Care UK Health & Social Care Investments Limited

Quarterly Financial Report for the three and six months ended 31 March 2017

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

TABLE OF CONTENTS

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 2016 (the "2016 Annual report") and should be read in conjunction with that report. The 2016 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 2017 and exclude the effects of IFRIC 12.

- **Group overview and financial highlights**
  - Overall results in the three months ended 31 March 2017 are significantly ahead of prior year, with continued growth in both Residential Care and Health Care.
  - Revenue in Quarter Two has increased by £21.2 million (15.0 per cent.) to £162.7 million. Adjusted EBITDA has increased by £3.9 million to £11.1 million, with significant growth in both divisions. Adjusted EBITDA in Residential Care has increased by £1.7 million. Health Care Adjusted EBITDA increased by £2.4 million.
  - The comparison to prior year is distorted by both the sale of the Greater Manchester CATs contract (sold on 3 January 2017) and the timing of Easter (Q3 in 2016 versus Q2 in 2017). At an Adjusted EBITDA level these two items offset each other, i.e. the actual improvement in Adjusted EBITDA is broadly reflective of the underlying position.
  - Pro-forma Adjusted EBITDA (Adjusted EBITDA before new care home start-up losses of £1.1 million) of £12.2 million represents a £4.3 million (54.4 per cent.) increase on prior year.
  - The new build care home strategy in Residential Care, targeted at self-funded customers, continues to make good progress and is translating into steadily increasing financial performance as new homes mature.
  - The Quarter Two results reflect a particularly encouraging performance in Health Care, with significant growth in both secondary care (elective surgery) and prison health care profitability.
  - As previously reported, during February 2017, Care UK's separately owned property development company, (Silver Sea), completed the sale of its freehold interest in two care homes. After the repayment of debt facilities, net proceeds of circa £22 million are expected to benefit leverage through a combination of repayment of loans and reduced funding requirements on current and future care home new build projects. The two care homes will continue to be operated by Care UK under similar leasehold arrangements.
  - Net debt at 31 March 2017 of £263.0 million is consistent with prior quarter and slightly lower than management expectations. Reported leverage of 6.7x (6.1x on a pro-forma basis) is mainly driven by Adjusted EBITDA progression, supported by strong working capital.
  - Net financing costs of £3.9 million are £0.6 million lower than the prior year, principally due to a reduction in non-cash charges.
  - Adjusted EBITDA is stated before net £0.3 million of non-recurring charges recognised in the quarter which includes Health Care procurement programme costs of £0.5 million (offset by a non-recurring £0.2 million credit).

- **Residential Care Services**
  - Residential Care revenue was £73.0 million in the quarter, an increase of £7.0 million (10.6 per cent.) compared to the prior year. Adjusted EBITDA of £7.3 million is £1.7 million better than prior year, mainly as a result of new homes maturing, both the self-pay orientated and the Suffolk homes.
  - Pro-forma Adjusted EBITDA of £8.4 million increased by £2.1 million compared to prior year, with a greater level of start-up losses incurred than in 2016.
  - Key operational metrics continue to trend in line with management expectations, driving continued financial improvement.
    - Average weekly fee (AWF) has increased to £822, a 7.7 per cent. increase on prior year mainly as result of the increasing proportion of self-funding residents but also an increase in NHS Funded Nursing Care. The proportion of total revenue from self-funded residents was 41.1 per cent., a significant increase on the 37.3 per cent. in Quarter Two 2016.
    - Financial occupancy levels have been maintained in the quarter with average occupancy across all homes of 89.0 per cent. and at 91.7 per cent. for our core portfolio of largely local authority funded homes.
    - As previously reported, the availability of nurses and carers continues to be challenging across the sector. As a result, agency usage is running higher than expected but labour costs as a percentage of revenue for the quarter of 58.4 per cent. has remained in line with prior year, partly as a result of the ratio benefitting from increased occupancy on the new build homes.
  - A new self-pay care home opened in Ferndown (Dorset) in the quarter with a further home opened in Sevenoaks in April 2017. There is a strong pipeline of 18 new builds planned to open over the next two to three years, supporting the strategy to increase self-funded occupancy and consequently reducing dependency on local authority funding.
  - 74 per cent. of Care UK's homes are now rated by the Care Quality Commission as either Good or Outstanding with two of our 114 homes rated Inadequate.

- **Health Care**
  - Health Care revenue grew to £89.7 million in the quarter, £14.2 million (18.8 per cent.) higher than prior year, mainly as a result of the prison health care contracts won in April 2016. Adjusted EBITDA grew by 88.9 per cent. to £5.1 million.
  - As stated in the Quarter One Financial Report, there is encouraging momentum in activity levels in some of our treatment centres. Although the consistency of volumes remains uncertain in the short-term, we remain confident that over the medium-term activity levels will improve as pressure on NHS waiting lists continues to increase.
  - Our overhead reduction programme is largely complete with annual savings (before investment in new services) estimated at £4.5 million on a full year basis, £1.5 million lower than the previous £6.0 million target. The shortfall is more than offset by better than expected savings generated by the procurement programme.
  - Care UK continues to invest where growth opportunities exist with a new operating theatre opened at the Plymouth Treatment Centre in the quarter.

- Reflecting Care UK's ongoing emphasis on quality, in May 2017 the Shepton Mallet Treatment Centre became the first surgical hospital in England to be awarded Outstanding in every individual element of its recent CQC inspection.
- As previously reported, the former Greater Manchester CATS service that was operated under a Wave 2 contract up until February 2016 was sold to InHealth Group on 3 January 2017.
- On 1 April 2017, Care UK successfully mobilised the Devon and Dorset prison clusters contracts.

CARE UK SERVICES AND GROUP FIGURES AT A GLANCE

Care UK is one of the UK's leading independent providers of health and social care services. The Care UK health and social care portfolio is focused on the continued development of residential care services, through its new home development programme, and on its market-leading provision of primary and secondary NHS health services. The group operates a balanced and diverse portfolio encompassing a broader range of specialist clinical and social care services than any other provider. Care UK's portfolio is closely aligned to commissioners' priorities, and focused on patient, service user and customer expectations and choice.

