Care UK Health & Social Care Investments Limited

Quarterly Financial Report for the three and six months ended 31 March 2013

£325,000,000 9.75% Senior Secured Notes due 2017

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SUMMARY

Care UK has delivered a steady operational performance in the three months ended 31 March 2013, with an improved financial performance compared with the prior quarter and a further important new business development initiative also completed. All figures and percentages quoted below are for the three months ended 31 March 2013 unless stated, and exclude the effects of IFRIC 12.

- **Group Highlights**
  - Operational performance in the period has been consistent across the group with an improving financial performance delivered in the period
  - The Residential Care division is continuing to deliver its planned growth with total beds in the division having increased to 6,151 following the opening of one new home in the period. As at 31 March 2013 a further 13 homes were at various stages of development with more than 1,000 beds and good progress is also being made in relation to the ten new homes to be built under the Suffolk contract, which will add approximately 150 further beds once built. All of these developments are being funded primarily outside the Care UK group
    - As at 31 March 2013 40 per cent. (30 September 2012: 39 per cent.) of all beds were operated under block contracts with public sector customers, a key competitive differentiator
    - We have continued to deliver steady progress in the homes transferred from Southern Cross in the year ended 30 September 2012, with further small improvements in both occupancy and fee rates during the period
  - In February 2013 the Health Care division made the important acquisition of UK Specialist Hospitals ("UKSH"), a key provider of elective surgical procedures to NHS patients operating through five elective surgical centres located in the south-west of England. The Health Care division now comprises the Care UK, Harmoni and UKSH businesses and has been successfully re-organised into the three key service lines of Primary Care, Elective Surgery and Urgent Care. The integration of the two acquired businesses is now complete and the Health Care division remains on track to deliver the full synergy benefits previously reported in relation to the Harmoni and UKSH acquisitions
    - The important new 111 service has commenced service delivery across all of Harmoni's contracts, covering a population of approximately 8.5 million people. Whilst there have been a number of challenges faced across the entire 111 programme in its initial stages, we are seeing encouraging progress being made across the Harmoni services
    - Two contract awards were won by the Health Care division in the period, both for offender health contracts, with combined annual revenue of approximately £7.0 million when fully operational. One of these services is now operating with the other due to start later in the year
  - The joint venture company between the Mental Health division and the Sussex Partnership NHS Foundation Trust, previously reported on, acquired an existing mental health facility in the period, consistent with the new facility that the joint venture is already creating
  - Revenue for the quarter increased by 31.8 per cent. to £163.4 million compared with the second quarter of the previous financial year. Adjusted EBITDA for the quarter of £11.7 million was reported, compared with £12.9 million for the second quarter of the previous financial year. The three months ended 31 March 2013 reflects an expected reduction in Adjusted EBITDA of £1.2 million compared to the three months ended 31 March 2012 from the last of the former Wave I ISTCs to reach contract expiry. All former Wave I centres are now operating under post-renewal terms, although LTM

reported numbers will continue to reflect the changes from pre-renewal contract terms until and including the period ended 30 June 2013

  - The Residential Care division has continued to experience some reduced occupancy levels in a small number of homes with a higher reported mortality rate during the winter period than in previous years. The division is focused on achieving improvements in occupancy over the next few months

- On a pro-forma basis, adjusting for the full year effects of the Harmoni and UKSH acquisitions, including their full anticipated cost synergies, LTM Adjusted EBITDA to net debt as at 31 March 2013 was 4.94x. On an actual basis, reflecting the full acquisition costs of both businesses but with only a limited trading contribution and partial realisation of cost synergies, the reported leverage was 6.68x.

This quarterly report refers to sections of the Annual report for Bondholders of Care UK Health & Social Care Investments Limited for the year ended 30 September 2012 (the "Annual Report 2012") and should be read in conjunction with that report. The Annual Report 2012 is available in pdf format only and can be found on our website, www.careuk.com.

CARE UK SERVICES AND GROUP FIGURES AT A GLANCE

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 health and social 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 (108 homes with over 6,300 beds) providing care for older people, particularly those suffering from dementia and related conditions • ***Community Services:*** Care worker visits and live-in support for people in their own homes, facilitating daily living needs and promoting independence (around 153,000 care hours per week delivered to more than 13,000 people plus 132 residential learning disability places) • ***Mental Health:*** Providing care to individuals suffering from a range of enduring mental health conditions through a range of 17 facilities	• Broad range of health care services centred around the three key service streams of Elective Surgery, Urgent Care/Out of Hours and Primary Care • More than 70 operating locations, following the acquisitions of Harmoni and UK Specialist Hospitals • Important new position in the nascent provision of 111 services to NHS patients in England • Over 16 million patients treated or supported annually by the enlarged Health Care division

Key figures, in £ million	Q2 / 2012	YTD / 2012	Q2 / 2013	YTD / 2013
Revenue	124.0	247.5	163.4	307.1
Adjusted EBITDA [1)]	12.9	24.6	11.7	19.3
Adjusted operating profit [1)]	7.7	13.9	5.3	7.6
Net loss for the period	(2.0)	(7.8)	(12.8)	(23.5)
Operating cash flow	16.1	23.5	10.2	8.7

[1)] See key definitions below

Financial leverage	As of and for the 12 month period ended			
Amounts in £ million	30 June 2012	30 September 2012	31 December 2012	31 March 2013
Adjusted EBITDA	53.2	52.6	48.5	47.3
Net debt	211.7	215.2	269.5	315.8
Net debt / Adjusted EBITDA	3.98x	4.09x	5.56x[1]	6.68[2]

[1] Pro-forma Net debt/Adjusted EBITDA, including the full year effect of the Harmoni acquisition, including all anticipated cost synergies, was 4.64x at 31 December 2012

[2] Pro-forma Net debt/Adjusted EBITDA, including the full year effect of the Harmoni and UKSH acquisitions, including all anticipated cost synergies, was 4.94x at 31 March 2013

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 interim 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 and before giving effect to adjustments arising from the application of IFRIC 12.

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation and before giving effect to adjustments arising from the application of IFRIC 12.

Net debt is defined as the principal amount of the Senior Secured Notes, all bank or other loans (net of unamortised arrangement fees where relevant), overdrafts and finance lease liabilities, less cash and cash equivalents.

PRESENTATION OF FINANCIAL INFORMATION

Financial Statements

The unaudited condensed consolidated financial statements presented in this interim report are for Care UK Health & Social Care Investments Limited and its subsidiaries. In addition, a pro-forma set of financial statements is presented before giving effect to the application of IFRIC 12. For further information on the effect of the application of IFRIC 12 see the Annual Report 2012. The unaudited condensed consolidated 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 interim 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.

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.

This interim report includes forward-looking statements, which, although based on assumptions that are considered reasonable, are subject to risks and uncertainties, which could cause actual events or conditions to differ materially from those expressed or implied herein. You are cautioned not to place undue reliance on these forward looking statements. These forward looking statements are made as of the date of this report and are not intended to give any assurance as to future results.

RISK FACTORS

Compared to the Risk Factors set out in Care UK's Annual Report 2012 there have been no material changes in Care UK's overall opportunity and risk position other than as detailed below.

111 contract risks

The Harmoni business, acquired in November 2012, had, at the date of the acquisition, won but largely not yet implemented a number of contracts for the provision of 111 services to NHS patients in England. The 111 service was intended to be the sole non-emergency point of access for various NHS services across England as from April 2013. The services to be provided under the terms of these contracts have now commenced. The implementation of the 111 service nationally has been challenging for all operators. Whilst the majority of Harmoni's contracts have operated satisfactorily since their commencement, certain services have been unable in their initial stages to attain targeted service levels. In such cases, rectification plans have been agreed with the commissioners of the service and are in the process of being delivered with visible improvement evident in the key service metrics. Care UK believes that all of the 111 services operated under the contracts won by Harmoni are capable of reaching the required levels of operating performance over a reasonable period of time. However, if the group is unable to deliver on these rectification plans or if operational performance is otherwise unsatisfactory there are a range of options that could be exercised by commissioners including the forfeiture of certain contractual payments, contractual termination, penalties and claims for contractual breaches.

In the ordinary course of Care UK's operations, Care UK can be subject to disputes, arbitration and, potentially, litigation relating to various aspects of its business. Care UK regularly analyses information about such claims for potential or probable losses and provides accruals where considered necessary for such matters, including estimated expenses for legal services as appropriate. Otherwise than as already disclosed, Care UK is not aware of any such matters that are expected to have a material impact on the group's financial position.

RECENT DEVELOPMENTS

New residential care homes

The Residential Care division has opened two new care homes, with 180 beds in total, since 31 March 2013. These care homes are located in Edinburgh (opened April 2013) and Hailsham (opened May 2013). Both of these care homes have been developed by the Silver Sea development company referred to in the 2012 Annual Report.

Acquisition

In April 2013 the Community Services division acquired Watson Group Healthcare Limited, trading as Living Ambitions, a learning disabilities supported living provider based in Lancashire and delivering approximately 3,300 hours per week of care, plus additional outreach services, to service users in the North West of England. The consideration paid was £3.5 million

Contract award

In April 2013 the Community Services division was awarded a substantial block of learning disabilities supported living activity by Doncaster Metropolitan Borough Council. The anticipated annual revenue under this contract is approximately £6.0 million with an initial three year contract term. This contract will involve a workforce transfer from the NHS. The service is currently expected to transfer to Care UK's operation towards the end of the current financial year.

Health Care contracts

During the period ended 31 March 2013 the Health Care division was awarded two new offender health contracts, for Feltham Young Offenders Institution and the Isle of Wight prisons cluster. The aggregate annual revenue of these two contracts is expected to be approximately £7.0 million when fully operational. The Feltham service commenced at the beginning of April whilst the Isle of Wight service is expected to commence in June 2013.

