Care UK Health & Social Care Investments Limited

Quarterly Financial Report for the three and six months ended 31 March 2014

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

TABLE OF CONTENTS

SUMMARY

Care UK has delivered further consistent operational performance in the three months ended 31 March 2014, with an improved financial performance compared with both the prior quarter and prior year. All figures and percentages quoted below are for the three months ended 31 March 2014 unless stated, and exclude the effects of IFRIC 12.

- **Group Highlights**
  - Revenue for the quarter increased by 9.9 per cent. to £179.5 million compared with £163.4 million for the three months ended 31 March 2013 and by 18.0 per cent. to £362.5 million for the six months ended 31 March 2014 compared with £307.1 million for the six months ended 31 March 2013. Adjusted EBITDA increased by 14.5 per cent. to £13.4 million compared with £11.7 million for the three months ended 31 March 2013 and by 31.1 per cent. to £25.3 million for the six months ended 31 March 2014 compared with £19.3 million for the six months ended 31 March 2013
  - Strong operating cash flow in the period, with an inflow of £30.4 million for the six months ended 31 March 2014 compared with an inflow of £8.7 million for the six months ended 31 March 2013
  - Growth momentum remains strong in the Residential Care Services division with increases in revenue in the three and six months ended 31 March 2014 of 11.1 per cent. and 14.6 per cent., to £54.1 million and £109.0 million respectively, compared with the three and six months ended 31 March 2013
    - As at 31 March 2014 36 per cent. (31 December 2013: 37 per cent.) of all beds were operated under guaranteed commitment block contracts with public sector customers, a key competitive differentiator
    - The continuing greenfield development programme is delivering significant new capacity to the business, with 369 beds opened in five new homes in the six months ended 31 March 2014 and a further 80 beds commissioned in April 2014. An additional seven homes are currently in construction, all due to open by September 2015, with a total of around 540 beds. As previously reported, whilst each new home builds occupancy in its first few months of operation, the new home opening programme will hold back EBITDA growth within the Residential Care Services division and this impact, as expected, will become increasingly visible in the second half of the current financial year
    - The Suffolk new home programme is progressing as expected with eight of the planned ten new homes in construction and planning consent achieved for the remaining two. The first three of the new Suffolk homes are due to open by September 2014
  - Performance in the Health Care division reflects organic growth as well as the benefits of the acquisitions of Harmoni and UKSH made in the previous financial year. The 111 service continues to be operationally stable and achieved a positive EBITDA contribution in the three months ended 31 March 2014
  - The Health Care division continues to be engaged in a small number of large scale bids although one project previously at the shortlist stage was recently withdrawn from procurement
  - Unadjusted financial leverage as at 31 March 2014 improved to 5.44x, based on LTM EBITDA of £62.2 million, from 5.61x as at 31 December 2013. On a pro forma basis, excluding new home start up losses in the Residential Care Services division, financial leverage was 5.28x as at 31 March 2014

This interim report refers to sections of the Annual report for Bondholders of Care UK Health & Social Care Investments Limited for the year ended 30 September 2013 (the "Annual report 2013") and should be read in conjunction with that report. The Annual report 2013 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 Services:*** Care homes (112 care homes with approximately 6,700 beds) providing care for older people, particularly those suffering from dementia and related conditions • ***Community Services:*** Care visits and live-in support for people in their own homes, facilitating daily living needs and promoting independence (around 154,000 care hours per week delivered, plus 133 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 Primary Care (eg Prison healthcare, GP practices and "CATS" services), Secondary Care (eg hospital based elective surgery) and Urgent Care (eg out of hours GP care, walk-in urgent care centres and the NHS 111 service) • More than 80 operating locations • Important market positions in a number of sub-segments delivering services to NHS patients in England • Over 16 million patients treated or supported annually by the Health Care division

Key figures, in £ million	Q2 / 2013	YTD / 2013	Q2 / 2014	YTD / 2014
Revenue	163.4	307.1	179.5	362.5
Adjusted EBITDA [1]	11.7	19.3	13.4	25.3
Adjusted operating profit [1]	5.3	7.6	5.5	10.1
Net loss for the period	(12.8)	(23.5)	(8.6)	(19.6)
Operating cash flow	10.2	8.7	25.2	30.4

[1] See non-IFRS measures below

Financial leverage	As of and for the 12 month period ended			
Amounts in £ million	30 June 2013	30 September 2013	31 December 2013	31 March 2014
Adjusted EBITDA	52.7	56.2	60.5	62.2
Net debt	335.2	333.3	339.7	338.2
Net debt / Adjusted EBITDA	6.36x	5.93x	5.61x	5.44x[1]

[1] Pro-forma Adjusted EBITDA, excluding new home start-up losses of £1.8 million in the Residential Care Services division, was 5.28x as at 31 March 2014

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.

Care UK presents these supplemental non-IFRS measures because it believes, when considered in conjunction with related IFRS financial measures, these measures provide investors with important additional information to evaluate operating performance and financial position. Care UK believes that Adjusted operating profit, Adjusted EBITDA and free cash flow provide additional useful information on the underlying operational performance and cash generation of the business.

These are not, however, measures of financial performance under IFRS, have not been audited and should not be considered alternatives to, or more meaningful than, profit before taxation as a measure of operating performance. Since Adjusted operating profit, Adjusted EBITDA, free cash flow and net debt are non-IFRS measures and thus are susceptible to varying interpretations and calculations, these measures may not be comparable to similarly titled measures used by other companies. These measures have limitations as analytical tools, and investors should not consider them in isolation from, or as a substitute for analysis of, financial information prepared in accordance with IFRS.

Adjusted operating profit, which includes Care UK's proportionate ownership share of EBITDA from joint venture enterprises, is defined as Operating profit before net financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items and excluding the impact of applying IAS 17 in respect of lease incentives as explained below.

Care UK enters into various lease arrangements with third parties within the normal course of business which can be subject to various types of incentive. Lease incentives on operating units typically take the form of rent free periods as they reflect the economic contribution profile of the unit during the early stages of occupancy, however under the terms of the lease cash rent does not become payable until the expiry of the rent free period. Other lease incentives may take the form of a cash premium received at inception or renewal of the lease with annual cash rent payable from commencement of the lease. Under IAS 17 'Leases', lease incentives are allocated on a straight line basis over the life of the lease. The non-IFRS financial measure adjusted operating profit is presented on a cash rent basis as it excludes the effect of applying the straight line method to lease incentives in order to reflect the underlying commercial arrangement and provide underlying operational performance and cash generation of the business.

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation.

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

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

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

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 2013. 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 statements that are forward-looking in nature. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

RISK FACTORS

Compared to the Risk Factors set out in Care UK's Annual report 2013 there have been no material changes in Care UK's overall opportunity and risk position.

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 Care Home

Care UK has opened a further new care home within the Residential Care Services division in April 2014. Winchcombe Place in Newbury is an 80 bed facility, which is orientated towards self-funding residents and is focused on dementia care.

New Health Care contract

The Health Care division was awarded preferred bidder status for a contract to operate a Minor Injuries Unit at the Royal South Hampshire hospital in April 2014. The contract is expected to commence in August 2014 and has projected annual revenue of approximately £2.0 million. Care UK already operates a Wave II ISTC at the same hospital.

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 2013. 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 2013.

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 2013.

Critical Accounting Policies and Estimates

For full details regarding Care UK's Critical Accounting Policies refer to the Annual report 2013. 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, share based payments, pensions, taxes and contingencies, and certain of the non-recurring items reported in the period. 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 2013 and 31 March 2014, 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	
	2013	2014	2013	2014
	£m	£m	£m	£m
Revenue	305.9	361.3	307.1	362.5
Cost of sales	(270.3)	(319.5)	(271.2)	(319.8)
Gross profit	**35.6**	**41.8**	**35.9**	**42.7**
Administrative expenses	(44.1)	(47.5)	(44.0)	(47.2)
Operating loss before financing expenses	**(8.5)**	**(5.7)**	**(8.1)**	**(4.5)**
Adjusted EBITDA	17.9	23.4	19.3	25.3
Depreciation of tangible assets	(10.5)	(14.3)	(11.7)	(15.2)
Adjusted operating profit	7.4	9.1	7.6	10.1
Amortisation of intangible assets	(10.0)	(10.9)	(9.8)	(10.7)
Non-recurring items	(5.9)	(2.9)	(5.9)	(2.9)
IAS 17 lease expense	-	(0.9)	-	(0.9)
Less: Share of joint venture EBITDA	-	(0.1)	-	(0.1)
Operating loss before financing expenses	**(8.5)**	**(5.7)**	**(8.1)**	**(4.5)**
Financial income	1.1	1.5	0.5	0.9
Financial expenses	(17.4)	(19.5)	(17.4)	(19.5)
Net financing expense	**(16.3)**	**(18.0)**	**(16.9)**	**(18.6)**
Share of results of joint venture	-	(0.1)	-	(0.1)
Loss before taxation	**(24.8)**	**(23.8)**	**(25.0)**	**(23.2)**
Taxation	1.3	3.8	1.5	3.6
Loss for the period	**(23.5)**	**(20.0)**	**(23.5)**	**(19.6)**

Three and six months ended 31 March 2014 compared to the three and six months ended 31 March 2013 – 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 pro-forma segmental reporting note to the unaudited pro-forma condensed Consolidated financial statements on page F-15 of this interim report.

