrete intangible asset is not permitted.

(b) Impairment charge

During the year ended 30 September 2012, the group reviewed all cash-generating units that contain goodwill for impairment in accordance with IAS 36. The recoverable amount was determined by value-in-use. The discount rates used in each value-in-use calculation were based upon a risk adjusted pre-tax group weighted average cost of capital (2012: 7.82%; 2011: 8.34%) specific to the respective cash-generating unit. No impairment was identified and therefore no goodwill impairment charge was recognised.

(c) Impairment tests for cash-generating units containing goodwill

The following divisions have significant cash-generating units that have the following goodwill carrying values:

	2012	2011
	£m	**£m**
Residential Care	**48.6**	48.6
Community Services	**13.8**	13.1
Health Care	**23.4**	23.4
Other	**7.0**	7.6
	92.8	92.7

All of the recoverable amounts are measured based on value-in-use. Those calculations use cash flow projections based on actual operating results and the budget and forecast business plan for the five years ending 30 September 2017. A terminal value is placed on the value of the annual cash flows in year five. No adjustment is made for the projected terminal value of the net assets of the individual cash-generating unit.

The discount rates used in each value-in-use calculation were based upon division specific risk adjusted pre-tax cost of capital. The group pre-tax weighted average cost of capital used as the starting point for these tests was 7.82% (2011: 8.34%).

Residential Care

The key assumptions in the value-in-use calculations are that forecast occupancy and bed rate targets are met and hence that revenue and EBITDA projections are achieved. Cash flows for years one to five are derived from the current forecast budget and business plan. Cash flows associated with post acquisition investment are included within the calculation. No growth has been assumed after the first five years. A discount of 1.5% has been applied to the group pre-tax weighted average cost of capital.

Community Services

The key assumptions in the value-in-use calculations are that forecast numbers of chargeable hours are met and hence that revenue and EBITDA projections are achieved. Cash flows for years one to five are derived from the current forecast budget and business plan. Cash flows associated with post acquisition investment are included within the calculation. No growth has been assumed after the first five years. A premium of 1.0% has been applied to the group pre-tax weighted average cost of capital.

Health Care

The key assumptions in the value-in-use calculations are that forecast volumes of activity/patients treated are achieved and hence that forecast revenue and EBITDA projections are realised. Cash flows for years one to five are derived from the current forecast budget and business plan. Cash flows associated with post acquisition investment are included within the calculation. No growth has been assumed after the first five years. A premium of 0.5% has been applied to the group pre-tax weighted average cost of capital.

Other

This goodwill is primarily associated with the group's Mental Health operations. The key assumptions in the value-in-use calculations are that forecast fee rates and levels of occupancy are met and hence that revenue and EBITDA projections are achieved. Cash flows for years one to five are derived from the current forecast budget and business plan. Cash flows associated with post acquisition investment are included within the calculation. No growth has been assumed after the first five years. A discount of 1.0% has been applied to the group pre-tax weighted average cost of capital**.**

Assumptions

Whilst management is confident that its assumptions are appropriate in light of circumstances at the time of the review, it is possible that circumstances may change. The recoverable amounts calculated on the above basis significantly exceed the carrying values of the cash-generating units that include goodwill to the extent that the assumptions made would need to change by a significant amount to eliminate the surplus.

(d) Acquisitions

i) Year ended 30 September 2012

During the year ended 30 September 2012 the group acquired 100% of the issued share capital of Housecall Care & Support Limited, Nicholson Housing Limited and Whitwood Care Limited.

Company name	Date of acquisition	Nature of business
Housecall Care & Support Limited	29 February 2012	The provision of care at home and supported living services.
Nicholson Housing Limited	29 February 2012	Property holding company.
Whitwood Care Limited	11 July 2012	The provision of residential care services for people with learning disabilities.

These purchases have been treated as acquisitions.

2012	Housecall Care & Support Limited Book value	Fair value adjustments	Fair value
	£m	£m	£m
Property, plant and equipment	0.5	—	0.5
Intangibles	—	1.2	1.2
Current assets:			
— trade and other receivables	0.5	—	0.5
— cash and cash equivalents	0.4	—	0.4
Total assets	1.4	1.2	2.6
Liabilities:			
— trade and other payables	—	—	—
— deferred tax	—	(0.2)	(0.2)
Total liabilities	—	(0.2)	(0.2)
Net assets	1.4	1.0	2.4
Goodwill on acquisition			0.7
Total consideration			3.1
Satisfied by:			
Cash paid on acquisition			2.8
Contingent consideration			0.3
Total consideration			3.1

	Nicholson Housing Limited		
2012	Book value	Fair value adjustments	Fair value
	£m	£m	£m
Property, plant and equipment	0.3	—	0.3
Current assets:			
— trade and other receivables	—	—	—
— cash and cash equivalents	—	—	—
Total assets	0.3	—	0.3
Liabilities:			
— trade and other payables	(0.3)	0.3	—
— corporation tax	—	—	—
Total liabilities	(0.3)	0.3	—
Net assets	—	0.3	0.3
Goodwill on acquisition			—
Total consideration			0.3
Satisfied by:			
Cash paid on acquisition			0.3
Total consideration			0.3

Nicholson Housing Limited was acquired in conjunction with Housecall Care & Support Limited.

	Whitwood Care Limited		
2012	Book value	Fair value adjustments	Fair value
	£m	£m	£m
Property, plant and equipment	2.9	6.0	8.9
Intangibles	—	3.8	3.8
Current assets:			
— trade and other receivables	0.2	—	0.2
— cash and cash equivalents	2.9	(0.2)	2.7
Total assets	6.0	9.6	15.6
Liabilities:			
— trade and other payables	(0.2)	—	(0.2)
— corporation tax	(0.3)	0.2	(0.1)
— deferred tax	—	(0.9)	(0.9)
Total liabilities	(0.5)	(0.7)	(1.2)
Net assets	5.5	8.9	14.4
Goodwill on acquisition			—
Total consideration			14.4
Satisfied by:			
Cash paid on acquisition			14.4
Total consideration			14.4

A comprehensive review of acquired entities' trade and assets was undertaken upon completion. No other intangible assets were identified that could be recognised.

ii) Year ended 30 September 2011

During the year ended 30 September 2011 the group acquired 100% of the issued share capital of Nexvale Limited and 80% of the issued share capital of Specialist Medical Imaging Limited.

Company name	Date of acquisition	Nature of business
Nexvale Limited	2 February 2011	The provision of acute eating disorders services to younger people.
Specialist Medical Imaging Limited	4 January 2011	The provision of ultrasound and other diagnostic services.

These purchases have been treated as acquisitions.