Social Care	Health Care
Care UK is one of the largest providers of residential care for older people. We operate 114 care homes with over 7,517 beds providing both residential and nursing care. Our team of over 9,000 people delivers care to over 6,000 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 customers being self-funding by 2020. We have opened 24 new homes since 2011 and have a strong pipeline of opportunities ahead.	Care UK is the largest independent provider of NHS services in the country. Our services are centred around the key primary and secondary care service streams. **Primary Care** We are the largest provider of health care services in prisons and secure facilities, delivered at 34 different sites. We provide over 60 NHS primary care services including GP and walk-in services. We deliver 11 NHS out of hours services, providing health advice and support for over 10 million people. Our 13 NHS 111 services handle on average 240,000 calls a month covering a population of over 11 million people. **Secondary Care** We operate 9 hospitals that offer a range of diagnostic services with a focus on providing elective, planned surgery. Our treatment centres have exceptional clinical outcomes and no cases of hospital acquired MRSA. Our Peninsula treatment centre is the first independent sector surgical hospital to be awarded an 'outstanding' rating by CQC. In the past year, our treatment centres and clinical assessment services delivered over 80,000 procedures for NHS patients.

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

Key figures	**Continuing operations**	
Amounts in £ million	Q2 2016	Q2 2017
Revenue	141.5	162.7
Adjusted EBITDA	7.2	11.1
Pro-forma Adjusted EBITDA	7.9	12.2
Adjusted operating profit	1.5	4.9
Net loss for the period	(8.4)	(0.7)
Operating cash flow (before capital expenditure)	11.9	15.0

Segmental Reporting	**Revenue**		**Adjusted EBITDA**	
Amounts in £ million	Q2 2016	Q2 2017	Q2 2016	Q2 2017
Residential Care Services	66.0	73.0	5.6	7.3
Health Care	75.5	89.7	2.7	5.1
Other	-	-	(1.1)	(1.3)
Continuing operations	141.5	162.7	7.2	11.1

Financial leverage	**Continuing operations**			
As of and for the 12 month period ended	30 June 2016	30 September 2016	31 December 2016	31 March 2017
Adjusted EBITDA (£m)	34.4	34.6	35.1	39.0
Pro-forma Adjusted EBITDA (£m)[1]	38.1	38.2	38.5	42.8
Net debt (£m)[2]	262.3	261.3	264.3	263.0
Net debt / Pro-forma Adjusted EBITDA	6.88x	6.84x	6.86x	6.14x
Net debt / Adjusted EBITDA	7.63x	7.55x	7.53x	6.74x

[1] Pro-forma Adjusted EBITDA, excluding new home start-up losses (£3.8 million LTM 31 March 2017) 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 2017 and 31 March 2016 excluding the effect of applying IFRIC 12. For further information, including the effects of applying IFRIC 12, refer to the 2016 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 2016 Annual report. For full details regarding Care UK's Accounting Policies refer to the 2016 Annual report.

	Three months ended 31 March		Six months ended 31 March	
	2016	**2017**	**2016**	**2017**
Continuing operations	**£m**	**£m**	**£m**	**£m**
Revenue	141.5	162.7	283.0	322.8
Cost of sales	(127.4)	(144.1)	(255.3)	(289.5)
Gross profit	**14.1**	**18.6**	**27.7**	**33.3**
Administrative expenses	(17.8)	(16.3)	(36.7)	(34.5)
Operating profit/(loss) before financing expenses	**(3.7)**	**2.3**	**(9.0)**	**(1.2)**
Adjusted EBITDA	**7.2**	**11.1**	**13.4**	**17.8**
Depreciation of tangible assets	(5.7)	(6.2)	(11.9)	(11.7)
Adjusted operating profit	1.5	4.9	1.5	6.1
Amortisation of intangible assets	(2.5)	(2.2)	(5.3)	(4.3)
Loss on disposal of tangible fixed assets	-	-	(0.5)	-
Non-recurring items	(2.4)	(0.3)	(4.1)	(2.8)
IAS 17 lease expense	(0.3)	(0.1)	(0.6)	(0.2)
Operating profit/(loss) before financing expenses	**(3.7)**	**2.3**	**(9.0)**	**(1.2)**
Financial income	0.5	0.7	1.0	1.4
Financial expense	(5.0)	(4.6)	(10.1)	(9.3)
Net financing expense	**(4.5)**	**(3.9)**	**(9.1)**	**(7.9)**
Loss before taxation	**(8.2)**	**(1.6)**	**(18.1)**	**(9.1)**
Taxation	(0.2)	0.9	1.6	1.5
Loss for the period	**(8.4)**	**(0.7)**	**(16.5)**	**(7.6)**

Continuing and discontinued operations[1]	Three months ended 31 March 2016 £m	Three months ended 31 March 2017 £m	Six months ended 31 March 2016 £m	Six months ended 31 March 2017 £m
Revenue	142.5	162.7	286.0	322.8
Cost of sales	(128.2)	(144.1)	(257.7)	(289.5)
Gross profit	**14.3**	**18.6**	**28.3**	**33.3**
Administrative expenses	(18.0)	(16.3)	(37.2)	(34.5)
Operating profit/(loss) before financing expenses	**(3.7)**	**2.3**	**(8.9)**	**(1.2)**
Adjusted EBITDA	**7.2**	**11.1**	**13.5**	**17.8**
Depreciation of tangible assets	(5.7)	(6.2)	(11.9)	(11.7)
Adjusted operating profit	1.5	4.9	1.6	6.1
Amortisation of intangible assets	(2.5)	(2.2)	(5.3)	(4.3)
Loss on disposal of tangible assets	-	-	(0.5)	-
Non-recurring items	(2.4)	(0.3)	(4.1)	(2.8)
IAS 17 lease expense	(0.3)	(0.1)	(0.6)	(0.2)
Operating profit/(loss) before financing expenses	**(3.7)**	**2.3**	**(8.9)**	**(1.2)**
Financial income	0.5	0.7	1.0	1.4
Financial expense	(5.0)	(4.6)	(10.1)	(9.3)
Net financing expense	**(4.5)**	**(3.9)**	**(9.1)**	**(7.9)**
Loss before taxation	**(8.2)**	**(1.6)**	**(18.0)**	**(9.1)**
Taxation	(0.2)	0.9	1.6	1.5
Loss for the period	**(8.4)**	**(0.7)**	**(16.4)**	**(7.6)**

[1] Discontinued operations comprises the Amicus ITS business disposed of in February 2016 that previously formed part of the 'Other' segment.

