Care UK Health & Social Care Investments Limited

Quarterly Financial Report for the three and six months ended 31 March 2018

£229,997,000 Senior Secured First Lien Floating Rate Notes due 2019
£37,615,000 Second Lien Floating Rate Notes due 2020

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Overview

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 2017 (the "2017 Annual report") and should be read in conjunction with that report. The 2017 Annual report is available in pdf format only and can be found on our website, www.careukgroup.com.

All figures and percentages included below are quoted for the second quarter of the year ending 30 September 2018 and exclude the effects of IFRIC 12.

- **Group overview and financial highlights**
  - Overall performance in the three months ended 31 March 2018 was ahead of management expectations. Revenue increased by 4.9 per cent., or £7.9 million, to £170.6 million for the quarter.
  - Adjusted EBITDA of £12.7 million in the quarter represents a 14.4 per cent. increase on prior year. For the six month period to 31 March 2018, Adjusted EBITDA of £23.3 million represents year on year growth of 30.9 per cent.
  - As expected new care home start-up losses within the Residential Care business increased from £1.1 million in Q2 2017 to £1.9 million in the current quarter. Pro Forma Adjusted EBITDA (before new home start-up losses) was £14.6 million for the quarter, an increase of £2.4 million (19.7 per cent.) on prior year.
  - Reported revenue in our Residential Care business increased £5.8 million to £78.8 million for the quarter. Adjusting for a small number of discontinued homes, the underlying increase of £8.1 million represents year on year growth of 11.6 per cent. This has largely been delivered from continued occupancy growth in the new home portfolio, with the mature home portfolio continuing to benefit from increasing average weekly fee rates (partly as a result of the increasing proportion of self-funding residents).
  - Residential Care Pro Forma Adjusted EBITDA increased by £0.7 million to £9.1 million for the quarter reflecting the continuing maturity of the new, self-pay orientated homes. Reported Adjusted EBITDA decreased by £0.1 million due to the expected £0.8 million increase in the new build care homes start-up losses. A higher than normal winter mortality rate across the UK has resulted in a sector wide dip in occupancy. Nonetheless occupancy in our core estate remains at robust levels of around 90.0 per cent.
  - Health Care continues to build on its strong Q1 financial performance with revenue increasing by £2.1 million year on year to £91.8 million for the quarter. New Prison Health Care contracts contributed over £7.0 million of revenue growth, partly offset by a reduction in revenue in Secondary Care Elective Surgery (as a result of Easter timing, slightly lower underlying volumes as a result of restricted NHS demand and a strong quarter in the prior year).
  - Health Care Adjusted EBITDA of £6.7 million is ahead of the £5.1 million reported last year and £2.9 million ahead of prior quarter. Part of the improved profitability can be attributed to efficiency and cost saving initiatives in Secondary Care creating a structurally lower cost base, with a greater ability to flex responsively to demand. Prison Health Care contracts are also delivering improved margin through service optimisation as we embed more efficient working practices.
  - Financial leverage continues to trend downwards at just over 6.0x (5.3x on a Pro Forma basis) due to the progressive growth in LTM Adjusted EBITDA and a stable net debt of £268.4 million at 31 March 2018.
  - Net financing costs of £3.9 million are in line with prior year reflecting the stable debt profile and interest cost thereon.
  - As previously indicated, we continue to evaluate strategic options for the long term future and continued growth of both our Health Care and Residential Care businesses. A full range of potential scenarios, including property based options, are under consideration. Our focus continues to be the best interests of residents, patients, colleagues, commissioners and our investors.

- **Residential Care Services**
  - Residential Care revenue increased by £5.8 million (7.9 per cent.) to £78.8 million. Excluding discontinued homes, revenue increased £8.1 million year on year (11.6 per cent.) driven in the main by the growth in the new homes portfolio alongside a combination of increased fee rates and the self-funding mix of residents in the mature portfolio. Pro forma Adjusted EBITDA has increased by 8.3 per cent. from £8.4 million to £9.1 million for the quarter.
  - The underlying financial performance and the new home pipeline to 2020 and beyond are strong. During the quarter, two new build homes were opened adding over 150 beds, with two further homes expected to open before the end of the financial year. This will bring total new homes opened in 2018 to six, in addition to the two homes added to the portfolio in Q1 2018 (one acquired, one won via a local authority tender). Ten homes are scheduled to open in our 2019 financial year and are at various stages of construction. Separately, we continue to explore opportunities to develop local authority partnership models.
  - As previously reported, during the quarter the business renegotiated terms on a portfolio of 14 properties with a common landlord for a total cash outlay of £6.5 million. The transaction included Care UK purchasing the freehold interest in two properties for a consideration of £3.1 million in addition to a £3.4 million cash incentive in respect of the remaining 12 homes that were renewed under new and extended terms and conditions. The agreement results in total rent savings of approximately £1.0 million per annum.
  - Two local authority contract homes were handed back during the quarter. As previously reported we also closed a home in January due to structural concerns as well as selling a small home for £3.9 million. The business will continue to evaluate selective individual homes where financial returns are not commensurate with the cost of operating the service and/or the strategic fit is not in line with Care UK's portfolio. The combination of new home openings net of home closures means that we currently operate 117 homes (7,729 beds).
  - Key operational metrics :
    - Average weekly fee (AWF) has increased to £875, a 6.4 per cent. increase on prior year, mainly as result of the increasing proportion of self-funding residents. The proportion of total revenue derived from self-funded residents in Q2 2018 was 45.5 per cent., up from 41.1 per cent. a year ago.
    - Occupancy for our established homes averaged around 90.0 per cent. in the quarter. Financial occupancy across the entire care home portfolio reduced in Q2 2018 to 85.4 per cent. from 87.3 per cent. in Q1 2018, partly as a result of new home openings but also the particularly high winter mortality rate impacting the sector.
    - The labour cost to sales ratio for the quarter increased to 60.7 per cent. from 58.9 per cent. in the prior quarter. The increase is largely as a result of the sector wide occupancy reduction with approximately one third attributable to the high ratio of staffing to residents in newly opened homes whilst occupancy builds. The cost of agency staff has reduced in the quarter, both in absolute terms and as a proportion of revenue.
  - In December 2016 the Competition and Markets Authority launched a review of the residential care home market. The CMA's report was published in November 2017 but noted that its detailed guidance on consumer law issues would not be available until the summer of 2018. Care UK will review and evaluate this industry guidance once it has been made available with a view to determining whether it impacts on any of our current practices and processes.
  - Care Quality Commission (CQC) inspection ratings remain robust and continue to be the best performance of the five largest operators within the sector with 83 per cent. of homes currently ranked at least "Good" (with two homes rated "Outstanding"). Of our 117 care homes, three were regrettably rated "Inadequate" and have improvement plans in place.

