



Care UK Health & Social Care Newco Limited

Quarterly Financial Report for the three
months ended 31 December 2010

£250,000,000 9.75% Senior Secured Notes due 2017

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SUMMARY

Care UK has delivered a further sound operational performance in the quarter ended 31 December 2010, with some important new business steps being taken across the group. The group's financial performance for the quarter is in line with management's expectations in Social Care with performance in Health Care impacted by investment to grow volumes at certain sites. All figures and percentages quoted below are quoted for the Care UK Limited group unless stated, for the first quarter of the 2011 financial year where relevant and excluding the effects of IFRIC 12.

• Group Highlights

- Solid operational performance in the period
- LTM Adjusted EBITDA to net debt at 3.47x
- Social Care in line with expectations – good growth in Residential Care, efficiency and profit improvement in Community Care, portfolio re-shaping in Specialist Care
- Continued industry-leading standards of care, with over 96 per cent. of all rated social care services rated Excellent or Good by the independent industry regulator
- At 31 December 2010, 63.3 per cent. (30 September 2010: 63.2 per cent.) of the Residential Care division's beds were operated under block contracts with public sector customers, a key competitive differentiator
- Good pipeline both of potential new contracts across the group and greenfield developments within the Residential Care division
- Health Care comparative financial performance reflects the expected transition of ISTC Wave I centres and the investment in improving patient volumes at the group's ISTC Wave II centres
- ISTC Wave I buyback programme continuing as expected, with £10.6 million received in the period, balancing the change in EBITDA within the Health Care division.

This quarterly report refers to section of the Annual report for Bondholders of Care UK Health & Social Care Newco Limited for the period ended 30 September 2010 (the "Annual Report 2010") and should be read in conjunction with that report. The Annual Report 2010 is available in pdf format only and can be found on our website, www.careuk.com or can be requested from investorrelations@careuk.com.

CARE UK SERVICES AND GROUP FIGURES AT A GLANCE

Care UK is the largest independent provider of outsourced health care services to the NHS, as measured by revenue, and a leading provider of social care services in the United Kingdom. Care UK is the most diversified provider operating across both the health and social care markets in the United Kingdom, which are markets that provide multiple opportunities for growth. Unless stated, all figures and percentages quoted below are for the Care UK Limited group and excluding the effects of IFRIC 12.

Overview of Care UK	
Social Care	Health Care
<ul style="list-style-type: none"> • Residential Care: Care homes (approximately 3,400 beds) for older people, particularly those suffering from dementia, plus 130 day care places • Community Care: Care worker visits to users' own homes to support daily living needs (approximately 117,000 hours of services delivered per week) • Specialist Care: Services for approximately 540 individuals with learning disabilities, 20 mental health facilities including independent hospitals, mental health homes and specialist facilities for eating disorders and self-harm 	<ul style="list-style-type: none"> • Broad range of health care services, including 11 specialist hospitals, collectively known as ISTCs, 4 specialist diagnostic and treatment centres known as Clinical Assessment and Treatment Services (CATS), 13 general practitioner ("GP") practices, 4 out-of-hours or urgent care services, 14 walk-in centres and health services in 5 prisons

Key figures, in £ million for the Care UK Limited group	Q1 / 2010	Q1 / 2011
Revenue	110.4	109.0
Adjusted EBITDA ¹⁾	13.5	9.3
Adjusted operating profit ¹⁾	8.0	4.0
Net profit/(loss) for the period	2.3	(1.0)
Operating cash flow	4.2	1.1

¹⁾ See key definitions below

Financial Leverage

Amounts in £ million, for the Newco group	As of and for the 12 month period ended	
	30 September 2010	31 December 2010
Adjusted EBITDA	62.0	57.7
Net debt	204.0	200.4
Adjusted EBITDA / Net debt	3.29x	3.47x

Non-IFRS Financial Measures

The financial measures Adjusted operating profit, Adjusted EBITDA, net debt and cash conversion ratio as against Adjusted EBITDA as presented in this interim report, are non-IFRS measures that are supplemental measures of Care UK's performance.

Adjusted operating profit is defined as Operating profit before net financing costs adjusted to exclude amortisation of IFRS 3 intangible assets, impairments of goodwill and intangible assets and non-recurring items and before giving effect to adjustments for IFRIC 12.

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation.

Net debt is defined as the Care UK Newco group's bonds, bank loans (net of unamortised arrangement fees), overdrafts and finance lease liabilities, less cash and cash equivalents.

PRESENTATION OF FINANCIAL INFORMATION

Financial Statements

There are two sets of unaudited condensed consolidated financial statements presented in this interim report. The first are for Care UK Health & Social Care Newco Limited and its Subsidiaries (the "Newco group") and the second is for Care UK Limited and its Subsidiaries (the "Care UK Limited group"). In addition, a pro-forma set of financial statements is presented for the Care UK Limited group before giving effect to the application of IFRIC 12. For further information on the effect of the application of IFRIC 12 to the Care UK Limited group financial statements see the Annual Report 2010. The two sets of unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and are presented in pounds sterling.

Certain amounts that appear in this interim report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them and amounts expressed as percentages may not total 100 per cent. when aggregated.

IFRS differs in certain respects from generally accepted accounting principles in the United States ("US GAAP"). Care UK has not prepared and does not currently intend to prepare its financial statements in, or reconcile them to, US GAAP. Investors should consult their own professional advisers for an understanding of the differences between US GAAP and IFRS.

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

RISK FACTORS

Compared to the Risk Factors set out in Care UK's Annual Report 2010 there have been no material changes in Care UK's overall opportunity and risk position.

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

RECENT DEVELOPMENTS

Acquisition of SMI Ltd

In January 2011 Care UK acquired SMI Limited ("SMI"), a provider of ultrasound and other diagnostic services, primarily to the NHS. Care UK paid £3.0 million for 80 per cent. of the issued ordinary share capital of SMI with potential further consideration payable contingent on SMI's first year financial performance, such contingent consideration being limited to a maximum amount of £1.0 million. Care UK is entitled to acquire the remaining 20 per cent. of SMI, subject to put and call options, from 31 December 2013 based on a pre-determined calculation.

Acquisition of Nexvale Ltd

In February 2011 Care UK acquired the entire issued ordinary share capital of Nexvale Limited, which operates a specialist eating disorders clinic, Rhodes Farm, in North London for children, adolescents and young people. This business is complementary to Care UK's existing eating disorders and self-harm business and is focused on a more acute segment of the care pathway for this range of mental health disorders. Care UK paid initial consideration of £2.0 million in cash for Rhodes Farm with a further sum of up to £5.5 million payable contingent on the performance of the business in the period from twelve to eighteen months after completion.

Contract awards

Since the commencement of the 2011 financial year, Care UK has been awarded four new contracts in its Health Care division including a contract for the delivery of health care services to eight prisons in the North-East of England. This contract will mean that Care UK delivers health care services to a total of 13 prisons, making Care UK a leading provider in this market segment. All four of these new contracts are expected to be mobilized during the second half the 2011 financial year.

In February 2011 Care UK was advised by the commissioning PCT that it was not planning to undertake a tender process for the continuation of services at the group's Mid-Kent ISTC in Maidstone. The group is looking at ways of collaborating with the local General Hospital/Foundation Trust in order to assess whether a different opportunity exists in this area. Mid-Kent is one of the smaller ISTCs currently operated by Care UK.

New home opening

In February 2011, as planned, Care UK opened Harry Sotnick House, its latest residential care home for older people in Portsmouth. This home comprises 92 beds, of which 62 are contracted for 25 years by Portsmouth City Council. The capital expenditure required to build this facility was funded by Portsmouth City Council.

Greenfield developments

During the 2011 financial year, Care UK has provisionally approved the development of a number of new greenfield residential care homes, subject to obtaining suitable planning permissions, with the development and funding for these homes to be carried out by the Silver Sea group, the independent, separately financed development company set up in 2010 by Bridgepoint and management. The pipeline for new residential care developments for older people is currently very healthy and Care UK is currently assessing the preferred approach to the funding of the next tranche of new projects that are expected to emerge during 2011.

