



Care UK Health & Social Care Investments Limited

Quarterly Financial Report for the three
months ended 31 December 2013

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

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SUMMARY

Care UK's operational performance in the three months ended 31 December 2013 has remained consistent with prior quarters with financial performance in the period in line with management expectations. All figures and percentages included below are quoted for the first quarter of the year ending 30 September 2014 where relevant and excluding the effects of IFRIC 12.

• Group Highlights

- Consistent operational and financial performance in the period across all divisions
- Revenue for the quarter increased by 27.3 per cent. to £183.0 million compared with the three months ended 31 December 2012. Adjusted EBITDA increased by 56.6 per cent. to £11.9 million compared with £7.6 million for the three months ended 31 December 2012
- The Residential Care Services division continues to achieve strong growth momentum with an increase in revenue in the three months ended 31 December 2013 of 18.3 per cent., to £54.9 million, compared with the three months ended 31 December 2012
 - At 31 December 2013 37 per cent. (30 September 2013: 38 per cent.) of all beds were operated under guaranteed commitment block contracts with public sector customers, a key competitive differentiator
 - The continuing greenfield development programme is delivering significant new capacity to the business, with 207 beds in three homes opened in the three months ended 31 December 2013 and a further 162 beds in two further homes commissioned in February 2014. A further seven homes are currently in construction, all due to open by May 2015, with a total of almost 550 beds. As expected, in the short term whilst each new home builds occupancy, the programme will hold back EBITDA growth within the Residential Care Services division
 - The Suffolk contract is proceeding well operationally and the new home programme is progressing as expected with eight of the planned ten new homes now in construction and planning consent for the ninth home also achieved. The first three of the new Suffolk homes are due to open by September 2014
- The Community Services division has now fully operationalised the significant learning disabilities supported living contract in Doncaster that commenced in September 2013. Over 7,500 hours per week are delivered under this contract. The related contract change programme is planned to be delivered over the next several months and is fully supported by Doncaster City Council
- The Health Care division has continued to achieve very good operational stability in the 111 service, including through the challenging Christmas and New Year period. The operational improvement plan to deliver profitability in these services is making positive progress
- The Health Care division is currently engaged in a number of large scale bids although it is too early to say whether these will result in new contracts being won. A new offender healthcare contract has been won in February 2014 – see Recent Developments
- Unadjusted financial leverage as at 31 December 2013 has improved to 5.61x, based on LTM EBITDA of £60.5 million, from 5.93x as at 30 September 2013

This interim report refers to sections of the Annual report for Bondholders of Care UK Health & Social Care Investments Limited for the year ended 30 September 2013 (the "Annual report 2013") and should be read in conjunction with that report. The Annual report 2013 is available in pdf format only and can be found on our website, www.careuk.com.

CARE UK SERVICES AND GROUP FIGURES AT A GLANCE

Care UK is a significant provider of outsourced health care services to the NHS in England and a leading provider of social care services in the United Kingdom. Care UK is the most diversified provider operating across both the health and social care markets in the United Kingdom, which are markets that provide multiple opportunities for growth. Unless stated, all figures and percentages included below exclude the effects of applying IFRIC 12.

Social Care	Health Care
<ul style="list-style-type: none"> • Residential Care: Care homes (112 care homes with over 6,660 beds) providing care for older people, particularly those suffering from dementia and related conditions • Community Services: Care visits and live-in support for people in their own homes, facilitating daily living needs and promoting independence (around 153,000 care hours per week delivered to more than 13,000 people, plus 133 residential learning disability places) • Mental Health: Providing care to individuals suffering from a range of enduring mental health conditions through a range of 18 facilities 	<ul style="list-style-type: none"> • Broad range of health care services centred around the three key service streams of Primary Care (eg Prison healthcare, GP practices and “CATS” services), Secondary Care (eg hospital based elective surgery) and Urgent Care (eg out of hours GP care, walk-in urgent care centres and the NHS 111 service) • More than 80 operating locations • Important market positions in a number of sub-segments delivering services to NHS patients in England • Over 16 million patients treated or supported annually by the Health Care division

Key figures, in £ million	Q1 / 2013	Q1 / 2014
Revenue	143.7	183.0
Adjusted EBITDA ¹⁾	7.6	11.9
Adjusted operating profit ¹⁾	2.3	4.6
Net loss for the period	(10.7)	(11.0)
Operating cash flow	(1.5)	5.2

¹⁾ See key definitions below

Financial leverage	As at and for the 12 month period ended			
Amounts in £ million	31 March 2013	30 June 2013	30 September 2013	31 December 2013
Adjusted EBITDA (Last Twelve Months)	47.3	52.7	56.2	60.5
Net debt	315.8	335.2	333.3	339.7
Net debt / Adjusted EBITDA	6.68x	6.36x	5.93x	5.61x

Non-IFRS Financial Measures

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

Adjusted operating profit is defined as Operating profit before financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items.