- **Health Care**
  - Revenue in Health Care increased by £2.1 million for the quarter compared to the prior year. The prison healthcare contracts that mobilised in the second half of 2017 have added around £7.0 million of revenue. Offsetting this growth, the Secondary Care Elective Surgery service line reported a reduction in revenue of £3.0 million year on year, due largely to seasonal factors (timing of Easter and adverse weather) as well as a slight drop in underlying activity when compared to a strong prior year quarter.
  - Adjusted EBITDA of £6.7 million for the quarter is £1.6 million ahead of the prior year. The increase is largely driven by the growth in Prison Health Care contracts and improving margin as service efficiency is developed. Despite the lower revenue in Elective Surgery treatment centres, Adjusted EBITDA is in line with prior year as a result of a more efficient cost base that can quickly respond to patient volumes together with savings realised through the procurement programme.
  - Elective Surgery referral management continues within the NHS, demonstrated by the longest waiting lists since 2009. Care UK does not consider this to be sustainable and expects a medium term increase in volumes. In addition to 'Patient Choice' activity, and a self-pay option for patients, Care UK is continuing to develop partnership models with NHS Acute Trusts. Our Southampton treatment centre has recently agreed an operating theatre sharing arrangement with the local Trust that will significantly increase throughput of patients at the unit, with a commensurate increase in financial contribution.
  - Within Urgent Care, revenue is consistent with prior year. As previously reported, the cessation of contracts in traditional GP practices and Walk-in-Centres has led to a £1.2 million reduction in revenue but with minimal impact on Adjusted EBITDA. Care UK remains committed to strategic partnerships and is focused on opportunities to develop new innovative service models that leverage our clinical capability.

CARE UK SERVICES AND GROUP FIGURES AT A GLANCE

Care UK continues to occupy a unique position within the health and social care markets, as the largest independent provider of NHS services and as the largest developer of new residential and nursing care homes. Care UK's portfolio is closely aligned to commissioners' current and anticipated priorities, and focused on patient, service user and customer expectations and choice. Care UK is structured as two mature and largely standalone service line based operating divisions – Health Care and Residential Care Services – each performing at a market leading level within its sector.

Social Care	Health Care
Care UK is one of the largest providers of residential care for older people. At 31 March 2018 we operated 117 care homes with over 7,700 beds providing both residential and nursing care. Our team of 8,000 people delivers care to over 7,000 people every day. Our care homes provide an impressive range of care services to older people, ranging from short stay respite care to nursing care, end of life care, plus specialist care and support for people living with Alzheimer's and other forms of dementia. We are building modern and fit for purpose care homes, with a strategic ambition to reach 50 per cent. of our revenue being generated from self-funding customers by 2020. We have opened 30 new homes since 2011 and have a strong pipeline of opportunities ahead. The quality of our services as rated by CQC in England and CI in Scotland compares favourably with other providers. More of Care UK's homes are rated 'good' or 'outstanding' than those run by the other four largest providers in the UK marketplace.	Care UK currently delivers more than 70 dedicated NHS services throughout health care in the UK. We treat more than a million patients every year and we use the same governance and accountability procedures and standards and measures of success as the NHS Our services are centred around the key primary and secondary care service streams. **Primary Care** We are the largest Independent Sector provider of health care services in prisons and secure facilities, delivered at 41 different sites. We provide NHS primary care services including GP and walk-in services to 48 CCGs. Care UK currently provides over 20 out-of-hours services across England. Some of out-of-hours services we provide are in joint venture partnerships with local GPs. We hold the contracts for 12 NHS 111 services across a range of geographical areas in England, including the south west and south east of England, London, and parts of the Midlands and east of England. **Secondary Care** Our treatment centres have ranked top in an independent national rating of the best performing hospitals for knee and hip replacement operations, and two of them are rated as 'outstanding' by the Care Quality Commission (CQC). Our treatment centres have exceptional clinical outcomes and no cases of hospital acquired MRSA blood stream infections.

Unless stated all figures and percentages included below exclude the effects of applying IFRIC 12.

Key figures Amounts in £ million	Q2 2017	Q2 2018
Revenue	162.7	170.6
Adjusted EBITDA	11.1	12.7
Pro forma Adjusted EBITDA	12.2	14.6
Adjusted operating profit	4.9	5.1
Net loss for the period	(0.7)	(0.7)
Operating cash flow (before capital expenditure)	15.0	11.6

Segmental Reporting	**Revenue**		**Adjusted EBITDA**	
Amounts in £ million	Q2 2017	Q2 2018	Q2 2017	Q2 2018
Residential Care Services	73.0	78.8	7.3	7.2
Health Care	89.7	91.8	5.1	6.7
Other	-	-	(1.3)	(1.2)
Total	**162.7**	**170.6**	**11.1**	**12.7**

Financial leverage	As of and for the 12 month period ended			
	30 June 2017	30 September 2017	31 December 2017	31 March 2018
Adjusted EBITDA (£m)	39.6	38.7	42.6	44.2
Pro forma Adjusted EBITDA (£m)[1]	43.8	43.6	48.4	50.8
Net debt (£m)[2]	265.7	257.4	264.3	268.4
Net debt / Pro forma Adjusted EBITDA	6.07x	5.90x	5.46x	5.28x
Net debt / Adjusted EBITDA	6.71x	6.65x	6.20x	6.07x

1 Pro forma Adjusted EBITDA, excluding new home start-up losses (£6.6 million LTM 31 March 2018) in the Residential Care Services division.

2 Excludes £5.0 million of Second Lien Notes held in treasury by Care UK's parent undertaking.

FINANCIAL SUMMARY

Results of Operations

The tables below sets out the key line items from the unaudited condensed consolidated statement of comprehensive performance for the three and six months ended 31 March 2018 and 31 March 2017 excluding the effect of applying IFRIC 12. For further information, including the effects of applying IFRIC 12, refer to the 2017 Annual report. For the unaudited condensed consolidated statement of comprehensive performance including the effects of IFRIC 12 see the financial statements on pages F-3 to F-15 that accompany this financial summary.

For the definition of non-IFRS financial measures used by Care UK, including amongst others Adjusted EBITDA, refer to the 2017 Annual report. For full details regarding Care UK's Accounting Policies refer to the 2017 Annual report.