Management change

Richard Jackson, previously Managing Director of Care UK's Learning Disabilities & Children's Services business, left Care UK on 28 February 2011.

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

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

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

The financial information in this interim report comprises three elements: (i) the unaudited condensed Consolidated financial statements of Care UK Health & Social Care Newco Limited and its subsidiaries (the "Newco group"; (ii) the unaudited condensed Consolidated financial statements of Care UK Limited and its subsidiaries (the "Care UK Limited group"; and (iii) the unaudited pro-forma condensed Consolidated financial statements for the Care UK Limited group before giving effect to the provisions of IFRIC 12. For further information refer to "Presentation of Financial Information". The commentary included within this section of the interim report primarily discusses the financial condition and results of operations of the Care UK Limited group before giving effect to the provisions of IFRIC 12 in order to provide investors with appropriate comparative information; short separate discussion and analyses are also provided dealing with (i) the results of the Care UK Limited group on a fully compliant IFRS basis, including the effects of IFRIC 12; and (ii) the Newco group and, in particular, the key differences between the Newco group condensed consolidated financial statements and the Care UK Limited group condensed consolidated financial statements. This latter part of the discussion and analysis only provides commentary in relation to the IFRS compliant financial statements after applying IFRIC 12.

Significant Factors Affecting Care UK's Results of Operations

For details regarding the significant factors affecting Care UK's Results of Operations refer to the Annual Report 2010.

Key Line Items in the Consolidated Statement of Comprehensive Performance

For details regarding the key line items in Care UK's Consolidated Statement of Comprehensive Performance refer to the Annual Report 2010.

Critical Accounting Policies and Estimates

For full details regarding Care UK's Critical Accounting Policies refer to the Annual Report 2010. The preparation of Care UK's unaudited financial statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Management bases its estimates and associated assumptions on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Care UK uses estimates in accounting for allowances for uncollectible receivables, depreciation, amortisation and impairment, pensions, taxes and contingencies. The estimates and underlying assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period that an adjustment is determined to be required.

Results of Operations

The following table sets out the key line items from the unaudited condensed Consolidated statement of comprehensive performance of the Care UK Limited group for the financial periods ended 31 December 2009 and 31 December 2010, both on a fully IFRS compliant basis and also before giving effect to the provisions of IFRIC 12.

	Three months ended 31 December			
	Adjusted for IFRIC 12		Excluding IFRIC 12	
	2009	2010	2009	2010
	£m	£m	£m	£m
Revenue	108.4	107.8	110.4	109.0
Cost of sales	(90.8)	(93.3)	(92.0)	(94.6)
Gross profit	17.6	14.5	18.4	14.4
Administrative expenses	(12.5)	(10.7)	(12.4)	(10.5)
Operating profit before net financing costs	5.1	3.8	6.0	3.9
Adjusted EBITDA	10.7	7.7	13.5	9.3
Depreciation	(3.5)	(3.7)	(5.5)	(5.3)
Adjusted operating profit	7.2	4.0	8.0	4.0
Amortisation of intangible assets	(2.1)	(2.0)	(2.0)	(1.9)
Non-recurring items	-	1.8	-	1.8
Operating profit before net financing costs	5.1	3.8	6.0	3.9
Financial income	0.8	0.6	0.1	0.1
Financial expenses	(2.6)	(6.8)	(2.6)	(6.8)
Net financing costs	(1.8)	(6.2)	(2.5)	(6.7)
Profit/(loss) before taxation	3.3	(2.4)	3.5	(2.8)
Taxation	(1.1)	1.5	(1.2)	1.8
Profit/(loss) for the period	2.2	(0.9)	2.3	(1.0)

Care UK Limited group: Three months ended 31 December 2010 compared to three months ended 31 December 2009 – excluding IFRIC 12

The comparisons presented within this section of the Management discussion and analysis use the financial information presented before giving effect to the provisions of IFRIC 12. The segmental information referred to below is set out in full in the pro-forma segmental reporting note to the unaudited pro-forma condensed consolidated financial statements of the Care UK Limited group on page F-22 of this interim report.

Revenue

Revenue decreased by 1.3 per cent., or £1.4 million, from £110.4 million for the quarter ended 31 December 2009 to £109.0 million for the quarter ended 31 December 2010. This decrease is attributable to the expected and previously indicated reduction of £4.6 million in revenue from the group's ISTC Wave 1 centres, offset by an aggregate increase of £3.2 million in revenue from other services. Aggregate revenue in the group's three Social Care divisions increased by 1.0 per cent., or £0.6 million, from £64.4 million for the quarter ended 31 December 2009 to £65.0 million for the quarter ended 31 December 2010. All of this growth was organic.

Revenue for the Residential Care division increased by 7.2 per cent., or £2.0 million, from £27.8 million for the quarter ended 31 December 2009 to £29.8 million for the quarter ended 31 December 2010, due to the effect of improvements in occupancy and increases in average weekly fee rates.

The total number of beds at the end of the period, excluding day care places, was 3,395 compared with 3,401 at the beginning of the period, reflecting minor changes to available beds at existing homes. At the end of the period a total of 63.3 per cent. of beds were operated under block contracts compared with 63.2 per cent. as at 30 September 2010. Fee rates in the quarter ended 31 December 2010 averaged £656 per week compared with £632 in the quarter ended 31 December 2009, an increase of 3.8 per cent. This level of increase reflects the increased occupancy in the group's two maturing homes and the fee rate increases achieved in April 2010. Fee rates in the mature portfolio increased from £640 per week in the quarter ended 31 December 2009 to £655 per week in the quarter ended 31 December 2010, an increase of 2.3 per cent. The level of physical occupancy achieved, excluding the two maturing homes opened during 2009, was 92.5 per cent. in the quarter ended 31 December 2010 compared with 90.8 per cent. in the quarter ended 31 December 2009. Total physical occupancy, including the two maturing homes, was 92.6

per cent. in the quarter ended 31 December 2010 compared with 88.4 per cent. in the quarter ended 31 December 2009. Total financial occupancy, which measures beds paid for, in the quarter ended 31 December 2010 was 97.7 per cent. compared with 94.9 per cent. for the quarter ended 31 December 2009. The high level of this measure of occupancy reflects the block contracted nature of a significant proportion of the beds within the Residential Care division.

Revenue for the Community Care division decreased by 2.4 per cent., or £0.5 million, from £20.6 million for the quarter ended 31 December 2009 to £20.1 million for the quarter ended 31 December 2010. As set out in the Annual Report 2010, the group's focus during 2010 was on performance improvement in the Community Care division, which resulted in the elimination of a number of areas of unprofitable business. Average fee rates in the Community Care division for the quarter ended 31 December 2010 were £13.21 per hour compared with £12.94 per hour in the quarter ended 31 December 2009, an increase of 2.1 per cent., in line with the level of increase achieved during the 2010 financial year. Hours of care delivered averaged approximately 117,000 per week for the quarter ended 31 December 2010 compared with approximately 122,000 per week in the quarter ended 31 December 2009.

Revenue for the Specialist Care division decreased by 5.6 per cent., or £0.9 million, from £16.0 million for the quarter ended 31 December 2009 to £15.1 million for the quarter ended 31 December 2010. This decrease in revenue reflects the effect of the closure of a number of under-performing mental health homes and the disposal of the group's foster care business in December 2010. Average fee rates within the mental health division increased by approximately 12 per cent. as a consequence of this re-configuration of capacity. Occupancy within the mental health portfolio, excluding closed or closing homes, averaged 88.3 per cent. in the quarter ended 31 December 2010 compared with 89.0 per cent. in the quarter ended 31 December 2009.

Revenue for the Health Care division decreased by 4.3 per cent., or £2.0 million, from £46.0 million for the quarter ended 31 December 2009 to £44.0 million for the quarter ended 31 December 2010. This reduction was attributable to the expected reduction in revenue from the group's Wave I ISTCs, which reduced from £26.9 million in the quarter ended 31 December 2009 to £22.3 in the quarter ended 31 December 2010. Revenue within the Health Care division, excluding ISTC Wave I centres, increased by 13.6 per cent. from £19.1 million in the quarter ended 31 December 2009 to £21.7 million in the quarter ended 31 December 2010.