New mental health facility

The Mental Health division opened its new facility in Walsall in May 2013. This is a complex care rehabilitation unit for individuals with a range of complex mental health care needs, with 28 beds.

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

The following discussion of Care UK's financial condition and results of operations should be read in conjunction with the unaudited condensed Consolidated financial statements and unaudited pro-forma supplementary condensed Consolidated financial statements and the related notes thereto contained in this interim report.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For the reasons explained under "Presentation of Financial Information" Care UK's future results may differ materially from those expected or implied in these forward-looking statements.

The financial information in this interim report comprises two elements: (i) the unaudited condensed Consolidated financial statements of Care UK Health & Social Care Investments Limited and its subsidiaries; and (ii) the unaudited pro-forma condensed Consolidated financial statements before giving effect to the provisions of IFRIC 12. For further information refer to the Annual report 2012. The commentary included within this section of the interim 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 group results on a fully compliant IFRS basis, including the effects of applying IFRIC 12.

Significant Factors Affecting Care UK's Results of Operations

For details regarding the significant factors affecting Care UK's Results of Operations refer to the Annual Report 2012.

Key Line Items in the Consolidated Statement of Comprehensive Performance

For details regarding the key line items in Care UK's Consolidated Statement of Comprehensive Performance refer to the Annual Report 2012.

Critical Accounting Policies and Estimates

For full details regarding Care UK's Critical Accounting Policies refer to the Annual Report 2012. The preparation of Care UK's unaudited 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.

Results of Operations

The table on the following page sets out the key line items from the unaudited condensed Consolidated statement of comprehensive performance for the financial periods ended 31 March 2012 and 31 March 2013, both on a fully IFRS compliant basis and also before giving effect to the provisions of IFRIC 12.

	Six months ended 31 March			
	Adjusted for IFRIC 12		Excluding IFRIC 12	
	2012	2013	2012	2013
	£m	£m	£m	£m
Revenue	245.9	305.9	247.5	307.1
Cost of sales	(209.2)	(270.3)	(211.3)	(271.2)
Gross profit	**36.7**	**35.6**	**36.2**	**35.9**
Administrative expenses	(33.5)	(44.1)	(33.2)	(44.0)
Operating profit/(loss) before financing expenses	**3.2**	**(8.5)**	**3.0**	**(8.1)**
Adjusted EBITDA	22.8	17.9	24.6	19.3
Depreciation of tangible fixed assets	(8.4)	(10.5)	(10.7)	(11.7)
Adjusted operating profit	14.4	7.4	13.9	7.6
Amortisation of intangible assets	(8.9)	(10.0)	(8.6)	(9.8)
Non-recurring items	(2.3)	(5.9)	(2.3)	(5.9)
Operating profit/(loss) before financing expenses	3.2	(8.5)	3.0	(8.1)
Financial income	0.9	1.1	0.3	0.5
Financial expenses	(13.7)	(17.4)	(13.7)	(17.4)
Net financing expense	**(12.8)**	**(16.3)**	**(13.4)**	**(16.9)**
Loss before taxation	**(9.6)**	**(24.8)**	**(10.4)**	**(25.0)**
Taxation	2.5	1.3	2.6	1.5
Loss for the period	**(7.1)**	**(23.5)**	**(7.8)**	**(23.5)**

Three and six months ended 31 March 2013 compared to the three and six months ended 31 March 2012 – 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. The segmental information referred to below is set out in full in the segmental reporting note in the unaudited pro-forma pre-IFRIC 12 non-statutory condensed consolidated financial statements on pages F-21 and F-22 of this interim report.

Revenue

Revenue increased by 31.8 per cent., or £39.4 million, from £124.0 million for the three months ended 31 March 2012 to £163.4 million for the three months ended 31 March 2013. Revenue increased by 24.1 per cent., or £59.6 million, from £247.5 million for the six months ended 31 March 2012 to £307.1 million for the six months ended 31 March 2013. Approximately 85 per cent. of the increase for both the three and six months ended 31 March 2013 was attributable to the acquisitions of the Harmoni and UKSH businesses in November 2012 and February 2013 respectively. The balance of revenue growth was attributable both to organic growth and to other bolt-on acquisitions made in the Community Services division during the year ended 30 September 2012, more than offsetting the reduced revenue from the group's former Wave I ISTCs.

Revenue for the Residential Care division increased by 16.0 per cent., or £6.7 million, from £42.0 million for the three months ended 31 March 2012 to £48.7 million for the three months ended 31 March 2013 and by 17.3 per cent., or £14.0 million, from £81.1 million for the six months ended 31 March 2012 to £95.1 million for the six months ended 31 March 2013. The increase in revenue in both the three and six months ended 31 March 2013 has resulted from growth in the homes transferred into Care UK from the former Southern Cross group, from both improved occupancy and higher fee rates, the commencement of the Suffolk contract previously reported and growth in the immature homes within the division, offsetting a reduction from the mature estate resulting from slightly lower occupancy.

As at 31 March 2013 Care UK operated 6,151 beds in 106 care homes compared with 5,542 beds as at 30 September 2012 and 5,285 beds as at 31 March 2012. As at 31 March 2013 approximately 40 per cent. of all beds were operated under block contracts compared with approximately 39 per cent. as at 30 September 2012 and approximately 43 per cent. as at 31 March 2012. The increase in beds since 31 December 2012 reflects the opening of a new care home in Orpington in March 2013. The increase in beds since 30 September 2012 reflects both the opening of this new home and the transfer to Care UK of 526 beds under the Suffolk contract as from 1 December 2012.

Fee rates in the six months ended 31 March 2013 averaged £664 per week compared with £643 in the six months ended 31 March 2012, an increase of 3.3 per cent. This level of increase reflects the fee rate increases achieved in April 2012, the impact of the Suffolk contract as from December 2012 and the positive mix effects arising from the new services opened in both the year ended 30 September 2012 and the six months ended 31 March 2013, partly offset by the mix effect resulting from the lower fee rates that subsist in the homes transferred from the former Southern Cross group. Total physical occupancy was 84.8 per cent. in the six months ended 31 March 2013 compared with 86.3 per cent. in the six months ended 31 March 2012. Physical occupancy in the mature Care UK estate, excluding immature and new homes and the homes transferred under the Suffolk contract, was 89.0 per cent. in the six months ended 31 March 2013 compared with 91.6 per cent. in the six months ended 31 March 2012. Physical occupancy in the former Southern Cross homes was 83.1 per cent. in the six months ended 31 March 2013 compared with 78.0 per cent. in the six months ended 31 March 2012.

The Recent Developments section on page 7 refers to the two new care homes that have opened since 31 March 2013, with 180 beds in total. In addition to these homes, the Residential Care division currently has eleven further homes in development, with a combined total of more than 830 beds, including five being developed by the Silver Sea development entity referred to in the 2012 Annual Report and six that are being developed by independent developers. There are also ten new homes that are due to be developed under the Suffolk contract, with a combined total of approximately 680 beds, which will progressively replace the 526 beds across 16 homes that transferred to Care UK in December 2012. The net additional capacity that the Suffolk programme will deliver will therefore be in excess of 150 beds. The first of these homes, to be funded by the institutional property funder previously reported, is expected to commence construction in June 2013. An outline agreement has been reached with another institutional funder for the funding of the second group of five homes under this contract, which will complete the total funding requirement for this project.

Revenue for the Community Services division increased by 7.0 per cent., or £1.9 million, from £27.1 million for the three months ended 31 March 2012 to £29.0 million for the three months ended 31 March 2013. Revenue for the Community Services division increased by 8.1 per cent., or £4.4 million, from £54.5 million for the six months ended 31 March 2012 to £58.9 million for the six months ended 31 March 2013. These increases reflect organic growth in the learning disabilities business and the contribution from the two acquisitions completed in February and July 2012, more than offsetting the organic revenue reduction in the domiciliary care business in the six months ended 31 March 2013. The organic reduction in revenue within domiciliary care, which lessened in the three months ended 31 March 2013 compared with the three months ended 31 December 2012, broadly reflects the reduction in Local Authority spend on adult social care, which has resulted in both fewer care hours being funded and pressure being applied to fee rates. Negotiations with Local Authorities on fee rates to apply as from April 2013 indicate that the position has largely stabilised, although it is possible that further pressure may be experienced as domiciliary care contracts are re-tendered in future. Average fee rates for domiciliary care for the six months ended 31 March 2013 were £13.47 per hour compared with £13.13 per hour for the six months ended 31 March 2012, an increase of 2.6 per cent. The higher average fee rate achieved is explained by the mix of hours delivered across the branch network, with a decrease in particular in areas with the lowest fee rates as these are considered to be unsustainable. Average fee rates for learning disabilities supported living services for the six months ended 31 March 2013 were £14.45 per hour compared with £14.55 per hour for the six months ended 31 March 2012, a decrease of 0.7 per cent, reflecting service mix rather than pure price reductions.

Total hours of care delivered across the combined domiciliary care and learning disabilities services averaged approximately 149,000 hours per week for the six months ended 31 March 2013 compared with approximately 147,000 hours per week for the six months ended 31 March 2012, an increase of 1.4 per cent, reflecting the impact of the factors discussed above in relation to the acquisition made in February 2012, organic growth in learning disabilities services and volume reductions in domiciliary care. As at 31 March 2013 a total of 133 residential learning disabilities beds were operated with average occupancy for the six months ended 31 March 2013 of 92.2 per cent. and average fee rates of approximately £1,795 per week. In the six months ended 31 March 2012 a total of 84 residential learning disabilities beds were operated with average occupancy of 95.2 per cent. and average fee rates of £1,367 per week. Average fee rates in particular were positively impacted by the acquisition of Whitwood Care in July 2012 where the service users have higher acuity needs resulting in higher fee rates.