Pro forma pre-IFRIC 12 non-statutory consolidated statement of comprehensive performance (unaudited)	**Three months ended 31 March**		**Six months ended 31 March**	
	2017	**2018**	**2017**	**2018**
	£m	**£m**	**£m**	**£m**
Revenue	162.7	170.6	322.8	340.5
Cost of sales	(144.1)	(151.7)	(289.5)	(304.5)
Gross profit	**18.6**	**18.9**	**33.3**	**36.0**
Administrative expenses	(16.3)	(15.4)	(34.5)	(31.1)
Operating profit/(loss) before financing expenses	**2.3**	**3.5**	**(1.2)**	**4.9**
Adjusted EBITDA	**11.1**	**12.7**	**17.8**	**23.3**
Depreciation of tangible assets	(6.2)	(7.6)	(11.7)	(14.1)
Adjusted operating profit	4.9	5.1	6.1	9.2
Amortisation of intangible assets	(2.2)	(1.5)	(4.3)	(3.4)
Gain on disposal of tangible fixed assets	-	1.4	-	1.3
Non-recurring items	(0.3)	(0.5)	(2.8)	(0.7)
IAS 17 lease expense	(0.1)	(1.0)	(0.2)	(1.5)
Operating profit/(loss) before financing expenses	**2.3**	**3.5**	**(1.2)**	**4.9**
Financial income	0.7	0.8	1.4	1.5
Financial expense	(4.6)	(4.7)	(9.3)	(9.4)
Net financing expense	**(3.9)**	**(3.9)**	**(7.9)**	**(7.9)**
Loss before taxation	**(1.6)**	**(0.4)**	**(9.1)**	**(3.0)**
Taxation	0.9	(0.3)	1.5	(0.3)
Loss for the period	**(0.7)**	**(0.7)**	**(7.6)**	**(3.3)**

Net Debt and Liquidity

The following table shows the comparative net debt position as at 31 March 2018 and 31 March 2017.

	As at 31 March	
	2017	**2018**
	£m	**£m**
Senior Secured Notes	267.6	267.6
Revolving Credit Facility and bank loans	12.0	22.0
Cash and cash equivalents	(13.7)	(19.6)
Deferred financing costs	(2.9)	(1.6)
Total net debt	**263.0**	**268.4**

Net debt has been broadly consistent since the significant repurchases of the 2014 Notes made in 2015 (outlined below) and as at 31 March 2018 was £268.4 million, £5.4 million higher than the prior year and £4.1 million higher than the end of the prior quarter. A number of significant cash based transactions occurred in the quarter (outlined below) leading to the marginally higher net debt position. Net liquidity (RCF availability plus cash) as at 31 March 2018 was £62.6 million, in line with the position at 31 March 2017.

Care UK has historically financed its capital investment and working capital requirements through a combination of cash flows from its operating activities, short and long-term bank borrowings and the issuance of Senior Secured Notes. Following the purchase of the 2014 Notes outlined below, Care UK expects that its key sources of liquidity for the foreseeable future will continue to be cash flows generated from operations together with drawings under Care UK's Revolving Credit Facility.

Significant historical debt transactions

In July 2014 the group carried out a refinancing (the "Refinancing") in order to put in place a long term stable capital structure to underpin the group's future growth plans whilst significantly reducing the group's cost of debt. The Refinancing comprised the issue of the 2014 Notes divided into two tranches, a First Lien tranche of £325.0 million (the "2014 Senior Secured Notes"), which mature on 15 July 2019, and a Second Lien tranche of £75.0 million (the "2014 Second Lien Notes"), which mature on 15 January 2020.

As a result of a series of repurchase transactions that took place during the year ended 30 September 2015 total Senior Secured Notes and Second Lien Notes remaining in issue at 31 March 2018 are £230.0 million and £37.6 million respectively (excluding £5.0 million 2014 Second Lien Notes held in treasury by Care UK Health and Social Care Finance Limited, a company which is outside the restricted credit group).

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

	Three months ended 31 March		Six months ended 31 March	
	2017	**2018**	**2017**	**2018**
	£m	**£m**	**£m**	**£m**
Adjusted operating profit	4.9	5.1	6.1	9.2
Depreciation and other non-cash movements	6.1	6.6	11.5	12.6
Change in working capital and non-recurring items	4.0	(0.1)	8.7	(3.5)
Cash flow from operations	**15.0**	**11.6**	**26.3**	**18.3**
Business disposals, net of cash disposed	0.2	-	0.2	-
Cash flows resulting from financing activities and taxation	(4.1)	(4.3)	(8.5)	(8.3)
Capital expenditure, net of disposal proceeds	(9.3)	(8.6)	(16.6)	(14.6)
Loans to related party undertakings & joint ventures	(0.2)	-	(2.5)	(3.3)
Pension deficit repair	-	(2.5)	-	(2.5)
Movement in net debt arising from cash flows	**1.6**	**(3.8)**	**(1.1)**	**(10.4)**
Other non-cash movements in net debt	(0.3)	(0.3)	(0.6)	(0.6)
Total movement in net debt	**1.3**	**(4.1)**	**(1.7)**	**(11.0)**
Net debt at 31 March	(263.0)	(268.4)	(263.0)	(268.4)

The net cash flow from operating activities for the three months ended 31 March 2018 was an inflow of £11.6 million compared with an inflow of £15.0 million for the three months ended 31 March 2017. A significant lease renegotiation with a multi-property landlord resulted in a £6.5 million cash outflow in the quarter. Broadly, half of the cash outflow was to acquire two of the freehold properties within the portfolio with the other half being an incentive on the future lease arrangements. The agreement will generate total rent savings of approximately £1.0 million per annum.

Cash flows resulting from financing expenses and taxation were a net outflow of £4.3 million in the three months ended 31 March 2018, broadly unchanged from the comparative period in the prior year. This reflects the largely unchanged GBP LIBOR interest rate that is applied to the Group's Loan Notes and RCF facility.

Capital expenditure net of disposal proceeds amounted to £8.6 million for the three months ended 31 March 2018 compared with £9.3 million for the three months ended 31 March 2017. Disposal proceeds of £3.9 million were received in the quarter from the sale of a residential care home (disposal proceeds in 2017 £0.5 million). The capital spend in the first half of 2018 is disproportionately higher due to the timing of a certain projects as outlined below.

Maintenance capital expenditure amounted to £7.1 million for the three months ended 31 March 2018 and is £2.7 million more than the prior year of £4.4 million. Within our Secondary Care business, on top of our normal maintenance cycle, we have invested this quarter in replacing our endoscopy equipment across a number of sites.

Expansionary capital expenditure amounted to £5.4 million for the three months ended 31 March 2018 compared with £5.4 million for the three months ended 31 March 2017. The expansionary capital investment in the current quarter includes the acquisition of the freehold interest in two previously leased homes for £3.1 million as part of the portfolio renegotiation transaction referred to above in addition to ongoing new home capital investment.

Care UK made no related party loans in the current quarter with £0.2 million being made in the three months ended 31 March 2017 - see "Certain Relationships and Related Party Transactions" in the 2017 Annual report for further details.

Following the retender of some Healthcare contracts and the application of New Fair Deal policy, the Healthcare staff have ceased to be active members of the LG defined benefit pension scheme and have instead re-joined their respective public sector pension schemes. As a consequence of pension legislation an agreement was reached with the Trustees whereby Care UK made a payment during March 2018 of £2.5m into the LG defined benefit pension scheme. This formally amended how the scheme future liabilities are allocated between subsidiaries of the Group.