	Nexvale Ltd			Specialist Medical Imaging Ltd	
2011	**Book value**	**Fair value adjustments**	**Fair value**	**Book value and Fair value**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Property, plant and equipment	1.4	0.5	1.9	0.4	**2.3**
Current assets:					
— trade and other receivables	0.1	—	0.1	0.4	**0.5**
— cash and cash equivalents	0.4	(0.2)	0.2	—	**0.2**
Total assets	1.9	0.3	2.2	0.8	**3.0**
Liabilities:					
— trade and other payables	—	—	—	(0.5)	**(0.5)**
— other non-current liabilities	—	(0.1)	(0.1)	—	**(0.1)**
— loan facilities	(0.1)	0.1	—	—	**—**
Total liabilities	(0.1)	—	(0.1)	(0.5)	**(0.6)**
Net assets	1.8	0.3	2.1	0.3	**2.4**
Goodwill on acquisition			5.3	4.8	**10.1**
Total consideration			7.4	5.1	**12.5**
Satisfied by:					
Cash paid on acquisition			2.2	3.0	**5.2**
Contingent consideration			5.2	2.1	**7.3**
			7.4	5.1	**12.5**

A comprehensive review of acquired entities' trade and assets was undertaken upon completion. No other intangible assets were identified that could be recognised.

iii) Other disclosures

The net profit/(loss) (after attributable financial expenses and taxation) since their respective dates of acquisition, for the entities acquired during the financial year was:

	2012	**2011**
	£m	**£m**
Net profit/(loss) since acquisition	**0.9**	(0.3)

If the above acquisitions had all occurred at the start of the financial year in which they were acquired, the group revenue and net profit/(loss) would have been:

	2012	2011
	£m	£m
Revenue	**12.1**	7.6
Net profit/(loss)*	**3.9**	(0.1)

* Net profit/(loss) is stated after attributable financial expenses and taxation and is an indicative figure only since the acquired entities' pre-acquisition accounting policies and operating costs have not been adjusted to reflect the post-acquisition position.

During the year a total of £0.2m (2011: £0.5m) contingent consideration was paid in respect of a business acquired in 2008 (2011: 2008).

9. OTHER FINANCIAL ASSETS

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
IFRIC-12 financial asset: brought forward	**43.8**	66.0	**—**	—
Acquired in the period	**—**	—	**—**	—
Released in the period	**(19.6)**	(22.2)	**—**	—
IFRIC-12 financial asset: carried forward	**24.2**	43.8	**—**	—

These financial assets are recognised upon adoption of IFRIC 12 "Service Concession Arrangements" (this interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services). For all arrangements falling within the scope of the interpretation, the infrastructure assets are not recognised as property, plant and equipment of the operator, Care UK. Rather, depending on the terms of the arrangement, the operator recognises a financial asset where the operator has an unconditional right to receive a specified amount of cash or other financial assets over the life of the arrangement.

(a) Current assets

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
IFRIC-12 financial asset	**1.0**	19.6	**—**	—

(b) Non-current assets

	Group		Company	
	2012	2011	2012	2011
		£m		£m
IFRIC-12 financial asset	**23.2**	24.2	**—**	—

10. INVESTMENTS

Company	Shares in subsidiary undertakings
	£m
Cost and Net book value	
At 30 September 2012	**210.7**
At 30 September 2011	210.7

In 2010 Care UK Health & Social Care Investments Limited acquired 100% of the issued ordinary share capital of Care UK Health & Social Care Plc upon incorporation of that entity. This is Care UK Health & Social Care Investments Limited's only direct investment. See note 28 for further details of group entities.

11. INVENTORIES

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Materials and consumables	**1.8**	2.9	**—**	—

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Trade receivables	**45.9**	43.5	**—**	—
Less: provision for impairment of receivables	**(1.1)**	(0.7)	**—**	—
Trade receivables — net	**44.8**	42.8	**—**	—
Amounts owed by subsidiary undertakings	—	—	**10.4**	—
Other receivables	**3.0**	2.0	**—**	—
Prepayments and accrued income	**5.2**	5.0	**—**	—
	53.0	49.8	**10.4**	—

The group's exposure to credit risk from its trading operations is considered to be minimal in view of its customer base, which primarily comprises public sector entities such as Local Authorities, PCTs and other NHS Trusts form.

The group has £14.6m (2011: £10.9m) trade and other receivables that are past due but not impaired. These relate primarily to Local Authorities, PCTs and other NHS Trusts for whom there is no history of default. These have not been provided for as there has not been a significant change in the credit quality of the customers concerned and the amounts are still considered recoverable. The group does not hold any collateral over these balances. The ageing analysis of these receivables is as follows:

	2012	2011
	£m	£m
0–30 days	**6.1**	6.0
30–60 days	**2.3**	1.7
60–90 days	**1.3**	0.9
Over 90 days	**4.9**	2.3
	14.6	10.9

The group has trade and other receivables of £1.1m (2011: £0.7m) which are impaired and provided for. The ageing of these receivables is as follows:

	2012	2011
	£m	£m
0–30 days	**—**	—
30–60 days	**—**	—
60–90 days	**0.1**	—
Over 90 days	**1.0**	0.7
	1.1	0.7

The group's impairment provision has been calculated based upon the ageing profile of the receivables and any history of default with particular customers.

Concentrations of credit risk with respect to trade and current other receivables are limited due to the nature of the group's customer base.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Cash at bank and in hand	**8.4**	13.0	**—**	—
Short-term bank deposits	**29.9**	27.2	**—**	—
Cash and cash equivalents	**38.3**	40.2	**—**	—
Cash and cash equivalents as shown in the statement of cash flows	**38.3**	40.2	**—**	—

14. ASSETS HELD FOR SALE

As at 30 September 2012 the group has eight (2011: eight) properties that have been classified as being held for sale.

15. FINANCIAL LIABILITIES

(a) Current liabilities

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Current portion of finance lease liabilities	**0.2**	0.1	**—**	—

(b) Non-current liabilities

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Senior secured notes	**250.0**	250.0	**—**	—
Revolving Credit Facility	**11.9**	—	—	—
Loan arrangement fees	**(8.6)**	(10.4)	**—**	—
	253.3	239.6	**—**	—

(c) Maturity profile of financial liabilities

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Debt can be analysed as falling due				
In one year or less, or on demand	**0.2**	0.1	**—**	—
In more than one year but not more than two years	**—**	—	**—**	—
In more than two years but not more than five years	**253.3**	—	**—**	—
In five years or more	**—**	239.6	**—**	—
	253.5	239.7	**—**	—

(d) Maturity profile of finance leases

	Group	
	2012	2011
	£m	£m
Minimum lease payments under finance leases fall due as follows		
In one year or less	**0.2**	0.1
Future finance charges on finance leases	**—**	—
Present value of finance lease liabilities	**0.2**	0.1

(e) Terms and conditions

i) Senior Secured Notes

In July 2010 Care UK Health & Social Care Plc (the Issuer) issued £250m 9¾% Senior Secured Notes. Interest is payable semi-annually in arrears on 1 February and 1 August.

The Senior Secured Notes will mature on 1 August 2017. Prior to 1 August 2014, the Senior Secured Notes may be redeemed in whole or in part at any time by paying a "make-whole" premium. The Senior Secured Notes may be redeemed in whole or in part at any time on or after 1 August 2014 at the redemption prices set forth in the Offering Memorandum. In addition, prior to 1 August 2013, the Issuer may redeem at its option up to 35% of the aggregate principal amount of the Senior Secured Notes with the net proceeds from certain equity offerings at the redemption price set forth in this Offering Memorandum. The Issuer may redeem all of the Senior Secured Notes, at any time, at a price equal to their principal amount plus accrued and unpaid interest, if any, upon the occurrence of certain changes in applicable tax law. If the Issuer sells certain of its assets in some circumstances or experiences a specific kind of change in control, it may be required to offer to repurchase the Senior Secured Notes at a redemption price equal to 100% or 101%, respectively, of the principal amount thereof plus accrued and unpaid interest, if any, to the date of redemption.