Revenue for the Health Care division increased by 55.7 per cent., or £27.8 million, from £49.9 million for the three months ended 31 March 2012 to £77.7 million for the three months ended 31 March 2013. Revenue for the Health Care division increased by £35.6 million, or 34.8 per cent., from £102.2 million for the six months ended 31 March 2012 to £137.8 million for the six months ended 31 March 2013. These increases largely reflect the acquisitions of Harmoni in November 2012 and UKSH in February 2013, which together added revenue of £29.9 million and £44.9 million in the three and six months ended 31 March 2013 respectively. The reductions in revenue arising as a result of the final Wave I ISTC contract transition, with three centres having still operated under Wave I contract terms for all or part of the six months ended 31 March 2012, were £5.8 million and £15.5 million respectively in the three and six months ended 31 March 2013 compared with the three and six months ended 31 March 2012. Excluding the effects of both the acquisitions and the ISTC Wave I contract changes, underlying revenue therefore increased by £3.7 million and £6.2 million respectively in the three and six months ended 31 March 2013 compared with the three and six months ended 31 March 2012, from organic growth in existing services.

Care UK's Other activities segment comprises the Mental Health division, Amicus ITS, the small IT services provider acquired within the Harmoni business, and the group's central functions. Revenue within the Other segment increased by 60.0 per cent., or £3.0 million, from £5.0 million for the three months ended 31 March 2012 to £8.0 million for the three months ended 31 March 2013. Revenue for the Other segment increased by £5.6 million, or 57.7 per cent., from £9.7 million for the six months ended 31 March 2012 to £15.3 million for the six months ended 31 March 2013. The Mental Health business contributed revenue of £4.7 million and £9.5 million respectively in the three and six months ended 31 March 2013 compared with £5.0 million and £9.7 million respectively in the three and six months ended 31 March 2012. The reduction in revenue is more than accounted for by the facilities within this business that have now been closed, with other services delivering organic growth. The closure programme has now completed. The Amicus ITS business contributed revenue of £3.3 million and £5.8 million respectively in the three and six months ended 31 March 2013; there was no revenue from this business in the six months ended 31 March 2012.

Cost of Sales

Care UK's cost of sales increased by 36.5 per cent., or £38.3 million, from £105.0 million for the three months ended 31 March 2012 to £143.3 million for the three months ended 31 March 2013. Cost of sales increased by 28.3 per cent., or £59.9 million, from £211.3 million for the six months ended 31 March 2012 to £271.2 million for the six months ended 31 March 2013. Measured as a percentage of revenue, cost of sales increased from 84.7 per cent. for the three months ended 31 March 2012 to 87.7 per cent. for the three months ended 31 March 2013 and increased from 85.4 per cent. for the six months ended 31 March 2012 to 88.3 per cent. for the six months ended 31 March 2013. The increase in the absolute value of cost of sales reflects the increase in scale of the group's activities, particularly the two acquisitions within the Health Care division and the Suffolk contract within the Residential Care division. The increase in the ratio of cost of sales to revenue for the three and six months ended 31 March 2013 compared to the three and six months ended 31 March 2012 reflects the particular nature of the Harmoni business, with a higher cost of sales ratio than the Care UK group generally particularly during the start-up phase for its 111 services, as well as the final effects of the Wave I ISTC programme, where three centres still operated under Wave I contract terms for part or all of the six months ended 31 March 2012.

Administrative Expenses

Care UK's administrative expenses increased by 54.2 per cent., or £8.4 million, from £15.5 million for the three months ended 31 March 2012 to £23.9 million for the three months ended 31 March 2013. Administrative expenses increased by 32.5 per cent., or £10.8 million, from £33.2 million for the six months ended 31 March 2012 to £44.0 million for the six months ended 31 March

2013. These increases in administrative expenses mainly reflect the changes in non-recurring items and amortisation charges in the reported periods. In the three months ended 31 March 2013, a non-recurring charge of £3.3 million and amortisation charge of £5.8 million were incurred compared with a non-recurring charge of £0.3 million and an amortisation charge of £3.9 million for the three months ended 31 March 2012. In the six months ended 31 March 2013, a non-recurring charge of £5.9 million and amortisation charge of £9.8 million were incurred compared with a non-recurring charge of £2.3 million and amortisation charge of £8.6 million for the six months ended 31 March 2012. Excluding these items, administrative expenses increased by £3.5 million, or 31.0 per cent., from £11.3 million for the three months ended 31 March 2012 to £14.8 million for the three months ended 31 March 2013 and by 26.9 per cent., or £6.0 million, from £22.3 million for the six months ended 31 March 2012 to £28.3 million for the six months ended 31 March 2013. Measured as a percentage of revenue, Administrative expenses, excluding non-recurring items and amortisation charges, remained at 9.1 per cent. of revenue for the three months ended 31 March 2013 compared with the three months ended 31 March 2012 and increased from 9.0 per cent. of revenue for the six months ended 31 March 2012 to 9.2 per cent. of revenue for the six months ended 31 March 2013.

Operating (Loss)/Profit before Financing Expenses

Care UK's operating (loss)/profit before financing expenses changed from a profit of £3.5 million for the three months ended 31 March 2012 to a loss of £3.8 million for the three months ended 31 March 2013. Operating (loss)/profit before financing expenses changed from a profit of £3.0 million for the six months ended 31 March 2012 to a loss of £8.1 million for the six months ended 31 March 2013. These changes reflect the organic and acquisition led growth within the group being more than offset by a higher level of non-recurring charges, the reduction in contribution from the former Wave I ISTC contracts and the higher level of non-cash depreciation and amortisation charges.

Operating profit for the Residential Care division decreased by 36.8 per cent., or £1.4 million, from £3.8 million for the three months ended 31 March 2012 to £2.4 million for the three months ended 31 March 2013. Operating profit for the Residential Care division decreased by 27.6 per cent., or £1.6 million, from £5.8 million for the six months ended 31 March 2012 to £4.2 million for the six months ended 31 March 2013. These reductions reflect the benefit of the Suffolk contract and a trading improvement in the former Southern Cross homes being more than offset by the expected and previously reported increase in rental costs for the former Southern Cross homes, following the expiry of certain rent free arrangements, a higher depreciation charge resulting from the two new freehold homes opened in the year ended 30 September 2012 and the impact of lower occupancy in the core Care UK estate, in line with experience in the residential care market generally.

The Operating profit of the Residential Care division was also held back by the two issues reported for the three months ended 31 December 2012, with one home having had to be temporarily closed due to flooding and another home being subject to subsidence. The home that was flooded has now re-opened with all residents safely transferred back to the home. The focus now is on increasing occupancy both in this home and the nearby home to which the residents from the affected home were transferred, which prevented any new admissions being made in this home for more than two months. A number of options are being reviewed in relation to the home affected by subsidence, which will potentially take some time to rectify.

The Operating loss for the Community Services division increased from £0.1 million for the three months ended 31 March 2012 to £0.7 million for the three months ended 31 March 2013. The Operating loss for the Community Services division increased from £0.1 million for the six months ended 31 March 2012 to £0.6 million for the six months ended 31 March 2013. These increased operating losses are attributable to the increased non-cash amortisation charges within this division, which increased from £1.3 million and £2.6 million respectively for the three and six months ended 31 March 2012 to £2.1 million and £3.4 million for the three and six months ended 31 March 2013. The increase in amortisation charges reflects the two acquisitions made in February and July 2012. The Operating profit of the Community Services division before these items increased in both the three and six months ended 31 March 2013 compared with the three and six months ended 31 March 2012, as a result of organic growth in the learning disabilities business and the contribution from the two acquisitions made in the prior financial year, more than offsetting the impacts of Local Authority funding constraints on domiciliary care services.

Operating profit/(loss) for the Health Care division changed from a profit of £1.0 million for the three months ended 31 March 2012 to a loss of £3.7 million for the three months ended 31 March 2013. Operating profit/(loss) for the Health Care division changed from a profit of £0.7 million for the six months ended 31 March 2012 to a loss of £8.0 million for the six months ended 31 March 2013. The principal factors behind these changes are the non-recurring charges and non-cash amortisation charges incurred in the three and six months ended 31 March 2013, as well as the reduction in contribution from the Wave I ISTCs that continued to operate under Wave I contract terms for all or part of the three and six months ended 31 March 2012. These items outweighed the positive contributions from the acquisitions of Harmoni and UKSH, as well as organic growth elsewhere in the division. Non-recurring charges increased from £0.1 million for both the three and six months ended 31 March 2012 to £3.0 million and £5.3 million respectively for the three and six months ended 31 March 2013, as a result of the transaction and integration costs arising on the acquisitions of Harmoni and UKSH. These costs are in line with expectations. The non-cash amortisation charges in the Health Care division increased from £1.1 million and £3.0 million respectively for the three and six months ended 31 March 2012 to £2.2 million and £3.3 million respectively for the three and six months ended 31 March 2013. The increased amortisation charge reflects the acquisition of Harmoni, where the acquisition accounting treatment under IFRS 3 has now been incorporated, resulting in an amortisation charge of £1.2 million for both the three and six months ended 31 March 2013, more than offsetting the reduced amortisation charge in relation to former ISTC Wave I contracts. The acquisition accounting review of UKSH is yet to be concluded hence no amortisation has yet been recognised in relation to this acquisition.

The combined contribution of the Harmoni and UKSH businesses in the three and six months ended 31 March 2013 was in line with expectations for both businesses. The result for the Harmoni business reflects the absorption of expected start-up losses on the new 111 services of £0.7 million and £1.0 million respectively for the three and six months ended 31 March 2013. The change in contribution as a result of the expiry of Wave I ISTC contracts, where two formerly operated centres transferred back to the NHS in October 2011 and April 2012 and the North East London centre moved to post-contract terms from January 2012, was £1.2 million and £5.1 million respectively for the three and six months ended 31 March 2013 compared with the three and six months ended 31 March 2012. In addition, some primary care services, particularly walk-in centres, have not been renewed at contract expiry, resulting in a small reduction in contribution in the period reported.