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation.

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

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

Care UK presents these supplemental non-IFRS measures because it believes, when considered in conjunction with related IFRS financial measures, these measures provide investors with important additional information to evaluate operating performance and financial position. Care UK believes that Adjusted operating profit, Adjusted EBITDA and free cash flow provide additional useful information on the underlying operational performance and cash generation of the business. These are not, however, measures of financial performance under IFRS, have not been audited and should not be considered alternatives to, or more meaningful than, profit before taxation as a measure of operating performance. Since Adjusted operating profit, Adjusted EBITDA, free cash flow and net debt are non-IFRS measures and thus are susceptible to varying interpretations and calculations, these measures may not be comparable to similarly titled measures used by other companies. These measures have limitations as analytical tools, and investors should not consider them in isolation from, or as a substitute for analysis of, financial information prepared in accordance with IFRS.

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

PRESENTATION OF FINANCIAL INFORMATION

Financial Statements

The unaudited condensed consolidated financial statements presented in this interim report are for Care UK Health & Social Care Investments Limited and its subsidiaries. In addition, a pro-forma set of financial statements is presented before giving effect to the application of IFRIC 12. For further information on the effect of the application of IFRIC 12 see the Annual report 2013. The unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and are presented in pounds sterling.

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

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

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

RISK FACTORS

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

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

RECENT DEVELOPMENTS

New Care Homes

Care UK has opened two further care homes within the Residential Care Services division in February 2014. Sandfields in Cheltenham is a 90 bed facility whilst Field Lodge in St Ives, Cambridgeshire, is a 72 bed facility. In common with the strategic aims of the Residential Care Services division both of these homes are orientated towards self-funding residents and are focused on dementia care. Both of these homes have been developed by the independent and separately financed development company referred to in the 2013 Annual report.

New Healthcare Contract

The Health Care division has recently been awarded preferred bidder status for an initial five year contract to deliver the healthcare services within Brixton and Pentonville prisons. The contract can be extended by mutual agreement by up to two further years. The Health Care division has previously delivered healthcare services within Brixton prison for several years. When operational, this contract will add annual revenue of approximately £6 million to the Health Care division.

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

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

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

The financial information in this interim report comprises two elements: (i) the unaudited condensed Consolidated financial statements of Care UK Health & Social Care Investments Limited and its subsidiaries; and (ii) the unaudited pro-forma condensed Consolidated financial statements before giving effect to the provisions of IFRIC 12. For further information refer to the Annual report 2013. The commentary included within this section of the interim report primarily discusses the financial condition and results of operations before giving effect to the provisions of IFRIC 12. In addition, a short separate discussion and analysis is provided dealing with group results on a fully compliant IFRS basis, including the effects of applying IFRIC 12.

Significant Factors Affecting Care UK's Results of Operations

For details regarding the significant factors affecting Care UK's Results of Operations refer to the Annual report 2013.

Key Line Items in the Consolidated Statement of Comprehensive Performance

For details regarding the key line items in Care UK's Consolidated Statement of Comprehensive Performance refer to the Annual report 2013.

Critical Accounting Policies and Estimates

For full details regarding Care UK's Critical Accounting Policies refer to the Annual report 2013. The preparation of Care UK's unaudited financial statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Management bases its estimates and associated assumptions on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Results of Operations

The table overleaf sets out the key line items from the unaudited condensed Consolidated statement of comprehensive performance for the financial periods ended 31 December 2012 and 31 December 2013, both on a fully IFRS compliant basis and also before giving effect to the provisions of IFRIC 12.