The Senior Secured Notes are guaranteed on a senior secured basis by each of Care UK Health & Social Care Investments Limited, Care UK Limited, and certain of the Issuer's other operating subsidiaries.

ii) Super Senior Revolving Credit Facility

As at 30 September 2012 the group had an £80m Super Senior Revolving Credit Facility (the "RCF"), which expires on 13 July 2016. The margin payable on the outstanding loan is in the range of 2.5% to 4.0% above LIBOR plus any mandatory costs depending on the total net leverage of the group. Each utilisation under the facility is repayable and capable of being redrawn at the end of each interest period. The final repayment date is 13 July 2016.

As at 30 September 2012, £11.9m (2011: £nil) of the RCF has been utilised as cash drawings. The remainder of the facility remained undrawn, with the exception of £14.6m (2011: £17.0m) utilised in relation to performance bonds provided in relation certain contracts in the Health Care division and £0.5m (2011: £0.5m) in relation to other ancillary utilisations.

The Super Senior Revolving Facility Agreement requires Care UK Health and Social Care Investments Limited, as the parent guarantor, to ensure compliance with financial covenants relating to:

- Super senior gross leverage (calculated as the ratio of total super senior gross debt at each quarter end to EBITDA for the 12 months ending on that quarter end); and
- Interest cover (calculated as the ratio of EBITDA to total net finance charges, measured at each quarter end for the 12 months ending on the relevant quarter end),

In each case, such terms are defined in the specific facility agreements.

On 31 October 2012, in anticipation of the acquisition of Harmoni (see note 29), the RCF was increased to £97.5m and, on 5 November 2012, a total of £37.5m was drawn on the RCF in order partly to fund the acquisition of Harmoni and to settle the fees associated with the extension of the RCF.

16. TRADE AND OTHER PAYABLES

	Group		**Company**	
	2012	**2011**	**2012**	**2011**
	£m	**£m**	**£m**	**£m**
Accrued senior secured notes interest	**4.1**	4.1	**—**	—
Trade payables	**20.9**	15.8	**—**	—
Other tax and social security	**7.0**	6.3	**—**	—
Deferred Government grant income	**0.4**	0.3	**—**	—
Contingent acquisition consideration	**5.5**	6.0	**—**	—
Accruals and deferred income	**64.3**	62.6	**0.3**	0.4
Amounts owed to subsidiary undertakings	**—**	—	**—**	0.8
	102.2	95.1	**0.3**	1.2

Trade and other payables are expected to be settled within twelve months.

17. OTHER NON-CURRENT LIABILITIES

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Retirement benefit obligations	**3.6**	1.3	**—**	—
Deferred Government grant income	**2.2**	2.6	**—**	—
Contingent acquisition consideration	**1.6**	1.6	**—**	—
	7.4	5.5	**—**	—

The group has a number of Government grants that relate to capital contributions towards the development of residential homes. Details of any unfulfilled conditions are disclosed in note 25. The total amount of Government grants recognised in the statement of comprehensive performance during the year was £0.3m (2011: £0.4m) and the total of Government grants held in the balance sheet at 30 September 2012 was £2.6m (2011: £2.9m).

18. DEFERRED TAXATION

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 25%). The company has no deferred tax balances.

(a) Recognised deferred tax liabilities

Deferred tax assets have been recognised in respect of tax losses and other deductible temporary differences where it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Assets		Liabilities		Net	
Group	2012	2011	2012	2011	2012	2011
	£m	£m	£m	£m	£m	£m
Deferred taxation						
Property, plant and equipment	**—**	—	**8.1**	11.2	**8.1**	11.2
Employee benefits	**(0.8)**	(0.3)	**—**	—	**(0.8)**	(0.3)
Acquired intangible assets	**—**	—	**15.7**	20.0	**15.7**	20.0
Other items	**(1.2)**	(0.5)	**1.5**	1.5	**0.3**	1.0
Deferred tax (assets)/liabilities	**(2.0)**	(0.8)	**25.3**	32.7	**23.3**	31.9
Offset of tax	**2.0**	0.8	**(2.0)**	(0.8)	**—**	—
Net deferred tax liabilities	**—**	—	**23.3**	31.9	**23.3**	31.9

All of the deferred tax assets were available for offset against deferred tax liabilities and the net liabilities are due after more than one year:

	Group	
	2012	2011
	£m	£m
Net deferred tax liabilities	**23.3**	31.9

(b) Unrecognised deferred tax assets

	Group	
	2012	2011
	£m	£m
Tax value of unrecognised losses carried forward		
— capital	—	—

The available tax losses, both revenue and capital, may be carried forward indefinitely.

(c) Movement in temporary differences during the year

The movement on the group deferred taxation account is as follows:

Group	Balance 1 October 2011	Recognised in income	Recognised in equity	Acquired in business combinations	Balance 30 September 2012
	£m	£m	£m	£m	£m
Deferred taxation					
Property, plant and equipment	11.2	(3.1)	—	—	**8.1**
Employee benefits	(0.3)	—	(0.5)	—	**(0.8)**
Acquired intangible asset	20.0	(5.4)	—	**1.1**	**15.7**
Other items	1.0	(0.7)	—	—	**0.3**
	31.9	(9.2)	(0.5)	**1.1**	**23.3**

Group	Balance 1 October 2010	Recognised in income	Recognised in equity	Acquired in business combinations	Balance 30 September 2011
	£m	£m	£m	£m	£m
Deferred taxation					
Property, plant and equipment	14.1	(2.9)	—	—	**11.2**
Employee benefits	(0.7)	—	0.4	—	**(0.3)**
Acquired intangible asset	28.0	(8.0)	—	—	**20.0**
Other items	0.4	0.6	—	—	**1.0**
	41.8	(10.3)	0.4	—	**31.9**

(d) Factors that may affect future tax charges

On 21 March 2012 the Chancellor announced that the main rate of UK corporation tax will reduce from 24% to 23% with effect from 1 April 2013. This tax change became substantively enacted on 3 July 2012 and therefore the effect of the rate reduction on the deferred tax balances as at 30 September 2012 has been included in the figures above.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by a further 1% to 22% by 1 April 2014, but this change has not yet been substantively enacted and therefore is not included in the figures above. The overall effect of the further reduction from 23% to 22%, if this applied to the group deferred tax balance as at 30 September 2012 would be to further reduce the deferred tax liability by approximately £1.0m.

19. RESERVES

In accordance with Section 408 of the Companies Act 2006, the company has elected not to present its own profit and loss account. The loss for the year dealt with in the company's own profit and loss account is £0.6m (2011 loss: £0.7m).

(a) Issued share capital

	2012		2011	
Group and company	**Shares**	**£m**	**Shares**	**£m**
Authorised				
Ordinary shares of £1 each	**210,676,211**	**210.7**	210,676,211	210.7
Allotted, called-up and fully paid shares of £1 each				
Balance at 1 October	**210,676,211**	**210.7**	210,676,211	210.7
Allotted	**—**	**—**	—	—
At 30 September	**210,676,211**	**210.7**	210,676,211	210.7

During the year no ordinary shares of £1 each were allotted (2011: none). The proceeds received as a result of this amounted to £nil (2011: £nil).

20. FINANCIAL RISK MANAGEMENT

Care UK's activities and debt financing expose it to a variety of financial risks, the most significant of which are market risk (cash flow interest rate risk and price risk), credit risk and liquidity risk (changes in the debt market). Care UK's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Care UK's financial performance. Care UK may use derivative financial instruments to hedge certain risk exposures: no such instruments are currently employed nor have any such instruments been employed during the year ended 30 September 2012 as the group has not utilised any floating rate borrowing facilities during this period.