Cost of Sales

Care UK's cost of sales increased by 2.8 per cent., or £2.6 million, from £92.0 million for the quarter ended 31 December 2009 to £94.6 million for the quarter ended 31 December 2010. Measured as a percentage of revenue, cost of sales increased from 83.3 per cent. in the quarter ended 31 December 2009 to 86.8 per cent. in the quarter ended 31 December 2010. The increase in the cost of sales reflects both the effect of the transition of the group's ISTC Wave I centres as well as the change in the mix of services provided by Care UK.

Administrative Expenses

Care UK's administrative expenses decreased by 15.3 per cent., or £1.9 million, from £12.4 million for the quarter ended 31 December 2009 to £10.5 million for the quarter ended 31 December 2010. This decrease in administrative expenses reflects the non-recurring asset disposal gains, totalling £1.8 million, that were realised during the period. Excluding these items, administrative expenses decreased by £0.1 million from £12.4 million to £12.3 million as a result of a number of cost savings being achieved.

Operating Profit before Net Financing Costs

Care UK's operating profit before net financing costs decreased by 35.0 per cent., or £2.1 million, from £6.0 million for the quarter ended 31 December 2009 to £3.9 million for the quarter ended 31 December 2010. This reduction largely reflects the expected reduction in the contribution from the group's ISTC Wave I centres and the short-term effects of increased costs in the ISTC Wave II centres, offset by non-recurring asset disposal gains.

Operating profit for Care UK's Residential Care division increased by 35.5 per cent., or £1.1 million, from £3.1 million for the quarter ended 31 December 2009 to £4.2 million for the quarter ended 31 December 2010. This increase was partly due to the impact of improved occupancy across the group's homes together with the non-recurring asset disposal gain of £0.8m recorded on the disposal of a surplus site.

Operating profit for Care UK's Community Care division increased by 400.0 per cent., or £0.4 million, from £0.1 million for the quarter ended 31 December 2009 to £0.5 million for the quarter ended 31 December 2010. This improvement was achieved primarily as a result of the focus on improving performance during the 2010 financial year, following the appointment of a new divisional management team. This has resulted in the elimination of unprofitable business and a focus on improving branch operating efficiency.

Operating profit for Care UK's Specialist Care division fell from £1.4 million for the quarter ended 31 December 2009 to £1.3 million for the quarter ended 31 December 2010. This reduction was entirely due to the reduced contribution from the group's children's services. Care UK's foster care business was sold in December 2010 and a disposal of the children's residential business is anticipated in the near future. The contribution from the mental health business was largely unchanged from the previous year notwithstanding the closure of a number of under-performing mental health homes. The learning disabilities business made a similar contribution to the previous year.

Operating profit for the Health Care division decreased by £3.3 million from £2.5 million for the quarter ended 31 December 2009 to a loss of £0.8 million for the quarter ended 31 December 2010. Depreciation within the Health Care division decreased from £3.4 million to £3.0 million as a result of the ISTC Wave I transition, partly balanced by an increase in depreciation from new services. Amortisation of intangible assets within the Health Care division decreased slightly from £1.7 million in the quarter ended 31 December 2009 to £1.6 million in the quarter ended 31 December 2010 as a result of the ISTC Wave I transition. A non-recurring gain of £1.0 million was recorded on the buyback of the Portsmouth Wave I ISTC by the NHS. The reported operating profit reflects two other key factors. These are, first, the expected effects of the transition of the group's Wave I ISTCs to the planned post-contract commercial basis, and, second, the further investment in the marketing and liaison functions, and the provision of available treatment slots, related to the group's two ISTC Wave II centres in Southampton and Manchester. As reported in the Annual Report 2010, the patient volumes being treated under these latter two contracts have not yet reached the levels necessary for Care UK to achieve its targeted returns and the additional investment in operating costs is focused on increasing volumes at both centres. The reported operating profit was also dampened by the performance at the Eccleshill Wave I ISTC that Care UK won the right to operate during 2010, as volumes at this centre are also still in their ramp-up phase. These effects were partly balanced by an increased contribution from organic contract growth in Care UK's general health care contracts.

The operating result classified as Other changed from a loss of £1.1 million for the quarter ended 31 December 2009 to a loss of £1.3 million for the quarter ended 31 December 2010. This category comprises the central management costs of the group and the increase reflects the strengthening of certain of the group's central support functions in anticipation of future growth.

Adjusted Operating Profit

Care UK's adjusted operating profit for the quarter ended 31 December 2010 was £4.0 million compared with £8.0 million for the period ended 31 December 2009. This outcome in adjusted operating profit reflects the factors discussed above, other than the movement in the amortisation charge and the asset disposal gains reported under the heading of non-recurring items.

The non-cash amortisation charge for the first quarter of the 2011 financial year amounted to £1.9 million, compared to £2.0 million in the first quarter of the 2010 financial year. Non-recurring items in the first quarter of the 2011 financial year amounted to a gain of £1.8 million in aggregate from disposal gains recorded on two property disposals. The first of these was a surplus site in the Residential Care division and the second related to the contractual buyback of the group's Portsmouth ISTC, which realised proceeds amounting to £1.0m above the net book value of the site.

Adjusted operating profit for the Residential Care division increased by 9.7 per cent., or £0.3 million, from £3.1 million for the quarter ended 31 December 2009 to £3.4 million for the quarter ended 31 December 2010. This increase in adjusted operating profit was due to the same factors as drove the growth in operating profit other than the non-recurring asset disposal gain of £0.8 million.

Adjusted operating profit for the Community Care division increased by 100 per cent., or £0.4 million, from £0.4 million for the quarter ended 31 December 2009 to £0.8 million for the quarter ended 31 December 2010. This outcome was driven by the same factors as for operating profit. The divisional non-cash amortisation charge remained the same, at £0.3 million, in both comparative quarters and, consequently, did not affect the comparative adjusted operating profit performance.

Adjusted operating profit for the Specialist Care division decreased by 7.1 per cent., or £0.1 million, from £1.4 million for the quarter ended 31 December 2009 to £1.3 million for the quarter ended 31 December 2010. This outcome was driven by the same factors as for operating profit as no adjustments were applied in arriving at adjusted operating profit.

Adjusted operating profit for the Health Care division decreased by £4.4 million, from a profit of £4.2 million for the quarter ended 31 December 2009 to a loss of £0.2 million for the quarter ended 31 December 2010. This decrease was mainly due to the same factors as for operating profit with the exception that adjusted operating profit does not reflect the asset disposal gain of £1.0 million reported as a non-recurring item in the quarter ended 31 December 2010. There were no non-recurring items reported in the Health Care division in the quarter ended 31 December 2009.

The adjusted operating loss classified as Other increased by 18.2 per cent., or £0.2 million, from a loss of £1.1 million for the quarter ended 31 December 2009 to a loss of £1.3 million for the quarter ended 31 December 2010. This outcome was driven by the same factors as for operating profit as no adjustments were applied in arriving at adjusted operating profit.

Adjusted EBITDA

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation and before giving effect to IFRIC 12. Care UK presents Adjusted EBITDA because it believes, when considered in conjunction with related IFRS financial measures, Adjusted EBITDA provides investors with important additional information to evaluate operating performance. Adjusted EBITDA is not a measure of financial performance under IFRS and should not be considered an alternative to, or more meaningful than, net income as a measure of operating performance. Adjusted EBITDA is not equivalent to how Care UK calculates "Consolidated EBITDA" for the purposes of the covenants under the Senior Secured Notes.

Care UK's Adjusted EBITDA decreased by 31.1 per cent., or £4.2 million, from £13.5 million for the quarter ended 31 December 2009 to £9.3 million for the quarter ended 31 December 2010. The decrease in Adjusted EBITDA was driven by the factors discussed above in relation to operating profit and Adjusted operating profit, particularly the effects discussed in relation to the Health Care division.