Net Debt and Liquidity

The following table shows the comparative net debt position as at 31 March 2017 and 31 March 2016.

	As at 31 March	
	2016	**2017**
	£m	**£m**
Senior Secured Notes	267.6	267.6
Revolving Credit Facility and bank loans	29.0	12.0
Cash and cash equivalents	(27.8)	(13.7)
Deferred financing costs	(4.1)	(2.9)
Total net debt	**264.7**	**263.0**

Net debt was broadly in line with the prior year with a £2.9 million reduction in the net cash/RCF utilisation position being offset by a reduction in the carrying value of deferred financing costs as a result of annual amortisation. Net liquidity (RCF availability plus cash) increased from £54.4 million as at 31 March 2016 to £62.7 million as at 31 March 2017, in part due to the expiry of a performance bond of £5.4m in October 2016. Ongoing utilisation of the RCF includes £4.0 million relating to a performance bond that was granted in connection with an NHS contract in Care UK's Health Care business. The remaining performance bond expires during Quarter Three of FY17.

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"), and a Second Lien tranche of £75.0 million (the "2014 Second Lien Notes").

Following a series of Note repurchase transactions that took place in the 2015 financial year, in part funded by business disposals, the total of Senior Secured Notes and Second Lien Notes remaining in issue at 31 March 2017 was £230.0 million and £42.6 million respectively. For further details see the Annual report 2016. The Senior Secured Notes mature on 15 July 2019 and the Second Lien Notes mature on 15 January 2020.

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 its Notes as outlined above, Care UK expects that its key sources of liquidity for the foreseeable future will continue to be cash flows from operations together with drawings under Care UK's Revolving Credit Facility.

The following table sets out a summary of cash flows and change in net debt for the periods indicated, from both continuing and discontinued operations.

	Three months ended 31 March		Six months ended 31 March	
	2016	2017	2016	2017
	£m	£m	£m	£m
Adjusted operating profit	1.5	4.9	1.6	6.1
Depreciation and other non-cash movements	5.4	6.1	11.3	11.5
Change in working capital and non-recurring items	5.0	4.0	0.2	8.7
Cash flow from operations	**11.9**	**15.0**	**13.1**	**26.3**
Business disposals, net of cash disposed	0.1	0.2	0.1	0.2
Cash flows resulting from financing activities and taxation	(5.2)	(4.1)	(9.6)	(8.5)
Capital expenditure, net of disposal proceeds	(4.8)	(9.3)	(10.5)	(16.6)
Loans to related party undertakings & joint ventures	(2.0)	(0.2)	(4.2)	(2.5)
Movement in net debt arising from cash flows	**-**	**1.6**	**(11.1)**	**(1.1)**
Other non-cash movements in net debt	(0.3)	(0.3)	(0.6)	(0.6)
Total movement in net debt	**(0.3)**	**1.3**	**(11.7)**	**(1.7)**
Net debt at 31 March	(264.7)	(263.0)	(264.7)	(263.0)

The net cash flow from operating activities for the three months ended 31 March 2017 was an inflow of £15.0 million compared with an inflow of £11.9 million for the three months ended 31 March 2016. Cash flows resulting from financing expenses and taxation were a net outflow of £4.1 million in the three months ended 31 March 2017 a decrease in the net cash outflow from the prior year of £1.1 million. This reflects the largely unchanged GBP LIBOR interest rate that is applied to the Group's Loan Notes and RCF facility.

Capital expenditure amounted to £9.3 million (net of disposal proceeds of £0.5 million) for the three months ended 31 March 2017 compared with £4.8 million (net of disposal proceeds of £0.5 million) for the three months ended 31 March 2016. Maintenance capital expenditure amounted to £4.4 million for the three months ended 31 March 2017 and is £1.3 million more than the prior year of £3.1 million. Expansionary capital expenditure amounted to £5.4 million for the three months ended 31 March 2017 compared with £2.2 million for the three months ended 31 March 2016. The increase on prior year is largely due to theatre expansions at two treatment centres and timing of spend on new care home developments.

Care UK provided loans to related parties of £0.2 million in the three months ended 31 March 2017 compared with £2.0 million in the three months ended 31 March 2016 - see "Certain Relationships and Related Party Transactions" in the 2016 Annual report for further details.

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 2016 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.

INDEX TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED 31 MARCH 2017

PAGE

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED

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

Care UK Health & Social Care Investments Limited

Condensed consolidated financial statements (unaudited)

Three and six month periods ended
31 March 2017

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
For the three and six month periods ended 31 March 2017

	Notes	Three months to 31 March 2017	Three months to 31 March 2016	Six months to 31 March 2017	Six months to 31 March 2016
		£m	£m	£m	£m
Revenue		**162.2**	141.0	**321.9**	281.9
Cost of sales		**(144.0)**	(126.9)	**(288.8)**	(254.3)
Gross profit		**18.2**	14.1	**33.1**	27.6
Administrative expenses		**(16.3)**	(18.0)	**(34.7)**	(37.0)
Operating profit/(loss) before financing expense		**1.9**	(3.9)	**(1.6)**	(9.4)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)		**10.2**	6.5	**16.4**	12.1
Depreciation of tangible assets		**(5.6)**	(5.1)	**(10.5)**	(10.7)
Adjusted operating profit		**4.6**	1.4	**5.9**	1.4
Amortisation of intangible assets		**(2.3)**	(2.6)	**(4.5)**	(5.6)
Loss on disposal of tangible fixed assets		**-**	-	**-**	(0.5)
Non-recurring items	5	**(0.3)**	(2.4)	**(2.8)**	(4.1)
IAS 17 lease expense		**(0.1)**	(0.3)	**(0.2)**	(0.6)
Operating profit/(loss) before financing expense		**1.9**	(3.9)	**(1.6)**	(9.4)
Financial income	6	**0.9**	0.8	**1.8**	1.5
Financial expense	6	**(4.6)**	(5.0)	**(9.3)**	(10.1)
Net financing expense		**(3.7)**	(4.2)	**(7.5)**	(8.6)
Loss before taxation	7	**(1.8)**	(8.1)	**(9.1)**	(18.0)
Taxation		**0.9**	(0.3)	**1.5**	1.6
Loss for the period from continuing operations		**(0.9)**	(8.4)	**(7.6)**	(16.4)
Profit for the period from discontinued operations	8	**-**	-	**-**	0.1
Total comprehensive loss for the period attributable to equity holders of the parent		**(0.9)**	(8.4)	**(7.6)**	(16.3)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 31 March 2017