(a) Cash Flow Interest Rate Risk

Following the issuance of the £250m Senior Secured Notes due 1 August 2017 by Care UK Health & Social Care Plc in July 2010 the majority of Care UK's borrowings have carried a fixed interest rate as limited use has been required of the Revolving Credit Facility outlined above. In addition, Care UK currently carries a small amount of short-term cash deposits. Therefore Care UK's current income and cash flows are only affected to a negligible degree by changes in market interest rates. Short-term deposits are placed with financial institutions in accordance with Care UK's treasury policy. Interest rates obtained on deposits are variable and linked to LIBOR.

In managing interest rate risks, Care UK aims to reduce the impact of short-term fluctuations in Care UK's earnings. Over the longer term, however, changes in interest rates would be likely to have an impact on consolidated earnings.

Care UK would expect to make increased use of the Revolving Credit Facility in the future. Any such borrowings would potentially increase Care UK's exposure to cash flow interest rate risk as they would be issued at a floating rate linked to LIBOR. Care UK has historically used a range of derivative financial instruments, including interest rate swaps and collars, to hedge its exposure to floating rates and would expect to do so in future where considered appropriate, dependent on the expected duration of such underlying borrowings.

(b) Price Risk

Care UK is not exposed to commodity price risk but as a provider of services is subject to both general and industry specific wage pressures, including legislative changes concerning the minimum wage level. Contracts with Local Authorities, Primary Care Trusts and other NHS Trusts are also subject to annual price review. For the year ended 30 September 2012, a 1% increase in salary costs would have decreased profit before tax by £3.1m (2011: £2.5m).

In common with the majority of government-funded providers, most of Care UK's price changes take effect annually on 1 April. Around 26% of Care UK's revenue is linked to general inflation indices.

(c) Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. Credit exposures in relation to customers is limited given that the majority of Care UK's revenue is attributable to publicly funded entities such as Local Authorities, Primary Care Trusts and other NHS Trusts. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted. For an analysis of trade receivables which are past due but not impaired and trade receivables which are past due and impaired, see note 12.

The table below analyses the group's cash and cash equivalents by credit exposure excluding bank balances and petty cash:

Counterparty	**2012**		**2011**	
	Rating	**£m**	**Rating**	**£m**
Financial institutions — money market deposits	A2	-	A2	22.6
Financial institutions — money market deposits	Aa3	**29.9**	Aa2	4.6

(d) Liquidity Risk

A policy of prudent liquidity risk management is applied. Care UK's operational cash flow is largely stable and predictable given the contractual and recurring nature of the core business activity. Care UK prepares annual and shorter term cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance projected requirements, including capital expenditure. Adequate headroom in available facilities is maintained.

21. FINANCIAL INSTRUMENTS

(a) Embedded derivatives

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such derivatives were identified as a result of the review.

(b) Fair value of financial assets and liabilities

The fair values together with the carrying amounts shown in the balance sheet are as follows. Items have been excluded where their book value approximates their fair value.

		2012		2011	
Group	**Notes**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
		£m	**£m**	**£m**	**£m**
IFRIC 12 financial asset	9	**24.2**	**24.2**	43.8	43.8
Cash and cash equivalents..................	13	**38.3**	**38.3**	40.2	40.2
Senior Secured Notes..........................	15	**(250.0)**	**(267.0)**	(250.0)	(264.1)
Revolving Credit Facility.....................	15	**(11.9)**	**(10.7)**	—	—
Finance lease liabilities........................	15	**(0.2)**	**(0.2)**	(0.1)	(0.1)
Deferred Government grants	17	**(2.6)**	**(1.8)**	(2.9)	(1.6)

		2012		2011	
Company	**Notes**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
		£m	**£m**	**£m**	**£m**
IFRIC 12 financial asset	9	**—**	**—**	—	—
Cash and cash equivalents..................	13	**—**	**—**	—	—
Senior Secured Notes..........................	15	**—**	**—**	—	—
Revolving Credit Facility.....................	15	**(11.9)**	**(10.7)**	—	—
Finance lease liabilities........................	15	**—**	**—**	—	—
Deferred Government grants	17	**—**	**—**	—	—

The following summarises the major methods and assumptions used in estimating the fair values of the financial instruments reflected in the above tables:

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogenous lease agreements. The estimated fair values reflect changes in the interest rates.

Interest rates for determining fair value

Unless specified on the previous page, the group uses the Government yield curve as of 30 September 2012 plus an adequate constant spread to discount financial instruments. The interest rates used are as follows:

	2012	**2011**
	%	**%**
Senior Secured Notes	**8.3**	8.8
Revolving Credit Facility	**8.3**	—
Leases	**13.9**	13.9
Deferred Government grants	**8.3**	8.8

22. PENSIONS

The group has established a number of pension schemes, both defined contribution and defined benefit, covering a number of its employees.

(a) Defined contribution plan

The group has a defined contribution group personal pension plan. Contributions to this scheme are charged to the statement of comprehensive performance as they fall due. The assets of this scheme are held separately from those of the group in independently administered funds.

Pension costs for defined contribution schemes are as follows:

	2012	**2011**
	£m	**£m**
Defined contribution schemes	**1.2**	1.1

As at 30 September 2012 contributions amounting to £nil (2011: £nil) were payable to the scheme.

(b) Defined benefit plans

As a result of contractual arrangements with a small number of public sector customers, the group contributes to six defined benefit schemes. These schemes provide pension benefits based on final pensionable pay.

The schemes are funded by payments to independently managed funds, the assets of which are held separately from those of the group. The funds are administered by trustees as a separate legal entity. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees is determined by the schemes' trust documentation.

Contributions to the defined benefit pension schemes are charged to the statement of comprehensive performance so as to spread the cost of pensions over employees' estimated working lives with the group. The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method.

The liabilities of the defined benefit schemes are measured by discounting the best estimate of future cash flows to be paid out by the schemes using the projected unit method. This is the amount, after taking into consideration reimbursement assets, which is reflected in the deficit in the balance sheet. The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

Details of the four larger schemes are given below.

Care UK LG Pension Scheme

The most recent valuation was at 1 April 2009. At the date of the actuarial valuation the market value of the schemes assets was £3.9m and the actuarial value of those assets represented 69% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Following the valuation the employer contribution rates changed with effect from 1 April 2010 from 26.3% to 23.0% for standard members and from 39.5% to 65.5% for Mental Health Officers with special retirement benefits. The group will monitor funding levels on an annual basis. The next triennial valuation report will be as at 1 April 2012. As at 30 September 2012 this valuation was in process of preparation and until it becomes available the Trustees have agreed with the employer an additional amount of £20,400 per month as part of a ten year funding plan.

Employer contributions amounted to £2.4m (2011: £1.5m) for the year ended 30 September 2012.

The scheme obtains approval by the Government Actuarial Department when new members join the scheme.

The Trustee Board has four Trustees nominated by the employer and there are two vacancies available to be nominated by the scheme members.

Dorset County Council Pension Fund

The group is an admitted body of the Dorset County Council Local Government pension fund. This is a closed scheme and no new members can be admitted. During the year ended 30 September 2006 a number of employees transferred to the group but continued to be members of Dorset County Council pension fund.

Under the rules of the admission agreement, the associated pension fund assets and liabilities are separately identifiable and segregated for funding purposes.