RISK FACTORS

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. Other 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.

See the 2017 Annual report for a summary of the risk factors affecting Care UK. A detailed explanation of each of Care UK's risk factors can be accessed on the Care UK website www.careukgroup.com.

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Care UK Health & Social Care Investments Limited

Condensed consolidated financial statements (unaudited)

Three and six month periods ended
31 March 2018

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
For the three and six month periods ended 31 March 2018

	Notes	Three months to 31 March 2018	Three months to 31 March 2017	Six months to 31 March 2018	Six months to 31 March 2017
		£m	£m	£m	£m
Revenue		**170.2**	162.2	**339.6**	321.9
Cost of sales		**(151.6)**	(144.0)	**(304.3)**	(288.8)
Gross profit		**18.6**	18.2	**35.3**	33.1
Administrative expenses		**(15.6)**	(16.3)	**(31.5)**	(34.7)
Operating profit/(loss) before financing expense		**3.0**	1.9	**3.8**	(1.6)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)		**11.6**	10.2	**21.1**	16.4
Depreciation of tangible assets		**(6.9)**	(5.6)	**(12.8)**	(10.5)
Adjusted operating profit		**4.7**	4.6	**8.3**	5.9
Amortisation of intangible assets		**(1.6)**	(2.3)	**(3.6)**	(4.5)
Gain on disposal of tangible fixed assets		**1.4**	-	**1.3**	-
Non-recurring items	5	**(0.5)**	(0.3)	**(0.7)**	(2.8)
IAS 17 lease expense		**(1.0)**	(0.1)	**(1.5)**	(0.2)
Operating profit/(loss) before financing expense		**3.0**	1.9	**3.8**	(1.6)
Financial income	6	**1.0**	0.9	**1.9**	1.8
Financial expense	6	**(4.7)**	(4.6)	**(9.4)**	(9.3)
Net financing expense		**(3.7)**	(3.7)	**(7.5)**	(7.5)
Loss before taxation	7	**(0.7)**	(1.8)	**(3.7)**	(9.1)
Taxation		**(0.1)**	0.9	**(0.1)**	1.5
Total comprehensive loss for the period attributable to equity holders of the parent		**(0.8)**	(0.9)	**(3.8)**	(7.6)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 31 March 2018

	Notes	31 March 2018	31 March 2017	30 September 2017
		£m	£m	£m
Assets				
Property, plant and equipment	9	**194.9**	192.2	190.9
Intangible assets	10	**134.6**	143.2	138.2
Other financial assets	11	**17.0**	19.7	17.5
Amounts due from parent undertakings		**1.4**	-	-
Amounts due from related party undertakings		**31.1**	31.5	27.7
Other receivables		**7.8**	8.1	8.0
Deferred tax assets		**7.8**	9.1	7.7
Total non-current assets		**394.6**	403.8	390.0
Other financial assets	11	**1.3**	1.1	1.3
Inventories		**2.2**	4.1	2.0
Trade and other receivables		**48.9**	50.2	57.6
Cash and cash equivalents		**19.6**	13.7	12.0
Assets held for sale		**1.3**	2.9	4.4
Total current assets		**73.3**	72.0	77.3
Total assets		**467.9**	475.8	467.3
Liabilities				
Trade and other payables		**(147.1)**	(146.4)	(154.4)
Current tax liabilities		**(1.8)**	(1.5)	(1.5)
Provisions for liabilities and charges		**(1.2)**	(1.0)	(1.0)
Total current liabilities		**(150.1)**	(148.9)	(156.9)
Financial liabilities	12	**(288.0)**	(276.7)	(269.4)
Other non-current liabilities		**(12.3)**	(19.0)	(15.1)
Amounts due to related party undertakings		**(6.1)**	(5.7)	(5.9)
Provisions for liabilities and charges		**(21.3)**	(25.4)	(26.1)
Total non-current liabilities		**(327.7)**	(326.8)	(316.5)
Total liabilities		**(477.8)**	(475.7)	(473.4)
Net assets/(liabilities)		**(9.9)**	0.1	(6.1)
Equity				
Issued share capital		**210.7**	210.7	210.7
Capital contribution reserve		**15.7**	15.7	15.7
Retained earnings		**(236.3)**	(226.3)	(232.5)
Total equity attributable to equity holders of the parent		**(9.9)**	0.1	(6.1)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the six month period ended 31 March 2018

	Attributable to equity holders of the parent			
Group	**Issued Share capital**	**Capital contribution reserve**	**Retained earnings**	**Total parent equity**
	£m	**£m**	**£m**	**£m**
At 30 September 2017	210.7	15.7	(232.5)	(6.1)
Total comprehensive loss for the period	-	-	(3.8)	(3.8)
At 31 March 2018	**210.7**	**15.7**	**(236.3)**	**(9.9)**

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the three and six month periods ended 31 March 2018

	Three months to 31 March 2018	Three months to 31 March 2017	Six months to 31 March 2018	Six months to 31 March 2017
	£m	£m	£m	£m
Cash flows from operating activities				
Loss for the period before taxation	**(0.7)**	(1.8)	**(3.7)**	(9.1)
Financial income	**(1.0)**	(0.9)	**(1.9)**	(1.8)
Financial expense	**4.7**	4.6	**9.4**	9.3
Depreciation of tangible assets	**6.9**	5.6	**12.8**	10.5
Amortisation of intangible assets	**1.6**	2.3	**3.6**	4.5
Gain on disposal of tangible fixed assets	**(1.4)**	-	**(1.3)**	-
Decrease in IFRIC 12 financial asset	**0.5**	0.3	**0.9**	0.8
Decrease/(increase) in inventory	**-**	-	**-**	(0.4)
Decrease in trade and other receivables	**5.0**	2.4	**8.8**	0.1
Increase/(decrease) in trade and other payables	**(4.6)**	2.0	**(11.5)**	11.9
Cash inflow from operations	**11.0**	14.5	**17.1**	25.8
Pension deficit repair	**(2.5)**	-	**(2.5)**	-
Income taxes paid	**-**	(0.1)	**-**	(0.1)
Net cash flows from operating activities	**8.5**	14.4	**14.6**	25.7
Cash flows from investing activities				
Disposal of businesses, net of cash disposed	**-**	0.2	**-**	0.2
Payments to acquire property, plant and equipment	**(11.9)**	(9.3)	**(18.1)**	(16.6)
Net proceeds from the sale of property, plant and equipment	**3.9**	0.5	**4.7**	0.5
Loans to related party undertakings	**-**	(0.2)	**(3.3)**	(2.5)
Net cash flows from investing activities	**(8.0)**	(8.8)	**(16.7)**	(18.4)
Cash flows from financing activities				
Proceeds from new loans	**46.0**	36.2	**99.0**	79.2
Repayment of amounts borrowed	**(41.0)**	(38.0)	**(81.0)**	(77.0)
Interest paid	**(4.3)**	(4.2)	**(8.3)**	(8.6)
Payment of capital element of finance lease payments	**-**	-	**-**	-
Net cash flows from financing activities	**0.7**	(6.0)	**9.7**	(6.4)
Net increase in cash and cash equivalents	**1.2**	(0.4)	**7.6**	0.9
Cash and cash equivalents at the beginning of the period	**18.4**	14.1	**12.0**	12.8
Cash and cash equivalents at the end of the period	**19.6**	13.7	**19.6**	13.7

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 and six months ended 31 March 2018 comprise the company and its subsidiaries (together referred to as the "group").