Net Financing Costs

Care UK's net financing costs for the quarter ended 31 December 2010 were £6.7 million compared with £2.5 million for the quarter ended 31 December 2009. The increase in the net financing costs reflects the change in the group's financing structure that occurred during the 2010 financial year. Until July 2010 the Care UK Limited group was primarily financed by its former bank facilities, which were rolled over at completion of its acquisition by Care UK Health & Social Care Plc in May 2010 and were. Following the completion of the refinancing, Care UK Limited's debt financing is provided almost entirely by intra-group loans from Care UK Health & Social Care Plc, financed by the Senior Secured Notes. The net financing charges resulting from the intra-group loans amounts to £6.8 million. Within the Newco group financial statements these intra-group charges are eliminated.

Taxation

In the quarter ended 31 December 2010 Care UK recorded a taxation credit of £1.8 million compared with a taxation charge of £1.2 million for the quarter ended 31 December 2009. This change reflects the underlying decrease in taxable group profit.

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

Profit for the Period

As a result of the factors discussed above, Care UK reported a loss for the quarter ended 31 December 2010 of £1.0 million compared with a profit of £2.3 million for the quarter ended 31 December 2009.

Care UK Limited group: Three months ended 31 December 2010 compared to three months ended 31 December 2009 – IFRS compliant basis

The comparisons presented within this section of the Management discussion and analysis use financial information presented on an IFRS compliant basis, including the effects of applying the provisions of IFRIC 12. For further information on the impact of IFRIC 12, see the Annual Report 2010.

The table below shows the effects of IFRIC 12 on the Care UK Limited group condensed Consolidated statement of comprehensive performance.

	Period ended 31 December 2010		
	Pre-IFRIC 12 adoption	IFRIC 12 adjustments	Post IFRIC 12 adjustments
	£m	£m	£m
Revenue	109.0	(1.2)	107.8
Cost of sales	(94.6)	1.3	(93.3)
Gross profit	14.4	0.1	14.5
Administrative expenses	(10.5)	(0.2)	(10.7)
Operating profit before net financing costs	3.9	(0.1)	3.8
Adjusted operating profit	4.0	-	4.0
Amortisation of intangible assets	(1.9)	(0.1)	(2.0)
Non-recurring items	1.8	-	1.8
Operating profit before net financing costs	3.9	(0.1)	3.8
Financial income	0.1	0.5	0.6
Financial expenses	(6.8)	-	(6.8)
Net financing costs	(6.7)	0.5	(6.2)
(Loss)/profit before taxation	(2.8)	0.4	(2.4)
Taxation	1.8	(0.3)	1.5
(Loss)/profit for the period	(1.0)	0.1	(0.9)

The application of IFRIC 12 does not change the overall profit or loss recorded on a contract accounted for in accordance with its provisions. However, both the disposition of income and operating costs change within the Consolidated statement of comprehensive performance and the timing of recognition of both revenue and profit also changes. The net effect of these changes in the first quarter of the 2011 financial year is to decrease the loss for the period by £0.1 million.

The table below shows the effects of IFRIC 12 on the Care UK Limited group consolidated Balance sheet.

	As at 31 December 2010		
	Pre-IFRIC 12 adoption	IFRIC 12 adjustments	Post IFRIC 12 adjustments
	£m	£m	£m
Property, plant and equipment	197.7	(64.5)	133.2
Intangible assets	65.8	12.0	77.8
Other financial assets	-	33.2	33.2
Total non-current assets	263.5	(19.3)	244.2
Other financial assets	-	22.7	22.7
Total current assets	94.3	22.7	117.0
Trade and other payables	(63.9)	(11.4)	(75.3)
Total current liabilities	(236.6)	(11.4)	(248.0)
Deferred tax liabilities	(13.2)	2.6	(10.6)
Total non-current liabilities	(18.3)	2.6	(15.7)
Net assets	102.9	(5.4)	97.5

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

The table below shows the effects of IFRIC 12 on the Care UK Limited group condensed consolidated cash flow statement.

	Period ended 31 December 2010		
	Pre-IFRIC 12 adoption	IFRIC 12 adjustments	Post IFRIC 12 adjustments
	£m	£m	£m
Net cash from operating activities	1.1	(0.5)	0.6
Net cash from investing activities	10.1	0.5	10.6
Net cash from financing activities	-	-	-
Net increase in cash and cash equivalents	11.2	-	11.2
Cash and cash equivalents carried forward	37.4	-	37.4

IFRIC 12 has no effect on total cash flow movements in any year. It does have an effect on the disposition of cash flow movements within the group's consolidated Cash flow statement, as set out in the above table.

Care UK Health & Social Care Newco Limited group: three months ended 31 December 2010 compared to the results of the Care UK Limited group for the three months ended 31 December 2010 – IFRS compliant basis

The comparisons presented within this section of the Management discussion and analysis use financial information presented on an IFRS compliant basis, for the three months ended 31 December 2010. In both cases the results discussed include the effects of applying the provisions of IFRIC 12. For further information on the impact of IFRIC 12 see the Annual Report 2010.

Profit for the Period

The table below provides a reconciliation of the loss for the period between the two groups.

	£m
Care UK Limited: Loss for the three months ended 31 December 2010	(0.9)
Add: Amortisation charged in the Care UK Limited group	1.9
Less: Amortisation of other intangible assets within the Newco group	(6.6)
Less: Depreciation effect of fair value adjustments	(0.2)
Add: Intra-group financing costs	6.8
Less: Financing costs incurred by the Newco group	(7.0)
Add: Taxation credit in relation to above items	2.9
Care UK Health & Social Care Newco Limited: Loss for the three months ended 31 December 2010	(3.1)

The key reconciling items in the above table can be explained as follows:

- *Amortisation:* the amortisation charged within the Care UK Limited group financial statements relates to intangible assets that are largely de-recognised within the Newco group such that the related amortisation is also required to be de-recognised. Newco has recognised intangible assets relating to the acquisition of Care UK Limited in May 2010 within its own consolidated balance sheet and the charge shown in the above table is the amortisation in relation to those intangible assets.
- *Depreciation effect of fair value adjustments:* the acquisition of Care UK Limited by Care UK Health & Social Care Plc in May 2010 resulted in a number of fair value adjustments being recognised within the financial statements of the Newco group, particularly in relation to the carrying value of tangible fixed assets. The effect of the recognition of these adjusted asset values is to increase the depreciation charge within the Newco group.
- *Intra-group financing costs:* following the issue of the Senior Secured Notes in July 2010 the financing costs of Care UK Limited are largely comprised of interest on intra-group loans provided by its immediate parent company, Care UK Health & Social Care Plc. These costs are netted out within the financial statements of the Newco group.
- *Financing costs incurred by the Newco group:* In connection with the above adjustment, the Newco group financial statements include interest payable on both the Senior Secured Notes and the Revolving Credit Facility.
- *Taxation:* This heading reflects the aggregate taxation effects arising as a consequence of the above adjustments.

Net Debt and Liquidity

The following table shows the comparative net debt position for the Newco group and the Care UK Limited group as at 31 December 2010.

	<u>As at 31 December</u>	
	<u>Newco group</u>	<u>Care UK Limited group</u>
	(£ in millions)	
Senior Secured Notes	250.0	-
Intra-group indebtedness	-	171.7
Finance lease obligations	0.1	0.1
Deferred financing costs	(11.7)	-
Cash and cash equivalents	(38.0)	(37.4)
Total net debt	200.4	134.4

Liquidity and Capital Resources

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

Care UK expects, as set out in the Annual Report 2010, that its key sources of liquidity for the foreseeable future will continue to be cash flows from operations together with the receipt of proceeds in respect of the buyback by the NHS of Care UK's ISTC Wave I sites plus, if required, drawings under Care UK's Revolving Credit Facility. During the period ended 31 December 2010 Care UK received £10.5 million of proceeds from the NHS in relation to the ISTC Wave I buyback programme, with a further total of approximately £27.5 million to be received at various dates between June and December 2011.

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

	For the period ended 31 December	
	2009	2010
Net cash from operating activities	4.2	1.1
Net cash from investing activities	(4.0)	10.1
Net cash from financing activities	(3.6)	-
Net (decrease)/increase in cash and cash equivalents	(3.4)	11.2
Cash and cash equivalents carried forward	42.4	37.4

Three months ended 31 December 2010 compared to three months ended 31 December 2009

The net increase in cash and cash equivalents in the quarter ended 31 December 2010 was £11.2 million compared with a net decrease of £3.4 million in the quarter ended 31 December 2009. After excluding movements in cash and cash equivalents resulting from the repayment of borrowings, the net increase in cash and cash equivalents for the quarter ended 31 December 2010 was £11.2 million compared with a decrease of £1.2 million in the quarter ended 31 December 2009. Total net debt of the Newco group reduced by £3.6 million in the quarter.