Revenue

Revenue increased by 9.9 per cent., or £16.1 million, from £163.4 million for the three months ended 31 March 2013 to £179.5 million for the three months ended 31 March 2014. Revenue increased by 18.0 per cent., or £55.4 million, from £307.1 million for the six months ended 31 March 2013 to £362.5 million for the six months ended 31 March 2014. Approximately 54 per cent. and 43 per cent. respectively of the increases for the three and six months ended 31 March 2014 was attributable to the acquisition of the UKSH business in February 2013. Approximately 20 per cent. and 13 per cent. respectively of the increases in the three and six months ended 31 March 2014 is due to the 111 contracts incepted at various dates during the year ended 30 September 2013. The majority of the remaining growth was attributable to new services within the Residential Care Services division, principally the new homes opened in the years ended 30 September 2012 and 30 September 2013 and, to a lesser extent, the new homes opened in the current financial year.

Revenue for the Residential Care division increased by 11.1 per cent., or £5.4 million, from £48.7 million for the three months ended 31 March 2013 to £54.1 million for the three months ended 31 March 2014 and by 14.6 per cent., or £13.9 million, from £95.1 million for the six months ended 31 March 2013 to £109.0 million for the six months ended 31 March 2014. Around 65 per cent. and 50 per cent. respectively of the increases in revenue in the three and six months ended 31 March 2014 compared with the three and six months ended 31 March 2013 are attributable to the increased revenue resulting from higher levels of occupancy in new homes opened in the years ended 30 September 2012 and 30 September 2013. The new homes opened in the first six months of the current financial year have contributed revenue of £0.9 million and £1.2 million for the three and six months ended 31 March 2014 respectively. The mature homes in the division, including the former Southern Cross homes, contributed increased revenue of £1.2 million and £2.4 million in the three and six months ended 31 March 2014 compared with the three and six months ended 31 March 2013.

The Suffolk contract that commenced in December 2012 has delivered revenue growth of £3.4 million in the six months ended 31 March 2014. As expected, the revenue contribution from the homes initially transferred under this contract has begun slowly to reduce as we work towards their progressive closure. The ten new build care homes, of which eight are currently under construction, will ultimately add approximately 200 net beds to the overall capacity of the Residential Care Services division. However, the number of contracted beds will eventually reduce from the current level of approximately 450 to 370 as the new homes are opened, with the balance of beds to be sold by Care UK, expected to be largely to self-funding residents. As the new homes open the immediate focus will be to transfer existing contracted residents across, before commencing to sell the non-contracted beds. There will consequently be an occupancy ramp up period for the new homes similar to a new greenfield care home before they reach operational maturity. As the proportion of contracted beds differs in each of the ten new homes, the duration of this period will also vary for each home.

At 31 March 2014 Care UK operated 6,615 beds in 111 care homes, compared with 6,297 beds at 30 September 2013 and 6,506 beds at 31 December 2013. At 31 March 2014 approximately 36 per cent. of all beds were operated under guaranteed commitment block contracts compared with approximately 38 per cent. as at 30 September 2013 and approximately 37 per cent. as at 31 December 2013. In the three months ended 31 March 2014 the Residential Care Services division opened two new care homes, in Cheltenham and St Ives, Cambridgeshire with a combined total of 162 beds. Both of these new homes have been developed by the Silver Sea development company referred to in the 2013 Annual report and are operated by Care UK under arms length commercial leasehold terms. In March 2014 the care home suffering from subsidence, first reported in the period ended 31 December 2012, was closed with the safe transfer of all remaining service users to alternative accommodation. This closure resulted in a loss of bed capacity in the overall portfolio of 56 beds whilst a permanent solution for either its complete replacement or its structural underpinning is determined.

Fee rates in the six months ended 31 March 2014 averaged £699 per week compared with £664 per week in the six months ended 31 March 2013, an increase of 5.3 per cent. The increase in fee rates reflects a number of factors, including the fee rate increases achieved in April 2013, the higher fee rates being achieved in the more recently opened homes and the increasing level of dependency typically evident in the service users being cared for. Total occupancy was 83.2 per cent. in the six months ended 31 March 2014 compared with 84.8 per cent. in the six months ended 31 March 2013. The overall reduction in occupancy is primarily caused by the number of new homes opened since 1 January 2013, which are still in their initial occupancy ramp-up phase. Physical occupancy in the mature homes, including the former Southern Cross homes, was 87.7 per cent. in the six months ended 31 March 2014, the same level as in the six months ended 31 March 2013. The benefit of the guaranteed commitment block contracts in the mature estate means that the financial occupancy of the mature portfolio, including the former Southern Cross homes, was 91.7 per cent. for the six months ended 31 March 2014 compared with 91.2 per cent. for the six months ended 31 March 2013.

The Recent Developments section on page 6 refers to a new care home being opened by the Residential Care Services division in April 2014. In addition, the division currently has seven further greenfield homes in development, of which five are being developed by the Silver Sea development company referred to in the 2013 Annual report. These seven homes will add approximately 540 beds in aggregate once operational. In addition, the Suffolk contract will ultimately result in a further ten new homes being opened, which will add approximately 200 net new beds after allowing for the closure of the 15 existing homes. Planning consent has been achieved on all of the ten new Suffolk homes with eight of them now being in construction. The first three new homes are expected to open in the final quarter of the year ending 30 September 2014. The funding for all of the new Suffolk homes is being provided by two institutional real estate funds.

Revenue for the Community Services division increased by 4.1 per cent., or £1.2 million, from £29.0 million for the three months ended 31 March 2013 to £30.2 million for the three months ended 31 March 2014 and increased by 3.6 per cent., or £2.1 million, from £58.9 million for the six months ended 31 March 2013 to £61.0 million for the six months ended 31 March 2014.

These increases reflect the contribution from the Doncaster learning disabilities contract commenced in September 2013 and the Living Ambitions business acquired in April 2013, which together added revenue of £2.5 million and £4.8 million respectively in the three and six months ended 31 March 2014 compared with the three and six months ended 31 March 2013. This more than offset revenue reductions elsewhere, primarily attributable to the impact of Local Authority funding pressures resulting in fewer people receiving care funding and reductions in the size of funding packages. Average fee rates in the Community Services division for the six months ended 31 March 2014 were £13.68 per hour compared with £13.72 per hour in the six months ended 31 March 2013, a decrease of 0.3 per cent., which is attributable to mix effects across the portfolio. Hours of care delivered averaged approximately 156,000 per week for the six months ended 31 March 2014 compared with approximately 149,000 per week in the six months ended 31 March 2013. This increase, of 4.7 per cent., reflects the positive impact of the Doncaster contract and the Living Ambitions business partially offset by volume reductions within the domiciliary care part of the division for the reasons stated above. As at 31 March 2014 a total of 133 residential learning disability beds were operated, the same number as at 31 March 2013, with average occupancy of 93.5 per cent. and average fee rates of £1,759 per week for the six months ended 31 March 2014 compared with average occupancy of 92.2 per cent. and average fee rates of £1,795 per week in the six months ended 31 March 2013. The reduction in fee rates in this part of the business reflects a shift in the acuity levels of service users being referred into the service by commissioners, rather than like for like reductions in price.

Revenue for the Health Care division increased by 10.9 per cent., or £8.5 million, from £77.7 million for the three months ended 31 March 2013 to £86.2 million for the three months ended 31 March 2014 and by 26.5 per cent., or £36.5 million, from £137.8 million for the six months ended 31 March 2013 to £174.3 million for the six months ended 31 March 2014. These increases largely reflect the acquisition of UKSH in February 2013, which added revenue of £8.7 million and £23.7 million in the three and six months ended 31 March 2014 respectively. The 111 service, acquired with Harmoni in November 2012 but not operational at that point, contributed increases in revenue of £3.3 million and £7.3 million respectively in the three and six months ended 31 March 2014 compared with the three and six months ended 31 March 2013. The implementation of the 111 service nationally has resulted in a progressive reduction in revenue attributable to out of hours primary care contracts because the call triage responsibility for inbound patient calls has now largely moved from out of hours providers to the 111 service. This change, which was known and reported at the time of the Harmoni acquisition, has resulted in a revenue reduction of £2.7 million in the three months ended 31 March 2014 compared with the three months ended 31 March 2013. The three month period ended 31 March 2014 also contains a one-off revenue adjustment of £2.0 million, which has no effect on Adjusted EBITDA, in relation to the charging arrangements for pharmacy services on certain offender health contracts. New contracts won and implemented in the year ended 30 September 2013 added revenue of £1.9 million and £3.8 million in the three and six months ended 31 March 2014. Organic growth across a range of services added the balance of revenue growth in the period.

Revenue within the Other segment increased by 12.5 per cent., or £1.0 million, from £8.0 million for the three months ended 31 March 2013 to £9.0 million for the three months ended 31 March 2014, and by £2.9 million, or 19.0 per cent., from £15.3 million for the six months ended 31 March 2013 to £18.2 million for the six months ended 31 March 2014. The Mental Health business contributed revenue of £5.9 million and £11.8 million respectively in the three and six months ended 31 March 2014 compared with £4.7 million and £9.5 million in the three and six months ended 31 March 2013 respectively. These increases in revenue are mostly due to improved occupancy in the core business but also partly reflect the contribution from new services. The Amicus ITS business contributed revenue of £3.1 million and £6.4 million respectively in the three and six months ended 31 March 2014 compared with £3.3 million and £5.8 million respectively in the three and six months ended 31 March 2013. This business was acquired with Harmoni in November 2012.

