
Care UK Health & Social Care Investments Limited

RISK FACTORS

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Risks Related to Care UK's Business

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

UK publicly funded entities accounted for over 87 per cent. of Care UK's revenues in the year ended 30 September 2014. Care UK expects to continue to rely primarily on the ability and willingness of publicly funded entities to contract and pay for Care UK's services. There is a risk that continuing budget constraints and public spending cuts could cause such publicly funded entities to allocate less money to the types of services that Care UK provides, or that political or policy changes mean that fewer such services are purchased by publicly funded entities from independent sector providers such as Care UK. The outsourcing by the NHS in England of the provision of health care services has been increasing in recent years although the NHS in England has to achieve substantial efficiency savings over the period to 2015, which is likely to result in continued funding pressure being evident in the pricing of such services. The allocation of funding responsibility for adult social care will be subject to change over the next few years under the provisions of the 2014 Care Act with individuals identified as being required to pay for their own care under the relevant means test being required to take funding responsibility up to a specified lifetime monetary cap, with Local Authorities then becoming responsible for the continued funding of personal care, but not 'daily living' expenses. This will potentially place greater funding responsibility with public sector bodies over the longer term, which will potentially exacerbate the current funding challenges faced by such bodies. There is no guarantee that these policies will not be changed if economic conditions worsen or that the outsourcing trend will not be reversed. In either case, there is a risk that the relevant publicly funded entities could reduce their spending on the types of services that Care UK provides either by reducing the volume of such services that are purchased or by seeking to re-tender services at lower fee rates. In addition, it is possible that alternative models of health and social care may emerge. Any such reversal of policy, reduction in funding or emergence of an alternative model could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

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

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

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

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

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

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

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

Care UK earns revenue from long-term contracts and, as a result, a failure accurately to predict and account for future cost increases or to overestimate its ability efficiently to deliver the services that it contracts to provide could affect its profitability. Failure to perform its services in accordance with its contractual obligations could result in Care UK facing financial penalties or being required to continue operating unprofitable contracts.

A significant portion of Care UK's revenue is derived from long-term contracts. Some of these contracts allow for prices to be adjusted by negotiation on an annual basis, while others have prescribed indexation mechanisms that automatically determine annual price increases, largely tied to a combination of general inflation measures and/or industry specific wage cost indices. In certain

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cases prices are set either at or by reference to NHS tariffs, which have been subject in recent years to general reductions as part of the NHS plan to achieve certain efficiency targets. Across this range of different contract pricing arrangements, Care UK is exposed to the risks of:

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

An increasingly common feature of new contracts in a number of Care UK's operating businesses are employment transfers arising under the Transfer of Undertakings (Protection of Employment) ("TUPE") legislation, often involving the transferring of employees' terms and conditions, which may require Care UK to provide certain defined benefit pensions. This situation may also arise in relation to contracts operated or entered into by businesses that Care UK acquires. The long-term liabilities associated with these terms and conditions can be difficult to predict as can the potential consequences of Care UK seeking to amend inherited terms and conditions in accordance with the relevant legislation.

A number of Care UK's contracts with public sector bodies carry potential financial penalties associated with any failure to deliver the specified services or to meet certain contractual performance indicators. This may include revenue deductions in the situation where Care UK is unable to operate a contractually defined level of capacity, for example where a care home is subject to an admissions embargo placed upon it by either the contracting Local Authority or a regulatory body such as the Care Quality Commission. Whilst such penalties or deductions have historically been limited for Care UK there can be no guarantee that they will not be more material in future should Care UK find itself unable to meet all of its contractual obligations.