The operating loss of the Other segment changed from £1.2 million for the three months ended 31 March 2012 to £1.8 million for the three months ended 31 March 2013. The operating loss for the Other segment changed from £3.4 million for the six months ended 31 March 2012 to £3.7 million for the six months ended 31 March 2013. The contribution from the Mental Health business reduced by £0.2 million in the three months ended 31 March 2013 compared with the three months ended 31 March 2012, and remained unchanged in the six months ended 31 March 2013 compared with the six months ended 31 March 2012. The reduction in contribution arose from the previously reported closure of a number of lower margin services as well as expected small start-up losses on new services. The Amicus ITS business, acquired with the Harmoni business, made a small contribution in both the three and six months ended 31 March 2013. There were no non-recurring items reported in the three or six months ended March 2013 or in the three months ended 31 March 2012. A non-recurring charge of £0.8 million was incurred in the six months ended 31 March 2012 in relation to the transfer of the former Southern Cross care homes. The group's central management costs increased in both the three and six months ended 31 March 2013 compared with the three and six months ended 31 March 2012 as a result of increased investment to support the growth of the group, in particular the recent significant growth in both the Residential Care and Health Care divisions.

Adjusted Operating Profit

Adjusted operating profit changed from £7.7 million for the three months ended 31 March 2012 to £5.3 million for the three months ended 31 March 2013. Adjusted operating profit changed from £13.9 million for the six months ended 31 March 2012 to £7.6 million for the six months ended 31 March 2013. These increases in adjusted operating profit reflect the factors discussed above, other than the movement in amortisation charges and non-recurring items.

The non-cash amortisation charge for the three months ended 31 March 2013 was £5.8 million, compared to £3.9 million for the three months ended 31 March 2012 and for the six months ended 31 March 2013 was £9.8 million compared with £8.6 million for the six months ended 31 March 2012. The increase in the amortisation charge reflects the amortisation arising on the acquisitions of Harmoni in November 2012 and Whitwood Care in July 2012, more than offsetting the reduction due to the expiry of the former Wave I ISTC contracts. A non-recurring charge of £3.3 million was incurred in the three months ended 31 March 2013 compared with a charge of £0.3 million for the three months ended 31 March 2012. A non-recurring charge of £5.9 million was incurred in the six months ended 31 March 2013 compared with a charge of £2.3 million in the six months ended 31 March 2012. The charges in the three and six months ended 31 March 2013 relate mostly to the acquisition and integration costs arising on the acquisitions of Harmoni and UKSH, together with transfer costs relating to the homes transferred to the Residential Care division under the Suffolk contract and some smaller property related costs referred to above. The charges in the three and six months ended 31 March 2012 relate mostly to the transfer of the former Southern Cross homes together with some smaller property related items.

Adjusted operating profit for the Residential Care division changed from £5.5 million for the three months ended 31 March 2012 to £4.2 million for the three months ended 31 March 2013. Adjusted operating profit for the Residential Care division changed from £10.2 million for the six months ended 31 March 2012 to £7.9 million for the six months ended 31 March 2013. These changes in Adjusted operating profit were principally due to the same factors as drove the changes in Operating profit other than the increase of £0.1 million in non-recurring charges in the three months ended 31 March 2013 compared with the three months ended 31 March 2012 and the decrease of £0.8 million in non-recurring charges in the six months ended 31 March 2013 compared with the six months ended 31 March 2012.

Adjusted operating profit for the Community Services division increased by 16.7 per cent., or £0.2 million, from £1.2 million for the three months ended 31 March 2012 to £1.4 million for the three months ended 31 March 2013. Adjusted operating profit for the Community Services division increased by 12.0 per cent., or £0.3 million, from £2.5 million for the six months ended 31 March 2012 to £2.8 million for the six months ended 31 March 2013. These increases in Adjusted operating profit were driven by the same factors as for Operating profit other than the increases in amortisation charges from £1.3 million and £2.6 million respectively for the three and six months ended 31 March 2012 to £2.1 million and £3.4 million respectively for the three and six months ended 31 March 2013, these increases being due to the two acquisitions made in the Community Services division in February and July 2012.

Adjusted operating profit for the Health Care division changed from £2.2 million for the three months ended 31 March 2012 to £1.5 million for the three months ended 31 March 2013. Adjusted operating profit for the Health Care division changed from £3.8 million for the six months ended 31 March 2012 to £0.6 million for the six months ended 31 March 2013. These changes were principally due to the same factors as for Operating profit other than the movements in amortisation charges and non-recurring charges.

The Adjusted operating loss for the Other segment was £1.8 million for the three months ended 31 March 2013 compared with £1.2 million for the three months ended 31 March 2012. The Adjusted operating loss for the Other segment was £3.7 million for the six months ended 31 March 2013 compared with £2.6 million for the six months ended 31 March 2012. These outcomes were driven by the same factors as for operating profit, other than the non-recurring charges of £0.8 million incurred in the six months ended 31 March 2012.

Adjusted EBITDA

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation and before giving effect to 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 and should not be considered an alternative to, or more meaningful than, net income as a measure of operating performance. Adjusted EBITDA is very similar, but not exactly equivalent, to how Care UK calculates “Consolidated EBITDA” for the purposes of the covenants under the Senior Secured Notes.

Care UK’s Adjusted EBITDA changed from £12.9 million for the three months ended 31

March 2012 to £11.7 million for the three months ended 31 March 2013. Adjusted EBITDA changed from £24.6 million for the six months ended 31 March 2012 to £19.3 million for the six months ended 31 March 2013. The changes in Adjusted EBITDA were driven by the factors discussed above in relation to operating profit and Adjusted operating profit.

Net Financing Expense

The net financing expense for the three months ended 31 March 2013 was £9.0 million compared with £6.4 million for the three months ended 31 March 2012. The net financing expense for the six months ended 31 March 2013 was £16.9 million compared with £13.4 million for the six months ended 31 March 2012. Net financing costs comprise the interest payable on the Senior Secured Notes and the Super Senior Revolving Credit Facility as well as the non-cash amortisation of loan arrangement fees and related expenses. The increase in the net financing expense in both the three and six months ended 31 March 2013 is attributable to the interest payable on the additional Senior Secured Notes issued in November 2012, as well as the increased amortisation of loan arrangement fees, and to the increased usage of the Revolving Credit Facility in the period.

Taxation

The taxation charge/credit for the three months ended 31 March 2013 was zero compared with a taxation credit of £0.9 million for the three months ended 31 March 2012. The taxation credit for the six months ended 31 March 2013 was £1.5 million compared with a taxation credit of £2.6 million for the six months ended 31 March 2012. The principal differences in the taxation charge or credit reflect the change in taxable group profit.

The underlying tax rate on Care UK's profit before taxation is higher than the statutory tax rate, mainly as a result of the proportion of Care UK's capital expenditure that is non-qualifying for tax purposes.

Profit for the Period

As a result of the factors discussed above, Care UK reported a loss for the three months ended 31 March 2013 of £12.8 million compared with a loss of £2.0 million for the three months ended 31 March 2012 and a loss of £23.5 million for the six months ended 31 March 2013 compared with a loss of £7.8 million for the six months ended 31 March 2012.

Three and six months ended 31 March 2013 – 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 the Annual Report 2012.

The table on the following page shows the effects of IFRIC 12 on the condensed Consolidated statement of comprehensive performance.

	Six months ended 31 March 2013		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Revenue	307.1	(1.2)	305.9
Cost of sales	(271.2)	0.9	(270.3)
Gross profit	**35.9**	**(0.3)**	**35.6**
Administrative expenses	(44.0)	(0.1)	(44.1)
Operating loss before financing expenses	**(8.1)**	**(0.4)**	(8.5)
Adjusted EBITDA	19.3	(1.4)	17.9
Depreciation of tangible fixed assets	(11.7)	1.2	(10.5)
Adjusted operating profit	7.6	(0.2)	7.4
Amortisation of intangible assets	(9.8)	(0.2)	(10.0)
Non-recurring items	(5.9)	-	(5.9)
Operating profit before financing expenses	(8.1)	(0.4)	(8.5)
Financial income	0.5	0.6	1.1
Financial expenses	(17.4)	-	(17.4)
Net financing expense	**(16.9)**	**0.6**	**(16.3)**
(Loss)/profit before taxation	**(25.0)**	**0.2**	**(24.8)**
Taxation	1.5	(0.2)	1.3
(Loss)/profit for the period	**(23.5)**	**-**	**(23.5)**

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 first six months of the 2013 financial year is £nil.

The following table shows the effects of IFRIC 12 on the consolidated Balance sheet.

	As at 31 March 2013		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Property, plant and equipment	304.5	(31.7)	272.8
Intangible assets	227.3	9.5	236.8
Other financial assets	-	22.6	22.6
Total non-current assets	549.6	0.4	550.0
Other financial assets	-	0.9	0.9
Total current assets	122.9	0.9	123.8
Trade and other payables	(130.5)	(9.4)	(139.9)
Total current liabilities	(135.0)	(9.4)	(144.4)
Deferred tax liabilities	(27.9)	1.9	(26.0)
Total non-current liabilities	(391.4)	1.9	(389.5)
Net assets	**146.1**	**(6.2)**	**139.9**

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 following table shows the effects of IFRIC 12 on the Investments group condensed consolidated cash flow statement.

	Six months ended 31 March 2013		
	Pre-IFRIC 12 adoption £m	IFRIC 12 adjustments £m	Post IFRIC 12 adjustments £m
Net cash from operating activities	8.7	(0.2)	8.5
Net cash used in investing activities	(90.0)	0.2	(89.8)
Net cash from financing activities	83.9	-	83.9
Net increase in cash and cash equivalents	2.6	-	2.6
Cash and cash equivalents carried forward	40.9	-	40.9

IFRIC 12 has no effect on total cash flow movements. 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 31 March 2012 and 31 March 2013.