Operating cash flow for the quarter ended 31 December 2010, before tax payments, was £2.0 million compared with £7.0 million for the quarter ended 31 December 2009. The first quarter of the financial year is typically the lowest quarter of the financial year in terms of operating cash generation as a result of seasonally lower trading and also the effect on working capital of the closure of most public sector bodies over the Christmas and New Year period, which usually results in the deferral of a number of contracted payments into January.

Net stakeholder cash flows (interest, tax, dividends and equity issues) represented a net outflow of £0.9 million in the quarter ended 31 December 2010, reflecting tax outflows only, compared with £4.1 million in the quarter ended 31 December 2009. Maintenance and infrastructure capital expenditure absorbed £2.3 million (2010: £2.8 million) and disposal proceeds amounted to £14.2 million (2010: £nil). Disposal proceeds comprised the repurchase of the group's Portsmouth Wave I ISTC facility by the NHS, the sale of a surplus site and the disposal of the group's foster care business in December 2010. The cash flow available for discretionary capital investment consequently amounted to £13.0 million in the quarter ended 31 December 2010 compared with £0.1 million in the quarter ended 31 December 2009.

Against this available cash flow, the discretionary capital investment in the quarter ended 31 December 2010 in new services amounted to £1.8 million compared with £1.3 million in the quarter ended 31 December 2009.

Cash and Cash Equivalents

Care UK's cash and cash equivalents comprise cash at bank and in hand and short-term bank deposits, net of related bank overdrafts. As at 31 December 2010, Care UK had net cash and cash equivalents of £37.4 million, compared to £42.4 million as at 31 December 2009, with further cash and cash equivalents of £0.6 million held by Care UK Health & Social Care Plc at this date.

Qualitative and Quantitative Disclosures about Market Risk

Care UK's activities and debt financing expose it to a variety of financial risks, the most significant of which are market risk (cash flow interest rate risk and price risk), credit risk and liquidity risk (changes in the debt market). Care UK's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Care UK's financial performance. Care UK may use derivative financial instruments to hedge certain risk exposures: no such instruments are currently employed.

Cash Flow Interest Rate Risk

The majority of Care UK's borrowings currently carry a fixed interest rate as limited use has been required of the group's Revolving Credit Facility. In addition, Care UK currently carries an amount of short-term cash deposits. Therefore Care UK's current income and cash flows are only affected to a limited degree by changes in market interest rates. Short-term deposits are placed with financial institutions in accordance with Care UK's treasury policy. Interest rates obtained on deposits are variable and linked to LIBOR.

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

Care UK would expect to make increased use of the Revolving Credit Facility in the future. Any such borrowings would potentially increase Care UK's exposure to cash flow interest rate risk as they would be issued at a floating rate linked to LIBOR. Care UK has historically used a range of derivative financial instruments, including interest rate swaps and collars, to hedge its exposure to floating rates and would expect to do so in future where considered appropriate, dependent on the expected duration of such underlying borrowings.

Price Risk

Care UK is not exposed to commodity price risk but as a provider of services is subject to both general and industry specific wage pressures, including legislative changes concerning the minimum wage level. Contracts with Local Authorities, Primary Care Trusts and other NHS Trusts are also subject to annual price review. For the year ended 30 September 2010, a 1 per cent. increase in salary costs would have decreased profit before tax by £2.4 million.

In common with the majority of government-funded providers, most of Care UK's price changes take effect annually on 1 April. Around 30 per cent. of Care UK's revenue is linked to general inflation indices.

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. Credit exposures in relation to customers is limited given that the majority of Care UK's revenue is attributable to publicly funded entities such as Local Authorities, Primary Care Trusts and other NHS Trusts. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted.

Liquidity Risk

A policy of prudent liquidity risk management is applied. Care UK's operational cash flow is largely stable and predictable given the contractual and recurring nature of the core business activity. Care UK prepares annual and shorter term cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance projected requirements, including capital expenditure. Adequate headroom in available facilities is maintained.

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DECEMBER 2010**

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**Care UK Health & Social Care Newco
Limited**

Group condensed financial
information (unaudited)

Three month period ended 31
December 2010

CARE UK HEALTH & SOCIAL CARE NEWCO GROUP
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED) –
FIRST QUARTER
For the three month period ended 31 December 2010

	Notes	Three months to 31 December 2010 £m												
Revenue	3	107.8												
Cost of sales		(93.5)												
Gross profit		14.3												
Administrative expenses		(15.4)												
Operating loss before financing expenses	3, 5	(1.1)												
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Adjusted operating profit</td> <td></td> <td style="text-align: right;">3.8</td> </tr> <tr> <td>Amortisation of intangible assets</td> <td></td> <td style="text-align: right;">(6.7)</td> </tr> <tr> <td>Non-recurring items</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">1.8</td> </tr> <tr> <td>Operating loss before financing expenses</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">(1.1)</td> </tr> </table>			Adjusted operating profit		3.8	Amortisation of intangible assets		(6.7)	Non-recurring items		1.8	Operating loss before financing expenses		(1.1)
Adjusted operating profit		3.8												
Amortisation of intangible assets		(6.7)												
Non-recurring items		1.8												
Operating loss before financing expenses		(1.1)												
Financial income	4	0.6												
Financial expenses	4	(7.0)												
Net financing costs		(6.4)												
Loss before taxation		(7.5)												
Taxation		4.4												
Loss for the period		(3.1)												
Total comprehensive loss for the period		(3.1)												
Loss attributable to														
Equity holders of the parent		(3.1)												
Total comprehensive loss attributable to														
Equity holders of the parent		(3.1)												

CARE UK HEALTH & SOCIAL CARE NEWCO GROUP
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 31 December 2010

	Notes	31 December 2010 £m	30 September 2010 £m
Assets			
Property, plant and equipment	6	215.3	216.8
Intangible assets.....	7	191.2	197.9
Other financial assets	8	33.2	43.8
Total non-current assets		<u>439.7</u>	<u>458.5</u>
Inventories		2.7	2.6
Trade and other receivables.....		50.9	55.6
Other financial assets	8	22.7	22.2
Cash and cash equivalents	9	38.0	34.0
Properties classified as held for sale.....		3.3	4.5
Current tax assets		1.9	—
Total current assets		<u>119.5</u>	<u>118.9</u>
Total assets		<u>559.2</u>	<u>577.4</u>
Liabilities			
Financial liabilities — borrowings	9	(11.5)	(5.1)
Trade and other payables		(76.0)	(91.3)
Current tax liabilities		—	(2.0)
Total current liabilities		<u>(87.5)</u>	<u>(98.4)</u>
Financial liabilities — borrowings	9	(238.3)	(237.9)
Other non-current liabilities		(5.1)	(8.2)
Deferred tax liabilities		(40.3)	(41.8)
Total non-current liabilities		<u>(283.7)</u>	<u>(287.9)</u>
Total liabilities		<u>(371.2)</u>	<u>(386.3)</u>
Net assets		<u>188.0</u>	<u>191.1</u>
Equity			
Issued share capital.....		210.7	210.7
Retained earnings		(22.7)	(19.6)
Total equity attributable to equity holders of the parent		<u>188.0</u>	<u>191.1</u>

CARE UK HEALTH & SOCIAL CARE NEWCO GROUP
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) – FIRST
QUARTER
As at 31 December 2010

Group	Attributable to equity holders of the parent		
	Share capital	Retained earnings	Total
	£m	£m	£m
At 30 September 2010	210.7	(19.6)	191.1
Total comprehensive income for the period			
Loss for the period	—	(3.1)	(3.1)
Other comprehensive income			
Movement in relation to defined benefit pension scheme (net of deferred taxation)	—	—	—
Total other comprehensive income	—	—	—
Total comprehensive loss for the period	—	(3.1)	(3.1)
Transactions with owners, recorded directly in equity			
Issue of shares	—	—	—
Total contributions by and distributions to owners	—	—	—
At 31 December 2010	210.7	(22.7)	188.0