Under the terms of the group's contract with Poole Borough Council, the group is indemnified for any shortfall in scheme assets and for any increase in contributions required by any future actuarial valuation; hence the group has no constructive or legal obligation to fund a deficit on the associated segregated portion of the scheme. Accordingly, the group has recognised an asset equal to the current deficit on the segregated portion of the scheme. This reimbursement asset has been presented as offsetting the current scheme deficit on the segregated portion of the scheme and is therefore included within retirement benefit obligations.

The most recent valuation of this scheme was as at 31 March 2011. As at the date of the latest actuarial valuation, the segregated portion of the scheme showed that the value of the scheme's assets represented 96% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Employer contributions amounted to £0.1m (2011: £0.1m) for the year ended 30 September 2012. Contribution rates from April 2011 were 18.5% rising to 19.0% in April 2012 of total pensionable salary.

London Borough of Harrow Pension Scheme

The group is an admitted body of the London Borough of Harrow pension scheme. This is a closed scheme and no new members can be admitted. During the year ended 30 September 2008 a number of employees transferred to the group but continued to be members of the London Borough of Harrow pension scheme.

Under the rules of the admission agreement, the associated pension fund assets and liabilities are separately identifiable and segregated for funding purposes.

Under the terms of the group's contract with the London Borough of Harrow, the group has a risk sharing obligation in relation to non standard costs. Funding obligations exist for Care UK in respect of ill health early retirements, redundancies etc. There have been no additional funding requirements since inception of the contract in 2006.

Employer contributions amounted to £0.1m (2011: £0.1m) for the year ended 30 September 2012. Contribution rates in respect of next year are expected to be approximately 22.1% (2011: 22.3%) of total pensionable salary.

Royal County of Berkshire Pension Fund

The group is an admitted body of the Royal County of Berkshire pension fund. This is a closed scheme and no new members can be admitted. During the year ended 30 September 2009 a number of employees transferred to the group but continued to be members of the Royal County of Berkshire pension fund.

Under the rules of the admission agreement, the associated pension fund assets and liabilities are separately identifiable and segregated for funding purposes.

Under the terms of the group's contract with the Slough Borough Council, the group has a risk sharing obligation in relation to non standard costs. Funding obligations exist for Care UK in respect of ill health early retirements, redundancies etc. There have been no additional funding requirements since inception of the contract in 2009. Costs for this scheme are not considered material as only 11 staff are members of this scheme.

A valuation of this scheme was undertaken as at 1 April 2009, the date of transfer of obligations. The next triennial valuation report will be as at 1 April 2012. As at the date of the actuarial valuation, the segregated portion of the scheme showed that the value of the scheme's assets was equal to that of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Employer contributions amounted to £0.1m (2011: £0.1m) for the year to 30 September 2012. Contribution rates in respect of next year are expected to be 21.0% (2011: 21.0%) of total pensionable salary.

Aggregated scheme disclosures

The principal assumptions made by the actuaries were:

	2012	**2011**
	%	**%**
Rate of increase of pensionable salaries	**1.0-3.9**	1.0-4.1
Rate of increase in pensions in payment and deferred pensions	**1.8-3.9**	2.3-3.3

Discount rate	**4.0-4.3**	5.0-5.1
Inflation assumptions	**2.6-4.9**	3.1-3.3
Expected return on plan assets	**0.5-8.0**	3.0-8.0

The derivation of the overall expected return on assets reflects the actual asset allocation at the measurement date combined with an expected return for each asset class. The bond return is based on the prevailing return available on high quality (AA or similar) corporate bonds. The returns on equities and property are based on a number of factors including the income yield at the measurement date, the long term growth prospects for the economy in general, the long term relationship between each asset class and the bond returns and the movement in market indices since the previous measurement date. The actual gain on plan assets was £1.4m (2011 loss: £0.2m).

The assumed life expectancy at age 65 is:

	Care UK LG Pension Scheme		**Other**	
	2012	**2011**	**2012**	**2011**
	Years	**Years**	**Years**	**Years**
Current pensioners				
— males	**89.1**	89.0	**86.5**	86.4
— females	**91.0**	91.0	**89.4**	89.3
Prospective pensioners				
— males	**91.1**	91.0	**88.5**	88.4
— females	**92.2**	92.2	**91.5**	91.4

The amounts recognised in the balance sheet are determined as follows:

	2012	**2011**
	£m	**£m**
Present value of funded obligations	**(19.4)**	(13.2)
Fair value of plan assets	**15.0**	11.4
Reimbursement assets	**0.8**	0.5
Fair value of plan assets	**15.8**	11.9
Net liability	**(3.6)**	(1.3)

None of the pension schemes own any shares in the company.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2012	**2011**
	%	**%**
Equities	**57**	53
Gilts, other bonds and cash	**34**	37
Property and other assets	**4**	5
Reimbursement assets	**5**	5
	100	100

The amounts recognised in the statement of comprehensive performance are as follows:

	2012	2011
	£m	**£m**
Current service cost	**2.3**	1.6
Interest cost	**0.6**	0.5
Expected return on plan assets	**(0.6)**	(0.5)
Total included within staff employee benefits expense	**2.3**	1.6

The total charge was included in cost of sales.

Changes in the present value of the defined benefit obligations are as follows:

	2012	2011
	£m	**£m**
Present value of obligations at 1 October	**13.2**	10.8
Movement in respect of reimbursement assets	**0.3**	(0.3)
Transfer of obligations	**—**	2.6
Current service cost	**2.3**	1.6
Interest cost	**0.6**	0.5
Plan participants' contributions	**0.4**	0.3
Benefits paid	**(0.8)**	(0.1)
Actuarial loss/(gain)	**3.4**	(2.2)
Present value of obligations at 30 September	**19.4**	13.2

Changes in the fair value of the plan assets are as follows:

	2012	2011
	£m	**£m**
Fair value of plan assets at 1 October	**11.9**	8.4
Movement in respect of reimbursement assets	**0.3**	(0.3)
Transfer of assets	**—**	2.3
Expected return on plan assets	**0.6**	0.5
Employer contributions	**2.6**	1.5
Plan participants' contributions	**0.4**	0.3
Benefits paid	**(0.8)**	(0.1)
Actuarial gain/(loss)	**0.8**	(0.7)
Fair value of plan assets at 30 September	**15.8**	11.9

Analysis of the movement in the balance sheet liability:

	2012	2011
	£m	**£m**
Balance sheet liability at 1 October	**(1.3)**	(2.4)
Transfer of deficit	**—**	(0.3)
Total expense as above	**(2.3)**	(1.6)
Employer contributions	**2.6**	1.5
Net actuarial (loss)/gain recognised in the year	**(2.6)**	1.5
Balance sheet liability at 30 September	**(3.6)**	(1.3)

Cumulative actuarial gains and losses recognised in equity are as follows:

	2012	2011
	£m	£m
At 1 October	**(0.5)**	(2.0)
Net actuarial (loss)/gain recognised in the year	**(2.6)**	1.5
At 30 September	**(3.1)**	(0.5)

History of experience of gains and losses:

	2012	2011	2010	2009	2008
Experience adjustments arising on scheme assets					
— amount	**£0.8m**	£(0.7)m	£0.1m	£0.2m	£(0.4)m
— percentage of scheme assets	**5%**	(6)%	1%	3%	(7)%
Experience adjustments arising on scheme liabilities					
— amount	**£(3.4)m**	£2.2m	£(1.4)m	£(1.5)m	£(0.3)m
— percentage of present value of the scheme liabilities	**(18)%**	17%	(13)%	(18)%	(6)%
Present value of the scheme liabilities	**£19.4m**	£13.2m	£10.8m	£8.2m	£5.4m
Fair value of the scheme assets	**£15.8m**	£11.9m	£8.4m	£7.1m	£5.4m
Deficit	**£(3.6)m**	£(1.3)m	£(2.4)m	£(1.1)m	—

The contributions expected to be paid during the financial year ending 30 September 2013 amounts to £2.9m.

23. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable operating leases are as follows:

	2012		2011	
Group	**Land and buildings**	**Other**	**Land and buildings**	**Other**
	£m	£m	£m	£m
— within one year	**19.8**	**2.2**	11.5	1.4
— within two to five years	**65.4**	**4.5**	32.1	2.0
— after five years	**265.8**	**0.1**	88.6	—
	351.0	**6.8**	132.2	3.4

The group leases various offices and operational facilities under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The group also leases plant and machinery under non-cancellable operating lease agreements.

The company has no operating lease commitments.

24. CAPITAL COMMITMENTS

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Contracted for, but not provided	**3.0**	8.9	**—**	—

25. CONTINGENT LIABILITIES

The group previously had a number of Government grants that would have had to be repaid if the related property had been sold. These arrangements have now all expired and as at 30 September 2012 the amount that may be repayable was £nil (2011: £0.2m).

The group also has a number of cross guarantees between group companies relating to debtor balances. The directors consider that the likelihood of these guarantees being called upon is remote.

26. RELATED PARTY TRANSACTIONS

(a) Identity of related parties

The group has a related party relationship with its subsidiaries and with its directors and executive officers.

Silver Sea Holdings

Subsequent to the acquisition of Care UK Limited, Bridgepoint and the management of Care UK jointly established, as planned, an independent development group of which the parent company is Silver Sea Holdings ("Silver Sea"). The equity interests in Silver Sea are an exact replica of the equity interests in Care UK Health & Social Care Holdings Limited. Silver Sea has been established in order to (i) build residential care homes to Care UK's specifications; or (ii) to oversee the development of residential care homes by third party property developers who will build the care homes to Care UK's specifications and sell them to Silver Sea on completion. In each case Silver Sea will enter into an agreement for lease and development with Care UK and will enter into a lease for each such home on its practical completion.

Sites developed by Silver Sea will be funded by a combination of equity contributions from its shareholders, loans from Care UK and loans drawn down under the separate non-recourse debt facilities available to Silver Sea. The loans to be provided by Care UK are on arms length terms and subject to the provisions of both Care UK's Revolving Credit Facility and Senior Secured Notes. See "Description Of Other Indebtedness".

Under a technical services agreement, Silver Sea will subcontract certain of its obligations to Care UK and will pay a fee to Care UK for performing these services. Each agreement for lease and development contains an obligation on Silver Sea to grant, and an obligation on Care UK to accept, a lease of the relevant site.

Given the commonality of equity ownership between Silver Sea and Care UK, each of the agreements entered into between these entities in connection with these greenfield development plans is a related party transaction. Since the establishment of Silver Sea, the parties have entered into five such agreements. A number of other sites have been provisionally approved for development subject to the receipt of satisfactory planning permission.

(b) Pension plans

During the year, the group made various payments to defined benefit pension plans. Details of these transactions are set out in note 22 to the financial statements.

(c) Subsidiaries

The group centrally manages its financing arrangements. Amounts are transferred within the group, dependent on the operational needs of individual companies. The directors do not consider it meaningful to set out the gross amounts of transfers between individual companies. Similarly the directors do not consider it meaningful to set out the interest and dividend payments made within the group as these are a function of the group's central financing arrangements. There are no provisions or expenses recognised for doubtful debts with subsidiary undertakings.

Details of the company's cash and indebtedness are set out in notes 13 and 15 and there are no amounts due or owed to subsidiary undertakings as at 30 September 2012 (2011: £nil).

(d) Transactions with related parties

During the year Care UK lent £5.1m (2011: £3.6m) to Silver Sea Holdings, all of which was outstanding as at 30 September 2012. The loan is an unsecured, interest bearing loan. Interest is charged at an arms-length rate.

(e) Transactions with key management personnel

Identity

The group and company have identified key management personnel as being the directors of the company and the members of the executive committee.

Shareholdings

Key management personnel have the following percentage of the voting shares of the company:

	2012	**2011**
	%	**%**
Directors	**—**	—
Other key management personnel	**—**	—

Compensation

Key management personnel's compensation is as follows:

	2012	**2011**
	£m	**£m**
Salaries and short-term employment benefits	**2.6**	2.7
Contributions to defined contribution plans	**0.1**	0.1
	2.7	2.8

Total remuneration and directors' emoluments are included in note 4.

Loans and other transactions

There have been no loans or other transactions with key management personnel in 2012 (2011: £nil).

27. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company is a wholly owned subsidiary of Care UK Health and Social Care Finance Limited, which is registered in England and Wales. Care UK Health and Social Care Finance Limited does not prepare group financial statements.

The company's ultimate parent company and controlling party is Care UK Health and Social Care Holdings Limited, which is registered in England and Wales.

Copies of the financial statements of Care UK Health and Social Care Holdings Limited, which includes the consolidated results of this group, are available from their registered office at Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex, CO4 9QB.

28. PRINCIPAL SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS

The following principal subsidiary and joint venture undertakings, which are incorporated in England and Wales and operate in the UK, have been included in the consolidated financial statements and are all directly held by the holding company:

		Ownership interest	
Subsidiaries	**Nature of business**	**2012**	**2011**
		%	**%**
Care UK Health and Social Care Plc	Intermediary holding and finance company	**100**	100
Care UK Limited	Intermediary holding company	**100**	100
Care UK Community Partnerships Group Limited	Provides specialist healthcare, intermediate care, social care and facilities management services for the elderly	**100**	100
Care UK Homecare Limited	Provides carers to support people in their own home and provides specialist healthcare professionals	**100**	100
Care UK Mental Health Partnerships Limited	Provides specialised nursing and residential care for adults with mental illness	**100**	100
Althea Park Limited	Provides specialist psychiatric care for people with eating disorders or prone to self harm	**100**	100
Care UK Learning Disabilities Services Limited	Provides residential and supported living services, care and day activities, for people with learning disabilities	**100**	100
Care UK Clinical Services Limited	Provides primary care services to the public sector	**100**	100
Care UK Healthcare Holdings Limited	Provides a range of primary, secondary and diagnostic care	**100**	100
Partnership Health Group Limited	Provides orthopaedic elective and related nursing and physiotherapy services	**100**	100

A full list of all subsidiaries will be included in the company's annual return.

29. POST BALANCE SHEET EVENTS

On 5 November 2012, Care UK acquired the entire issued ordinary share capital of HWH Group Limited ("Harmoni") for total consideration of £48.0 million. Harmoni is the largest independent sector provider of unscheduled health care services to the NHS in England, with three core business areas in unscheduled care, offender health and the newly emerging market of the non-emergency care "111" service. Care UK financed the transaction by the use of £35.7 million drawn from its Revolving Credit Facility ("RCF") with the balance utilising Care UK's cash resources. Care UK increased its RCF by £17.5 million, from £80.0 million to £97.5 million, on 31 October 2012 in anticipation of this transaction.