Cost of Sales

Care UK's cost of sales increased by 10.6 per cent., or £15.2 million, from £143.3 million for the three months ended 31 March 2013 to £158.5 million for the three months ended 31 March 2014 and increased by 17.9 per cent., or £48.6 million, from £271.2 million for the six months ended 31 March 2013 to £319.8 million for the six months ended 31 March 2014. Measured as a percentage of revenue, cost of sales increased from 87.7 per cent. for the three months ended 31 March 2013 to 88.3 per cent. for the three months ended 31 March 2014 and reduced from 88.3 per cent. for the six months ended 31 March 2013 to 88.2 per cent. for the six months ended 31 March 2014. The increase in the absolute value of cost of sales reflects the increase in scale of the group's activities, particularly the UKSH acquisition, the Suffolk and Doncaster contracts and organic growth across the group's operating divisions. The increase in cost of sales as a percentage of revenue in the three months ended 31 March 2014 compared with the three months ended 31 March 2013 particularly reflects increased staffing costs in a number of services in order to increase service quality and assurance across the Residential Care Services division, where we have particularly seen a significantly higher degree of external regulatory scrutiny nationally being applied. In the short term, much of the increased staffing cost has reflected the use of external agency staff, which results in an increased level of cost, with the longer term objective being to eliminate as much of the external cost as possible whilst achieving the most effective and efficient staffing levels commensurate with the delivery of high quality services.

Administrative Expenses

Care UK's administrative expenses decreased by 1.7 per cent., or £0.4 million, from £23.9 million for the three months ended 31 March 2013 to £23.5 million for the three months ended 31 March 2014 and increased by 7.3 per cent., or £3.2 million, from £44.0 million for the six months ended 31 March 2013 to £47.2 million for the six months ended 31 March 2014.

The decrease in administrative expenses for the three months ended 31 March 2014 compared with the three months ended 31 March 2013 reflects the reduction of £1.5 million in non-recurring items partly offset by other increases. Non-recurring charges in the three months ended 31 March 2014 amounted to £1.8 million compared with £3.3 million for the three months ended 31 March 2013. The charge for the three months ended 31 March 2014 included an aggregate charge of £0.7 million in relation to the transfer and integration of the Suffolk homes to the Residential Care Services division and contract change costs in respect of the learning disabilities supported living contract in Doncaster in the Community Services division. In addition, a charge of £0.6 million was incurred in respect of the group's ongoing restructuring programme. As reported above, the care home that has experienced subsidence has now closed, incurring costs of £0.3 million. Within the Mental Health division the decision was taken to close a service due to a redistribution of NHS funding by the former commissioners of the service, resulting in closure costs of £0.2 million. This property is now actively being marketed for sale. The non-recurring charges reported in the three months ended 31 March 2013 included acquisition and integration costs of £3.0 million relating to the Harmoni and UKSH acquisitions, a charge of £0.1 million in relation to the transfer of the Suffolk homes to the Residential Care Services division, and property related costs of £0.2 million relating to the care home referred to above that has experienced subsidence.

Depreciation and amortisation charges included within administration expenses were £6.6 million in both the three months ended 31 March 2013 and 31 March 2014. These charges increased by £1.8 million from £11.4 million in the six months ended 31 March 2013 to £13.2 million in the six months ended 31 March 2014. Excluding both these non-cash items and non-recurring charges, administrative expenses increased by £1.1 million, or 7.9 per cent., from £14.0 million in the three months ended 31 March 2013 to £15.1 million in the three months ended 31 March 2014 and by 16.5 per cent., or £4.4 million, from £26.7 million for the six months ended 31 March 2013 to £31.1 million for the six months ended 31 March 2014. These increases resulted from the increased scale of the Care UK business but in particular the impact of the UKSH acquisition in February 2013 as well as increased investment in support costs in the Residential Care Services division as a result of the Suffolk contract and the ongoing greenfield home development programme. Measured as a percentage of revenue, administration expenses excluding depreciation, amortisation and non-recurring charges represented 8.4 per cent. in the three months ended 31 March 2014 compared with 8.6 per cent. in the three months ended 31 March 2013, and represented 8.6 per cent. for the six months ended 31 March 2014 compared with 8.7 per cent. for the six months ended 31 March 2013. The reductions in the current year, proportionate to revenue growth, reflect economies of scale.

Operating Profit/Loss before Financing Expenses

Care UK's operating loss before financing expenses decreased by £1.3 million from £3.8 million for the three months ended 31 March 2013 to £2.5 million for the three months ended 31 March 2014. The Operating loss before financing expenses decreased by £3.6 million from £8.1 million for the six months ended 31 March 2013 to £4.5 million for the six months ended 31 March 2014. This change reflects the positive benefits from the Harmoni and UKSH acquisitions together with organic growth across the group, partly offset by a reduction in the Residential Care Services division as a result of the impact of the new home opening programme and some labour cost pressures within the mature business.

The Operating profit/loss for the Residential Care Services division changed from a profit of £2.4 million for the three months ended 31 March 2013 to a loss of £1.2 million for the three months ended 31 March 2014 and from a profit of £4.2 million for the six months ended 31 March 2013 to a loss of £0.7 million for the six months ended 31 March 2014. These changes reflect in particular the expected start-up losses incurred on the five new homes opened in the six months ended 31 March 2014, amounting to £2.5 million in aggregate, including a depreciation charge of £0.2 million and an IAS 17 lease expense of £0.5 million, with Adjusted EBITDA for these homes consequently being a loss of £0.9 million and £1.8 million respectively for the three and six months ended 31 March 2014. Certain of these new homes are held by Care UK on leasehold terms that include an initial rent free period intended to reflect their expected period of initial occupancy ramp up, when the operating costs for a new home will substantially exceed the revenue generated in order to provide a safe and high quality service. Under IFRS it is necessary to spread any such lease incentive over the entire period of the lease, typically 25 to 30 years, rather than over the occupancy ramp up period, which is the commercial intent of the parties. During the three months ended 31 March 2014 a non-cash rent charge of £0.5m has therefore been recognised in respect of the spreading of such lease incentives relating to homes opened during the period. Beyond the expiry of the rent free periods the IAS lease adjustment will become positive due to the spreading of the rent incentive through the entire period of the lease.

Non-recurring costs increased by £0.5 million, from £0.3 million for the three months ended 31 March 2013 to £0.8 million for the three months ended 31 March 2014, and amortisation charges increased by £0.2 million, from £1.5 million for the three months ended 31 March 2013 to £1.7 million for the three months ended 31 March 2014. The charge for non-recurring items for the three months ended 31 March 2014 includes £0.3 million relating to the closure costs in respect of the home suffering from subsidence and £0.5 million in respect of the contract transfer and integration costs in respect of the Suffolk contract. The mature homes portfolio, including the former Southern Cross homes, contributed a reduced operating profit for the three months ended 31 March 2014 compared to the three months ended 31 March 2013 due to a higher level of direct costs, driven both by greater use of external agency staffing and an increased level of resource related to delivering care quality and assurance. The increased level of regulatory scrutiny being experienced by the industry as a whole is putting some degree of pressure on staffing levels across the sector, which in the short term often results in the increased usage of external agency staff. In the longer term the drive is to reduce this level of dependency by recruiting appropriate employed staff, and to ensure that staffing levels are fully commensurate with the service quality requirements of the nature of the service provided and the needs of the service users being cared for, which are typically becoming greater.

The Suffolk homes contributed a similar operating profit in the three months ended 31 March 2014 to the three months ended 31 March 2013. The level of contribution to be expected from the Suffolk homes, as has been reported previously, will begin to reduce from the next quarter as the existing homes begin to close and new homes begin to open. In total, the number of beds operated in Suffolk will rise by approximately 200 over the next 30 months or so, but the number of guaranteed commitment block contracted beds will reduce, from approximately 450 currently to 370 once all of the new homes are open. The immediate focus as the new homes open will be safely to transfer existing contracted residents, hence there will be a period of operating the new homes before any self-funding residents will be admitted as well as a natural period of dual running whilst the resident transfers take place. In addition, due to the funding structure for the new Suffolk homes, there will be rental charges payable from the date that the new homes open. As expected, these factors will result in a reduced operating profit contribution from the Suffolk project before the benefit of the higher level of self funding residents will be seen.

The immature homes within the Residential Care Services division, defined as those opened during the years ended 30 September 2012 and 30 September 2013, increased their operating profit contribution by £1.3 million in aggregate for the six months ended 31 March 2014 compared with the six months ended 31 March 2013, in line with their expected performance.

The Operating profit/loss for the Community Services division changed from a loss of £0.7 million for the three months ended 31 March 2013 to a profit of £0.2 million for the three months ended 31 March 2014 and from a loss of £0.6 million for the six months ended 31 March 2013 to a profit of £0.2 million for the six months ended 31 March 2014. These improvements are largely attributable to the contributions from the Doncaster learning disabilities contract, which commenced in September 2013, and the Living Ambitions business, which was acquired in April 2013 together with the reduction in the non-cash amortisation charges within this division, partly offset by non-recurring charges. The non-cash amortisation charge decreased from £2.1 million and £3.4 million respectively for the three and six months ended 31 March 2013 to £1.2 million and £2.8 million respectively for the three and six months ended 31 March 2014. The decrease in amortisation charges reflects the amortisation profile adopted in respect of intangible assets recognised on the two acquisitions made in the year ended 30 September 2012. The Doncaster learning disabilities contract and Living Ambitions business together contributed operating profit of £0.4 million and £0.7 million in the three and six months ended 31 March 2014; there was no such contribution in the three and six months ended 31 March 2013. Non-recurring contract change costs of £0.2 million and £0.4 million were incurred in the three and six months ended 31 March 2014 respectively; no non-recurring items were recorded in the three and six months ended 31 March 2013. The continuing funding pressures within Local Authorities have continued to have some impact on both the domiciliary care and learning disabilities businesses, although the impact of this margin pressure has been largely mitigated by strong operating cost control. In response, the Community Services division is looking at introducing technology that will enable further reduction in the indirect cost base of the business as well as at the most efficient organisational structure to meet customer's needs.