Failure to properly predict certain cost increases or the price at which Care UK is able to deliver its various services profitably, or its failure to operate fully in accordance with its contractual obligations, could therefore have a material adverse impact on Care UK's financial performance. Such difficulties could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

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

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

Inspections by regulators can be carried out on both an announced and unannounced basis depending on the specific regulatory provisions relating to the different health and social care services Care UK provides. A copy of each inspection report, once completed, is available to the public and is published on the website of the relevant regulator. A failure to comply with government regulations, the non-compliance of any service with regulatory requirements or the failure of Care UK to cure any areas of non-compliance noted in an inspection report could result in reputational damage, fines, the cancellation of the registration of any facility or service or a decrease in, or cessation of, the services provided by Care UK at any given facility. The CQC has recently adopted a substantially increased level of robustness in its inspection process, possibly as a result of a number of recent high profile issues within the health and social care sector that have attracted adverse media comment and heightened public awareness.

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

In addition, the regulatory responsibilities of the CQC are being extended under the Care Act 2014 to take a "market oversight" responsibility for monitoring the financial health of those providers that meet certain specified entry criteria for the oversight regime. Care UK expects to fall under this monitoring regime and, as a consequence, to be subject to increased economic overview. The CQC will be required to work with Local Authorities in England, as well as with the provider(s) concerned, where a provider is considered to be at serious financial risk to ensure that continuity plans are in place. Similarly, Monitor, the economic regulator for NHS Foundation Trusts, has introduced licensing conditions that apply to all providers of health care services that are designated as "Commissioner Requested Services"; generally those services that are considered as difficult to replace in any given local health economy. In either case, any premature or inappropriate action by an economic regulator could impact adversely on Care UK's business, results of operations, financial condition or prospects.

Care UK may fail to achieve the planned overhead savings from its organisational change programme or these may take longer to deliver, which could have a negative impact upon its planned financial performance.

In October 2014 a series of organisational changes commenced in the Care UK Group and Health Care functional overheads. This reflects the operating divisions becoming increasingly self-sufficient and the limited opportunities currently available from large scale NHS reform. The actions being undertaken include the resizing of the group and divisional support functions by devolving responsibility and thereby reducing the overall overhead base. The plans are designed to empower operational teams and create closer connections through locating support functions closer to those delivering care. The combined annualised savings from these two initiatives is expected to be in excess of £10 million and underpins progress to deliver the planned reduction in leverage. There can be no guarantee that Care UK will be able to deliver such targets in the future and any such failure could have a material adverse effect on Care UK's business, results of operations and financial condition.

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

The commercial basis of many of Care UK's contracts require it to reach certain volumes within a certain period of time in order to generate the targeted financial return. The contracts that Care UK enters into may either not guarantee any revenues or only guarantee a certain level of revenue and, in these cases, may only do so for a limited period of time. In addition, the financial plans that underpin Care UK's decisions to invest in certain new speculative services, such as

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greenfield residential care home developments, are dependent, amongst other factors, on achieving certain service volumes within a specific time frame. Therefore, the ability to drive volume through Care UK's various services will often determine the ability of those services to deliver both revenue and operating profit targets. Care UK may not always be able to meet its expectations with respect to volume numbers, which depend, among other factors outside its control, on customer demand and availability of qualified staff. There can be no guarantee that Care UK will be able to meet such targets in the future and any such failure could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects, which could include the potential termination of contracts by their commissioning public sector entities. Any such termination would be subject to contractual provisions that would determine the basis and extent of any compensation that might be payable to Care UK.

The NHS 111 service undertaken by Care UK was subject to a challenging initial operational period and carries specific contract and financial risks.