	Three months ended 31 December			
	Including IFRIC 12		Excluding IFRIC 12	
	2012	2013	2012	2013
	£m	£m	£m	£m
Revenue	143.1	182.4	143.7	183.0
Cost of sales	(127.4)	(161.2)	(127.9)	(161.3)
Gross profit	15.7	21.2	15.8	21.7
Administrative expenses	(20.3)	(23.8)	(20.1)	(23.7)
Operating loss before financing expenses	(4.6)	(2.6)	(4.3)	(2.0)
Adjusted EBITDA	6.9	11.0	7.6	11.9
Depreciation of tangible assets	(4.8)	(6.9)	(5.3)	(7.3)
Adjusted operating profit	2.1	4.1	2.3	4.6
Amortisation of intangible assets	(4.1)	(5.6)	(4.0)	(5.5)
Non-recurring items	(2.6)	(1.1)	(2.6)	(1.1)
Operating loss before financing expenses	(4.6)	(2.6)	(4.3)	(2.0)
Financial income	0.6	0.6	0.3	0.3
Financial expenses	(8.2)	(9.8)	(8.2)	(9.8)
Net financing expense	(7.6)	(9.2)	(7.9)	(9.5)
Loss before taxation	(12.2)	(11.8)	(12.2)	(11.5)
Taxation	1.3	0.9	1.5	0.5
Loss for the period	(10.9)	(10.9)	(10.7)	(11.0)

Three months ended 31 December 2013 compared to three months ended 31 December 2012 – excluding IFRIC 12

The comparisons presented within this section of the Management discussion and analysis use the financial information presented before giving effect to the provisions of IFRIC 12. The segmental information referred to below is set out in full in the pro-forma segmental reporting note to the unaudited pro-forma condensed consolidated financial statements on page F-13 of this interim report.

Revenue

Revenue increased by 27.3 per cent., or £39.3 million, from £143.7 million for the three months ended 31 December 2012 to £183.0 million for the three months ended 31 December 2013. This increase reflects the acquisitions of Harmoni in November 2012 and UKSH in February 2013, which added revenue of £9.2 million and £15.0 million respectively, growth within the Residential Care Services division and organic growth across the group. The growth in the Residential Care Services division resulted principally from the Suffolk contract, which commenced in December 2012, and new homes opened in the years ended 30 September 2012 and 30 September 2013 as well as in the three months ended 31 December 2013. In aggregate the new homes and contracts added revenue of £7.3 million in the three months ended 31 December 2013 compared with the three months ended 31 December 2012.

Revenue for the Residential Care division increased by 18.3 per cent., or £8.5 million, from £46.4 million for the three months ended 31 December 2012 to £54.9 million for the three months ended 31 December 2013. The Suffolk contract, which only operated for one month in the three months ended 31 December 2012, contributed revenue growth of £3.6 million. Organic growth from new services opened in the years ended 30 September 2012 and 30 September 2013 as well as in the three months ended 31 December 2013 added revenue growth of £3.7 million. The balance of organic revenue growth was achieved in the mature homes portfolio.

At 31 December 2013 Care UK operated 6,506 beds in 110 care homes, compared with 6,297

beds at 30 September 2013 and 6,066 beds at 31 December 2012. At 31 December 2013 approximately 37 per cent. of all beds were operated under guaranteed commitment block contracts compared with approximately 38 per cent. as at 30 September 2013 and approximately 41 per cent. as at 31 December 2012. In the three months ended 31 December 2013 the Residential Care Services division opened three new care homes, in Kidderminster, Poole and Stratford-upon-Avon, with a combined total of 207 beds. Each of these three new homes has been developed by independent developers and is held by Care UK on standard commercial leasehold terms.

Fee rates in the three months ended 31 December 2013 averaged £697 per week compared with £659 per week in the three months ended 31 December 2012, an increase of 5.8 per cent. The increase in fee rates reflects a number of factors, including the fee rate increases achieved in April 2013, the higher fee rates being achieved in the more recently opened homes and the fee rates relating to the Suffolk contract. Total occupancy was 84.1 per cent. in the three months ended 31 December 2013 compared with 85.8 per cent. in the three months ended 31 December 2012. The overall reduction in occupancy is caused by the number of new homes opened since 1 January 2013, which are still in their initial occupancy ramp-up phase. Occupancy in the mature homes, including the former Southern Cross homes, was 88.0 per cent. in the three months ended 31 December 2013 compared with 88.2 per cent. in the three months ended 31 December 2012.

The Recent Developments section on page 7 refers to two new care homes being opened by the Residential Care Services division in February 2014. In addition, the division currently has seven further greenfield homes in development, of which four are being developed by the Silver Sea development entity referred to in the 2013 Annual report. These homes will add approximately 550 beds in aggregate once operational. In addition, the Suffolk contract will ultimately result in a further ten new homes being developed, which will add approximately 200 net new beds after the closure of the 15 existing homes. Planning consent has been achieved on nine of the planned ten new Suffolk homes with eight of the new homes now being in construction. The first three new Suffolk homes are expected to open in the final quarter of the year ending 30 September 2014. The funding for all of the new Suffolk homes is being provided by two institutional real estate funds.