Operating profit/loss for the Health Care division changed from a loss of £3.7 million for the three months ended 31 March 2013 to a profit of £1.3 million for the three months ended 31 March 2014 and from a loss of £8.0 million for the six months ended 31 March 2013 to a profit of £0.5 million for the six months ended 31 March 2014. These improvements were driven by the increased contribution from UKSH, acquired in February 2013, and by organic improvement across the business as well as the reduction in non-recurring charges. The UKSH business has continued to perform well since its acquisition, particularly the Wave II ISTC contract in the south west. This contract expires in November 2015 and the focus of the Health Care division is to increase volume throughput at the three sites operated under this contract in order to enhance the likelihood of service continuity beyond this initial contract expiry date; in the short term, due to the commercial characteristics of this contract, increasing volumes will have the effect of reducing its contribution although for the long term benefit of the business it is strategically the appropriate course of action. Non-recurring charges of £3.0 million and £5.3 million respectively were incurred in the three and six months ended 31 March 2013 in relation to the acquisition and integration of both the Harmoni and UKSH businesses; no non-recurring charges were incurred in the three and six months ended 31 March 2014.

The Health Care division's 111 service has continued to be operationally stable throughout the period. The operating profit contribution from this service is not yet at break-even although its financial performance has improved in the three months ended 31 March 2014 compared to both the three months ended 31 March 2013 and the three months ended 31 December 2013. The operating loss for this service in the three months ended 31 March 2014 was just below break-even with positive EBITDA being achieved for the first time. The change programme and systems reconfiguration necessary to achieve full connectivity between the service's four care response centres has now been effected and three of the four centres are fully networked and new staffing rotas are being implemented. The fourth centre is expected to become networked by the end of September 2014. These changes are expected to deliver a positive operating profit contribution by the fourth quarter of the current financial year. As expected, the full implementation of the 111 service nationally has resulted in reductions in both revenue and operating profit contribution from the out of hours services operated by the Health Care division as the responsibility for call triaging has moved from these services to 111 providers. This was known and reported at the time of the Harmoni acquisition. In addition, the Health Care division was unsuccessful in retaining an out of hours contract in Sussex that came with the Harmoni acquisition and this service has transferred to the new provider from 1 April 2014. The loss of this contract will have an impact on the ongoing financial results of the Health Care division, with effect from April 2014.

Other organic improvements in the Health Care division have been achieved in the Secondary Care segment, through improved volumes, and from the two new offender health contracts that commenced in the second half of the year ended 30 September 2013. Two further new contracts, for the delivery of health care services at Pentonville prison and the operation of a Minor Injuries Unit in Southampton, will commence in the second half of the current financial year. Small start-up losses are expected to be incurred on these services in their first few months of operation due to service re-configuration requirements. One former Wave I ISTC in Bradford, which Care UK has operated for almost four years, will close in July 2014 following the decision of the local commissioners not to re-tender the service. The closure of this centre will incur non-recurring closure and redundancy costs in the second half of the current financial year although the impact on ongoing Operating profit and Adjusted EBITDA is negligible as the centre made only a very small contribution in the six months ended 31 March 2014.

Support costs within the Health Care division have increased in both the three and six months ended 31 March 2014 compared with the three and six months ended 31 March 2013, due to the significantly larger scale of the combined business. In addition, the Health Care division has borne specific costs of approximately £0.6 million in the three and six months ended 31 March 2014 in relation to certain large scale bids that have been under consideration. Whilst the division will always be engaged in a level of bid activity, costs of this scale are materially higher than would normally be incurred in the early stages of a tender process due to the scale of the contracts being tendered. The value of the contract opportunities to which these costs relate would be significant were the Health Care division to be successful in its bidding. Further such costs are expected to be incurred in the second half of the current financial year.

The operating loss of the Other segment increased by £1.0 million from £1.8 million for the three months ended 31 March 2013 to £2.8 million for the three months ended 31 March 2014. The operating loss for the Other segment increased by £0.8 million from £3.7 million for the six months ended 31 March 2013 to £4.5 million for the six months ended 31 March 2014. The combined contribution from the Mental Health division and the Amicus ITS business remained unchanged in the three months ended 31 March 2014 compared with the three months ended 31 March 2013, and increased by £0.3 million in the six months ended 31 March 2014 compared with the six months ended 31 March 2013. These contributions include a non-recurring charge in the Mental Health division of £0.2 million for both the three and six months ended 31 March 2014 relating to the closure of a unit, with the underlying trading position in the Mental Health division improving compared with the previous year due to stronger occupancy in the core business. The group's underlying central management costs were unchanged in the three months ended 31 March 2014 compared with the three months ended 31 March 2013 and decreased by £0.1 million in the six months ended 31 March 2014 compared with the six months ended 31 March 2013. The Operating loss within the Other segment also includes a £0.4 million non-cash IAS 17 lease expense in respect of certain group properties where revised lease terms have been agreed, including the cash receipt of a lease premium payment, the benefit of which must be spread over the entire lease term under IFRS. Non-recurring charges of £0.6 million and £0.8 million respectively were incurred within the Other segment in the three and six months ended 31 March 2014 in relation to an ongoing restructuring and transformation programme. No non-recurring items were reported in the three and six months ended 31 March 2013.

Adjusted Operating Profit

Adjusted operating profit, which includes Care UK's proportionate ownership share of EBITDA from joint venture enterprises, is defined as Operating profit before net financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items and excluding the impact of applying IAS 17 in respect of lease incentives.

Adjusted operating profit increased by 3.8 per cent., or £0.2 million, from £5.3 million for the three months ended 31 March 2013 to £5.5 million for the three months ended 31 March 2014. Adjusted operating profit increased by 32.9 per cent., or £2.5 million, from £7.6 million for the six months ended 31 March 2013 to £10.1 million for the six months ended 31 March 2014. These increases in adjusted operating profit reflect the factors discussed above, other than the movement in amortisation charges, non-recurring items and the impact of applying IAS 17 to lease incentives.

The non-cash amortisation charge for the three months ended 31 March 2014 was £5.2 million, compared to £5.8 million for the three months ended 31 March 2013 and was £10.7 million for the six months ended 31 March 2014 compared with £9.8 million for the six months ended 31 March 2013. The decrease in the amortisation charge in the three months ended 31 March 2014 compared with the three months ended 31 March 2013 reflects an acceleration of amortisation charge made in the three months ended 31 March 2013 in respect of the rebasing of useful economic lives on acquisitions made in 2012. The increase in the amortisation charge for the six months ended 31 March 2014 compared to the six months ended 31 March 2013 reflects the impact of the acquisitions made in the years ending 30 September 2012 and 30 September 2013, partly offset by a reduction in amortisation relating to the acquisition of Care UK Limited in the year ended 30 September 2010. Non-recurring charges of £1.8 million were incurred in the three months ended 31 March 2014 compared with a charge of £3.3 million for the three months ended 31 March 2013. Non-recurring charges of £2.9 million were incurred in the six months ended 31 March 2014 compared with a charge of £5.9 million in the six months ended 31 March 2013. Non-recurring items are discussed in the Administrative expenses section above.

Adjusted operating profit for the Residential Care Services division decreased from £4.2 million for the three months ended 31 March 2013 to £1.8 million for the three months ended 31 March 2014 and from £7.9 million for the six months ended 31 March 2013 to £4.7 million for the six months ended 31 March 2014. These changes in Adjusted operating profit were principally due to the same factors as drove the changes in Operating profit, particularly the impact of the start-up losses in the new homes opened in the period, other than the increases of £0.5 million and £0.9 million in non-recurring charges in the three and six months ended 31 March 2014 compared with the three and six months ended 31 March 2013 and the IAS 17 lease expense of £0.5 million recorded in both the three and six months ended 31 March 2014. No such lease expense was incurred in the three and six months ended 31 March 2013.

Adjusted operating profit for the Community Services division increased by 14.3 per cent., or £0.2 million, from £1.4 million for the three months ended 31 March 2013 to £1.6 million for the three months ended 31 March 2014. Adjusted operating profit for the Community Services division increased by 21.4 per cent., or £0.6 million, from £2.8 million for the six months ended 31 March 2013 to £3.4 million for the six months ended 31 March 2014. These increases in Adjusted operating profit were driven by the same factors as for Operating profit other than the decreases in amortisation charges and the increase in non-recurring charges in both the three and six months ended 31 March 2014.

Adjusted operating profit for the Health Care division increased by 140.0 per cent., or £2.1 million, from £1.5 million for the three months ended 31 March 2013 to £3.6 million for the three months ended 31 March 2014 and increased by 733.3 per cent., or £4.4 million, from £0.6 million for the six months ended 31 March 2013 to £5.0 million for the six months ended 31 March 2014. These increases were principally due to the same factors as for Operating profit other than the increase in amortisation charges and decrease in non-recurring charges.

The Adjusted operating loss for the Other segment was £1.5 million for the three months ended 31 March 2014 compared with £1.8 million for the three months ended 31 March 2013 and was £3.0 million for the six months ended 31 March 2014 compared with £3.7 million for the six months ended 31 March 2013. These outcomes were driven by the same factors as for Operating profit other than the non-recurring charges and the IAS 17 lease expense incurred in both the three and six months ended 31 March 2014.

Adjusted EBITDA

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation. This measure is presented 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 materially the same as, but not exactly equivalent, to the definition of “Consolidated EBITDA” for the purposes of the covenants under the Senior Secured Notes.

Care UK's Adjusted EBITDA increased by 14.5 per cent., or £1.7 million, from £11.7 million for the three months ended 31 March 2013 to £13.4 million for the three months ended 31 March 2014. Adjusted EBITDA increased by 31.1 per cent., or £6.0 million, from £19.3 million for the six months ended 31 March 2013 to £25.3 million for the six months ended 31 March 2014. The improvement in Adjusted EBITDA was driven by the factors discussed above in relation to Operating profit and Adjusted operating profit, particularly the positive effects of those matters discussed in relation to the Health Care division offset by the impact of the new home start up programme and short term operational factors in the Residential Care Services division.