At the time of its acquisition by Care UK, the Harmoni business had won but largely not yet implemented a number of contracts for the provision of NHS 111 services in England. The NHS 111 service was originally intended to be the sole non-emergency point of access for various NHS services across England as from April 2013. The implementation of the NHS 111 service nationally was challenging for all operators although it is now considered by the Department of Health to be stable and improving. Certain of Harmoni's services were unable in their initial stages to attain their targeted service levels. In those cases, rectification plans were agreed with the commissioners of the service and were subsequently delivered. As a consequence the services are now operationally stable. However, the operating cost base relating to these services is currently higher than originally expected and, in addition, the volume of calls being received by the Harmoni care response centres has, in aggregate, to date fallen short of expectations. Care UK has implemented a number of operational changes to reduce the operating cost base of the NHS 111 service, including the full networking of all of the Care UK care response centres, which allows for a more efficient staffing structure to be implemented and, as a result, the operating cost base has begun to reduce within this service although not yet fully to the level being targeted. Care UK believes that all of the NHS 111 services that it operates are capable of reaching the required levels of operating performance over a reasonable period of time and also believes that the volume of calls is likely to increase as the NHS 111 service nationally becomes fully embedded as a constituent element of NHS services generally. However, if the group is unable further to improve operational performance and/or call volumes do not increase as expected, or if commissioners consider that services are not meeting contractual obligations these factors could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

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

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

Negative publicity generally could adversely impact Care UK.

Many of Care UK's service users, particularly those receiving social care services, are considered vulnerable and often require substantial supervision. There is a risk that one or more

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

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

Care UK's Residential Care and Mental Health facilities generally need to be purpose built in order to be able to deliver the type and quality of service that is required under Care UK's growth plans. Consequently, Care UK must either develop greenfield sites to create facilities to its own specifications or purchase or rent existing facilities, which may require substantial modification. Care UK intends to rely largely on greenfield developments for the greatest proportion of its future growth in both the Residential Care and Mental Health divisions. Bridgepoint, Care UK's controlling shareholder, together with the executive management of Care UK has established an independent, separately funded property development vehicle for greenfield residential care home developments that will finance and own the new freehold residential care homes, which will be leased to Care UK on their satisfactory completion. Care UK provides approximately 20 per cent. of the funding for these developments, which earn an arms-length return. Generally, Care UK's ability to achieve its development plans will depend upon a variety of factors, many of which are beyond Care UK's control. Infrastructure projects, particularly proposed new social care or health care facilities, require a certain level of expenditure for the purposes of determining the feasibility of a new facility or service before it can be determined whether a project is economically attractive and capable of being financed. The subsequent successful development and construction of a new facility is contingent upon, among other things, the receipt of satisfactory planning consents, the negotiation of satisfactory construction contracts, the receipt of required regulatory certification, the timely and satisfactory completion of construction and the successful commissioning and opening of a new facility. There can be no assurance that Care UK will, in the future, be able to find the necessary number of satisfactory sites for new facilities, negotiate construction contracts and other critical project contracts, obtain environmental planning and other governmental and regulatory permits and approvals, and secure financing commitments necessary for the successful development of its projects on time and within budget. If these development efforts are not successful, Care UK might be required to expense all costs incurred in connection therewith and could incur additional losses associated with any related contingent liabilities. In addition, upon the operational commencement of service delivery from a new care home, particularly if there is no underlying contract in place with a publicly funded entity, there is a start-up period during which losses will be incurred whilst the facility progressively increases its occupancy levels towards the targeted level for the sustainable long-term operation of that facility. Generally speaking, based on its experience from new residential care homes opened within the past two years, Care UK expects that it will take between 21 to 24 months from the opening of a new residential care home to reach the targeted occupancy level. Any material unremedied delay in, or unsatisfactory completion of the construction of its current or future projects, under certain circumstances, could have an adverse effect on its ability to meet its obligations, including its obligation to pay principal and interest on the 2014 Notes.

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

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

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

Care UK has historically financed the development of its existing facilities through a variety of sources, including corporate debt and, in a limited number of cases, operating leases. While it intends to seek to finance its planned growth activities from similar sources in the future, market conditions, credit agency sentiment and other factors may prevent similar financing being available for future new developments. In addition, market conditions may limit the number of financial institutions that are willing to provide financing to companies in Care UK's industry, either in the form of corporate debt or on a limited recourse basis, or affect the cost of such financing. Consequently, it is possible that Care UK may be unable to obtain the financing it requires on terms satisfactory to it or at all.