	As at 31 March	
	2012	2013
	(£ in millions)	
Senior Secured Notes	250.0	325.0 [1]
Finance lease obligations	0.1	5.5
Bank loans	-	38.0
Deferred financing costs	(9.5)	(11.8)
Cash and cash equivalents	(36.9)	(40.9)
Total net debt	**203.7**	**315.8**

[1] Excluding premium on issue of £4.4 million.

On the acquisition of UKSH in February 2013 the group acquired a bank loan of £3.0 million and finance lease obligations of £4.8 million. All of these facilities are linked to an underlying contract within the UKSH business and will be repaid on or before November 2015.

Liquidity and Capital Resources

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

Care UK expects, as set out in the Annual Report 2012, that its key sources of liquidity for the foreseeable future will continue to be cash flows from operations plus, if required, drawings under Care UK's Revolving Credit Facility.

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

	For the six months ended 31 March	
	2012	**2013**
Net cash flow from operating activities	23.5	8.7
Net cash flow from investing activities	(13.8)	(90.0)
Net cash flow from financing activities	(13.0)	83.9
Net (decrease)/increase in cash and cash equivalents	(3.3)	2.6
Cash and cash equivalents carried forward	36.9	40.9

Three and six months ended 31 March 2013 compared to three and six months ended 31 March 2012

The net decrease in cash and cash equivalents in the three months ended 31 March 2013 was £3.0 million compared with a net decrease of £15.7 million for the three months ended 31 March 2012. The net increase in cash and cash equivalents in the six months ended 31 March 2013 was £2.6 million compared with a net decrease of £3.3 million in the six months ended 31 March 2012. Total reported group net debt increased by £46.3 million in the three months ended 31 March 2013 from £269.5 million as at 31 December 2012 to £315.8 million as at 31 March 2013. Total reported net debt increased by £100.6 million in the six months ended 31 March 2013 from £215.2 million as at 30 September 2012 to £315.8 million as at 31 March 2013. The principal factors behind these increases are the major strategic acquisitions of Harmoni and UKSH completed during the six months ended 31 March 2013.

The net cash flow from operating activities for the three months ended 31 March 2013 was an inflow of £10.2 million compared with an inflow of £16.1 million for the three months ended 31 March 2012. The net cash flow from operating activities in the six months ended 31 March 2013 was an inflow of £8.7 million compared with an inflow of £23.5 million for the six months ended 31 March 2012. As previously reported, certain timing differences have impacted working capital movements between the previous and current financial years by approximately £6.5 million resulting in a reduced operating cash inflow in the six months ended 31 March 2013 and for the year as a whole. Other than these items, movements in working capital are in line with management's expectations and reflect the current trading of the group and, in particular, its continued growth.

The net cash flow from investing activities for the three months ended 31 March 2013 was an outflow of £30.2 million compared with an outflow of £19.2 million for the three months ended 31 March 2012. The net cash flow from investing activities for the six months ended 31 March 2013 was an outflow of £90.0 million compared with an outflow of £13.8 million for the six months ended 31 March 2012. Capital expenditure in the three months ended 31 March 2013 amounted to £8.3 million compared with £14.9 million in the three months ended 31 March 2012. Capital expenditure in the three and six months ended 31 March 2013 amounted to £8.3 million and £18.4 million respectively compared with £14.9 million and £24.8 million respectively in the three and six months ended 31 March 2012. The principal expansionary capital expenditure in the three months ended 31 March 2013 related to the implementation of Harmoni's 111 services (£2.7 million), commissioning costs related to new residential care homes (£1.1 million), the new mental health unit in Walsall (£0.9 million) and expenditure relating to the Suffolk contract in the Residential Care division (£0.7 million). Funding of £1.1 million and £3.3 million respectively was provided in the three and six months ended 31 March 2013 to the Silver Sea development company reported in the Annual Report 2012, compared with £1.8 million in both the three and six months ended 31 March 2012. There are now seven projects in total that are either open or under construction in the Silver Sea development company, with an eighth site also having received planning permission. In addition, funding of £4.0 million and £4.9 million respectively was provided in the three and six months ended 31 March 2013 to the joint venture company formed by the Mental Health division with the Sussex Partnership NHS Foundation Trust, as previously reported. There was no equivalent funding provided in the previous financial year. The funding of £4.0 million provided in the three months ended 31 March 2013 represented Care UK's 50 per cent. share of the funding required to acquire an existing mental health facility in Hampshire, which was acquired through the joint venture entity. The net cash outflow in relation to acquired businesses was £16.9 million and £63.5 million respectively in the three and six months ended 31 March 2013, compared with £2.7 million in both the three and six months ended 31 March 2012. The net cash outflow relating to acquired businesses in the three months ended 31 March 2013 included the settlement of loan notes amounting to £5.5 million in relation to an acquisition made in February 2011 plus £11.4 million relating to the acquisition of UKSH. This business was acquired with a cash balance of £10.5 million and a bank loan and finance leases amounting to £7.8 million in aggregate, both relating to a major contract. The bank loan and finance leases do not affect the net cash flow shown in the Consolidated cash flow statement but are included in the net debt table on page 17.

The net cash flow from financing activities for the three months ended 31 March 2013 was an inflow of £17.0 million compared with an outflow of £12.6 million for the three months ended 31 March 2012. The net cash flow from financing activities for the six months ended 31 March 2013 was an inflow of £83.9 million compared with an outflow of £13.0 million for the six months ended 31 March 2012. During the three months ended 31 March 2013, the group utilised loans of £35.0 million from the Revolving Credit Facility, paid £17.8 million of interest on the Senior Secured Notes and other finance costs and made capital repayments on finance leases of £0.2 million. In the six months ended 31 March 2013, the issue of additional Senior Secured Notes raised net cash of £81.9 million, net loans of £23.1 million were utilised from the Revolving Credit Facility, interest and other finance costs of £20.8 million were paid and capital repayments on finance leases of £0.3 million were made.

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 31 March 2013, Care UK had net cash and cash equivalents of £40.9 million, compared to £36.9 million as at 31 March 2012 and £43.9 million as at 31 December 2012.

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

The majority of Care UK's borrowings currently carry a fixed interest rate as limited use has been required of the group's Revolving Credit Facility. 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 limited 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 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 and Clinical Commissioning Groups. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted.

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.

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CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED – GROUP PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

Care UK Health & Social Care Investments Limited

Group condensed consolidated financial statements (unaudited)

Three month and six month periods ended 31 March 2013

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED) – SECOND QUARTER
For the three month and six month periods ended 31 March 2013

	Notes	Three months to 31 March 2013	Three months to 31 March 2012	Six months to 31 March 2013	Six months to 31 March 2012
		£m	£m	£m	£m
Revenue	3	**162.8**	123.3	**305.9**	245.9
Cost of sales		**(142.9)**	(104.5)	**(270.3)**	(209.2)
Gross profit		**19.9**	18.8	**35.6**	36.7
Administrative expenses		**(23.8)**	(15.6)	**(44.1)**	(33.5)
Operating (loss)/profit before financing expenses	3, 6	**(3.9)**	3.2	**(8.5)**	3.2
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)		**11.0**	12.2	**17.9**	22.8
Depreciation of tangible assets		**(5.7)**	(4.5)	**(10.5)**	(8.4)
Adjusted operating profit		**5.3**	7.7	**7.4**	14.4
Amortisation of intangible assets		**(5.9)**	(4.2)	**(10.0)**	(8.9)
Non-recurring items	4	**(3.3)**	(0.3)	**(5.9)**	(2.3)
Operating (loss)/profit before financing expenses		**(3.9)**	3.2	**(8.5)**	3.2
Financial income	5	**0.5**	0.3	**1.1**	0.9
Financial expense	5	**(9.2)**	(6.5)	**(17.4)**	(13.7)
Net financing expense		**(8.7)**	(6.2)	**(16.3)**	(12.8)
Loss before taxation		**(12.6)**	(3.0)	**(24.8)**	(9.6)
Taxation		**—**	0.7	**1.3**	2.5
Loss for the period		**(12.6)**	(2.3)	**(23.5)**	(7.1)
Total comprehensive loss for the period		**(12.6)**	(2.3)	**(23.5)**	(7.1)
Loss attributable to					
Equity holders of the parent		**(12.6)**	(2.3)	**(23.5)**	(7.1)
Total comprehensive loss attributable to					
Equity holders of the parent		**(12.6)**	(2.3)	**(23.5)**	(7.1)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 31 March 2013

	Notes	31 March 2013	31 March 2012	30 September 2012
		£m	£m	£m
Assets				
Property, plant and equipment	7	**272.8**	235.1	252.1
Intangible assets	8	**236.8**	176.2	170.7
Other financial assets	10	**22.6**	23.5	23.2
Amounts due from related party undertakings		**12.8**	3.7	8.7
Other investments		**5.0**	0.1	0.1
Total non-current assets		**550.0**	438.6	454.8
Inventories		**2.7**	2.7	1.8
Trade and other receivables		**77.9**	59.5	53.0
Other financial assets	10	**0.9**	0.8	1.0
Cash and cash equivalents		**40.9**	36.9	38.3
Assets classified as held for sale		**1.4**	3.0	2.0
Total current assets		**123.8**	102.9	96.1
Total assets		**673.8**	541.5	550.9
Liabilities				
Financial liabilities — borrowings	11	**(3.3)**	(0.1)	(0.2)
Trade and other payables		**(139.9)**	(100.8)	(102.2)
Current tax liabilities		**(1.2)**	(4.7)	(1.1)
Total current liabilities		**(144.4)**	(105.6)	(103.5)
Financial liabilities — borrowings	11	**(357.8)**	(240.5)	(253.3)
Other non-current liabilities		**(5.7)**	(5.2)	(7.4)
Deferred tax liabilities		**(26.0)**	(28.6)	(23.3)
Total non-current liabilities		**(389.5)**	(274.3)	(284.0)
Total liabilities		**(533.9)**	(379.9)	(387.5)
Net assets		**139.9**	161.6	163.4
Equity				
Issued share capital		**210.7**	210.7	210.7
Retained earnings		**(70.8)**	(49.1)	(47.3)
Total equity attributable to equity holders of the parent		**139.9**	161.6	163.4
Non-controlling interest		**—**	—	—
Total equity		**139.9**	161.6	163.4