INDEPENDENT AUDITOR'S REPORT

To the members of Care UK Health & Social Care Investments Limited (company number 07158140)

We have audited the financial statements of Care UK Health & Social Care Investments Limited for the year ended 30 September 2012 set out on pages ● to ●. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

P GRESHAM (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Registered Auditor
Ipswich
14 November 2012

Care UK Health & Social Care Investments Limited

Group proforma pre-IFRIC 12 non-statutory financial information (unaudited)

30 September 2012

BASIS OF PREPARATION

This group proforma pre-IFRIC 12 non-statutory financial information (unaudited) does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. They do not include all of the information required for full annual financial statements and should be read in conjunction with the statutory financial statements of the group for the year ended 30 September 2012 which were approved by the Directors and authorised for issue on 14 November 2012. Statutory consolidated financial statements for the group for the year ended 30 September 2012, prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"), on which KPMG Audit Plc gave an unqualified opinion, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The accounts are presented in pounds sterling, rounded to the nearest hundred thousand and have been prepared under the historic cost convention.

The group proforma pre-IFRIC 12 non-statutory financial information (unaudited) has been prepared by the directors pursuant to the requirements detailed on page 156 of the offering memorandum and on the basis of the recognition and measurement principles contained in applicable IFRSs as adopted by the EU, with the exception of accounting interpretation IFRIC 12 Service Concession Arrangements as detailed below, and in accordance with the following accounting policies which have been applied consistently in dealing with items which are considered material in relation to the group proforma pre-IFRIC 12 non-statutory financial information (unaudited).

Definition

The term 'proforma' in this group proforma pre-IFRIC 12 non-statutory financial information (unaudited) has been defined on page 156 of the offering memorandum as 'prepared in accordance with GAAP before giving effect to the accounting standard IFRIC 12 as amended or supplemented from time to time'.

Accounting policies

The preparation of the group proforma pre-IFRIC 12 non-statutory financial information (unaudited) requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Except as described below, the same accounting policies and methods of computation are followed in this group proforma pre-IFRIC 12 non-statutory financial information (unaudited) as were applied in the group's 2012 Annual report:

IFRIC 12 "Service Concession Arrangements" – this interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the interpretation, the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to the usage of the infrastructure asset); or

- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator now recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising. In addition, the timing of profit recognition changes over the life of the contract with no change in the overall project cash flows arising therein. This group proforma pre-IFRIC 12 non-statutory financial information (unaudited) has been prepared to present financial information on a pre-IFRIC 12 basis.

The key accounting policies pertaining to the group proforma pre-IFRIC 12 non-statutory financial information (unaudited) are:

(a) PROPERTY, PLANT AND EQUIPMENT

(i) Owned assets

Items of infrastructure constructed under service concession arrangement have been accounted for as property, plant and equipment are stated at cost and deemed cost less accumulated depreciation and impairment losses.

Certain items of property that had been revalued to fair value prior to 1 October 2004, the date of transition to adopted IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation less any subsequent depreciation and impairments. The last revaluation, to open market value, of the properties occurred in 1992.

Assets in the course of construction are carried in the financial statements at cost, taken from the most recent surveyor's cost certificate received prior to the date of the financial statements.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of land and buildings includes both the costs of financing assets in the course of construction and other costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Capitalisation of finance and other costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

(ii) Leased assets

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is classified as a finance lease. The asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Future instalments under such leases, net of finance charges, are included within creditors.

All other leases are accounted for as operating leases.

(iii) Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive performance, as an expense, as incurred.

(iv) Depreciation

Depreciation is charged to the statement of comprehensive performance to write off the cost, less estimated residual values, of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold land	— no depreciation provided
Freehold buildings	— 25 to 50 years
Long leasehold buildings	— 50 years or, if shorter, the period of the lease or the associated contract
Short leasehold buildings	— the shorter of the period of the lease or the associated contract
Plant and machinery (as an integral part of property assets)	— 25 years or, if shorter, the period of the lease
Motor vehicles	— four years
Furniture, fittings, medical equipment and office equipment	— three to ten years
Service concession infrastructure	— over the life of initial contract period

The residual value, if not insignificant, is reassessed annually.

(v) Pre-contract costs

Pre-contract costs include the costs attributable to a contract for the period from the date of securing the contract to the date at which financial close is achieved. The award of preferred bidder status is considered as the point at which it is probable that the contract has been secured, although contracts are individually reviewed in order to apply the most appropriate treatment. Costs that relate directly to a contract and which are incurred in this period are included as part of pre-contract costs where they can be separately identified and reliably measured. Such amounts are held within other debtors until such time as financial close of the contract is achieved, at which time they are transferred to assets in the course of construction.

(b) INTANGIBLE ASSETS

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, associates and joint ventures, being the excess of the fair value of the purchase consideration and associated costs and the fair values attributable to the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on acquisitions before the date of transition to adopted IFRS has been retained at the previous UK GAAP amounts. Goodwill is allocated to cash-generating units and is not subject to periodic amortisation but is tested annually for impairment. As permitted under IFRS 3 “Business Combinations”, the fair value of the assets acquired may be reassessed in the instance of further information arising within twelve months from the date of acquisition, provided the initial fair values were determined as provisional.

Negative goodwill arising on an acquisition is recognised directly in the statement of comprehensive performance.

(ii) Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the statement of comprehensive performance, as an expense, as incurred.

(iii) Amortisation

Amortisation is charged to the statement of comprehensive performance on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Customer relationships are amortised over their estimated useful economic lives, which do not exceed ten years. Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. Intangible assets are amortised from the date they are available for use over their estimated useful lives.

(iv) Impairment

The carrying amounts of goodwill and intangible assets that have an indefinite useful life are reviewed at each balance sheet date to determine whether there is any impairment. The group also reviews the carrying amounts of its depreciable tangible and intangible assets to determine if there is any indication that an asset has suffered an impairment loss.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the statement of comprehensive performance.

(c) REVENUE

(i) Services rendered

Revenue represents the fair value of sales and services to third party customers, stated net of any applicable value added tax, rebates and discounts. The stage of completion as defined in IAS 18 “Revenue” is determined by reference to the point at which the group has met its principal contractual obligations. However in these group proforma pre-IFRIC 12 non-statutory unaudited financial statements the project is treated as one project and revenue is not recognised on the discreet phases of that project; hence no revenue is recognised when construction or maintenance services are performed.

Revenue is recognised as follows:

- **Social Care**

Residential long-term contracts — revenue is recognised on a time-elapsed basis as the principal contractual obligation is to provide bed capacity. Units of care under these contracts are typically provided on a daily basis and there is no obligation to carry forward any non-utilised capacity.

Residential spot purchase contracts — revenue is recognised when the group’s principal contractual obligation is fulfilled, that is typically when a service user has received care services from the group, which are usually provided on a daily basis.

Community-based services — revenue is recognised only on the actual delivery of care services. Revenue attributable to any unused capacity under “block” contracts, where the group is able to submit invoices for contracted services that have not actually been provided, is only recognised when the recovery of income is considered virtually certain.

- **Health Care**

Capacity-related contracts — revenue is recognised on a time-elapsed basis as the principal contractual obligation is to provide an agreed level of capacity over a fixed term. There is no obligation under these contracts to carry forward non-utilised capacity.

Service-related contracts — revenue is recognised only on the delivery of services, either surgical procedures or other treatments, under contractual obligations that are intended to provide a pre-determined volume of services over a fixed term. Revenue attributable to unused capacity is only recognised when recovery of income is considered virtually certain.