This interim report, for the three and six months ended 31 March 2018, 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 2017, 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 LLP gave an unqualified opinion, are available on the website www.careukgroup.com. 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 2017 set out within this report have been extracted from the 2017 Annual report and accounts published on 5 December 2017.

2. ACCOUNTING POLICIES

The preparation of these condensed consolidated interim 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 2017 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.

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

Provisions for liabilities and other charges: The group has provided for onerous lease contracts in respect of residential care homes to the extent that the unavoidable costs of fulfilling the lease obligation exceeds the estimated economic benefit expected from operating the care home. The calculation of the provision requires an estimate of the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value. Care UK updates these forecast assumptions on an annual basis together with other variable assumptions typically applied in a discounted cash flow method. Care UK does not recalculate the provision at each interim reporting date or account for any unwinding. The carrying amount of provisions as at 31 March 2018 was £10.4m.

3. NON-IFRS FINANCIAL MEASURES

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

Adjusted operating profit is defined as operating profit before 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 EBITDA is defined as adjusted operating profit plus depreciation. For further detail on the definition of these performance measures and the items that have been excluded see the 2017 Annual report – Presentation of Financial Information on page 39.

4. SEGMENT REPORTING

Segmental 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. The Care UK group 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 net financing expense, and taxation.

Business Segments

The group's operating segments are as follows:

- Residential Care Services: operates care homes for older people;
- Health Care: provides a range of primary and secondary care services; and
- Other: comprises the group's central support functions.

Three months to 31 March 2018	Residential Care Services	Health Care	Other	Group
	£m	£m	£m	£m
Group revenue	78.4	91.8	-	**170.2**
Adjusted EBITDA	6.1	6.7	(1.2)	**11.6**
Depreciation of tangible assets	(3.4)	(2.3)	(1.2)	**(6.9)**
Adjusted operating profit/(loss)	2.7	4.4	(2.4)	**4.7**
Amortisation of intangible assets	(1.0)	(0.6)	-	**(1.6)**
Gain on disposal of fixed assets	1.4	-	-	**1.4**
Non-recurring items	(0.5)	-	-	**(0.5)**
IAS 17 lease expense	(1.0)	-	-	**(1.0)**
Profit/(loss) before financing expense and taxation	1.6	3.8	(2.4)	**3.0**
Net financing expense				**(3.7)**
Taxation				**(0.1)**
Loss for the year				**(0.8)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(8.2)	(2.7)	(0.1)	(11.0)

Three months to 31 March 2017	Residential Care Services	Health Care	Other	Group
	£m	£m	£m	£m
Group revenue	72.5	89.7	-	**162.2**
Adjusted EBITDA	6.4	5.1	(1.3)	**10.2**
Depreciation of tangible assets	(2.7)	(2.5)	(0.4)	**(5.6)**
Adjusted operating profit/(loss)	3.7	2.6	(1.7)	**4.6**
Amortisation of intangible assets	(1.1)	(1.2)	-	**(2.3)**
Non-recurring items	-	(0.3)	-	**(0.3)**
IAS 17 lease expense	(0.1)	-	-	**(0.1)**
Profit/(loss) before financing expense and taxation	2.5	1.1	(1.7)	**1.9**
Net financing expense				**(3.7)**
Taxation				**0.9**
Loss for the year				**(0.9)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(7.6)	(2.6)	-	(10.2)

Six months to 31 March 2018	**Residential Care Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**
Group revenue	157.5	182.1	-	**339.6**
Adjusted EBITDA	13.2	10.5	(2.6)	**21.1**
Depreciation of tangible assets..................	(6.8)	(4.5)	(1.5)	**(12.8)**
Adjusted operating profit/(loss)	6.4	6.0	(4.1)	**8.3**
Amortisation of intangible assets	(2.0)	(1.6)	-	**(3.6)**
Gain on disposal of fixed assets	1.3	-	-	**1.3**
Non-recurring items...................................	(0.5)	(0.2)	-	**(0.7)**
IAS 17 lease expense	(1.5)	-	-	**(1.5)**
Profit/(loss) before financing expense and taxation..	3.7	4.2	(4.1)	**3.8**
Net financing expense................................				**(7.5)**
Taxation				**(0.1)**
Loss for the year				**(3.8)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(16.4)	(5.7)	(0.1)	(22.2)

Six months to 31 March 2017	**Residential Care Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**
Group revenue	145.1	176.8	-	**321.9**
Adjusted EBITDA	13.7	5.3	(2.6)	**16.4**
Depreciation of tangible assets..................	(5.3)	(4.5)	(0.7)	**(10.5)**
Adjusted operating profit/(loss)	8.4	0.8	(3.3)	**5.9**
Amortisation of intangible assets	(2.1)	(2.4)	-	**(4.5)**
Non-recurring items...................................	-	(2.8)	-	**(2.8)**
IAS 17 lease expense	(0.2)	-	-	**(0.2)**
Profit/(loss) before financing expense and taxation..	6.1	(4.4)	(3.3)	**(1.6)**
Net financing expense................................				**(7.5)**
Taxation				**1.5**
Loss for the year				**(7.6)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(14.9)	(5.4)	(0.1)	(20.4)

5. NON-RECURRING ITEMS

The group separately identifies and discloses certain items, referred to as non-recurring items, by virtue of size, nature or occurrence. This is consistent with the way that financial performance is measured by management (see note 3 Non-IFRS financial measures) and assists in providing a meaningful analysis of operating results by excluding items that may not be indicative of the operating results of the group's business. The following table details non-recurring items that have been incurred in the reporting periods presented.

	Note	**Three months to 31 March 2018**	**Three months to 31 March 2017**	**Six months to 31 March 2018**	**Six months to 31 March 2017**
		£m	**£m**	**£m**	**£m**
Non-recurring items:					
— Restructuring	*(a)*	**-**	-	**-**	(1.3)
— Contract exit and transition	*(b)*	**-**	0.2	**-**	(0.8)
— Property related costs	*(c)*	**(0.3)**	-	**(0.3)**	-
— Acquisition costs	*(d)*	**(0.2)**	-	**(0.2)**	-
— Procurement programme	*(e)*	**-**	(0.5)	**(0.2)**	(0.7)
		(0.5)	(0.3)	**(0.7)**	(2.8)

Non-recurring items in the three months to 31 March 2018 amounted to an aggregate charge of £0.5m (three months to 31 March 2017: charge of £0.3m). The key elements of the charges for both periods are set out below. Segmental analyses of non-recurring items are shown in note 4.