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) -SECOND QUARTER
For the six month period ended 31 March 2013

Group	Attributable to equity holders of the parent				
	Issued Share capital	**Retained earnings**	**Total parent equity**	**Non-controlling interest**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**
At 30 September 2012	210.7	(47.3)	163.4	—	163.4
Total comprehensive income for the period					
Loss for the period and Total comprehensive loss for the period	—	(23.5)	(23.5)	—	(23.5)
At 31 March 2013	**210.7**	**(70.8)**	**139.9**	**—**	**139.9**

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) - SECOND QUARTER
For the three month and six month periods ended 31 March 2013

	Three months to 31 March 2013	Three months to 31 March 2012	Six months to 31 March 2013	Six months to 31 March 2012
	£m	£m	£m	£m
Cash flows from operating activities				
Loss for the period before tax	**(12.6)**	(3.0)	**(24.8)**	(9.6)
Financial income	**(0.5)**	(0.3)	**(1.1)**	(0.9)
Financial expense	**9.2**	6.5	**17.4**	13.7
Depreciation	**5.7**	4.5	**10.5**	8.4
Amortisation of intangible assets	**5.9**	4.2	**10.0**	8.9
Profit on disposal of fixed assets	**—**	0.4	—	0.4
Decrease in IFRIC 12 financial asset	**0.6**	0.7	**1.2**	1.6
(Increase)/decrease in inventory	**(0.1)**	0.2	**(0.2)**	0.4
Decrease/(increase) in trade and other receivables	**3.7**	3.8	**(9.7)**	(7.0)
(Decrease)/Increase in trade and other payables	**(1.8)**	(0.9)	**5.5**	7.3
Cash flows from operations	**10.1**	16.1	**8.8**	23.2
Income taxes (paid)/received	**—**	—	**(0.3)**	0.1
Net cash flows from operating activities	**10.1**	16.1	**8.5**	23.3
Cash flows from investing activities				
Decrease in IFRIC 12 financial asset	**—**	—	—	15.3
Payments to acquire property, plant and equipment	**(8.2)**	(14.9)	**(18.2)**	(24.6)
Loans to related party undertakings	**(1.1)**	(1.8)	**(3.3)**	(1.8)
Investment in joint venture	**(0.2)**	—	**(0.2)**	—
Loans to joint venture	**(3.8)**	—	**(4.7)**	—
Interest received	**0.1**	0.1	**0.1**	0.1
Net proceeds from sales of property, plant and equipment	**—**	0.1	—	0.1
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	**(16.9)**	(2.7)	**(63.5)**	(2.7)
Net cash flows used in investing activities	**(30.1)**	(19.2)	**(89.8)**	(13.6)
Cash flows from financing activities				
Proceeds from new loans	**35.0**	—	**154.4**	—
Repayment of amounts borrowed	**—**	—	**(49.4)**	—
Interest paid	**(16.4)**	(12.6)	**(16.8)**	(13.0)
Finance costs	**(1.4)**	—	**(4.0)**	—
Payment of capital element of finance lease payments	**(0.2)**	—	**(0.3)**	—
Net cash flows from financing activities	**17.0**	(12.6)	**83.9**	(13.0)
Net decrease in cash and cash equivalents	**(3.0)**	(15.7)	**2.6**	(3.3)
Cash and cash equivalents at the beginning of the period	**43.9**	52.6	**38.3**	40.2
Cash and cash equivalents at the end of the period	**40.9**	36.9	**40.9**	36.9

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Care UK Health & Social Care Investments Limited (the "company") is a company domiciled in England and Wales. The condensed consolidated interim financial statements of the company for the three months and six months ended 31 March 2013 comprise the company and its subsidiaries (together referred to as the "group").

This interim report, for the three months and six months ended 31 March 2013, does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. 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"), including International Financial Reporting Interpretations Committee ("IFRIC") interpretations, on which KPMG Audit Plc gave an unqualified opinion, have been delivered to the Registrar of Companies. The financial statements also 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. Comparative annual figures as at 30 September 2012 set out within this report have been extracted from the 2012 annual report and accounts published on 14 November 2012.

2. ACCOUNTING POLICIES

The preparation of these condensed consolidated quarterly 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 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 board believe that the "adjusted" profit measures reported provide additional information for the shareholders on the underlying performance of the business. These measures are 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.

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. The same accounting policies and methods of computation are followed in these condensed consolidated financial statements as were applied in the group's 2012 annual report.

a) Accounting policies specific to interim financial statements

Taxation: The income tax expense to be recognised in each interim period is based on the best estimate of the weighted average annual income tax rate expected for the full year applied to the income before taxation of the interim period. The expected tax rate takes into account changes in tax rates that are enacted, or substantively enacted, that are expected to take effect later in the year. The income tax expense for the interim period comprises both current tax and deferred tax.

Defined benefit plans: As permitted by adopted IAS 34, an interim actuarial valuation has not been obtained as at the end of the second quarter balance sheet date. For interim reporting purposes, reliable measurement has been obtained by extrapolation from the latest actuarial valuations.

3. 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 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, secondary and urgent care services; and
- Other includes the central functions and smaller trading operations.

	Social Care				
Three months to 31 March 2013	**Residential Care**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	48.1	29.0	77.7	8.0	**162.8**
Adjusted EBITDA	6.1	1.9	4.1	(1.1)	**11.0**
Depreciation of tangible assets	(1.9)	(0.5)	(2.6)	(0.7)	**(5.7)**
Adjusted operating profit/(loss)	4.2	1.4	1.5	(1.8)	**5.3**
Amortisation of intangible assets	(1.6)	(2.1)	(2.2)	—	**(5.9)**
Non-recurring items	(0.3)	—	(3.0)	—	**(3.3)**
Operating profit/(loss) before financing expenses and taxation	2.3	(0.7)	(3.7)	(1.8)	**(3.9)**
Net financing expense					**(8.7)**
Taxation					**—**
Loss for the period					**(12.6)**

	Social Care				
Three months to 31 March 2012	**Residential Care**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	41.3	27.1	49.9	5.0	**123.3**
Adjusted EBITDA	6.7	1.5	4.4	(0.4)	**12.2**
Depreciation of tangible assets	(1.4)	(0.3)	(2.0)	(0.8)	**(4.5)**
Adjusted operating profit/(loss)	5.3	1.2	2.4	(1.2)	**7.7**
Amortisation of intangible assets	(1.8)	(1.3)	(1.1)	—	**(4.2)**
Non-recurring items	(0.2)	—	(0.1)	—	**(0.3)**
Operating profit/(loss) before financing expenses and taxation	3.3	(0.1)	1.2	(1.2)	**3.2**
Net financing expense					**(6.2)**
Taxation					**0.7**
Loss for the period					**(2.3)**

Six months to 31 March 2013	Social Care				
	Residential Care	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	93.9	58.9	137.8	15.3	**305.9**
Adjusted EBITDA	11.4	3.7	5.1	(2.3)	**17.9**
Depreciation of tangible assets	(3.7)	(0.9)	(4.5)	(1.4)	**(10.5)**
Adjusted operating profit/(loss)	7.7	2.8	0.6	(3.7)	**7.4**
Amortisation of intangible assets	(3.3)	(3.4)	(3.3)	—	**(10.0)**
Non-recurring items	(0.6)	—	(5.3)	—	**(5.9)**
Operating profit/(loss) before financing expenses and taxation	3.8	(0.6)	(8.0)	(3.7)	**(8.5)**
Net financing expense					**(16.3)**
Taxation					**1.3**
Loss for the period					**(23.5)**

Six months to 31 March 2012	Social Care				
	Residential Care	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	79.8	54.5	101.9	9.7	**245.9**
Adjusted EBITDA	12.7	3.1	8.0	(1.0)	**22.8**
Depreciation of tangible assets	(2.9)	(0.6)	(3.3)	(1.6)	**(8.4)**
Adjusted operating profit/(loss)	9.8	2.5	4.7	(2.6)	**14.4**
Amortisation of intangible assets	(3.3)	(2.6)	(3.0)	—	**(8.9)**
Non-recurring items	(1.4)	—	(0.1)	(0.8)	**(2.3)**
Operating profit/(loss) before financing expenses and taxation	5.1	(0.1)	1.6	(3.4)	**3.2**
Net financing expense					**(12.8)**
Taxation					**2.5**
Loss for the period					**(7.1)**

4. 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:

	Three months to 31 March 2013	Three months to 31 March 2012	Six months to 31 March 2013	Six months to 31 March 2012
	£m	**£m**	**£m**	**£m**
Non-recurring items:				
— Costs in relation to the purchase and integration of Harmoni	**(1.5)**	—	**(3.8)**	—
— Costs in relation to the purchase and integration of UKSH	**(1.5)**	—	**(1.5)**	—
— Transfer and integration of Suffolk care homes	**(0.1)**	—	**(0.4)**	—
— Transfer and integration of former Southern Cross care homes	**—**	(0.2)	**—**	(2.2)
— Property related costs	**(0.2)**	(0.1)	**(0.2)**	(0.1)
	(3.3)	(0.3)	**(5.9)**	(2.3)

Non-recurring items in the six months to 31 March 2013 amounted to a charge of £5.9m in aggregate. The non-recurring charges in the six months to 31 March 2012 amounted to £2.3m in aggregate. The key elements of the charges for both years are set out below.