Care UK may face challenges in acquiring new businesses and successfully integrating such business into Care UK or achieving their planned level of performance.

Successful integration of acquired businesses will depend on Care UK's ability to effect any required changes in operations or personnel or improvements in the quality of service provision, and may require the refurbishment of operating facilities or other capital expenditures or the funding of unforeseen liabilities. There can be no assurance that any future acquisition targets that are identified can be acquired on appropriate terms or at an acceptable cost or can be successfully integrated. A failure to identify appropriate acquisitions or to properly integrate them once acquired could have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

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

Health and social care generally, and the care of vulnerable adults in particular, involves an inherent risk of liability. Providers of health and social care services may be subject to claims alleging negligence, medical malpractice or mistreatment, many of which may involve significant legal costs. Care UK currently maintains liability insurance intended to cover claims of this nature and other claims, which it believes is adequate and consistent with industry practice. However, claims in excess of Care UK's insurance coverage or claims not covered by Care UK's insurance could arise. As a consequence of Care UK's recent growth, particularly the provision of healthcare services within prisons, the number of coroner's inquests that the group is involved with has increased significantly. There is also a continuing trend for interested parties to use inquests to assist with preparation for civil litigation. This has resulted in inquests becoming increasingly contentious. Care UK has responded by

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strengthening its inquest management procedures and has adjusted the basis of its insurance coverage to accept the first amount of all liability claims arising from such processes, resulting in Care UK carrying an increased financial responsibility. Subject to the efficacy of its strengthened internal processes, Care UK may therefore continue to carry a higher level of cost associated with deaths that occur in any of its services. Furthermore, there can be no assurance that Care UK will be able to obtain liability insurance coverage in the future on acceptable terms or at all. A successful claim against Care UK not covered by or in excess of Care UK's insurance coverage could have a material adverse effect on Care UK's business, results of operations and financial condition. Claims against Care UK, regardless of their merit or eventual outcome, may also have a material adverse effect upon Care UK's reputation and its ability to attract or retain customers and/or service users or expand its business. Any such claims may also increase the premiums payable by Care UK for its insurance coverage.

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

The trend of public sector outsourcing of the provision of social care services to private or third sector providers is well established and such providers currently account for approximately 80 per cent. of the social care market. However, this trend is a more recent one in the health care sector. The early activity in this sector was designed to increase overall capacity and reduce waiting times for NHS patients rather than to increase long-term market efficiency and a perception developed in some market observers and relevant special interest groups that the terms of such contracts were overly generous to the private sector. As a result there has been some public and political support for the groups and individuals that oppose outsourcing. In addition, the NHS in England is required to achieve substantial efficiency savings over the period to 2015 and the commissioning and economic regulatory landscape has also changed with the reforms set out in the 2012 Health and Social Care Act and the 2014 Care Act, as well as through the increasing role of Monitor as a licensing body for health care providers generally. Nevertheless, Care UK's strategic proposition in the health market is based upon a belief that the rationale for outsourcing in health care is similar to the observed rationale for social care and that the NHS will increasingly rely in the future on outsourcing for the efficient delivery of health care services, as a result of the need to achieve substantial cost savings. Care UK has positioned itself to take advantage of this future growth if it emerges, but there can be no assurance that the outsourcing trend will continue. The absence of future growth in outsourcing in the health care sector could have a material adverse impact on Care UK's business, results of operations, financial condition and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Care UK processes sensitive personal data as part of its business. There is a risk that this data could become public if there were a security breach at Care UK in respect of such data. In common with other organisations operating within the health and social care sector Care UK has occasionally reported minor data protection or service user confidentiality breaches to the Information Commissioner's Office ("ICO"). In a number of these cases Care UK has agreed rectification or improvement plans with the ICO, against which future delivery is to be reported. To date Care UK has had no financial penalty applied in relation to any such breach nor has it experienced any restriction or raised level of obligations resulting from any such breach. Care UK also has policies and procedures in place to seek to prevent such breaches and carries out detailed root cause analysis on any breach that does occur in order to ensure that similar occurrences do not arise. However, if a single material breach or series of less material breaches was to occur, Care UK could face liability under data protection laws, could lose the goodwill of its clients and could have its reputation damaged, all of which could have a material adverse effect on Care UK's business, results of operations, financial performance or prospects.