(a) Restructuring

During the final quarter of the 2016 financial year Care UK's Health Care business commenced an overhead reduction programme in order to address substantial market challenges within Urgent Care and other healthcare service lines. A redundancy programme was initiated and incurred a non-recurring charge of £1.3m in the six months ended 31 March 2017 in respect of the expected related costs.

(b) Contract exit and transition

The former Greater Manchester CATS service that was operated under a Wave 2 contract up until February 2016 was sold to a third party provider on 3 January 2017. Due to a combination of a reduction in tariff following the end of the Wave 2 terms, and an underlying reduction in patient volumes, the service became loss making. A non-recurring charge of £1.0m was incurred in the six months ended 31 March 2017 comprising transaction costs and contract losses from 1 October 2016 to completion. This is partially offset by £0.2m income relating to a Healthcare contract which terminated in 2016 for which an onerous contract had previously been recognized as a non-recurring item and had been fully utilised.

(c) Property related costs

A residential care home operated by Care UK under a long-term operating lease closed in January 2018 after suffering from building defects. Care UK is conducting ongoing investigations to determine the best course of action in respect of rectification or rebuild. During the three months ended 31 March 2018 closure costs of £0.3m were incurred in respect of staff redundancy and legal costs.

(d) Acquisition costs

During the period Care UK incurred costs of £0.2m in relation to the acquisition of a company containing the leasehold interest of a 69 bed self-pay focused care home located in Knebworth. In accordance with IFRS 3, such costs cannot be included in the cost of business combination and therefore cannot be capitalised.

(e) Procurement programme

During the 2017 financial year Care UK's Health Care division commenced a comprehensive review of its procurement practices with a view to driving operational and clinical efficiency without compromising the quality of patient care. The programme is being supported by an external specialist and is delivering significant commercial benefit to the business. Implementation costs of £0.2m were incurred in the six months to 31 March 2018 (six months to 31 March 2017 £0.7m).

6. NET FINANCING EXPENSE

	Three months to 31 March 2018	Three months to 31 March 2017	Six months to 31 March 2018	Six months to 31 March 2017
	£m	£m	£m	£m
Financial income:				
Interest receivable	**0.8**	0.7	**1.5**	1.4
IFRIC-12 interest receivable	**0.2**	0.2	**0.4**	0.4
Financial income	**1.0**	0.9	**1.9**	1.8
Financial expense:				
Interest payable on borrowings	**(4.2)**	(4.1)	**(8.4)**	(8.3)
Amortisation of deferred financing costs	**(0.3)**	(0.3)	**(0.6)**	(0.6)
Interest payable on loans with parent undertaking	**(0.1)**	(0.1)	**(0.2)**	(0.2)
Other interest expense	**(0.1)**	(0.1)	**(0.2)**	(0.2)
Financial expense	**(4.7)**	(4.6)	**(9.4)**	(9.3)
Net financing expense	**(3.7)**	(3.7)	**(7.5)**	(7.5)

7. LOSS BEFORE TAXATION

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

	Three months to 31 March 2018	Three months to 31 March 2017	Six months to 31 March 2018	Six months to 31 March 2017
	£m	£m	£m	£m
Depreciation of tangible assets	**6.9**	5.6	**12.8**	10.5
Amortisation of intangible assets	**1.6**	2.3	**3.6**	4.5
Gain on disposal of tangible fixed assets	**(1.4)**	-	**(1.3)**	-
Operating lease charges: Land & buildings (including IAS 17 lease expense)	**12.0**	10.3	**23.7**	20.6
IFRIC 12 infrastructure costs expensed in the period	**0.6**	0.4	**1.3**	0.5

9. PROPERTY, PLANT AND EQUIPMENT

	31 March 2018	31 March 2017	30 September 2017
	£m	£m	£m
Opening net book value	**190.9**	190.0	190.0
Additions	**17.0**	13.4	25.3
Acquisitions	**0.1**	-	-
Disposal and transfers to current assets	**(0.3)**	(0.7)	(2.1)
Depreciation charge for the period	**(12.8)**	(10.5)	(22.3)
Closing net book value	**194.9**	192.2	190.9

10. INTANGIBLE ASSETS

	31 March 2018	31 March 2017	30 September 2017
	£m	**£m**	**£m**
Opening net book value	**138.2**	147.7	147.7
Amortisation charge for the period	**(3.6)**	(4.5)	(9.5)
Closing net book value	**134.6**	143.2	138.2

11. OTHER FINANCIAL ASSETS

	31 March 2018	31 March 2017	30 September 2017
	£m	**£m**	**£m**
Non-current			
IFRIC-12 financial asset	**17.0**	18.5	17.5
Financial asset at fair value through profit and loss	**-**	0.7	-
Loans due from former subsidiary undertaking	**-**	0.5	-
Total non-current other financial assets	**17.0**	19.7	17.5
Current			
IFRIC-12 financial asset	**1.3**	0.9	1.3
Financial asset at fair value through profit and loss	**-**	0.2	-
Total current other financial assets	**1.3**	1.1	1.3
Total other financial assets	**18.3**	20.8	18.8

IFRIC-12 financial asset	31 March 2018	31 March 2017	30 September 2017
	£m	**£m**	**£m**
IFRIC-12 financial asset: brought forward	**18.8**	20.0	20.0
Released in the period	**(0.5)**	(0.6)	(1.2)
IFRIC-12 financial asset: carried forward	**18.3**	19.4	18.8

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

12. FINANCIAL LIABILITIES

	Borrowings due within one year	Borrowings due after one year	Total Financial Liabilities
	£m	£m	£m
At 1 October 2016	-	(274.1)	(274.1)
Cash flow	-	6.0	6.0
Other non-cash changes	-	(1.3)	(1.3)
At 30 September 2017	-	(269.4)	(269.4)
Cash flow	-	(18.0)	(18.0)
Other non-cash changes	-	(0.6)	(0.6)
At 31 March 2018	**-**	**(288.0)**	**(288.0)**

As at 31 March 2018 there was accrued interest of £3.2m (31 March 2017: £3.1m; 30 September 2017: £3.3m) 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

On 17 July 2014 the Issuer issued £400.0m of floating rate Senior Secured Notes ("the 2014 Notes"). The 2014 Notes are divided into two tranches, a First Lien tranche of £325.0m (the "2014 Senior Secured Notes"), which mature on 15 July 2019, and a Second Lien tranche of £75.0m (the "2014 Second Lien Notes"), which mature on 15 January 2020. Interest on the 2014 Senior Secured Notes accrues at a rate per annum, reset quarterly, equal to three-month GBP LIBOR plus 5.0%. Interest on the 2014 Second Lien Notes accrues at a rate per annum, reset quarterly, equal to three-month GBP LIBOR plus 7.5%. For both liens interest is payable quarterly in arrears on each of 15 October, 15 January, 15 April and 15 July.