CARE UK HEALTH & SOCIAL CARE NEWCO GROUP
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) – FIRST QUARTER
For the three month period ended 31 December 2010

	Notes	Three months to 31 December 2010
		£m
Cash flows from operating activities		
Loss for the period		(3.1)
Depreciation		3.9
Amortisation of intangible assets		6.7
Profit on disposal of fixed assets		(1.8)
Decrease in IFRIC 12 financial asset.....		1.1
Increase in inventory		(0.1)
Decrease in receivables.....		2.1
Decrease in payables.....		(16.5)
Financial income		(0.6)
Financial expense		7.0
Tax credit.....		(4.4)
Cash outflow from operations		(5.7)
Income taxes paid		(0.9)
Net cash from operating activities		(6.6)
Cash flows from investing activities		
Decrease in IFRIC 12 financial asset.....		10.6
Payments to acquire property, plant and equipment		(3.6)
Proceeds from sales of property, plant and equipment		1.0
Proceeds from sales of subsidiary undertakings and businesses		2.6
Net cash from investing activities		10.6
Cash flows from financing activities		
Proceeds from issue of share capital.....		—
Repayments of amounts borrowed		—
Interest paid		—
Payment of capital element of finance lease payments.....		—
Net cash from financing activities.....		—
Net increase in cash and cash equivalents		4.0
Cash and cash equivalents brought forward.....		34.0
Cash and cash equivalents carried forward.....	9	38.0

CARE UK HEALTH & SOCIAL CARE NEWCO GROUP
NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Care UK Health & Social Care Newco Limited (the “company”) is a company domiciled in the United Kingdom. The condensed consolidated quarterly financial statements of the company for the three months ended 31 December 2010 comprise the company and its subsidiaries (together referred to as the “group”).

This quarterly report, for the three months ended 31 December 2010, 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 2010, prepared in accordance with International Financial Reporting Standards as adopted by the EU (“adopted IFRS”), on which KPMG Audit Plc gave an unqualified opinion, have been delivered to the Registrar of Companies. The financial statements also did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Comparative annual figures as at 30 September 2010 set out within this report have been extracted from the 2010 annual report and accounts published on 26 January 2011.

Care UK Health & Social Care Newco Limited was established on 16 February 2010 as a private limited company.

2. ACCOUNTING POLICIES

The preparation of these quarterly financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The board believes that the ‘adjusted’ EBITDA and ‘adjusted’ operating profit measures reported herein provide additional useful information on the underlying performance of the business. These measures are consistent with how business performance is monitored internally. However, neither adjusted EBITDA nor adjusted operating profit are recognised profit measures under IFRS and may not be directly comparable with ‘adjusted’ profit measures used by other companies.

The same accounting policies and methods of computation are followed in these condensed financial statements as were applied in the group’s 2010 annual report.

a) Accounting policies specific to interim financial statements

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

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

3. SEGMENT REPORTING

Segment information is presented in respect of the group's business segments. Care UK Health & Social Care Newco group operates solely within the United Kingdom, hence no geographical segment disclosures are presented. Segment information is provided both in accordance with IFRS and, for key income statement line items only, on an adjusted basis excluding both non-recurring items and the accounting effects of applying IFRIC 12. The directors consider that the adjusted operating profit and adjusted EBITDA measures presented here provide additional useful information.

Inter-segment pricing is determined on an arm's length basis.

Business segments

The group comprises the following main segments:

- Residential Care operates care homes for older people.
- Community Care provides support for people in their own homes, including older people and others with specialist needs.
- Specialist Care includes the provision of care for individuals with learning disabilities or enduring mental health conditions and children's residential and foster care.
- Health Care provides a range of primary and secondary care services.

Three months to 31 December 2010	Social Care			Health Care	Other	Group
	Residential Care	Community Care	Specialist Care			
	£m	£m	£m	£m	£m	£m
Group revenue	29.1	20.1	15.1	43.5	—	107.8
Adjusted EBITDA	4.4	0.9	1.5	2.0	(1.1)	7.7
Depreciation	(1.4)	(0.1)	(0.3)	(1.9)	(0.2)	(3.9)
Adjusted operating profit	3.0	0.8	1.2	0.1	(1.3)	3.8
Amortisation of intangible assets	(1.7)	(1.1)	(0.4)	(3.5)	—	(6.7)
Non-recurring items:						
— profit on disposal of assets	0.8	—	—	1.0	—	1.8
Operating profit/(loss)	2.1	(0.3)	0.8	(2.4)	(1.3)	(1.1)
Net financing costs						(6.4)
Taxation						4.4
Loss for the period						(3.1)

4. NET FINANCING COSTS

	Three months to 31 December 2010
	£m
Financial income:	
Interest receivable	0.1
IFRIC-12 interest receivable	0.5
Financial income	0.6
Financial expenses — interest payable on bank overdrafts and loans	(7.0)
Net financing costs	(6.4)

5. LOSS BEFORE TAXATION

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

	Three months to 31 December 2010
	£m
Depreciation	3.9
Amortisation of intangible assets	6.7
IFRIC 12 infrastructure costs expensed in the period.....	1.1

6. PROPERTY, PLANT AND EQUIPMENT

	31 December 2010	30 September 2010
	£m	£m
Opening book value	216.8	—
Acquired	—	221.9
Additions	2.7	4.9
Disposal and transfers to current assets	(0.3)	(3.8)
Depreciation	(3.9)	(6.2)
Closing book value.....	215.3	216.8

7. INTANGIBLE ASSETS

	31 December 2010	30 September 2010
	£m	£m
Opening book value	197.9	—
Acquired	—	209.2
Amortisation	(6.7)	(11.3)
Closing book value.....	191.2	197.9

8. OTHER FINANCIAL ASSETS

	31 December 2010	30 September 2010
	£m	£m
IFRIC-12 financial asset: brought forward	66.0	—
Acquired in the period	—	68.1
Released in the period	(10.1)	(2.1)
IFRIC-12 financial asset: carried forward	<u>55.9</u>	<u>66.0</u>
Disclosed as:		
Non-current assets: IFRIC-12 financial asset	33.2	43.8
Current assets: IFRIC-12 financial asset	<u>22.7</u>	<u>22.2</u>
	<u>55.9</u>	<u>66.0</u>

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.

9. NET DEBT

(a) Current liabilities

	Cash at bank and in hand	Overdrafts	Cash and cash equivalents	Borrowings due within one year	Borrowings due after one year	Net debt
	£m	£m	£m	£m	£m	£m
At 1 October 2009	—	—	—	—	—	—
Cash flow	34.0	—	34.0	—	—	34.0
Debt issued in period (net of arrangement fees)	—	—	—	—	(237.6)	(237.6)
Other non-cash changes	—	—	—	(0.1)	(0.3)	(0.4)
At 30 September 2010	<u>34.0</u>	<u>—</u>	<u>34.0</u>	<u>(0.1)</u>	<u>(237.9)</u>	<u>(204.0)</u>
Cash flow	4.0	—	4.0	—	—	4.0
Other non-cash changes	—	—	—	—	(0.4)	(0.4)
At 31 December 2010	<u>38.0</u>	<u>—</u>	<u>38.0</u>	<u>(0.1)</u>	<u>(238.3)</u>	<u>(200.4)</u>

As at 31 December 2010 there was accrued interest of £11.4m (30 September 2010 £5.0m) included in ‘Financial liabilities – borrowings’ disclosed within current liabilities in the balance sheet but excluded from this note.

(b) Terms and conditions

i) Senior Secured Notes

In July 2010 Care UK Health & Social Care Plc (the Issuer) issued £250 million 9¾% Senior Secured Notes. Interest is payable semi-annually in arrears on 1 February and 1 August beginning 1 February 2011.