Costs in relation to the purchase and integration of Harmoni. During the period Care UK incurred costs in relation to the acquisition of Harmoni (note 9). In accordance with IFRS 3, such costs cannot be included in the cost of the business combination and therefore cannot be capitalised. Total transaction and integration costs of £3.8m were incurred in relation to the acquisition and subsequent integration into the Care UK group.

Costs in relation to the purchase and integration of UKSH. During the period Care UK incurred costs in relation to the acquisition of Harmoni (note 9). In accordance with IFRS 3, such costs cannot be included in the cost of the business combination and therefore cannot be capitalised. Total transaction and integration costs of £1.5m were incurred in relation to the acquisition and subsequent integration into the Care UK group.

Transfer and integration of Suffolk care homes. During the period the Care UK Residential Care division transferred in 16 existing care homes from Suffolk County Council as the initial stage of a long term contract. Preliminary integration costs of £0.4m were incurred in the period in relation to the transfer of these homes.

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 £2.2m were incurred in the six months to 31 March 2012 (£3.5m in total in the 2012 financial year) in relation to the transfer of these homes and their subsequent integration into the Care UK group.

Property related costs. During the period Care UK incurred financial loss due to property related issues that restricted the business's ability to deliver its services.

5. NET FINANCING COSTS

	Three months to 31 March 2013	Three months to 31 March 2012	Six months to 31 March 2013	Six months to 31 March 2012
	£m	£m	£m	£m
Financial income:				
Interest receivable	**0.2**	0.1	**0.5**	0.3
IFRIC-12 interest receivable	**0.3**	0.2	**0.6**	0.6
Financial income	**0.5**	0.3	**1.1**	0.9
Financial expenses — interest payable on bank overdrafts and loans	**(9.2)**	(6.5)	**(17.4)**	(13.7)
Net financing costs	**(8.7)**	(6.2)	**(16.3)**	(12.8)

6. OPERATING (LOSS)/PROFIT BEFORE TAXATION

The following items have been included in arriving at operating (loss)/profit before taxation:

	Three months to 31 March 2013	Three months to 31 March 2012	Six months to 31 March 2013	Six months to 31 March 2012
	£m	£m	£m	£m
Depreciation of tangible assets	**5.7**	4.5	**10.5**	8.4
Amortisation of intangible assets	**5.9**	4.2	**10.0**	8.9
IFRIC 12 infrastructure costs expensed in the period	**0.1**	0.1	**0.2**	0.2

7. PROPERTY, PLANT AND EQUIPMENT

	31 March 2013	31 March 2012	30 September 2012
	£m	£m	£m
Opening book value, net of accumulated depreciation	**252.1**	218.1	218.1
Acquired	**11.1**	0.7	9.6
Additions	**19.5**	25.3	43.5
Transfers from current assets	**0.6**	—	—
Disposal and transfers to current assets	**—**	(0.6)	(12.8)
Depreciation charge for the period	**(10.5)**	(8.4)	(6.3)
Closing book value, net of accumulated depreciation	**272.8**	235.1	252.1

8. INTANGIBLE ASSETS

	31 March 2013	31 March 2012	30 September 2012
	£m	**£m**	**£m**
Opening book value, net of accumulated amortisation	**170.7**	182.8	182.8
Acquired	**75.9**	2.3	5.7
Adjustment	**0.2**	—	(0.1)
Disposal	**—**	—	(0.5)
Amortisation charge for the period	**(10.0)**	(8.9)	(17.2)
Closing book value, net of accumulated amortisation	**236.8**	176.2	170.7

9. BUSINESS COMBINATIONS

During the six months ended 31 March 2013, the Group acquired 100% of the issued share capital of HWH Group Limited ("Harmoni") and UK Specialist Hospitals Limited ("UKSH"). The acquisitions are in line with the strategic growth plans of the group.

Company name	Date of acquisition	Nature of business
HWH Group Limited	5 November 2012	The provision of healthcare services.
UK Specialist Hospitals Limited	20 February 2013	The provision of healthcare services.

Due to the timing of the Harmoni acquisition, the initial fair value accounting for Harmoni has currently only been determined on a provisional basis.

Due to the timing of the UKSH acquisition, the initial fair value accounting for UKSH has not been determined. The acquisition accounting reflected in these financial statements is based on the net book value of the acquired business as at the date of acquisition.

In accordance with IFRS 3, adjustments to the fair value of assets acquired and liabilities assumed can be made during the first twelve months from the date of acquisition. The difference between the fair value of the consideration paid and the fair value of the identifiable net assets acquired is recognised as goodwill. In respect of UKSH acquisition, included within the provisional goodwill value are certain intangible assets that the group considers likely to be separately identified but where the assessment of their fair value has not yet been finalised. These items include customer contracts. Also included in goodwill are certain intangible assets that cannot be individually separated and reliably measured due to their nature. These items include an assembled workforce and anticipated future operating synergies from the combination. None of the goodwill is expected to be deductible for income tax purposes.

2013	UK Specialist Hospitals Limited Book value
	£m
Property, plant and equipment	7.8
Current assets:	
— Inventories	0.4
— Trade and other receivables	6.3
— Cash and cash equivalents	10.5
— Corporation tax	0.1
Total assets	25.1
Liabilities:	
— Financial liabilities	(7.8)
— Trade and other payables	(7.6)
— Deferred income	(4.5)
Total liabilities	(19.9)
Net assets	5.2
Goodwill on acquisition	16.7
Total consideration	21.9
Satisfied by:	
Cash paid on acquisition	21.9

	HWH Group Limited		
2013	Book value	Provisional fair value adjustments	Fair value
	£m	£m	£m
Property, plant and equipment	3.3	—	3.3
Other intangibles	—	20.6	20.6
Current assets:			
— Inventories	0.3	—	0.3
— Trade and other receivables	10.6	(0.9)	9.7
— Cash and cash equivalents	1.2	—	1.2
Total assets	15.4	19.7	35.1
Liabilities:			
— Trade and other payables	(18.1)	(3.2)	(21.3)
— Deferred tax	0.4	(4.9)	(4.5)
— Corporation tax	(0.1)	—	(0.1)
Total liabilities	(17.8)	(8.1)	(25.9)
Net assets	(2.4)	11.6	9.2
Goodwill on acquisition			38.6
Total consideration			47.8
Satisfied by:			
Cash paid on acquisition			47.8

10. OTHER FINANCIAL ASSETS

	31 March 2013	31 March 2012	30 September 2012
	£m	£m	£m
IFRIC-12 financial asset: brought forward	**24.2**	43.8	43.8
Released in the period	**(0.7)**	(19.5)	(19.6)
IFRIC-12 financial asset: carried forward	**23.5**	24.3	24.2
Disclosed as:			
Non-current assets: IFRIC-12 financial asset	**22.6**	23.5	23.2
Current assets: IFRIC-12 financial asset	**0.9**	0.8	1.0
	23.5	24.3	24.2

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.

11. FINANCIAL LIABILITIES

	Borrowings due within one year	Borrowings due after one year	Total Financial Liabilities
	£m	£m	£m
At 1 October 2011	(0.1)	(239.6)	(239.7)
Cash flow	0.1	(11.9)	(11.8)
Other non-cash changes	(0.2)	(1.8)	(2.0)
At 30 September 2012	(0.2)	(253.3)	(253.5)
Cash flow	0.3	(100.2)	(99.9)
Other non-cash changes	(3.4)	(4.3)	(7.7)
At 31 March 2013	**(3.3)**	**(357.8)**	**(361.1)**

As at 31 March 2013 there was accrued interest of £6.5 million (31 March 2012: £4.0 million; 30 September 2012: £4.1 million) included in 'Trade and Other payables' disclosed within current liabilities in the balance sheet but excluded from this note.

Terms and conditions

i) Senior Secured Notes

In July 2010 Care UK Health & Social Care Plc (the Issuer) issued £250 million 9¾% Senior Secured Notes. In November 2012 Care UK Health & Social Care Plc issued an additional £75 million 9¾% Senior Secured Notes bringing the total in issue to £325 million. The proceeds of this additional issue were partially used to repay Super Senior Revolving Credit Facility (RCF) borrowings of £49.4m with the remainder being held in the group for future investment requirements

Interest is payable semi-annually in arrears on 1 February and 1 August.

There have been no material changes to the terms and conditions or maturity and redemption profile outlined in the group's 2012 annual report.

ii) Super Senior Revolving Credit Facility

With effect from 31 December 2012 the Super Senior Revolving Credit Facility (the "RCF") was increased from £97.5m to £115.0m.

As at 31 March 2013, £35.0m (2012: £nil) of the RCF has been utilised as cash drawings. The remainder of the facility was undrawn, with the exception of £9.4m (2012: £16.9m) utilised in relation to performance bonds provided in relation to certain contracts in the Health Care division and £0.5m (2012: £0.5m) in relation to other ancillary utilisations.

The RCF 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 redrawable at the end of each interest period. The final repayment date is 13 July 2016.

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.

12. POST BALANCE SHEET EVENTS

Financial Liabilities

A total of £15.0m was drawn on the RCF after 31 March 2013 to fund ongoing development capital projects within the business.

Care UK Health & Social Care Investments Limited

Group proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited)

Three month and six month periods ended 31 March 2013

BASIS OF PREPARATION

This group proforma pre-IFRIC 12 non-statutory condensed 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.

The accounts are presented in pounds sterling and have been prepared under the historic cost convention.

The group proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (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 group 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 condensed consolidated financial statements (unaudited).

Definition

The term 'proforma' in this group proforma pre-IFRIC 12 non-statutory condensed consolidated 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 condensed consolidated financial statements (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 condensed consolidated financial statements (unaudited) as were applied in the group's condensed consolidated financial statements for the six months ended 31 March 2013:

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 condensed financial information (unaudited) has been prepared to present financial information on a pre-IFRIC 12 basis.