Net Financing Expense

The net financing expense for the three months ended 31 March 2014 was £9.1 million compared with £9.0 million for the three months ended 31 March 2013. The net financing expense for the six months ended 31 March 2014 was £18.6 million compared with £16.9 million for the six months ended 31 March 2013. Net financing expense mostly comprises the interest payable on the group's Senior Secured Notes as well as interest, performance bond commission and commitment fees payable on the group's Revolving Credit Facility and interest payable in relation to other bank loans acquired with the UKSH business in February 2013. The increase in net financing expense in the six months ended 31 March 2014 compared with the six months ended 31 March 2013 resulted primarily from the UKSH bank loan and the increased utilisation of the Revolving Credit Facility.

Taxation

The taxation credit for the three months ended 31 March 2014 was £3.1 million compared with £nil for the three months ended 31 March 2013. The taxation credit for the six months ended 31 March 2014 was £3.6 million compared with a taxation credit of £1.5 million for the six months ended 31 March 2013. 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.

Loss for the Period

As a result of the factors discussed above, Care UK reported a loss for the three months ended 31 March 2014 of £8.6 million compared with a loss of £12.8 million for the three months ended 31 March 2013 and a loss of £19.6 million for the six months ended 31 March 2014 compared with a loss of £23.5 million for the six months ended 31 March 2013.

Three and six months ended 31 March 2014 – IFRS compliant basis

The comparisons presented within this section of the Management discussion and analysis use financial information presented on an IFRS compliant basis, in respect of applying the provisions of IFRIC 12. For further information on the impact of IFRIC 12, see the Annual report 2013.

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 2014		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Revenue	362.5	(1.2)	361.3
Cost of sales	(319.8)	0.3	(319.5)
Gross profit	**42.7**	**(0.9)**	**41.8**
Administrative expenses	(47.2)	(0.3)	(47.5)
Operating loss before financing expenses	**(4.5)**	**(1.2)**	**(5.7)**
Adjusted EBITDA	25.3	(1.9)	23.4
Depreciation of tangible fixed assets	(15.2)	0.9	(14.3)
Adjusted operating profit	10.1	(1.0)	9.1
Amortisation of intangible assets	(10.7)	(0.2)	(10.9)
Non-recurring items	(2.9)	-	(2.9)
IAS 17 lease expense	(0.9)	-	(0.9)
Less: Share of joint venture EBITDA	(0.1)	-	(0.1)
Operating loss before financing expenses	(4.5)	(1.2)	(5.7)
Financial income	0.9	0.6	1.5
Financial expenses	(19.5)	-	(19.5)
Net financing expense	**(18.6)**	**0.6**	**(18.0)**
Share of results of joint venture	(0.1)	-	(0.1)
Loss before taxation	**(23.2)**	**(0.6)**	**(23.8)**
Taxation	3.6	0.2	3.8
Loss for the period	**(19.6)**	**(0.4)**	**(20.0)**

The application of IFRIC 12 does not change the overall profit or loss recorded on a contract. However, it does change both the disposition of income and operating costs and the related timing of their recognition, within the Consolidated statement of comprehensive performance. The application of IFRIC 12 in the six months ended 31 March 2014 increased the loss for the period by £0.4 million.

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

	As at 31 March 2014		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Property, plant and equipment	307.1	(30.4)	276.7
Intangible assets	212.6	8.9	221.5
Other financial assets	-	21.9	21.9
Total non-current assets	542.4	0.4	542.8
Other financial assets	-	0.7	0.7
Total current assets	135.5	0.7	136.2
Trade and other payables	(151.4)	(10.2)	(161.6)
Total current liabilities	(153.5)	(10.2)	(163.7)
Deferred tax liabilities	(15.5)	2.1	(13.4)
Total non-current liabilities	(403.0)	2.1	(400.9)
Net assets	**121.4**	**(7.0)**	**114.4**

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

The table below shows the effects of IFRIC 12 on the condensed consolidated Cash flow statement.

	Six months ended 31 March 2014		
	Pre-IFRIC 12 adoption £m	**IFRIC 12 adjustments £m**	**Post IFRIC 12 adjustments £m**
Net cash from operating activities	30.4	(0.7)	29.7
Net cash used in investing activities	(15.7)	0.7	(15.0)
Net cash used in financing activities	(5.7)	-	(5.7)
Net increase in cash and cash equivalents	9.0	-	9.0
Cash and cash equivalents carried forward	43.6	-	43.6

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 2013 and 31 March 2014.

	As at 31 March	
	2013	**2014**
	(£ in millions)	
Senior Secured Notes	325.0 [1]	325.0 [1]
Finance lease obligations	5.5	2.1
Bank loans	38.0	63.5
Deferred financing costs	(11.8)	(8.8)
Cash and cash equivalents	(40.9)	(43.6)
Total net debt	**315.8**	**338.2**

[1] Excluding premium on issue of £3.6m (2013: £4.4 million).

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 2013, that its key sources of liquidity for the foreseeable future will continue to be cash flows from operations plus, if required, drawings under the 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	
	2013	2014
Net cash flow from operating activities	8.7	30.4
Net cash flow from investing activities	(90.0)	(15.7)
Net cash flow from financing activities	83.9	(5.7)
Net increase in cash and cash equivalents	2.6	9.0
Cash and cash equivalents carried forward	40.9	43.6

Three and six months ended 31 March 2014 compared to three and six months ended 31 March 2013

The net decrease in cash and cash equivalents for the three months ended 31 March 2014 was £7.5 million compared with a net decrease of £3.0 million for the three months ended 31 March 2013. The net increase in cash and cash equivalents in the six months ended 31 March 2014 was £9.0 million compared with a net increase of £2.6 million in the six months ended 31 March 2013. Total reported group net debt decreased by £1.5 million in the three months ended 31 March 2014 from £339.7 million as at 31 December 2013 to £338.2 million as at 31 March 2014. Total reported net debt increased by £4.9 million in the six months ended 31 March 2014 from £333.3 million as at 30 September 2013 to £338.2 million as at 31 March 2014.

The net cash inflow from operating activities for the three months ended 31 March 2014 was £25.2 million compared with an inflow of £10.2 million for the three months ended 31 March 2013. The net cash inflow from operating activities in the six months ended 31 March 2014 was £30.4 million compared with an inflow of £8.7 million for the six months ended 31 March 2013. The inflow in the three and six months ended 31 March 2014 was ahead of management expectations as a result of certain NHS bodies settling contract invoices earlier than contractually required due to the public sector fiscal year end date of 31 March. It is difficult to predict with certainty in any given year what the effect of this important date will be on operating cash flow as public sector customers may either ease or restrict their cash payments depending on their own liquidity position. The group's best estimate is that the operating cash inflow in the three and six months ended 31 March 2014 has benefited by approximately £8.0 million through early settlement and it is expected that this position will reverse in the following quarter. Notwithstanding this one-off effect, the group's underlying working capital position is ahead of expectations for the six months ended 31 March 2014. The operating cash inflow in the six months ended 31 March 2013 was adversely impacted by the timing of certain working capital movements, which resulted in a cash outflow in the period ended 31 December 2012 balancing a higher than expected cash inflow as at 30 September 2012.

The net cash outflow from investing activities for the three months ended 31 March 2014 was £6.1 million compared with an outflow of £30.2 million for the three months ended 31 March 2013. The net cash outflow from investing activities for the six months ended 31 March 2014 was £15.7 million compared with an outflow of £90.0 million for the six months ended 31 March 2013. Capital expenditure in the three and six months ended 31 March 2014 amounted to £6.2 million and £14.5 million respectively compared with £8.3 million and £18.4 million respectively in the three and six months ended 31 March 2013. The most significant expansionary capital expenditure items in both the three and six months ended 31 March 2014 were incurred in the Residential Care Services division in respect of the new home development programme, including the new Suffolk homes, and expenditure on service optimisation, intended to enhance the opportunities for attracting self-funding residents into the mature homes. These items accounted for £3.0 million and £9.2 million respectively in the three and six months ended 31 March 2014. Funding of £nil and £1.5 million respectively was provided in the three and six months ended 31 March 2014 to the Silver Sea development company, compared with £1.1 million and £3.3 million in the three and six months ended 31 March 2013. 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. There was no equivalent funding required to be provided in the current financial year. In the prior financial year 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. No acquisitions have been made in the current financial year.

The net cash flow from financing activities for the three months ended 31 March 2014 was an outflow of £26.6 million compared with an inflow of £17.0 million for the three months ended 31 March

2013. The net cash flow from financing activities for the six months ended 31 March 2014 was an outflow of £5.7 million compared with an inflow of £83.9 million for the six months ended 31 March 2013. During the three months ended 31 March 2014, the group repaid loans of £8.5 million from the Revolving Credit Facility (net of utilisations), paid £17.0 million of interest, principally in relation to the Senior Secured Notes, and made capital repayments on finance leases of £1.1 million. In the six months ended 31 March 2014, the group utilised loans of £14.0 million from the Revolving Credit Facility (net of repayments), paid £18.2 million of interest and made capital repayments on finance leases of £1.5 million. In the three months to 31 March 2013 Care UK utilised loans under the Revolving Credit Facility of £35.0m. In addition, interest, finance costs and finance lease payments of £16.4 million, £1.4 million and £0.2 million were made respectively. In the six months ended 31 March 2013, Care UK issued additional Senior Secured Notes that resulted in a net cash inflow of £80.9 million, repaid amounts previously drawn down under the Revolving Credit Facility of £11.9 million, made interest and finance lease payments amounting to £17.1 million in aggregate and paid costs of £4.0 million relating to the issue of the additional Senior Secured Notes and the increase in the group's Revolving Credit Facility. In addition, Care UK drew down £73.5 million from the Revolving Credit Facility in the period and repaid £37.5 million of this amount from the proceeds received from the issue of the additional Senior Secured Notes in November 2012.