	Notes	31 March 2017	31 March 2016	30 September 2016
		£m	£m	£m
Assets				
Property, plant and equipment	9	**192.2**	185.9	190.0
Intangible assets	10	**143.2**	156.4	147.7
Other financial assets	11	**19.7**	20.8	20.0
Amounts due from related party undertakings		**31.5**	26.4	27.6
Other receivables		**8.1**	8.4	8.3
Deferred tax assets		**9.1**	12.3	7.7
Total non-current assets		**403.8**	410.2	401.3
Other financial assets	11	**1.1**	0.5	1.4
Inventories		**4.1**	3.4	3.7
Trade and other receivables		**50.2**	48.5	50.1
Cash and cash equivalents		**13.7**	27.8	12.8
Assets held for sale		**2.9**	0.4	2.9
Total current assets		**72.0**	80.6	70.9
Total assets		**475.8**	490.8	472.2
Liabilities				
Trade and other payables		**(146.4)**	(137.6)	(137.6)
Current tax liabilities		**(1.5)**	(0.4)	(1.7)
Provisions for liabilities and charges		**(1.0)**	(1.0)	(1.0)
Total current liabilities		**(148.9)**	(139.0)	(140.3)
Financial liabilities	12	**(276.7)**	(292.5)	(274.1)
Other non-current liabilities		**(19.0)**	(12.4)	(19.3)
Amounts due to related party undertakings		**(5.7)**	(5.3)	(5.5)
Provisions for liabilities and charges		**(25.4)**	(13.2)	(25.3)
Total non-current liabilities		**(326.8)**	(323.4)	(324.2)
Total liabilities		**(475.7)**	(462.4)	(464.5)
Net assets		**0.1**	28.4	7.7
Equity				
Issued share capital		**210.7**	210.7	210.7
Capital contribution reserve		**15.7**	15.7	15.7
Retained earnings		**(226.3)**	(198.0)	(218.7)
Total equity attributable to equity holders of the parent		**0.1**	28.4	7.7

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the six month period ended 31 March 2017

Group	Attributable to equity holders of the parent			
	Issued Share capital	**Capital contribution reserve**	**Retained earnings**	**Total parent equity**
	£m	**£m**	**£m**	**£m**
At 30 September 2016	210.7	15.7	(218.7)	7.7
Total comprehensive loss for the period	-	-	(7.6)	(7.6)
At 31 March 2017	**210.7**	**15.7**	**(226.3)**	**0.1**

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the three and six month periods ended 31 March 2017

	Three months to 31 March 2017	**Three months to 31 March 2016**	**Six months to 31 March 2017**	**Six months to 31 March 2016**
	£m	**£m**	**£m**	**£m**
Cash flows from operating activities				
Loss for the period before taxation from continuing and discontinued operations	**(1.8)**	(8.1)	**(9.1)**	(17.9)
Financial income	**(0.9)**	(0.8)	**(1.8)**	(1.5)
Financial expense	**4.6**	5.0	**9.3**	10.1
Depreciation of tangible assets	**5.6**	5.1	**10.5**	10.7
Amortisation of intangible assets	**2.3**	2.6	**4.5**	5.6
Loss on disposal of tangible fixed assets	**-**	-	**-**	0.5
Decrease in IFRIC 12 financial asset	**0.3**	0.5	**0.8**	1.0
Decrease/(increase) in inventory	**-**	0.3	**(0.4)**	0.4
Decrease in trade and other receivables	**2.4**	7.3	**0.1**	10.0
Increase/(decrease) in trade and other payables	**2.0**	(0.2)	**11.9**	(6.1)
Cash inflow/(outflow) from operations	**14.5**	11.7	**25.8**	12.8
Income taxes paid	**(0.1)**	-	**(0.1)**	-
Net cash flows from operating activities	**14.4**	11.7	**25.7**	12.8
Cash flows from investing activities				
Disposal of businesses, net of cash disposed	**0.2**	0.1	**0.2**	0.1
Payments to acquire property, plant and equipment	**(9.3)**	(5.1)	**(16.6)**	(11.0)
Net proceeds from the sale of property, plant and equipment	**0.5**	0.5	**0.5**	0.8
Loans to related party undertakings	**(0.2)**	(2.0)	**(2.5)**	(4.2)
Net cash flows from investing activities	**(8.8)**	(6.5)	**(18.4)**	(14.3)
Cash flows from financing activities				
Proceeds from new loans	**36.2**	7.4	**79.2**	36.4
Repayment of amounts borrowed	**(38.0)**	(5.0)	**(77.0)**	(18.0)
Interest paid	**(4.2)**	(4.5)	**(8.6)**	(8.9)
Payment of capital element of finance lease payments	**-**	-	**-**	(0.1)
Net cash flows from financing activities	**(6.0)**	(2.1)	**(6.4)**	9.4
Net increase in cash and cash equivalents	**(0.4)**	3.1	**0.9**	7.9
Cash and cash equivalents at the beginning of the period	**14.1**	24.7	**12.8**	19.9
Cash and cash equivalents at the end of the period	**13.7**	27.8	**13.7**	27.8

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 2017 comprise the company and its subsidiaries (together referred to as the "group").

This interim report, for the three and six months ended 31 March 2017, 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 2016, 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 2016 set out within this report have been extracted from the 2016 Annual report and accounts published on 26 January 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 2016 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 and therefore does not account for any unwinding or utilisation of the provision within the interim financial statements. The carrying amount of provisions as at 31 March 2017 was £26.4m.

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 2016 Annual report – Presentation of Financial Information on page 40.