The Senior Secured Notes will mature on 1 August 2017. Prior to 1 August 2014, the Senior Secured Notes may be redeemed in whole or in part at any time by paying a “make-whole” premium. The Senior Secured Notes may be redeemed in whole or in part at any time on or after 1 August 2014 at the redemption prices set forth in the Offering Memorandum. In addition, prior to 1 August 2013, the Issuer may redeem at its option up to 35% of the aggregate principal amount of the Senior Secured Notes with the net proceeds from certain equity offerings at the redemption price set forth in this offering memorandum. The Issuer may redeem all of the Senior Secured Notes, at any time, at a price equal to their principal amount plus accrued and unpaid interest, if any, upon the occurrence of certain changes in applicable tax law. If the Issuer sells certain of its assets in some circumstances or experiences a specific kind of change in control, it may be required to offer to repurchase the Senior Secured Notes at a redemption price equal to 100% or 101%, respectively, of the principal amount thereof plus accrued and unpaid interest, if any, to the date of redemption.

The Senior Secured Notes are guaranteed on a senior secured basis by each of Care UK Health & Social Care Newco Limited, Care UK Limited, and certain of the Issuer’s other operating subsidiaries.

ii) Super Senior Revolving Credit Facility

The group has an £80 million Super Senior Revolving Credit Facility, a revolving facility loan. The facility expires on 13 July 2016. The margin payable on the outstanding loan is in the range of 2.5% to 4.0% above LIBOR plus any mandatory costs depending on the total net leverage of the group. Each utilisation under the facility is repayable and redrawable at the end of each interest period. The final repayment date is 13 July 2016.

The facility remains undrawn with the exception of £19.1m as at 31 December 2010 (30 September 2010: £22.0m) in relation to performance bonds.

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

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

In each case, such terms are defined in the specific facility agreements.

Care UK Limited

Group condensed financial
information (unaudited)

Three month period ended 31
December 2010

CARE UK GROUP
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED) –
FIRST QUARTER
For the three month period ended 31 December 2010

	Three months to 31 December 2010	Three months to 31 December 2009
	£m	£m
Revenue	107.8	108.4
Cost of sales.....	(93.3)	(90.8)
Gross profit	14.5	17.6
Administrative expenses	(10.7)	(12.5)
Operating profit before financing expenses	3.8	5.1

Adjusted operating profit	4.0	7.2
Amortisation of intangible assets	(2.0)	(2.1)
Non-recurring items	1.8	—
Operating profit before financing expenses	3.8	5.1

Financial income	0.6	0.8
Financial expenses.....	(6.8)	(2.6)
Net financing costs	(6.2)	(1.8)
(Loss)/profit before taxation	(2.4)	3.3
Taxation.....	1.5	(1.1)
(Loss)/profit for the period	(0.9)	2.2

Total comprehensive (loss)/income for the period	(0.9)	2.2
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(Loss)/profit attributable to		
Equity holders of the parent	(0.9)	2.2
Total comprehensive (loss)/income attributable to		
Equity holders of the parent	(0.9)	2.2

CARE UK GROUP
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 31 December 2010

	31 December 2010 £m	31 December 2009 £m	30 September 2010 £m
Assets			
Property, plant and equipment.....	133.2	140.3	134.6
Intangible assets	77.8	96.4	79.9
Other financial assets	33.2	55.8	43.8
Total non-current assets	244.2	292.5	258.3
Inventories	2.7	2.5	2.6
Trade and other receivables	50.9	56.3	55.6
Other financial assets	22.7	31.2	22.2
Cash and cash equivalents.....	37.4	42.4	26.2
Properties classified as held for sale	3.3	0.4	4.5
Total current assets.....	117.0	132.8	111.1
Total assets	361.2	425.3	369.4
Liabilities			
Financial liabilities — borrowings.....	(171.8)	(11.2)	(165.3)
Financial liabilities — derivative financial instruments.....	—	(11.9)	—
Trade and other payables.....	(75.3)	(78.8)	(84.5)
Current tax liabilities.....	(0.9)	(5.6)	(3.1)
Total current liabilities.....	(248.0)	(107.5)	(252.9)
Financial liabilities — borrowings.....	—	(188.8)	—
Other non-current liabilities	(5.1)	(5.2)	(7.2)
Deferred tax liabilities.....	(10.6)	(9.6)	(10.9)
Total non-current liabilities.....	(15.7)	(203.6)	(18.1)
Total liabilities	(263.7)	(311.1)	(271.0)
Net assets	97.5	114.2	98.4
Equity			
Issued share capital	6.2	6.2	6.2
Share premium	56.6	55.7	56.6
Hedging reserve.....	—	(7.9)	—
Retained earnings.....	34.7	60.2	35.6
Total equity attributable to equity holders of the parent	97.5	114.2	98.4

CARE UK GROUP
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) – FIRST QUARTER
For the three month period ended 31 December 2010

	Three months to 31 December 2010	Three months to 31 December 2009
	£m	£m
Cash flows from operating activities		
(Loss)/profit for the period.....	(0.9)	2.2
Depreciation.....	3.7	3.5
Amortisation of intangible assets.....	2.0	2.1
Profit on disposal of fixed assets.....	(1.8)	—
Decrease in IFRIC 12 financial asset.....	1.1	2.1
Increase in inventory.....	(0.1)	(0.1)
Decrease/(increase) in receivables.....	2.1	(5.6)
Decrease in payables.....	(9.3)	(1.0)
Equity-settled share-based payments.....	—	0.2
Financial income.....	(0.6)	(0.8)
Financial expense.....	6.8	2.6
Tax (credit)/expense.....	(1.5)	1.1
Cash inflow from operations	1.5	6.3
Income taxes paid.....	(0.9)	(2.8)
Net cash from operating activities	0.6	3.5
Cash flows from investing activities		
Decrease in IFRIC 12 financial asset.....	10.6	—
Payments to acquire property, plant and equipment.....	(3.6)	(3.4)
Proceeds from sales of property, plant and equipment.....	1.0	—
Interest received.....	—	0.1
Proceeds from sales of subsidiary undertakings and businesses.....	2.6	—
Net cash from investing activities	10.6	(3.3)
Cash flows from financing activities		
Proceeds from issue of share capital.....	—	0.1
Repayments of amounts borrowed.....	—	(2.1)
Interest paid.....	—	(1.5)
Payment of capital element of finance lease payments.....	—	(0.1)
Net cash from financing activities	—	(3.6)
Net increase/(decrease) in cash and cash equivalents	11.2	(3.4)
Cash and cash equivalents brought forward.....	26.2	45.8
Cash and cash equivalents carried forward	37.4	42.4

CARE UK GROUP
CONDENSED CONSOLIDATED SEGMENTAL REPORTING NOTE (UNAUDITED) – FIRST QUARTER

Three months to 31 December 2010	Social Care					Group
	Residential	Community	Specialist	Health	Other	
	Care	Care	Care	Care		
	£m	£m	£m	£m	£m	£m
Group revenue	29.1	20.1	15.1	43.5	—	107.8
Adjusted EBITDA	4.4	0.9	1.5	2.0	(1.1)	7.7
Depreciation	(1.2)	(0.1)	(0.2)	(2.0)	(0.2)	(3.7)
Adjusted operating profit	3.2	0.8	1.3	—	(1.3)	4.0
Amortisation of intangible assets	(0.1)	(0.3)	—	(1.6)	—	(2.0)
Non-recurring items:						
— profit on disposal of assets	0.8	—	—	1.0	—	1.8
Operating profit/(loss)	3.9	0.5	1.3	(0.6)	(1.3)	3.8
Net financing costs						(6.2)
Taxation						1.5
Loss for the period						(0.9)

Three months to 31 December 2009	Social Care					Group
	Residential	Community	Specialist	Health	Other	
	Care	Care	Care	Care		
	£m	£m	£m	£m	£m	£m
Group revenue	27.1	20.6	16.0	44.7	—	108.4
Adjusted EBITDA	3.8	0.5	1.7	5.6	(0.9)	10.7
Depreciation	(0.9)	(0.1)	(0.3)	(2.0)	(0.2)	(3.5)
Adjusted operating profit	2.9	0.4	1.4	3.6	(1.1)	7.2
Amortisation of intangible assets	(0.1)	(0.3)	—	(1.7)	—	(2.1)
Operating profit/(loss)	2.8	0.1	1.4	1.9	(1.1)	5.1
Net financing costs						(1.8)
Taxation						(1.1)
Profit for the period						2.2

Care UK Limited

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

Three month period ended 31
December 2010

BASIS OF PREPARATION

This group proforma pre-IFRIC 12 non-statutory condensed financial information (unaudited) does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. They do not include all of the information required for full annual financial statements.