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 2014, Care UK had net cash and cash equivalents of £43.6 million, compared to £40.9 million as at 31 March 2013 and £51.1 million as at 31 December 2013.

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 comprises the Senior Secured Notes, which carry a fixed interest rate. Care UK also makes use of the Revolving Credit Facility, which increases Care UK's exposure to cash flow interest rate risk as the facility is operated at a floating rate linked to LIBOR. Care UK can mitigate this risk by the use of appropriate derivative financial instruments, such as interest rate caps, swaps and collars, to hedge any exposure to floating rates. Currently the potential interest rate risk is not considered material to consolidated earnings such that no derivative financial instruments are employed. Care UK may utilise such financial instruments in the future if and when considered appropriate.

In addition, Care UK currently carries an amount of short-term cash deposits. Therefore Care UK's current income and cash flows are only affected to a certain degree by changes in market interest rates. Short-term deposits are placed with financial institutions in accordance with Care UK's treasury policy. Interest rates obtained on deposits are variable and linked to LIBOR.

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

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 level of the National Minimum Wage. Contracts with Local Authorities, Primary Care Trusts and other NHS Trusts are also subject to annual price review. For the year ended 30 September 2013, a 1 per cent. increase in salary costs would have decreased profit before tax by £3.7 million.

In common with the majority of government-funded providers, most of Care UK's price changes take effect annually on 1 April. Approximately 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, Clinical Commissioning Groups and other NHS entities. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted. For an analysis of trade receivables which are past due but not impaired and trade receivables which are past due and impaired, see note 13 of the Annual report 2013.

Liquidity Risk

A policy of prudent liquidity risk management is applied by Care UK. 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.

INDEX TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 31 MARCH 2014

Care UK Health & Social Care Investments Limited

Group condensed consolidated financial statements (unaudited)

Three month and six month periods ended 31 March 2014

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
For the three month and six month periods ended 31 March 2014

	Notes	Three months to 31 March 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
		£m	£m	£m	£m
Revenue	4	**178.9**	162.8	**361.3**	305.9
Cost of sales		**(158.3)**	(142.9)	**(319.5)**	(270.3)
Gross profit		**20.6**	19.9	**41.8**	35.6
Administrative expenses		**(23.7)**	(23.8)	**(47.5)**	(44.1)
Operating loss before financing expenses	4, 7	**(3.1)**	(3.9)	**(5.7)**	(8.5)

	Notes	Three months to 31 March 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)		**12.4**	11.0	**23.4**	17.9
Depreciation of tangible assets		**(7.4)**	(5.7)	**(14.3)**	(10.5)
Adjusted operating profit		**5.0**	5.3	**9.1**	7.4
Amortisation of intangible assets		**(5.3)**	(5.9)	**(10.9)**	(10.0)
Non-recurring items	5	**(1.8)**	(3.3)	**(2.9)**	(5.9)
IAS 17 lease expense		**(0.9)**	-	**(0.9)**	-
Less: Share of joint venture EBITDA		**(0.1)**	-	**(0.1)**	-
Operating loss before financing expense		**(3.1)**	(3.9)	**(5.7)**	(8.5)

	Notes	Three months to 31 March 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
Financial income	6	**0.9**	0.5	**1.5**	1.1
Financial expense	6	**(9.7)**	(9.2)	**(19.5)**	(17.4)
Net financing expense		**(8.8)**	(8.7)	**(18.0)**	(16.3)
Share of results of joint venture		**(0.1)**	-	**(0.1)**	-
Loss before taxation		**(12.0)**	(12.6)	**(23.8)**	(24.8)
Taxation		**2.9**	-	**3.8**	1.3
Loss for the period attributable to equity holders of the parent		**(9.1)**	(12.6)	**(20.0)**	(23.5)
Total comprehensive loss for the period attributable to equity holders of the parent		**(9.1)**	(12.6)	**(20.0)**	(23.5)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 31 March 2014

	Notes	31 March 2014	31 March 2013	30 September 2013
		£m	£m	£m
Assets				
Property, plant and equipment	8	**276.7**	272.8	276.2
Intangible assets	9	**221.5**	236.8	232.1
Other financial assets	10	**21.9**	22.6	22.2
Amounts due from related party undertakings		**17.4**	12.8	15.1
Equity-accounted investments		**5.3**	5.0	5.4
Other investments		-	-	0.1
Total non-current assets		**542.8**	550.0	551.1
Assets held for sale		**2.7**	1.4	0.3
Inventories		**3.9**	2.7	3.0
Trade and other receivables		**85.3**	77.9	87.5
Other financial assets	10	**0.7**	0.9	1.0
Cash and cash equivalents		**43.6**	40.9	34.6
Total current assets		**136.2**	123.8	126.4
Total assets		**679.0**	673.8	677.5
Liabilities				
Financial liabilities — borrowings	11	**(2.1)**	(3.3)	(1.9)
Trade and other payables		**(161.6)**	(139.9)	(148.9)
Current tax liabilities		-	(1.2)	-
Total current liabilities		**(163.7)**	(144.4)	(150.8)
Financial liabilities — borrowings	11	**(383.3)**	(357.8)	(370.0)
Other non-current liabilities		**(4.2)**	(5.7)	(4.3)
Deferred tax liabilities		**(13.4)**	(26.0)	(18.0)
Total non-current liabilities		**(400.9)**	(389.5)	(392.3)
Total liabilities		**(564.6)**	(533.9)	(543.1)
Net assets		**114.4**	139.9	134.4
Equity				
Issued share capital		**210.7**	210.7	210.7
Retained earnings		**(96.3)**	(70.8)	(76.3)
Total equity attributable to equity holders of the parent		**114.4**	139.9	134.4

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the six month period ended 31 March 2014

	Attributable to equity holders of the parent		
Group	**Issued Share capital**	**Retained earnings**	**Total parent equity**
	£m	**£m**	**£m**
At 30 September 2013	210.7	(76.3)	134.4
Total comprehensive loss for the period	-	(20.0)	(20.0)
At 31 March 2014	**210.7**	**(96.3)**	**114.4**

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the three month and six month periods ended 31 March 2014

	Three months to 31 March 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
	£m	£m	£m	£m
Cash flows from operating activities				
Loss for the period before taxation	**(12.0)**	(12.6)	**(23.8)**	(24.8)
Share of results of joint venture	**0.1**	-	**0.1**	-
Financial income	**(0.9)**	(0.5)	**(1.5)**	(1.1)
Financial expense	**9.7**	9.2	**19.5**	17.4
Depreciation of tangible assets	**7.4**	5.7	**14.3**	10.5
Amortisation of intangible assets	**5.3**	5.9	**10.9**	10.0
Decrease in IFRIC 12 financial asset	**0.5**	0.6	**1.1**	1.2
Increase in inventory	**(0.6)**	(0.1)	**(0.6)**	(0.2)
Decrease/(increase) in trade and other receivables	**10.0**	3.7	**3.0**	(9.7)
Increase/(decrease) in trade and other payables	**5.3**	(1.8)	**6.7**	5.5
Cash flows from operations	**24.8**	10.1	**29.7**	8.8
Income tax paid	-	-	-	(0.3)
Net cash flows from operating activities	**24.8**	10.1	**29.7**	8.5
Cash flows from investing activities				
Payments to acquire property, plant and equipment	**(5.8)**	(8.2)	**(13.8)**	(18.2)
Proceeds from the sale of property, plant and equipment	-	-	**0.1**	-
Loans to related party undertakings	-	(1.1)	**(1.5)**	(3.3)
Investment in joint venture	-	(0.2)	-	(0.2)
Loans to joint venture	-	(3.8)	-	(4.7)
Interest received	**0.1**	0.1	**0.2**	0.1
Payments to acquire subsidiary undertakings (net of cash acquired)	-	(16.9)	-	(63.5)
Net cash flows used in investing activities	**(5.7)**	(30.1)	**(15.0)**	(89.8)
Cash flows from financing activities				
Proceeds from new loans	**39.1**	35.0	**121.6**	154.4
Repayment of amounts borrowed	**(47.6)**	-	**(107.6)**	(49.4)
Interest paid	**(17.0)**	(16.4)	**(18.2)**	(16.8)
Finance costs	-	(1.4)	-	(4.0)
Payment of capital element of finance lease payments	**(1.1)**	(0.2)	**(1.5)**	(0.3)
Net cash flows from financing activities	**(26.6)**	17.0	**(5.7)**	83.9
Net (decrease)/increase in cash and cash equivalents	**(7.5)**	(3.0)	**9.0**	2.6
Cash and cash equivalents at the beginning of the period	**51.1**	43.9	**34.6**	38.3
Cash and cash equivalents at the end of the period	**43.6**	40.9	**43.6**	40.9

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 2014 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 2014, 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 2013, 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 2013 set out within this report have been extracted from the 2013 annual report and accounts published on 9 December 2013.

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.

Accounting policies specific to interim financial statements

The same accounting policies and methods of computation are followed in these condensed consolidated financial statements as were applied in the group's 2013 annual report.

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 full actuarial valuations.

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

***Leased assets*:** Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is classified as a finance lease. The asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Future instalments under such leases, net of finance charges, are included within creditors. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are accounted for as operating leases. Payments made under operating leases are recognised in the statement of comprehensive performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive performance as an integral part of the total lease expense. The alternative performance measure 'adjusted operating profit' defined in non-IFRS measures below applies a cash rent basis to accounting for operating lease incentives.