4. SEGMENT REPORTING

Segment information is presented in respect of the group's business segments. The primary business segments are based on the group's management and internal reporting structure. 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 finance income and expense, and taxation.

In February 2016 the Amicus ITS business, that was originally acquired as part of a larger acquisition during the year ended 30 September 2013, was sold. The Amicus business was formerly included in the 'Other' segment and has been classified as discontinued operations.

Continuing Business Segments

The group's continuing 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 2017	Continuing Operations: Residential Care Services	Health Care	Other	Total	Discontinued Operations	Group
	£m	£m	£m	£m	£m	£m
Group revenue	72.5	89.7	-	**162.2**	-	**162.2**
Adjusted EBITDA	6.4	5.1	(1.3)	**10.2**	-	**10.2**
Depreciation of tangible assets	(2.7)	(2.5)	(0.4)	**(5.6)**	-	**(5.6)**
Adjusted operating profit/(loss)	3.7	2.6	(1.7)	**4.6**	-	**4.6**
Amortisation of intangible assets	(1.1)	(1.2)	-	**(2.3)**	-	**(2.3)**
Non-recurring items	-	(0.3)	-	**(0.3)**	-	**(0.3)**
IAS 17 lease expense	(0.1)	-	-	**(0.1)**	-	**(0.1)**
Profit/(loss) before financing expense and taxation	2.5	1.1	(1.7)	**1.9**	-	**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)	-	(10.2)

Three months to 31 March 2016	Continuing Operations: Residential Care Services	Health Care	Other	Total	Discontinued Operations[1]	Group
	£m	£m	£m	£m	£m	£m
Group revenue	65.5	75.5	-	**141.0**	1.0	**142.0**
Adjusted EBITDA	4.9	2.7	(1.1)	**6.5**	-	**6.5**
Depreciation of tangible assets	(2.8)	(1.9)	(0.4)	**(5.1)**	-	**(5.1)**
Adjusted operating profit/(loss)	2.1	0.8	(1.5)	**1.4**	-	**1.4**
Amortisation of intangible assets	(1.2)	(1.4)	-	**(2.6)**	-	**(2.6)**
Non-recurring items	(0.5)	(1.9)	-	**(2.4)**	-	**(2.4)**
IAS 17 lease expense	(0.3)	-	-	**(0.3)**	-	**(0.3)**
Profit/(loss) before financing expense and taxation	0.1	(2.5)	(1.5)	**(3.9)**	-	**(3.9)**
Net financing expense						**(4.2)**
Taxation						**(0.3)**
Loss for the year						**(8.4)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(6.7)	(2.7)	(0.1)	(9.5)	-	(9.5)

[1] Amicus ITS

Six months to 31 March 2017	Continuing Operations: Residential Care Services	Continuing Operations: Health Care	Continuing Operations: Other	Continuing Operations: Total	Discontinued Operations	Group
	£m	£m	£m	£m	£m	£m
Group revenue	145.1	176.8	-	**321.9**	-	**321.9**
Adjusted EBITDA	13.7	5.3	(2.6)	**16.4**	-	**16.4**
Depreciation of tangible assets	(5.3)	(4.5)	(0.7)	**(10.5)**	-	**(10.5)**
Adjusted operating profit/(loss)	8.4	0.8	(3.3)	**5.9**	-	**5.9**
Amortisation of intangible assets	(2.1)	(2.4)	-	**(4.5)**	-	**(4.5)**
Non-recurring items	-	(2.8)	-	**(2.8)**	-	**(2.8)**
IAS 17 lease expense	(0.2)	-	-	**(0.2)**	-	**(0.2)**
Profit/(loss) before financing expense and taxation	6.1	(4.4)	(3.3)	**(1.6)**	-	**(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)	-	(20.4)

Six months to 31 March 2016	Continuing Operations: Residential Care Services	Continuing Operations: Health Care	Continuing Operations: Other	Continuing Operations: Total	Discontinued Operations[1]	Group
	£m	£m	£m	£m	£m	£m
Group revenue	129.6	152.3	-	**281.9**	3.0	**284.9**
Adjusted EBITDA	9.4	5.2	(2.5)	**12.1**	0.1	**12.2**
Depreciation of tangible assets	(5.9)	(3.9)	(0.9)	**(10.7)**	-	**(10.7)**
Adjusted operating profit/(loss)	3.5	1.3	(3.4)	**1.4**	0.1	**1.5**
Amortisation of intangible assets	(2.5)	(3.1)	-	**(5.6)**	-	**(5.6)**
Loss on disposal of tangible assets	-	-	(0.5)	**(0.5)**	-	**(0.5)**
Non-recurring items	(0.7)	(3.4)	-	**(4.1)**	-	**(4.1)**
IAS 17 lease expense	(0.6)	-	-	**(0.6)**	-	**(0.6)**
Profit/(loss) before financing expense and taxation	(0.3)	(5.2)	(3.9)	**(9.4)**	0.1	**(9.3)**
Net financing expense						**(8.6)**
Taxation						**1.6**
Loss for the year						**(16.3)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(13.1)	(5.7)	(0.2)	(19.0)	-	(19.0)

[1] Amicus ITS

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 2017	Three months to 31 March 2016	Six months to 31 March 2017	Six months to 31 March 2016
		£m	**£m**	**£m**	**£m**
Non-recurring items:					
— Restructuring	*(a)*	**-**	(1.2)	**(1.3)**	(1.2)
— Contract exit and transition	*(b)*	**0.2**	-	**(0.8)**	-
— Secondary care productivity improvement costs	*(c)*	**-**	(1.1)	**-**	(2.6)
— Contract transfer and integration costs	*(d)*	**-**	(0.1)	**-**	(0.3)
— Procurement programme	*(e)*	**(0.5)**	-	**(0.7)**	-
		(0.3)	(2.4)	**(2.8)**	(4.1)

Non-recurring items in the three months to 31 March 2017 amounted to a net charge of £0.3m in aggregate (three months to 31 March 2016: charge of £2.4m). 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 three months ended 31 December 2016 in respect of the expected related costs.