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

The group proforma pre-IFRIC 12 non-statutory condensed financial information (unaudited) has been prepared by the directors pursuant to the requirements detailed on page 156 of the offering memorandum and on the basis of the recognition and measurement principles contained in applicable IFRSs as adopted by the EU, with the exception of accounting interpretation IFRIC 12 Service Concession Arrangements as detailed below, and in accordance with the group accounting policies which have been applied consistently in dealing with items which are considered material in relation to the group proforma pre-IFRIC 12 non-statutory condensed financial information (unaudited).

Definition

The term 'proforma' in this group proforma pre-IFRIC 12 non-statutory condensed financial information (unaudited) has been defined on page 156 of the offering memorandum as 'prepared in accordance with GAAP before giving effect to the accounting standard IFRIC 12 as amended or supplemented from time to time'.

Accounting policies

The preparation of the group proforma pre-IFRIC 12 non-statutory condensed financial information (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 financial information (unaudited) as were applied in the group's condensed financial information for the three months ended 31 December 2010:

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 Care UK now recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising. In addition, the timing of profit recognition changes over the life of the contract with no change in the overall project cash flows arising therein. This group proforma pre-IFRIC 12 non-statutory condensed financial information (unaudited) has been prepared to present financial information on a pre-IFRIC 12 basis.

CARE UK GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE PERFORMANCE (UNAUDITED) – FIRST QUARTER
For the three month period ended 31 December 2010

	Three months to 31 December 2010	Three months to 31 December 2009
	£m	£m
Revenue	109.0	110.4
Cost of sales.....	(94.6)	(92.0)
Gross profit	14.4	18.4
Administrative expenses.....	(10.5)	(12.4)
Operating profit before financing expenses	3.9	6.0

Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation).....	9.3	13.5
Depreciation of tangible assets.....	(5.3)	(5.5)
Adjusted operating profit.....	4.0	8.0
Amortisation of intangible assets.....	(1.9)	(2.0)
Non-recurring items.....	1.8	—
Operating profit before financing expenses	3.9	6.0

Financial income.....	0.1	0.1
Financial expenses.....	(6.8)	(2.6)
Net financing costs	(6.7)	(2.5)
(Loss)/profit before taxation	(2.8)	3.5
Taxation.....	1.8	(1.2)
(Loss)/profit for the period	(1.0)	2.3

Total comprehensive (loss)/income for the period	(1.0)	2.3
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(Loss)/profit attributable to		
Equity holders of the parent.....	(1.0)	2.3
Total comprehensive (loss)/income attributable to		
Equity holders of the parent.....	(1.0)	2.3

CARE UK GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)
As at 31 December 2010

	31 December 2010 £m	31 December 2009 £m	30 September 2010 £m
Assets			
Property, plant and equipment.....	197.7	242.0	209.9
Intangible assets	65.8	83.1	67.7
Total non-current assets	263.5	325.1	277.6
Inventories	2.7	2.5	2.6
Trade and other receivables	50.9	56.3	55.6
Cash and cash equivalents.....	37.4	42.4	26.2
Properties classified as held for sale	3.3	0.4	4.5
Total current assets.....	94.3	101.6	88.9
Total assets	357.8	426.7	366.5
Liabilities			
Financial liabilities — borrowings.....	(171.8)	(11.2)	(165.3)
Financial liabilities — derivative financial instruments.....	—	(11.9)	—
Trade and other payables	(63.9)	(67.4)	(72.3)
Current tax liabilities.....	(0.9)	(5.6)	(3.1)
Total current liabilities.....	(236.6)	(96.1)	(240.7)
Financial liabilities — borrowings.....	—	(188.8)	—
Other non-current liabilities	(5.1)	(5.2)	(8.2)
Deferred tax liabilities.....	(13.2)	(13.9)	(13.7)
Total non-current liabilities.....	(18.3)	(207.9)	(21.9)
Total liabilities	(254.9)	(304.0)	(262.6)
Net assets	102.9	122.7	103.9
Equity			
Issued share capital	6.2	6.2	6.2
Share premium	56.6	55.7	56.6
Hedging reserve.....	—	(7.9)	—
Retained earnings.....	40.1	68.7	41.1
Total equity attributable to equity holders of the parent	102.9	122.7	103.9

CARE UK GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED CASH FLOW
STATEMENT (UNAUDITED) – FIRST QUARTER
For the three month period ended 31 December 2010

	Three months to 31 December 2010	Three months to 31 December 2009
	£m	£m
Cash flows from operating activities		
(Loss)/profit for the period.....	(1.0)	2.3
Depreciation.....	5.3	5.5
Amortisation of intangible assets.....	1.9	2.0
Profit on disposal of fixed assets.....	(1.8)	—
Increase in inventory.....	(0.1)	(0.1)
Decrease/(increase) in receivables.....	2.1	(5.6)
Decrease in payables.....	(9.3)	(1.0)
Equity-settled share-based payments.....	—	0.2
Financial income.....	(0.1)	(0.1)
Financial expense.....	6.8	2.6
Tax (credit)/expense.....	(1.8)	1.2
Cash inflow from operations	2.0	7.0
Income taxes paid.....	(0.9)	(2.8)
Net cash from operating activities	1.1	4.2
Cash flows from investing activities		
Payments to acquire property, plant and equipment.....	(4.1)	(4.1)
Proceeds from sales of property, plant and equipment.....	11.6	—
Interest received.....	—	0.1
Proceeds from sales of subsidiary undertakings and businesses.....	2.6	—
Net cash from investing activities	10.1	(4.0)
Cash flows from financing activities		
Proceeds from issue of share capital.....	—	0.1
Repayments of amounts borrowed.....	—	(2.1)
Interest paid.....	—	(1.5)
Payment of capital element of finance lease payments.....	—	(0.1)
Net cash from financing activities	—	(3.6)
Net increase/(decrease) in cash and cash equivalents	11.2	(3.4)
Cash and cash equivalents brought forward.....	26.2	45.8
Cash and cash equivalents carried forward	37.4	42.4

CARE UK GROUP
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED SEGMENTAL
REPORTING NOTE (UNAUDITED) – FIRST QUARTER

Three months to 31 December 2010	Social Care					Group
	Residential	Community	Specialist	Health	Other	
	Care	Care	Care	Care	Care	
	£m	£m	£m	£m	£m	£m
Group revenue.....	29.8	20.1	15.1	44.0	—	109.0
Adjusted EBITDA.....	5.2	0.9	1.5	2.8	(1.1)	9.3
Depreciation	(1.8)	(0.1)	(0.2)	(3.0)	(0.2)	(5.3)
Adjusted operating profit	3.4	0.8	1.3	(0.2)	(1.3)	4.0
Amortisation of intangible assets.....	—	(0.3)	—	(1.6)	—	(1.9)
Non-recurring items:						
— profit on disposal of assets	0.8	—	—	1.0	—	1.8
Operating profit/(loss)	4.2	0.5	1.3	(0.8)	(1.3)	3.9
Net financing costs						(6.7)
Taxation						1.8
Loss for the period.....						(1.0)

Three months to 31 December 2009	Social Care					Group
	Residential	Community	Specialist	Health	Other	
	Care	Care	Care	Care	Care	
	£m	£m	£m	£m	£m	£m
Group revenue	27.8	20.6	16.0	46.0	—	110.4
Adjusted EBITDA.....	4.6	0.5	1.7	7.6	(0.9)	13.5
Depreciation.....	(1.5)	(0.1)	(0.3)	(3.4)	(0.2)	(5.5)
Adjusted operating profit.....	3.1	0.4	1.4	4.2	(1.1)	8.0
Amortisation of intangible assets.....	—	(0.3)	—	(1.7)	—	(2.0)
Operating profit/(loss)	3.1	0.1	1.4	2.5	(1.1)	6.0
Net financing costs.....						(2.5)
Taxation						(1.2)
Profit for the period						2.3