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

3. NON-IFRS FINANCIAL MEASURES

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, which includes Care UK's proportionate ownership share of EBITDA from joint ventures, is defined as Operating profit before net financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items and excluding the impact of applying IAS 17 in respect of lease incentives.

Care UK enters into various lease arrangements with third parties within the normal course of business which can be subject to various types of incentive. Lease incentives on operating units typically take the form of rent free periods as they reflect the economic contribution profile of the unit during the early stages of occupancy, however under the terms of the lease cash rent does not become payable until the expiry of the rent free period. Other lease incentives may take the form of a cash premium received at inception or renewal of the lease with annual cash rent payable from commencement of the lease. Under IAS 17 'Leases', lease incentives are allocated on a straight line basis over the life of the lease. The non-IFRS financial measure adjusted operating profit is presented on a cash rent basis as it excludes the effect of applying the straight line method to lease incentives in order to reflect the underlying commercial arrangement and provide underlying operational performance and cash generation of the business.

Adjusted EBITDA is defined as adjusted operating profit plus depreciation.

4. SEGMENT REPORTING

Segment information is presented in respect of the group's business segments. The primary business segments are 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, where applicable, 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 Services 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 group's central functions and smaller trading operations.

Three months to 31 March 2014	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Group revenue	53.5	30.2	86.2	9.0	**178.9**
Adjusted EBITDA	4.1	2.0	7.0	(0.7)	**12.4**
Depreciation of tangible assets	(2.8)	(0.4)	(3.4)	(0.8)	**(7.4)**
Adjusted operating profit/(loss)	1.3	1.6	3.6	(1.5)	**5.0**
Amortisation of intangible assets	(1.8)	(1.2)	(2.3)	-	**(5.3)**
Non-recurring items	(0.8)	(0.2)	-	(0.8)	**(1.8)**
IAS 17 lease expense	(0.5)	-	-	(0.4)	**(0.9)**
Less: Share of joint venture EBITDA	-	-	-	(0.1)	**(0.1)**
Operating (loss)/profit before financing expenses and taxation	(1.8)	0.2	1.3	(2.8)	**(3.1)**
Net financing expense					**(8.8)**
Share of results of joint venture					**(0.1)**
Taxation					**2.9**
Loss for the period					**(9.1)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(3.8)	(0.5)	(3.7)	0.2	**(7.8)**

Three months to 31 March 2013	Residential Care Services	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)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(2.6)	(0.4)	(2.8)	-	**(5.8)**

Six months to 31 March 2014	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Group revenue	107.8	61.0	174.3	18.2	**361.3**
Adjusted EBITDA	8.8	4.3	11.8	(1.5)	**23.4**
Depreciation of tangible assets	(5.1)	(0.9)	(6.8)	(1.5)	**(14.3)**
Adjusted operating profit/(loss)	3.7	3.4	5.0	(3.0)	**9.1**
Amortisation of intangible assets	(3.6)	(2.8)	(4.5)	-	**(10.9)**
Non-recurring items	(1.5)	(0.4)	-	(1.0)	**(2.9)**
IAS 17 lease expense	(0.5)	-	-	(0.4)	**(0.9)**
Less: Share of joint venture EBITDA	-	-	-	(0.1)	**(0.1)**
Operating (loss)/profit before financing expenses and taxation	(1.9)	0.2	0.5	(4.5)	**(5.7)**
Net financing expense					**(18.0)**
Share of results of joint venture					**(0.1)**
Taxation					**3.8**
Loss for the period					**(20.0)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(7.3)	(0.9)	(7.4)	-	**(15.6)**

Six months to 31 March 2013	Residential Care Services	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)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(5.3)	(0.9)	(5.0)	(0.1)	**(11.3)**

5. 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 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
	£m	£m	£m	£m
Non-recurring items:				
— Contract transfer and integration costs	**(0.7)**	(0.1)	**(1.5)**	(0.4)
— Restructuring	**(0.6)**	-	**(0.8)**	-
— Property related costs	**(0.3)**	(0.2)	**(0.4)**	(0.2)
— Closure costs	**(0.2)**	-	**(0.2)**	-
— Acquisition and integration costs	-	(3.0)	-	(5.3)
	(1.8)	(3.3)	**(2.9)**	(5.9)

Non-recurring items in the six months to 31 March 2014 amounted to a charge of £2.9m in aggregate (six months to 31 March 2013: charge £5.9m). The key elements of the charges for both years are set out below.

(a) Contract transfer and integration costs

During the 2013 financial year Care UK Residential Care Services division transferred 16 existing care homes from Suffolk County Council as the initial stage of a long term contract and the Community Services division commenced the operation of a significant learning disabilities supported living contract in Doncaster. In the six months to 31 March 2014 aggregate transaction and integration costs of £1.5m were incurred in relation to the transfer of these contracts to Care UK (2013: £0.4m, Suffolk contract only).

(b) Restructuring

In the final quarter of the 2013 financial year a restructuring programme was initiated in order to reduce ongoing operating costs through various business efficiency initiatives. Costs of £0.8m were incurred in relation to these initiatives during the six months to 31 March 2014 (2013: £nil).

(c) Property related costs

During the six months to 31 March 2013 Care UK incurred losses of £0.4m (2013: £0.2m) due to a residential care home with subsidence that has now closed.

(d) Closure costs

During the six months ended 31 March 2014 an operational unit within the Mental Health division was closed following a redistribution by commissioners of the associated funding. A charge of £0.2 million has been recognised in the period in relation to certain specific closure costs (2013: £nil).

(e) Acquisition and integration costs

During the 2013 financial year Care UK incurred costs in relation to a number of acquisitions (see annual report 2013). In accordance with IFRS 3, such costs cannot be included in the cost of business combination and therefore cannot be capitalised. In the six months ended 31 March 2013 total transaction and integration costs of £5.3m (£8.2m in total for the 2013 financial year) were incurred in relation to these acquisitions and subsequent integration into the Care UK group.

6. NET FINANCING EXPENSE

	Three months to 31 March 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
	£m	£m	£m	£m
Financial income:				
Interest receivable	**0.7**	0.2	**1.0**	0.5
IFRIC-12 interest receivable	**0.2**	0.3	**0.5**	0.6
Financial income	**0.9**	0.5	**1.5**	1.1
Financial expenses — interest payable on bank overdrafts and loans	**(9.7)**	(9.2)	**(19.5)**	(17.4)
Net financing expense	**(8.8)**	(8.7)	**(18.0)**	(16.3)

7. OPERATING LOSS BEFORE TAXATION

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

	Three months to 31 March 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
	£m	£m	£m	£m
Depreciation of tangible assets	**7.4**	5.7	**14.3**	10.5
Amortisation of intangible assets	**5.3**	5.9	**10.9**	10.0
Operating lease charges: Land & buildings (including IAS 17 lease expense)	**8.7**	5.8	**16.5**	11.3
IFRIC 12 infrastructure costs expensed in the period	**0.4**	0.1	**0.7**	0.2

8. PROPERTY, PLANT AND EQUIPMENT

	31 March 2014	31 March 2013	30 September 2013
	£m	£m	£m
Opening net book value	**276.2**	252.1	252.1
Acquired	-	11.1	10.6
Additions	**18.4**	19.5	37.0
Transfers from current assets	-	0.6	0.6
Disposals and transfers to current assets	**(3.6)**	-	(1.0)
Depreciation charge for the period	**(14.3)**	(10.5)	(23.1)
Closing net book value	**276.7**	272.8	276.2

9. INTANGIBLE ASSETS

	31 March 2014	31 March 2013	30 September 2013
	£m	£m	£m
Opening net book value	**232.1**	170.7	170.7
Acquired	-	75.9	83.8
Adjustment	**0.3**	0.2	-
Impairment charge	-	-	(1.8)
Amortisation charge for the period	**(10.9)**	(10.0)	(20.6)
Closing net book value	**221.5**	236.8	232.1

10. OTHER FINANCIAL ASSETS

	31 March 2014	31 March 2013	30 September 2013
	£m	£m	£m
IFRIC-12 financial asset: brought forward	**23.2**	24.2	24.2
Released in the period	**(0.6)**	(0.7)	(1.0)
IFRIC-12 financial asset: carried forward	**22.6**	23.5	23.2
Disclosed as:			
Non-current assets: IFRIC-12 financial asset	**21.9**	22.6	22.2
Current assets: IFRIC-12 financial asset	**0.7**	0.9	1.0
	22.6	23.5	23.2

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 2012	(0.2)	(253.3)	(253.5)
Cash flow	1.5	(116.5)	(115.0)
Other non-cash changes	(3.2)	(0.2)	(3.4)
At 30 September 2013	(1.9)	(370.0)	(371.9)
Cash flow	1.5	(14.0)	(12.5)
Other non-cash changes	(1.7)	0.7	(1.0)
At 31 March 2014	**(2.1)**	**(383.3)**	**(385.4)**

As at 31 March 2014 there was accrued interest of £8.2m (31 March 2013: £6.5m; 30 September 2013: £7.8m) 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

As at 31 March 2014 Care UK Health & Social Care Plc (the issuer) had £325.0 million of 9¾% Senior Secured Notes in issue. 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 2013 annual report.

ii) Super Senior Revolving Credit Facility

As at 31 March 2014 the group had an £115.0m Super Senior Revolving Credit Facility (the "RCF"), which expires on 13 July 2016. The margin payable on the outstanding loan is in the range of 2.5% to 4.0% above LIBOR, plus any mandatory costs, depending on the total net leverage of the group. Each utilisation under the facility is repayable and capable of being redrawn at the end of each interest period. The final repayment date is 13 July 2016.