(b) Contract exit and transition

The 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 has been incurred in the three months ended 31 December 2016 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) Secondary care productivity improvement costs

During the year ended 30 September 2015 Care UK's Health Care division initiated an efficiency programme across all of its treatment centres. The programme focused on optimising operating theatre usage whilst also maximising patient satisfaction through the delivery of a high quality end-to-end procedure experience and service. The programme incurred implementation costs of £nil in the three months to 31 March 2017 (three months to 31 March 2016 £1.1m) and has delivered efficiency savings that correlate with level of activity and volume of procedures achieved in the treatment centres.

(d) Contract transfer and integration costs

During the 2013 financial year Care UK's Residential Care division transferred 16 existing care homes from Suffolk County Council under a contract to replace all these homes with ten new purpose built care homes and to operate these under a long-term contract together with an element of self-funded residents. The build and transition programme successfully completed with the opening of the tenth and final home in January 2016. In the three months to 31 March 2017 aggregate employee transition and service optimisation costs of £nil (three months to 31 March 2016: £0.1m) were incurred.

(e) Procurement programme

During the 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 expected to bring significant commercial benefit to the business. Implementation costs of £0.5m were incurred in the three months to 31 March 2017 with the programme expected to run for the duration of the 2017 financial year.

6. NET FINANCING EXPENSE

	Three months to 31 March 2017	Three months to 31 March 2016	Six months to 31 March 2017	Six months to 31 March 2016
	£m	**£m**	**£m**	**£m**
Financial income:				
Interest receivable	**0.7**	0.6	**1.4**	1.0
IFRIC-12 interest receivable	**0.2**	0.2	**0.4**	0.5
Financial income	**0.9**	0.8	**1.8**	1.5
Financial expense:				
Interest payable on borrowings	**(4.1)**	(4.3)	**(8.3)**	(8.5)
Amortisation of deferred financing costs	**(0.3)**	(0.3)	**(0.6)**	(0.7)
Interest payable on loans with parent undertaking	**(0.1)**	(0.1)	**(0.2)**	(0.2)
Other interest expense	**(0.1)**	(0.3)	**(0.2)**	(0.7)
Financial expense	**(4.6)**	(5.0)	**(9.3)**	(10.1)
Net financing expense	**(3.7)**	(4.2)	**(7.5)**	(8.6)

7. LOSS BEFORE TAXATION

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

	Three months to 31 March 2017	Three months to 31 March 2016	Six months to 31 March 2017	Six months to 31 March 2016
	£m	**£m**	**£m**	**£m**
Depreciation of tangible assets	**5.6**	5.1	**10.5**	10.7
Amortisation of intangible assets	**2.3**	2.6	**4.5**	5.6
Loss on disposal of tangible fixed assets	**-**	-	**-**	0.5
Operating lease charges: Land & buildings (including IAS 17 lease expense)	**10.3**	9.8	**20.6**	19.6
IFRIC 12 infrastructure costs expensed in the period	**0.4**	0.2	**0.5**	0.3

8. DISCONTINUED OPERATIONS

In February 2016 the Amicus ITS business was sold. The Amicus business was formerly included in the 'Other' segment. The aggregated results of discontinued service lines and business units that have been included in the consolidated statement of comprehensive performance are as follows:

	Three months to 31 March 2017	Three months to 31 March 2016	Six months to 31 March 2017	Six months to 31 March 2016
	£m	£m	£m	£m
Revenue	**-**	1.0	**-**	3.0
Cost of sales	**-**	(0.8)	**-**	(2.4)
Gross profit	**-**	0.2	**-**	0.6
Administrative expenses	**-**	(0.2)	**-**	(0.5)
Operating profit before financing expense	**-**	-	**-**	0.1
Net financing expense	**-**	-	**-**	-
Share of results of joint venture	**-**	-	**-**	-
Profit before taxation	**-**	-	**-**	0.1
Taxation on ordinary activities	**-**	-	**-**	-
Profit for the period from discontinued operations	**-**	-	**-**	0.1

In order to determine the results for the discontinued operations, revenues and costs have been allocated to the Amicus ITS business only to the extent it is no longer entitled to receive revenues or incur expenses.

The effect of discontinued operations on segmental results is disclosed in note 4.

9. PROPERTY, PLANT AND EQUIPMENT

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Opening net book value	**190.0**	190.2	190.2
Additions	**13.4**	7.2	24.0
Disposal and transfers to current assets	**(0.7)**	(0.8)	(3.9)
Depreciation charge for the period	**(10.5)**	(10.7)	(20.3)
Closing net book value	**192.2**	185.9	190.0

10. INTANGIBLE ASSETS

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Opening net book value	**147.7**	162.9	162.9
Disposal	**-**	(0.9)	(0.9)
Amortisation charge for the period	**(4.5)**	(5.6)	(14.3)
Closing net book value	**143.2**	156.4	147.7

11. OTHER FINANCIAL ASSETS

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Non-current			
IFRIC-12 financial asset	**18.5**	20.1	18.8
Financial asset at fair value through profit and loss	**0.7**	-	0.6
Loans due from former subsidiary undertaking	**0.5**	0.7	0.6
Total non-current other financial assets	**19.7**	20.8	20.0
Current			
IFRIC-12 financial asset	**0.9**	0.5	1.2
Financial asset at fair value through profit and loss	**0.2**	-	0.2
Total current other financial assets	**1.1**	0.5	1.4
Total other financial assets	**20.8**	21.3	21.4

IFRIC-12 financial asset	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
IFRIC-12 financial asset: brought forward	**20.0**	21.2	21.2
Released in the period	**(0.6)**	(0.6)	(1.2)
IFRIC-12 financial asset: carried forward	**19.4**	20.6	20.0

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 2015	(0.1)	(272.8)	(272.9)
Cash flow	0.1	-	0.1
Other non-cash changes	-	(1.3)	(1.3)
At 30 September 2016	-	(274.1)	(274.1)
Cash flow	-	(2.0)	(2.0)
Other non-cash changes	-	(0.6)	(0.6)
At 31 March 2017	**-**	**(276.7)**	**(276.7)**

As at 31 March 2017 there was accrued interest of £3.1m (31 March 2016: £3.3m; 30 September 2016: £3.4m) 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 Care UK Health & Social Care Plc ("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.