The Issuer may redeem the 2014 Notes in whole or in part at any time on or after 15 July 2015 at the redemption prices set out in the Offering Memorandum.

During 2015 Care UK Health & Social Care Finance Limited, a parent undertaking of the Issuer, purchased in aggregate £16.2m of 2014 Second Lien Notes and subsequently transferred these to the Issuer for cancellation. In addition, the Issuer purchased and cancelled £16.2m of 2014 Second Lien Notes during the year. As a result of these transactions the total of Second Lien Notes remaining in issue at 31 March 2018 was £42.6m.

In July 2015 Care UK Health & Social Care Finance Limited, a parent undertaking of the Issuer, purchased £5.0m of 2014 Second Lien Notes with the intention of transferring these to the Issuer for cancellation. As at 31 March 2018 these Notes are still held by Care UK Health & Social Care Finance Limited and are presented as 'amounts due to parent undertakings' in the consolidated statement of financial position.

In July 2015 the Issuer made an offer to purchase in respect of the 2014 Senior Secured Notes for a maximum of £95.0m. The offer was fully subscribed and completed on 14 August 2015 and the Notes were subsequently cancelled. As a result of this transaction the total of Senior Secured Notes remaining in issue at 31 March 2018 was £230.0m.

The 2014 Senior Secured Notes are guaranteed on a senior basis and the 2014 Second Lien Notes are guaranteed on a senior subordinated basis by Care UK Health & Social Care Investments Limited and certain subsidiary guarantors.

ii) Senior Revolving Credit Facility

On the 11 July 2014 the £115.0m Senior Revolving Credit Facility (the “original RCF”) was replaced by an amended £65.0m Revolving Credit Facility (the "amended RCF").

As at 31 March 2018, £22.0m (31 March 2017: £12.0m) of the amended RCF has been utilised as cash drawings. The remainder of the facility remained undrawn (31 March 2017: £4.0m utilised in relation to performance bonds).

The margin payable on any loan utilisation under the amended RCF is in the range of 2.25% to 3.25% 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 17 May 2019.

The Amended and Restated Senior Revolving Facility Agreement requires Care UK Health & Social Care Investments Limited, as the parent guarantor, to ensure compliance with a financial covenant relating to super senior gross leverage (calculated as the ratio of the aggregate amount of all outstanding loans under the Amended Revolving Credit Facility to Consolidated EBITDA of the Group for the 12 months ending on that quarter end). “Consolidated EBITDA” for the purposes of the covenants under the Amended and Restated Senior Revolving Facility Agreement allows for certain adjustments and therefore is not exactly equivalent to the definition of Adjusted EBITDA as outlined in the Accounting Policies - Non-GAAP Performance Measures in the 2017 Annual report.

Care UK Health & Social Care Investments Limited

Pro forma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited)

Three and six month periods ended
31 March 2018

BASIS OF PREPARATION

These interim pro forma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) do 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 interim financial statements.

The pro forma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) have been prepared by the directors pursuant to the requirements detailed on page 204 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 pro forma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited).

The accounts are presented in pounds sterling, rounded to the nearest hundred thousand and have been prepared under the historic cost convention.

Definition

The term ‘pro forma’ in this group pro forma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) has been defined on page 205 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 pro forma 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 pro forma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) as were applied to all periods presented in the financial statements and throughout the group.

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 pro forma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) has been prepared to present financial information on a pre-IFRIC 12 basis.

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PRO FORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
For the three and six month periods ended 31 March 2018

	Three months to 31 March 2018	Three months to 31 March 2017	Six months to 31 March 2018	Six months to 31 March 2017
	£m	**£m**	**£m**	**£m**
Revenue	**170.6**	162.7	**340.5**	322.8
Cost of sales	**(151.7)**	(144.1)	**(304.5)**	(289.5)
Gross profit	**18.9**	18.6	**36.0**	33.3
Administrative expenses	**(15.4)**	(16.3)	**(31.1)**	(34.5)
Operating profit/(loss) before financing expense	**3.5**	2.3	**4.9**	(1.2)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)	**12.7**	11.1	**23.3**	17.8
Depreciation of tangible assets	**(7.6)**	(6.2)	**(14.1)**	(11.7)
Adjusted operating profit	**5.1**	4.9	**9.2**	6.1
Amortisation of intangible assets	**(1.5)**	(2.2)	**(3.4)**	(4.3)
Gain on disposal of tangible fixed assets	**1.4**	-	**1.3**	-
Non-recurring items	**(0.5)**	(0.3)	**(0.7)**	(2.8)
IAS 17 lease expense	**(1.0)**	(0.1)	**(1.5)**	(0.2)
Operating profit/(loss) before financing expense	**3.5**	2.3	**4.9**	(1.2)
Financial income	**0.8**	0.7	**1.5**	1.4
Financial expense	**(4.7)**	(4.6)	**(9.4)**	(9.3)
Net financing expense	**(3.9)**	(3.9)	**(7.9)**	(7.9)
Loss before taxation	**(0.4)**	(1.6)	**(3.0)**	(9.1)
Taxation	**(0.3)**	0.9	**(0.3)**	1.5
Total comprehensive loss for the period attributable to equity holders of the parent	**(0.7)**	(0.7)	**(3.3)**	(7.6)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PRO FORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 31 March 2018

	31 March 2018	31 March 2017	30 September 2017
	£m	£m	£m
Assets			
Property, plant and equipment	**222.9**	220.6	219.1
Intangible assets	**127.7**	135.8	131.1
Other financial assets	**-**	1.2	-
Amounts due from parent undertakings	**1.4**	-	-
Amounts due from related party undertakings	**31.1**	31.5	27.7
Other receivables	**7.8**	8.1	8.0
Deferred tax assets	**5.3**	6.8	5.3
Total non-current assets	**396.2**	404.0	391.2
Other financial assets	**-**	0.2	-
Inventories	**2.2**	4.1	2.0
Trade and other receivables	**49.0**	50.2	57.6
Cash and cash equivalents	**19.6**	13.7	12.0
Assets held for sale	**1.3**	2.9	4.4
Total current assets	**72.1**	71.1	76.0
Total assets	**468.3**	475.1	467.2
Liabilities			
Trade and other payables	**(136.9)**	(136.0)	(144.2)
Current tax liabilities	**(1.8)**	(1.5)	(1.5)
Provisions for liabilities and charges	**(1.2)**	(1.0)	(1.0)
Total current liabilities	**(139.9)**	(138.5)	(146.7)
Financial liabilities	**(288.0)**	(276.7)	(269.4)
Other non-current liabilities	**(12.3)**	(19.0)	(15.1)
Amounts due to related party undertakings	**(6.1)**	(5.7)	(5.9)
Provisions for liabilities and charges	**(21.3)**	(25.4)	(26.1)
Total non-current liabilities	**(327.7)**	(326.8)	(316.5)
Total liabilities	**(467.6)**	(465.3)	(463.2)
Net assets	**0.7**	9.8	4.0
Equity			
Issued share capital	**210.7**	210.7	210.7
Capital contribution reserve	**15.7**	15.7	15.7
Retained earnings	**(225.7)**	(216.6)	(222.4)
Total equity attributable to equity holders of the parent	**0.7**	9.8	4.0