As at 31 March 2014, £60.5m (31 March 2013: £35.0m) of the RCF has been utilised as cash drawings. The remainder of the facility remained undrawn, with the exception of £10.1m (31 March 2013: £9.4m) utilised in relation to performance bonds provided in relation certain contracts in the Health Care and Community Services divisions and £0.5m (31 March 2013: £0.5m) in relation to other ancillary utilisations.

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

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

In each case, such terms are defined in the specific facility agreements. Adjusted EBITDA as defined in the Accounting Policies is materially the same as, but not exactly equivalent to the definition of consolidated EBITDA for the purpose of these covenants.

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 2014

BASIS OF PREPARATION

These 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 2014:

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)
For the three month and six month periods ended 31 March 2014

	Three months to 31 March 2014	**Three months to 31 March 2013**	**Six months to 31 March 2014**	**Six months to 31 March 2013**
	£m	**£m**	**£m**	**£m**
Revenue	**179.5**	163.4	**362.5**	307.1
Cost of sales	**(158.5)**	(143.3)	**(319.8)**	(271.2)
Gross profit	**21.0**	20.1	**42.7**	35.9
Administrative expenses	**(23.5)**	(23.9)	**(47.2)**	(44.0)
Operating loss before financing expenses	**(2.5)**	(3.8)	**(4.5)**	(8.1)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)	**13.4**	11.7	**25.3**	19.3
Depreciation of tangible assets	**(7.9)**	(6.4)	**(15.2)**	(11.7)
Adjusted operating profit	**5.5**	5.3	**10.1**	7.6
Amortisation of intangible assets	**(5.2)**	(5.8)	**(10.7)**	(9.8)
Non-recurring items	**(1.8)**	(3.3)	**(2.9)**	(5.9)
IAS 17 lease expense	**(0.9)**	-	**(0.9)**	-
Less: Share of joint venture EBITDA	**(0.1)**	-	**(0.1)**	-
Operating loss before financing expense	**(2.5)**	(3.8)	**(4.5)**	(8.1)
Financial income	**0.6**	0.2	**0.9**	0.5
Financial expenses	**(9.7)**	(9.2)	**(19.5)**	(17.4)
Net financing expense	**(9.1)**	(9.0)	**(18.6)**	(16.9)
Share of results of joint venture	**(0.1)**	-	**(0.1)**	-
Loss before taxation	**(11.7)**	(12.8)	**(23.2)**	(25.0)
Taxation	**3.1**	-	**3.6**	1.5
Loss for the period attributable to equity holders of the parent	**(8.6)**	(12.8)	**(19.6)**	(23.5)
Total comprehensive loss for the period attributable to equity holders of the parent	**(8.6)**	(12.8)	**(19.6)**	(23.5)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 31 March 2014

	31 March 2014	31 March 2013	30 September 2013
	£m	£m	£m
Assets			
Property, plant and equipment	**307.1**	304.5	306.9
Intangible assets	**212.6**	227.3	223.3
Amounts due from related party undertakings	**17.4**	12.8	15.1
Equity-accounted investments	**5.3**	5.0	5.4
Other investments	-	-	0.1
Total non-current assets	**542.4**	549.6	550.8
Assets held for sale	**2.7**	1.4	0.3
Inventories	**3.9**	2.7	3.0
Trade and other receivables	**85.3**	77.9	87.5
Cash and cash equivalents	**43.6**	40.9	34.6
Total current assets	**135.5**	122.9	125.4
Total assets	**677.9**	672.5	676.2
Liabilities			
Financial liabilities — borrowings	**(2.1)**	(3.3)	(1.9)
Trade and other payables	**(151.4)**	(130.5)	(138.8)
Current tax liabilities	-	(1.2)	-
Total current liabilities	**(153.5)**	(135.0)	(140.7)
Financial liabilities — borrowings	**(383.3)**	(357.8)	(370.0)
Other non-current liabilities	**(4.2)**	(5.7)	(4.3)
Deferred tax liabilities	**(15.5)**	(27.9)	(20.0)
Total non-current liabilities	**(403.0)**	(391.4)	(394.3)
Total liabilities	**(556.5)**	(526.4)	(535.0)
Net assets	**121.4**	146.1	141.2
Equity			
Issued share capital	**210.7**	210.7	210.7
Retained earnings	**(89.3)**	(64.6)	(69.5)
Total equity attributable to equity holders of the parent	**121.4**	146.1	141.2

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the three month and six month periods ended 31 March 2014

	Three months to 31 March 2014	Three months to 31 March 2013	Six months to 31 March 2014	Six months to 31 March 2013
	£m	£m	£m	£m
Cash flows from operating activities				
Loss for the period before taxation	**(11.7)**	(12.8)	**(23.2)**	(25.0)
Share of results of joint venture	**0.1**	-	**0.1**	-
Financial income	**(0.6)**	(0.2)	**(0.9)**	(0.5)
Financial expense	**9.7**	9.2	**19.5**	17.4
Depreciation of tangible assets	**7.9**	6.4	**15.2**	11.7
Amortisation of intangible assets	**5.2**	5.8	**10.7**	9.8
Increase in inventory	**(0.6)**	(0.1)	**(0.6)**	(0.2)
Decrease/(increase) in trade and other receivables	**10.0**	3.5	**3.0**	(9.9)
Increase/(decrease) in trade and other payables	**5.2**	(1.6)	**6.6**	5.7
Cash flows from operations	**25.2**	10.2	**30.4**	9.0
Income tax paid	-	-	-	(0.3)
Net cash flows from operating activities	**25.2**	10.2	**30.4**	8.7
Cash flows from investing activities				
Payments to acquire property, plant and equipment	**(6.2)**	(8.3)	**(14.5)**	(18.4)
Proceeds from sales of property, plant and equipment	-	-	**0.1**	-
Loans to related party undertakings	-	(1.1)	**(1.5)**	(3.3)
Investment in joint venture	-	(0.2)	-	(0.2)
Loans to joint venture	-	(3.8)	-	(4.7)
Interest received	**0.1**	0.1	**0.2**	0.1
Payments to acquire subsidiary undertakings (net of cash acquired)	-	(16.9)	-	(63.5)
Net cash flows used in investing activities	**(6.1)**	(30.2)	**(15.7)**	(90.0)
Cash flows from financing activities				
Proceeds from new loans	**39.1**	35.0	**121.6**	154.4
Repayment of amounts borrowed	**(47.6)**	-	**(107.6)**	(49.4)
Interest paid	**(17.0)**	(16.4)	**(18.2)**	(16.8)
Finance costs	-	(1.4)	-	(4.0)
Payments of capital element of finance lease payments	**(1.1)**	(0.2)	**(1.5)**	(0.3)
Net cash flows from financing activities	**(26.6)**	17.0	**(5.7)**	83.9
Net (decrease)/increase in cash and cash equivalents	**(7.5)**	(3.0)	**9.0**	2.6
Cash and cash equivalents at the beginning of the period	**51.1**	43.9	**34.6**	38.3
Cash and cash equivalents at the end of the period	**43.6**	40.9	**43.6**	40.9

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

Three months to 31 March 2014	**Residential Care Services**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	54.1	30.2	86.2	9.0	**179.5**
Adjusted EBITDA	5.1	2.0	7.0	(0.7)	**13.4**
Depreciation of tangible assets	(3.3)	(0.4)	(3.4)	(0.8)	**(7.9)**
Adjusted operating profit/(loss)	1.8	1.6	3.6	(1.5)	**5.5**
Amortisation of intangible assets	(1.7)	(1.2)	(2.3)	-	**(5.2)**
Non-recurring items	(0.8)	(0.2)	-	(0.8)	**(1.8)**
IAS 17 lease expense	(0.5)	-	-	(0.4)	**(0.9)**
Less: Share of joint venture EBITDA	-	-	-	(0.1)	**(0.1)**
Operating (loss)/profit before financing expenses and taxation	(1.2)	0.2	1.3	(2.8)	**(2.5)**
Net financing expense					**(9.1)**
Share of results of joint venture					**(0.1)**
Taxation					**3.1**
Loss for the period					**(8.6)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(3.8)	(0.5)	(3.7)	0.2	**(7.8)**

Three months to 31 March 2013	**Residential Care Services**	**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 expenses					**(9.0)**
Taxation					-
Loss for the period					**(12.8)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(2.6)	(0.4)	(2.8)	-	**(5.8)**

Six months to 31 March 2014	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	109.0	61.0	174.3	18.2	**362.5**
Adjusted EBITDA	10.7	4.3	11.8	(1.5)	**25.3**
Depreciation of tangible assets	(6.0)	(0.9)	(6.8)	(1.5)	**(15.2)**
Adjusted operating profit/(loss)	4.7	3.4	5.0	(3.0)	**10.1**
Amortisation of intangible assets	(3.4)	(2.8)	(4.5)	-	**(10.7)**
Non-recurring items	(1.5)	(0.4)	-	(1.0)	**(2.9)**
IAS 17 lease expense	(0.5)	-	-	(0.4)	**(0.9)**
Less: Share of joint venture EBITDA	-	-	-	(0.1)	**(0.1)**
Operating (loss/profit before financing expenses and taxation	(0.7)	0.2	0.5	(4.5)	**(4.5)**
Net financing expense					**(18.6)**
Share of results of joint venture					**(0.1)**
Taxation					**3.6**
Loss for the period					**(19.6)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(7.3)	(0.9)	(7.4)	-	**(15.6)**

Six months to 31 March 2013	Residential Care Services	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)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(5.3)	(0.9)	(5.0)	(0.1)	**(11.3)**