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 2017 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 2017 these Notes are still held by Care UK Health & Social Care Finance Limited and are presented as ‘amounts due to related party 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. No further transactions took place in the current year. As a result of this transaction the total of Senior Secured Notes remaining in issue at 31 March 2017 is £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"). On 17 July 2014 the original RCF utilisations were repaid in full from the proceeds of the issue of the 2014 Notes together with utilisations drawn on the amended RCF.

As at 31 March 2017, £12.0m (31 March 2016: £29.0m) of the amended RCF has been utilised as cash drawings. The remainder of the facility remained undrawn, with the exception of £4.0m (31 March 2016: £9.4m) utilised in relation to performance bonds provided in relation to certain contracts in the Health Care division. The remaining performance bond expires during Quarter Three of FY17.

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 11 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 2016 Annual report.

Care UK Health & Social Care Investments Limited

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

Three and six month periods ended 31 March 2017

BASIS OF PREPARATION

These interim proforma 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 proforma 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 proforma 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 'proforma' in this group proforma 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 proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Except as described below, the same accounting policies and methods of computation are followed in this group proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) as were applied to all periods presented in the financial statements and throughout the group. Certain comparative segmental information has been restated to be on a consistent basis with the current period's presentation (refer to note 4 of the condensed consolidated financial statements (unaudited)).

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 proforma 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
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
For the three and six month periods ended 31 March 2017

	Three months to 31 March 2017	Three months to 31 March 2016	Six months to 31 March 2017	Six months to 31 March 2016
	£m	£m	£m	£m
Revenue	**162.7**	141.5	**322.8**	283.0
Cost of sales	**(144.1)**	(127.4)	**(289.5)**	(255.3)
Gross profit	**18.6**	14.1	**33.3**	27.7
Administrative expenses	**(16.3)**	(17.8)	**(34.5)**	(36.7)
Operating profit/(loss) before financing expense	**2.3**	(3.7)	**(1.2)**	(9.0)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)	**11.1**	7.2	**17.8**	13.4
Depreciation of tangible assets	**(6.2)**	(5.7)	**(11.7)**	(11.9)
Adjusted operating profit	**4.9**	1.5	**6.1**	1.5
Amortisation of intangible assets	**(2.2)**	(2.5)	**(4.3)**	(5.3)
Loss on disposal of tangible fixed assets	**-**	-	**-**	(0.5)
Non-recurring items	**(0.3)**	(2.4)	**(2.8)**	(4.1)
IAS 17 lease expense	**(0.1)**	(0.3)	**(0.2)**	(0.6)
Operating profit/(loss) before financing expense	**2.3**	(3.7)	**(1.2)**	(9.0)
Financial income	**0.7**	0.5	**1.4**	1.0
Financial expense	**(4.6)**	(5.0)	**(9.3)**	(10.1)
Net financing expense	**(3.9)**	(4.5)	**(7.9)**	(9.1)
Loss before taxation	**(1.6)**	(8.2)	**(9.1)**	(18.1)
Taxation	**0.9**	(0.2)	**1.5**	1.6
Loss for the period from continuing operations	**(0.7)**	(8.4)	**(7.6)**	(16.5)
Profit for the year from discontinued operations	**-**	-	**-**	0.1
Total comprehensive loss for the period attributable to equity holders of the parent	**(0.7)**	(8.4)	**(7.6)**	(16.4)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
As at 31 March 2017

	31 March 2017	31 March 2016	30 September 2016
	£m	£m	£m
Assets			
Property, plant and equipment	**220.6**	215.5	219.2
Intangible assets	**135.8**	148.5	140.1
Other financial assets	**1.2**	0.7	1.3
Amounts due from related party undertakings	**31.5**	26.4	27.6
Other receivables	**8.1**	8.4	8.3
Deferred tax assets	**6.8**	9.8	5.4
Total non-current assets	**404.0**	409.3	401.9
Other financial assets	**0.2**	-	0.2
Inventories	**4.1**	3.4	3.7
Trade and other receivables	**50.2**	48.5	50.1
Cash and cash equivalents	**13.7**	27.8	12.8
Assets held for sale	**2.9**	0.4	2.9
Total current assets	**71.1**	80.1	69.7
Total assets	**475.1**	489.4	471.6
Liabilities			
Trade and other payables	**(136.0)**	(127.2)	(127.4)
Current tax liabilities	**(1.5)**	(0.4)	(1.7)
Provisions for liabilities and charges	**(1.0)**	(1.0)	(1.0)
Total current liabilities	**(138.5)**	(128.6)	(130.1)
Financial liabilities	**(276.7)**	(292.5)	(274.1)
Other non-current liabilities	**(19.0)**	(12.4)	(19.3)
Amounts due to related party undertakings	**(5.7)**	(5.3)	(5.5)
Provisions for liabilities and charges	**(25.4)**	(13.2)	(25.3)
Total non-current liabilities	**(326.8)**	(323.4)	(324.2)
Total liabilities	**(465.3)**	(452.0)	(454.3)
Net assets	**9.8**	37.4	17.3
Equity			
Issued share capital	**210.7**	210.7	210.7
Capital contribution reserve	**15.7**	15.7	15.7
Retained earnings	**(216.6)**	(189.0)	(209.1)
Total equity attributable to equity holders of the parent	**9.8**	37.4	17.3

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the three and six month periods ended 31 March 2017