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

As part of its normal business activities, Care UK produces and stores waste, in particular waste from its Health Care division, which carries infection and related risks and which may produce harmful effects to the environment or human health. The storage, treatment and transportation of such waste are strictly regulated. Should Care UK or the relevant waste disposal service provider fail to comply with these regulations, Care UK could face sanctions or fines, which could adversely affect its business or financial condition. Any such situation could also have an adverse effect on Care UK's reputation and image. More generally, Care UK's business is subject to laws and regulations relating to the environment and public health. If applicable laws and regulations were to become stricter, Care UK could incur additional compliance expenses which could in turn have a material adverse effect on Care UK's business, results of operations, financial condition or prospects.

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

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

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

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

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

Care UK may incur substantially more debt in the future. Together with its current leverage, it may be difficult for Care UK to service its debt and impair its ability to operate its businesses.

Care UK currently has and will continue to have a significant amount of outstanding debt with significant debt service requirements. As at 30 September 2014, Care UK's total consolidated net indebtedness was £378.9 million. Care UK's ability to fund working capital expenditure and other expenses will depend on its future operating performance and ability to generate sufficient cash. Care UK's significant leverage could have important consequences for its business and operations, including:

- requiring it to dedicate a substantial portion of its cash flow from operations to payments on its debt and reducing the availability of its cash flow to fund internal growth through working capital and capital expenditures and for other general corporate purposes;
- increasing Care UK's vulnerability to a downturn in its business or general economic and industry conditions;
- placing Care UK at a competitive disadvantage compared to its competitors that have lower leverage or greater access to capital resources than Care UK;
- limiting Care UK's flexibility in planning for or reacting to changes in its business and industry;
- negatively impacting credit terms with Care UK's creditors;
- restricting Care UK from pursuing strategic acquisitions or exploiting certain business opportunities; and
- limiting, among other things, Care UK's ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional capital.

Risk Factors

Care UK is subject to covenants under the Amended Revolving Credit Facility and the 2014 Notes, which will limit its operating and financial flexibility and, if Care UK defaults under these covenants, it may not be able to meet its payment obligations.

The Indentures and the Amended and Restated Senior Revolving Facility Agreement will contain covenants which impose significant restrictions on the way Care UK can operate, including restrictions on its ability to:

- incur or guarantee additional debt and issue preferred stock;
- make certain payments, including dividends or other distributions;
- make certain investments or acquisitions, including participating in joint ventures;
- prepay or redeem subordinated debt;
- engage in certain transactions with affiliates;
- create unrestricted subsidiaries;
- enter into arrangements that restrict payments of dividends to the Issuer;
- sell assets, consolidate or merge with or into other companies;
- sell or transfer all or substantially all of its assets or those of its subsidiaries on a consolidated basis;
- issue or sell share capital of certain subsidiaries; and
- create or incur certain liens.

These covenants could limit Care UK's ability to finance future operations and capital needs and its ability to pursue acquisitions and other business activities that may be in its interest. Care UK's ability to comply with these covenants and restrictions may be affected by events beyond its control. These include prevailing economic, financial and industry conditions. If Care UK breaches any of these covenants or restrictions, it could be in default under the terms of the Indentures or the Amended Revolving Credit Facility. If the debt under the 2014 Notes, the Amended Revolving Credit Facility or any other material financing arrangement that it enters into were to be accelerated, the assets of Care UK might be insufficient to repay in full the 2014 Notes, borrowings under the Amended Revolving Credit Facility and its other debt.