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED) – SECOND QUARTER
For the three month and six month periods ended 31 March 2013

	Three months to 31 March 2013	**Three months to 31 March 2012**	**Six months to 31 March 2013**	**Six months to 31 March 2012**
	£m	**£m**	**£m**	**£m**
Revenue	**163.4**	124.0	**307.1**	247.5
Cost of sales	**(143.3)**	(105.0)	**(271.2)**	(211.3)
Gross profit	**20.1**	19.0	**35.9**	36.2
Administrative expenses	**(23.9)**	(15.5)	**(44.0)**	(33.2)
Operating (loss)/profit before financing expenses	**(3.8)**	3.5	**(8.1)**	3.0
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)	**11.7**	12.9	**19.3**	24.6
Depreciation of tangible assets	**(6.4)**	(5.2)	**(11.7)**	(10.7)
Adjusted operating profit	**5.3**	7.7	**7.6**	13.9
Amortisation of intangible assets	**(5.8)**	(3.9)	**(9.8)**	(8.6)
Non-recurring items	**(3.3)**	(0.3)	**(5.9)**	(2.3)
Operating (loss)/profit before financing expenses	**(3.8)**	3.5	**(8.1)**	3.0
Financial income	**0.2**	0.1	**0.5**	0.3
Financial expenses	**(9.2)**	(6.5)	**(17.4)**	(13.7)
Net financing expense	**(9.0)**	(6.4)	**(16.9)**	(13.4)
Loss before taxation	**(12.8)**	(2.9)	**(25.0)**	(10.4)
Taxation	**—**	0.9	**1.5**	2.6
Loss for the period	**(12.8)**	(2.0)	**(23.5)**	(7.8)
Total comprehensive loss for the period	**(12.8)**	(2.0)	**(23.5)**	(7.8)
Loss attributable to:				
Equity holders of the parent	**(12.8)**	(1.9)	**(23.5)**	(7.7)
Non-controlling interests	**—**	(0.1)	**—**	(0.1)
	(12.8)	(2.0)	**(23.5)**	(7.8)
Total comprehensive loss attributable to:				
Equity holders of the parent	**(12.8)**	(1.9)	**(23.5)**	(7.7)
Non-controlling interests	**—**	(0.1)	**—**	(0.1)
Equity holders of the parent	**(12.8)**	(2.0)	**(23.5)**	(7.8)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 31 March 2013

	31 March 2013	31 March 2012	30 September 2012
	£m	£m	£m
Assets			
Property, plant and equipment	**304.5**	268.6	284.8
Intangible assets	**227.3**	166.3	161.3
Amounts due from related party undertakings	**12.8**	3.7	8.7
Other investments	**5.0**	0.1	0.1
Total non-current assets	**549.6**	438.7	454.9
Inventories	**2.7**	2.7	1.8
Trade and other receivables	**77.9**	59.5	53.0
Cash and cash equivalents	**40.9**	36.9	38.3
Assets classified as held for sale	**1.4**	3.0	2.0
Total current assets	**122.9**	102.1	95.1
Total assets	**672.5**	540.8	550.0
Liabilities			
Financial liabilities — borrowings	**(3.3)**	(0.1)	(0.2)
Trade and other payables	**(130.5)**	(91.1)	(92.4)
Current tax liabilities	**(1.2)**	(4.7)	(1.1)
Total current liabilities	**(135.0)**	(95.9)	(93.7)
Financial liabilities — borrowings	**(357.8)**	(240.5)	(253.3)
Other non-current liabilities	**(5.7)**	(5.2)	(7.4)
Deferred tax liabilities	**(27.9)**	(30.7)	(25.2)
Total non-current liabilities	**(391.4)**	(276.4)	(285.9)
Total liabilities	**(526.4)**	(372.3)	(379.6)
Net assets	**146.1**	168.5	170.4
Equity			
Issued share capital	**210.7**	210.7	210.7
Retained earnings	**(64.6)**	(42.2)	(40.3)
Equity attributable to equity holders of the parent	**146.1**	168.5	170.4
Non-controlling interests	**—**	—	—
Total equity	**146.1**	168.5	170.4

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) – SECOUND QUARTER
For the three month and six month periods ended 31 March 2013

	Three months to 31 March 2013	Three months to 31 March 2012	Six months to 31 March 2013	Six months to 31 March 2012
	£m	£m	£m	£m
Cash flows from operating activities				
Loss for the period before tax	**(12.8)**	(2.9)	**(25.0)**	(10.4)
Financial income	**(0.2)**	(0.1)	**(0.5)**	(0.3)
Financial expense	**9.2**	6.5	**17.4**	13.7
Depreciation	**6.4**	5.2	**11.7**	10.7
Amortisation of intangible assets	**5.8**	3.9	**9.8**	8.6
(Increase)/decrease in inventory	**(0.1)**	0.2	**(0.2)**	0.4
Decrease/(increase) in receivables	**3.5**	4.2	**(9.9)**	(6.6)
(Decrease)/Increase in payables	**(1.6)**	(0.9)	**5.7**	7.3
Cash flows from operations	**10.2**	16.1	**9.0**	23.4
Income taxes received	**—**	—	**(0.3)**	0.1
Net cash flows from operating activities	**10.2**	16.1	**8.7**	23.5
Cash flows from investing activities				
Payments to acquire property, plant and equipment	**(8.3)**	(14.9)	**(18.4)**	(24.8)
Loans to related party undertakings	**(1.1)**	(1.8)	**(3.3)**	(1.8)
Investment in joint venture	**(0.2)**	—	**(0.2)**	—
Loans to joint venture	**(3.8)**	—	**(4.7)**	—
Interest received	**0.1**	0.1	**0.1**	0.1
Net proceeds from sales of property, plant and equipment	**—**	0.1	**—**	15.4
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	**(16.9)**	(2.7)	**(63.5)**	(2.7)
Net cash flows used investing activities	**(30.2)**	(19.2)	**(90.0)**	(13.8)
Cash flows from financing activities				
Proceeds from new loans	**35.0**	—	**154.4**	—
Repayment of amounts borrowed	**—**	—	**(49.4)**	—
Interest paid	**(16.4)**	(12.6)	**(16.8)**	(13.0)
Finance costs	**(1.4)**	—	**(4.0)**	—
Payments of capital element of finance lease payments	**(0.2)**	—	**(0.3)**	—
Net cash flows from/(used in) financing activities	**17.0**	(12.6)	**83.9**	(13.0)
Net decrease in cash and cash equivalents	**(3.0)**	(15.7)	**2.6**	(3.3)
Cash and cash equivalents at the beginning of the period	**43.9**	52.6	**38.3**	40.2
Cash and cash equivalents at the end of the period	**40.9**	36.9	**40.9**	36.9

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED SEGMENTAL REPORTING NOTE (UNAUDITED) – SECOUND QUARTER

	Social Care				
Three months to 31 March 2013	**Residential Care**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	48.7	29.0	77.7	8.0	**163.4**
Adjusted EBITDA	6.8	1.9	4.1	(1.1)	**11.7**
Depreciation of tangible assets	(2.6)	(0.5)	(2.6)	(0.7)	**(6.4)**
Adjusted operating profit/(loss)	4.2	1.4	1.5	(1.8)	**5.3**
Amortisation of intangible assets	(1.5)	(2.1)	(2.2)	—	**(5.8)**
Non-recurring items	(0.3)	—	(3.0)	—	**(3.3)**
Operating profit/(loss) before financing expenses and taxation	2.4	(0.7)	(3.7)	(1.8)	**(3.8)**
Net financing expense					**(9.0)**
Taxation					**—**
Loss for the period					**(12.8)**

	Social Care				
Three months to 31 March 2012	**Residential Care**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	42.0	27.1	49.9	5.0	**124.0**
Adjusted EBITDA	7.5	1.5	4.3	(0.4)	**12.9**
Depreciation of tangible assets	(2.0)	(0.3)	(2.1)	(0.8)	**(5.2)**
Adjusted operating profit/(loss)	5.5	1.2	2.2	(1.2)	**7.7**
Amortisation of intangible assets	(1.5)	(1.3)	(1.1)	—	**(3.9)**
Non-recurring items	(0.2)	—	(0.1)	—	**(0.3)**
Operating profit/(loss) before financing expenses and taxation	3.8	(0.1)	1.0	(1.2)	**3.5**
Net financing expenses					**(6.4)**
Taxation					**0.9**
Loss for the period					**(2.0)**

Six months to 31 March 2013	Social Care: Residential Care	Social Care: Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	95.1	58.9	137.8	15.3	**307.1**
Adjusted EBITDA	12.8	3.7	5.1	(2.3)	**19.3**
Depreciation of tangible assets	(4.9)	(0.9)	(4.5)	(1.4)	**(11.7)**
Adjusted operating profit/(loss)	7.9	2.8	0.6	(3.7)	**7.6**
Amortisation of intangible assets	(3.1)	(3.4)	(3.3)	—	**(9.8)**
Non-recurring items	(0.6)	—	(5.3)	—	**(5.9)**
Operating profit/(loss) before financing expenses and taxation	4.2	(0.6)	(8.0)	(3.7)	**(8.1)**
Net financing expense					**(16.9)**
Taxation					**1.5**
Loss for the period					**(23.5)**

Six months to 31 March 2012	Social Care: Residential Care	Social Care: Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	81.1	54.5	102.2	9.7	**247.5**
Adjusted EBITDA	14.2	3.1	8.3	(1.0)	**24.6**
Depreciation of tangible assets	(4.0)	(0.6)	(4.5)	(1.6)	**(10.7)**
Adjusted operating profit/(loss)	10.2	2.5	3.8	(2.6)	**13.9**
Amortisation of intangible assets	(3.0)	(2.6)	(3.0)	—	**(8.6)**
Non-recurring items	(1.4)	—	(0.1)	(0.8)	**(2.3)**
Operating profit/(loss) before financing expenses and taxation	5.8	(0.1)	0.7	(3.4)	**3.0**
Net financing expense					**(13.4)**
Taxation					**2.6**
Loss for the period					**(7.8)**