	Three months to 31 March 2017	Three months to 31 March 2016	Six months to 31 March 2017	Six months to 31 March 2016
	£m	£m	£m	£m
Cash flows from operating activities				
Loss for the period before taxation from continuing and discontinued operations	**(1.6)**	(8.2)	**(9.1)**	(18.0)
Financial income	**(0.7)**	(0.5)	**(1.4)**	(1.0)
Financial expense	**4.6**	5.0	**9.3**	10.1
Depreciation of tangible assets	**6.2**	5.7	**11.7**	11.9
Amortisation of intangible assets	**2.2**	2.5	**4.3**	5.3
Loss on disposal of tangible fixed assets	**-**	-	**-**	0.5
(Increase)/decrease in inventory	**-**	0.3	**(0.4)**	0.4
(Increase)/decrease in trade and other receivables	**2.4**	7.2	**0.1**	10.0
Decrease in trade and other payables	**1.9**	(0.1)	**11.8**	(6.1)
Cash inflow from operations	**15.0**	11.9	**26.3**	13.1
Income taxes paid	**(0.1)**	-	**(0.1)**	-
Net cash flows from operating activities	**14.9**	11.9	**26.2**	13.1
Cash flows from investing activities				
Disposal of businesses, net of cash disposed	**0.2**	0.1	**0.2**	0.1
Payments to acquire property, plant and equipment	**(9.8)**	(5.3)	**(17.1)**	(11.3)
Net proceeds from sales of property, plant and equipment	**0.5**	0.5	**0.5**	0.8
Loans to related party undertakings	**(0.2)**	(2.0)	**(2.5)**	(4.2)
Net cash flows used investing activities	**(9.3)**	(6.7)	**(18.9)**	(14.6)
Cash flows from financing activities				
Proceeds from new loans	**36.2**	7.4	**79.2**	36.4
Repayment of amounts borrowed	**(38.0)**	(5.0)	**(77.0)**	(18.0)
Interest paid	**(4.2)**	(4.5)	**(8.6)**	(8.9)
Payment of capital element of finance lease payments	**-**	-	**-**	(0.1)
Net cash flows from financing activities	**(6.0)**	(2.1)	**(6.4)**	9.4
Net increase in cash and cash equivalents	**(0.4)**	3.1	**0.9**	7.9
Cash and cash equivalents at the beginning of the period	**14.1**	24.7	**12.8**	19.9
Cash and cash equivalents at the end of the period	**13.7**	27.8	**13.7**	27.8

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

Three months to 31 March 2017	Continuing Operations					
	Residential Care Services	Health Care	Other	Total	Discontinued Operations	Group
	£m	£m	£m	£m	£m	£m
Group revenue	73.0	89.7	-	**162.7**	-	**162.7**
Adjusted EBITDA	7.3	5.1	(1.3)	**11.1**	-	**11.1**
Depreciation of tangible assets	(3.3)	(2.5)	(0.4)	**(6.2)**	-	**(6.2)**
Adjusted operating profit/(loss)	4.0	2.6	(1.7)	**4.9**	-	**4.9**
Amortisation of intangible assets	(1.0)	(1.2)	-	**(2.2)**	-	**(2.2)**
Non-recurring items	-	(0.3)	-	**(0.3)**	-	**(0.3)**
IAS 17 lease expense	(0.1)	-	-	**(0.1)**	-	**(0.1)**
Profit/(loss) before financing expense and taxation	2.9	1.1	(1.7)	**2.3**	-	**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)	-	(10.2)

Three months to 31 March 2016	Continuing Operations					
	Residential Care Services	Health Care	Other	Total	Discontinued Operations[1]	Group
	£m	£m	£m	£m	£m	£m
Group revenue	66.0	75.5	-	**141.5**	1.0	**142.5**
Adjusted EBITDA	5.6	2.7	(1.1)	**7.2**	-	**7.2**
Depreciation of tangible assets	(3.4)	(1.9)	(0.4)	**(5.7)**	-	**(5.7)**
Adjusted operating profit/(loss)	2.2	0.8	(1.5)	**1.5**	-	**1.5**
Amortisation of intangible assets	(1.1)	(1.4)	-	**(2.5)**	-	**(2.5)**
Non-recurring items	(0.5)	(1.9)	-	**(2.4)**	-	**(2.4)**
IAS 17 lease expense	(0.3)	-	-	**(0.3)**	-	**(0.3)**
Profit/(loss) before financing expense and taxation	0.3	(2.5)	(1.5)	**(3.7)**	-	**(3.7)**
Net financing expense						**(4.5)**
Taxation						**(0.2)**
Loss for the year						**(8.4)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(6.7)	(2.7)	(0.1)	(9.5)	-	(9.5)

[1] Amicus ITS

Six months to 31 March 2017	Continuing Operations: Residential Care Services	Health Care	Other	Total	Discontinued Operations	Group
	£m	£m	£m	£m	£m	£m
Group revenue	146.0	176.8	-	**322.8**	-	**322.8**
Adjusted EBITDA	15.1	5.3	(2.6)	**17.8**	-	**17.8**
Depreciation of tangible assets	(6.5)	(4.5)	(0.7)	**(11.7)**	-	**(11.7)**
Adjusted operating profit/(loss)	8.6	0.8	(3.3)	**6.1**	-	**6.1**
Amortisation of intangible assets	(1.9)	(2.4)	-	**(4.3)**	-	**(4.3)**
Non-recurring items	-	(2.8)	-	**(2.8)**	-	**(2.8)**
IAS 17 lease expense	(0.2)	-	-	**(0.2)**	-	**(0.2)**
Profit/(loss) before financing expense and taxation	6.5	(4.4)	(3.3)	**(1.2)**	-	**(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)	-	(20.4)

Six months to 31 March 2016	Continuing Operations: Residential Care Services	Health Care	Other	Total	Discontinued Operations [1]	Group
	£m	£m	£m	£m	£m	£m
Group revenue	130.7	152.3	-	**283.0**	3.0	**286.0**
Adjusted EBITDA	10.7	5.2	(2.5)	**13.4**	0.1	**13.5**
Depreciation of tangible assets	(7.1)	(3.9)	(0.9)	**(11.9)**	-	**(11.9)**
Adjusted operating profit/(loss)	3.6	1.3	(3.4)	**1.5**	0.1	**1.6**
Amortisation of intangible assets	(2.2)	(3.1)	-	**(5.3)**	-	**(5.3)**
Loss on disposal of tangible assets	-	-	(0.5)	**(0.5)**	-	**(0.5)**
Non-recurring items	(0.7)	(3.4)	-	**(4.1)**	-	**(4.1)**
IAS 17 lease expense	(0.6)	-	-	**(0.6)**	-	**(0.6)**
Profit/(loss) before financing expense and taxation	0.1	(5.2)	(3.9)	**(9.0)**	0.1	**(8.9)**
Net financing expense						**(9.1)**
Taxation						**1.6**
Loss for the year						**(16.4)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(13.1)	(5.7)	(0.2)	(19.0)	-	(19.0)

[1] Amicus ITS