Care UK may not be able to generate sufficient cash to service its indebtedness, including due to factors outside its control, and may be forced to take other actions to satisfy its obligations under its indebtedness, which may not be successful.

Care UK is significantly leveraged and has significant debt service obligations. As at 30 September 2014, Care UK had £378.9 million of total net indebtedness and an Amended Revolving Credit Facility with total availability of £50.9 million. Care UK's ability to make payments on or to refinance its debt obligations will depend on its future operating performance and ability to generate sufficient cash. This depends on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond Care UK's control. Care UK's significant leverage may also make it more difficult for it to satisfy its obligations with respect to the 2014 Notes and exposes Care UK to interest rate increases to the extent any of Care UK's variable rate debt, is not hedged.

Care UK's businesses may not generate sufficient cash flows from operations to make payments on its debt obligations, and additional debt and equity financing may not be available to it in an amount sufficient to enable it to pay its debts when due, or to refinance such debts, including the 2014 Notes. If Care UK's future cash flows from operations and other capital resources are insufficient to pay obligations as they mature or to fund Care UK's liquidity needs, it may be forced to:

- reduce or delay its business activities, planned acquisitions and capital expenditures;
- sell assets;
- obtain additional debt or equity financing; or
- restructure or refinance all or a portion of Care UK's debt, including the 2014 Notes, on or before maturity.

Care UK can make no assurance that it would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all.

In particular, Care UK's ability to restructure or refinance its debt will depend in part on its financial condition at such time. Any refinancing of Care UK's debt could be at higher interest rates

Risk Factors

than its current debt and may require it to comply with more onerous covenants, which could further restrict its business operations. The terms of existing or future debt instruments and the Indentures may restrict Care UK from adopting some of these alternatives.

In addition, any failure to make payments of interest or principal on Care UK's outstanding indebtedness on a timely basis would likely result in a reduction of Care UK's credit rating, which could harm its ability to incur additional indebtedness. In the absence of such operating results and resources, Care UK could face substantial liquidity problems and might be required to dispose of material assets or operations to meet Care UK's debt service and other obligations. The terms of Care UK's indebtedness, including the Indentures and the Amended Revolving Credit Facility, restrict its ability to transfer or sell assets and to use the proceeds from any such disposition. It may not be able to consummate certain dispositions or to obtain the funds that Care UK could have realised from the proceeds of such dispositions, and any proceeds it does realise from asset dispositions may not be adequate to meet any of its debt service obligations then due. These alternative measures may not be successful and may not permit Care UK to meet its debt service obligations.

The 2014 Notes, drawings under the Amended Revolving Credit Facility and any future variable interest rate debt we incur in the future will bear interest at floating rates that could rise significantly, thereby increasing our costs and reducing our cash flow.

The 2014 Notes and drawings under the Amended Revolving Credit Facility will bear interest at floating rates of interest per annum equal to GBP LIBOR, as adjusted periodically, plus a spread. These interest rates could rise significantly in the future.

In order to manage the interest rate risk on the floating rate elements of the 2014 Notes, Care UK has entered into an interest rate cap. The interest rate cap has the same principal value as the 2014 Notes and is for a period of 3 years from 17 July 2014. The capped interest rate is stepped during the 3 years of the financial instrument. There can be no assurance that hedging will be available on commercially reasonable terms, or at all, once the interest rate cap expires.

The manner of calculating LIBOR is under review by European regulators and others. There can be no assurance that GBP LIBOR will continue to be calculated as it has been historically if at all.

The interests of Care UK's principal shareholder may be inconsistent with the interests of the holders of the 2014 Notes.

Care UK's principal shareholder indirectly owns approximately 79.4 per cent. of the Issuer's voting equity securities. The interests of Care UK's principal shareholder could conflict with the interests of investors in the 2014 Notes, particularly if Care UK encountered financial difficulties or was unable to pay its debts when due.