In all businesses when revenue is invoiced in advance this is accounted for as deferred income until the service is provided.

(ii) Government grants

Capital based Government grants are included within accruals and deferred income in the balance sheet and credited to the statement of comprehensive performance over the estimated useful economic lives of the assets to which they relate. Grants that compensate the group for expenses incurred are recognised as revenue in the statement of comprehensive performance on a systematic basis in the same periods in which the expenses are incurred.

(d) EXPENSES

(i) Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive performance as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the statement of comprehensive performance.

Interest income is recognised in the statement of comprehensive performance as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the statement of comprehensive performance using the effective interest rate method.

CARE UK HEALTH & SOCIAL CARE INVESTMENTS GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
For the year ended 30 September 2012

	2012	2011
	£m	£m
Revenue	**490.3**	450.7
Cost of sales	**(415.5)**	(380.2)
Gross profit	**74.8**	70.5
Administrative expenses	**(64.0)**	(76.1)
Operating profit/(loss) before financing expenses	**10.8**	(5.6)

Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)	**52.6**	52.2
Depreciation of tangible assets	**(20.8)**	(23.1)
Adjusted operating profit	**31.8**	29.1
Amortisation of intangible assets	**(16.8)**	(24.5)
Impairment of tangible assets	**-**	(3.2)
Non-recurring items	**(4.2)**	(7.0)
Operating profit/(loss) before financing expenses	**10.8**	(5.6)

Financial income	**2.5**	0.3
Financial expenses	**(29.3)**	(27.7)
Net financing expenses	**(26.8)**	(27.4)
Loss before taxation	**(16.0)**	(33.0)
Taxation	**11.9**	10.0
Loss for the period	**(4.1)**	(23.0)
Other comprehensive income		
Actuarial (losses)/gains on defined benefit pension plan	**(2.3)**	1.1
Deferred taxation on actuarial gains	**0.5**	(0.3)
Other comprehensive income for the period, net of taxation	**(1.8)**	0.8
Total comprehensive loss for the period	**(5.9)**	(22.2)
(Loss)/profit attributable to		
Equity holders of the parent	**(4.0)**	(23.1)
Non-controlling interest	**(0.1)**	0.1
	(4.1)	(23.0)
Total comprehensive (loss)/profit attributable to		
Equity holders of the parent	**(5.8)**	(22.3)
Non-controlling interest	**(0.1)**	0.1
	(5.9)	(22.2)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY BALANCE SHEET (UNAUDITED)
As at 30 September 2012

	2012	2011
	£m	£m
Assets		
Property, plant and equipment	**284.8**	269.1
Intangible assets	**161.3**	172.8
Amounts due from related party undertakings	**8.7**	3.6
Other investments	**0.1**	0.1
Total non-current assets	**454.9**	445.6
Inventories	**1.8**	2.9
Trade and other receivables	**53.0**	49.8
Cash and cash equivalents	**38.3**	40.2
Properties classified as held for sale	**2.0**	3.2
Total current assets	**95.1**	96.1
Total assets	**550.0**	541.7
Liabilities		
Financial liabilities — borrowings	**(0.2)**	(0.1)
Trade and other payables	**(92.4)**	(82.5)
Current tax liabilities	**(1.1)**	(3.6)
Total current liabilities	**(93.7)**	(86.2)
Financial liabilities — borrowings	**(253.3)**	(239.6)
Other non-current liabilities	**(7.4)**	(5.5)
Deferred tax liabilities	**(25.2)**	(34.1)
Total non-current liabilities	**(285.9)**	(279.2)
Total liabilities	**(379.6)**	(365.4)
Net assets	**170.4**	176.3
Equity		
Issued share capital	**210.7**	210.7
Retained earnings	**(40.3)**	(34.5)
Total equity attributable to equity holders of the parent	**170.4**	176.2
Minority interest	**-**	0.1
Total equity	**170.4**	176.3

CARE UK HEALTH AND SOCIAL CARE INVESTMENTS GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY CASH FLOW STATEMENT (UNAUDITED)
For the year ended 30 September 2012

	2012	2011
	£m	£m
Cash flows from operating activities		
Loss for the period	**(4.1)**	(23.0)
Depreciation	**20.8**	23.1
Amortisation of intangible assets	**16.8**	24.5
Impairment of tangible assets	**—**	3.2
Profit on disposal of fixed assets	**(0.1)**	(1.8)
Decrease in inventory	**2.3**	0.8
(Increase)/decrease in receivables	**(2.2)**	5.0
Increase/(decrease) in payables	**6.4**	(13.7)
Financial income	**(2.5)**	(0.3)
Financial expense	**29.3**	27.7
Tax credit	**(11.9)**	(10.0)
Cash inflow from operations	**54.8**	35.5
Income taxes (paid)/received	**(1.4)**	1.4
Net cash from operating activities	**53.4**	36.9
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(41.0)**	(23.0)
Loans to related party undertakings	**(5.1)**	(3.6)
Proceeds from sales of property, plant and equipment	**17.9**	23.2
Interest received	**0.2**	0.1
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	**(14.7)**	(5.3)
Proceeds from sales of subsidiary undertakings and businesses	**-**	4.7
Net cash from investing activities	**(42.7)**	(3.9)
Cash flows from financing activities		
Proceeds from new loans	**11.9**	—
Interest paid	**(24.4)**	(26.7)
Payment of capital element of finance lease payments	**(0.1)**	(0.1)
Net cash from financing activities	**(12.6)**	(26.8)
Net (decrease)/increase in cash and cash equivalents	**(1.9)**	6.2
Cash and cash equivalents brought forward	**40.2**	34.0
Cash and cash equivalents carried forward	**38.3**	40.2

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONSOLIDATED SEGMENTAL REPORTING NOTE (UNAUDITED)

2012	Social Care Residential Care	Social Care Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	168.4	112.9	189.7	19.3	**490.3**
Adjusted EBITDA	30.9	7.0	16.0	(1.3)	**52.6**
Depreciation	(8.6)	(1.4)	(8.2)	(2.6)	**(20.8)**
Adjusted operating profit/(loss)	22.3	5.6	7.8	(3.9)	**31.8**
Amortisation of intangible assets	(6.1)	(5.3)	(5.4)	—	**(16.8)**
Non-recurring items	(2.7)	—	0.3	(1.8)	**(4.2)**
Operating profit/(loss)	13.5	0.3	2.7	(5.7)	**10.8**
Net financing costs					**(26.8)**
Taxation					**11.9**
Loss for the period					**(4.1)**

2011	Social Care Residential Care	Social Care Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	122.6	111.2	193.6	23.3	**450.7**
Adjusted EBITDA	26.0	6.9	20.5	(1.2)	**52.2**
Depreciation	(7.9)	(0.5)	(11.3)	(3.4)	**(23.1)**
Adjusted operating profit/(loss)	18.1	6.4	9.2	(4.6)	**29.1**
Amortisation of intangible assets	(6.1)	(5.9)	(12.5)	—	**(24.5)**
Impairment of tangible assets	—	—	—	(3.2)	**(3.2)**
Non-recurring items	(6.8)	(2.2)	(0.3)	2.3	**(7.0)**
Operating profit/(loss)	5.2	(1.7)	(3.6)	(5.5)	**(5.6)**
Net financing costs					**(27.4)**
Taxation					**10.0**
Loss for the period					**(23.0)**