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PRO FORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the three and six month periods ended 31 March 2018

	Three months to 31 March 2018	**Three months to 31 March 2017**	**Six months to 31 March 2018**	**Six months to 31 March 2017**
	£m	**£m**	**£m**	**£m**
Cash flows from operating activities				
Loss for the period before taxation	**(0.4)**	(1.6)	**(3.0)**	(9.1)
Financial income	**(0.8)**	(0.7)	**(1.5)**	(1.4)
Financial expense	**4.7**	4.6	**9.4**	9.3
Depreciation of tangible assets	**7.6**	6.2	**14.1**	11.7
Amortisation of intangible assets	**1.5**	2.2	**3.4**	4.3
Gain on disposal of tangible fixed assets	**(1.3)**	-	**(1.2)**	-
(Increase)/decrease in inventory	**-**	-	**-**	(0.4)
(Increase)/decrease in trade and other receivables	**5.0**	2.4	**8.8**	0.1
Decrease/(increase) in trade and other payables	**(4.7)**	1.9	**(11.7)**	11.8
Cash inflow from operations	**11.6**	15.0	**18.3**	26.3
Pension deficit repair	**(2.5)**	-	**(2.5)**	-
Income taxes paid	**-**	(0.1)	**-**	(0.1)
Net cash flows from operating activities	**9.1**	14.9	**15.8**	26.2
Cash flows from investing activities				
Disposal of businesses, net of cash disposed	**-**	0.2	**-**	0.2
Payments to acquire property, plant and equipment	**(12.5)**	(9.8)	**(19.3)**	(17.1)
Net proceeds from sales of property, plant and equipment	**3.9**	0.5	**4.7**	0.5
Loans to related party undertakings	**-**	(0.2)	**(3.3)**	(2.5)
Net cash flows used investing activities	**(8.6)**	(9.3)	**(17.9)**	(18.9)
Cash flows from financing activities				
Proceeds from new loans	**46.0**	36.2	**99.0**	79.2
Repayment of amounts borrowed	**(41.0)**	(38.0)	**(81.0)**	(77.0)
Interest paid	**(4.3)**	(4.2)	**(8.3)**	(8.6)
Payment of capital element of finance lease payments	**-**	-	**-**	-
Net cash flows from financing activities	**0.7**	(6.0)	**9.7**	(6.4)
Net increase in cash and cash equivalents	**1.2**	(0.4)	**7.6**	0.9
Cash and cash equivalents at the beginning of the period	**18.4**	14.1	**12.0**	12.8
Cash and cash equivalents at the end of the period	**19.6**	13.7	**19.6**	13.7

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

Three months to 31 March 2018	**Residential Care Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**
Group revenue	78.8	91.8	-	**170.6**
Adjusted EBITDA	7.2	6.7	(1.2)	**12.7**
Depreciation of tangible assets	(4.1)	(2.3)	(1.2)	**(7.6)**
Adjusted operating profit/(loss)	3.1	4.4	(2.4)	**5.1**
Amortisation of intangible assets	(0.9)	(0.6)	-	**(1.5)**
Gain on disposal of tangible fixed assets	1.4	-	-	**1.4**
Non-recurring items	(0.5)	-	-	**(0.5)**
IAS 17 lease expense	(1.0)	-	-	**(1.0)**
Profit/(loss) before financing expense and taxation	2.1	3.8	(2.4)	**3.5**
Net financing expense				**(3.9)**
Taxation				**(0.3)**
Loss for the year				**(0.7)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(8.2)	(2.7)	(0.1)	(11.0)

Three months to 31 March 2017	**Residential Care Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**
Group revenue	73.0	89.7	-	**162.7**
Adjusted EBITDA	7.3	5.1	(1.3)	**11.1**
Depreciation of tangible assets	(3.3)	(2.5)	(0.4)	**(6.2)**
Adjusted operating profit/(loss)	4.0	2.6	(1.7)	**4.9**
Amortisation of intangible assets	(1.0)	(1.2)	-	**(2.2)**
Non-recurring items	-	(0.3)	-	**(0.3)**
IAS 17 lease expense	(0.1)	-	-	**(0.1)**
Profit/(loss) before financing expense and taxation	2.9	1.1	(1.7)	**2.3**
Net financing expense				**(3.9)**
Taxation				**0.9**
Loss for the year				**(0.7)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(7.6)	(2.6)	-	(10.2)

Six months to 31 March 2018	Residential Care Services	Health Care	Other	Group
	£m	£m	£m	£m
Group revenue	158.4	182.1	-	**340.5**
Adjusted EBITDA	15.4	10.5	(2.6)	**23.3**
Depreciation of tangible assets	(8.1)	(4.5)	(1.5)	**(14.1)**
Adjusted operating profit/(loss)	7.3	6.0	(4.1)	**9.2**
Amortisation of intangible assets	(1.8)	(1.6)	-	**(3.4)**
Gain on disposal of tangible fixed assets	1.3	-	-	**1.3**
Non-recurring items	(0.5)	(0.2)	-	**(0.7)**
IAS 17 lease expense	(1.5)	-	-	**(1.5)**
Profit/(loss) before financing expense and taxation	4.8	4.2	(4.1)	**4.9**
Net financing expense				**(7.9)**
Taxation				**(0.3)**
Loss for the year				**(3.3)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(16.4)	(5.7)	(0.1)	(22.2)

Six months to 31 March 2017	Residential Care Services	Health Care	Other	Group
	£m	£m	£m	£m
Group revenue	146.0	176.8	-	**322.8**
Adjusted EBITDA	15.1	5.3	(2.6)	**17.8**
Depreciation of tangible assets	(6.5)	(4.5)	(0.7)	**(11.7)**
Adjusted operating profit/(loss)	8.6	0.8	(3.3)	**6.1**
Amortisation of intangible assets	(1.9)	(2.4)	-	**(4.3)**
Non-recurring items	-	(2.8)	-	**(2.8)**
IAS 17 lease expense	(0.2)	-	-	**(0.2)**
Profit/(loss) before financing expense and taxation	6.5	(4.4)	(3.3)	**(1.2)**
Net financing expense				**(7.9)**
Taxation				**1.5**
Loss for the year				**(7.6)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(14.9)	(5.4)	(0.1)	(20.4)