Revenue for the Community Services division increased by 3.0 per cent., or £0.9 million, from £29.9 million for the three months ended 31 December 2012 to £30.8 million for the three months ended 31 December 2013. This increase reflects the contribution from the new Doncaster learning disabilities contract and the Living Ambitions business acquired in April 2013, which added revenue of £1.7 million and £0.6 million respectively, partly offset by a reduction in revenue in the domiciliary care part of this division, where Local Authority funding pressures are continuing to have an impact on volumes. Average fee rates in the Community Services division for the three months ended 31 December 2013 were £13.53 per hour compared with £13.56 per hour in the three months ended 31 December 2012, a decrease of 0.2 per cent. caused by mix effects across the portfolio. Hours of care delivered averaged approximately 157,000 per week for the three months ended 31 December 2013 compared with approximately 151,000 per week in the three months ended 31 December 2012. This increase, of 4.0 per cent., reflects the positive impacts of the Doncaster contract and the Living Ambitions business, partly offset by some volume reduction in the domiciliary care part of the division. As at 31 December 2013 a total of 133 residential learning disability beds were operated with average occupancy of 94.5 per cent. for the three months ended 31 December 2013 and average fee rates of £1,775 per week compared with 132 beds operated as at 31 December 2012 with average occupancy of 93.1 per cent. in the three months ended 31 December 2012 and average fee rates of £1,796 per week.

Revenue for the Health Care division increased by 46.6 per cent., or £28.0 million, from £60.1 million for the three months ended 31 December 2012 to £88.1 million for the three months ended 31 December 2013. The increase largely resulted from the Harmoni and UKSH acquisitions, which added revenue of £8.4 million and £15.0 million respectively. The increased revenue from the Harmoni business includes revenue growth from the increased maturity of the 111 services now operated by Care UK. Organic growth from both existing and new services added further revenue growth of £4.6 million.

Revenue within the Other segment increased by 26.0 per cent., or £1.9 million, from £7.3 million

for the three months ended 31 December 2012 to £9.2 million for the three months ended 31 December 2013. The Mental Health division increased revenue by £1.1 million in the three months ended 31 December 2013 compared with the three months ended 31 December 2012, mostly through improved occupancy in the core business but also partly through the opening of new services. The Amicus ITS business, acquired as part of the Harmoni acquisition, contributed an increase in revenue of £0.8 million as the business was not owned throughout the three months ended 31 December 2012.

Cost of Sales

Care UK's cost of sales increased by 26.1 per cent., or £33.4 million, from £127.9 million for the three months ended 31 December 2012 to £161.3 million for the three months ended 31 December 2013. Measured as a percentage of revenue, cost of sales decreased from 89.0 per cent. in the three months ended 31 December 2012 to 88.1 per cent. in the three months ended 31 December 2013. The increase in the absolute value of cost of sales reflects the increase in scale of the group's activities, particularly the Harmoni and UKSH acquisitions, the Suffolk and Doncaster contracts and organic growth in all of the group's operating divisions. The slight decrease in cost of sales as a ratio measured against revenue particularly reflects the positive impact of the UKSH acquisition.

Administrative Expenses

Care UK's administrative expenses increased by 17.9 per cent., or £3.6 million, from £20.1 million for the three months ended 31 December 2012 to £23.7 million for the three months ended 31 December 2013. This increase in administrative expenses mainly reflects the growth in scale of the group's activities. Measured against revenue, administrative expenses were 13.0 per cent. in the three months ended 31 December 2013 compared with 14.0 per cent. in the three months ended 31 December 2012. Administrative expenses for the three months ended 31 December 2013 included amortisation of intangible assets of £5.5 million and non-recurring charges of £1.1 million. Administrative expenses for the three months ended 31 December 2012 included amortisation of intangible assets of £4.0 million and non-recurring charges of £2.6 million. The non-recurring charges in the three months ended 31 December 2013 included an aggregate charge of £0.8 million in relation to the transfer and integration of the Suffolk homes to the Residential Care Services division and contract change costs in respect of the learning disabilities supported living contract in Doncaster in the Community Services division. In addition, non-recurring charges of £0.1 million and £0.2 million were incurred in the 3 months ended 31 December 2013 in respect of property related issues and restructuring costs respectively. The non-recurring charges reported in the three months ended 31 December 2012 included a charge of £0.3 million in relation to the transfer of the Suffolk homes to the Residential Care Services division and transaction and integration costs of £2.3 million relating to the acquisition and subsequent integration of the Harmoni business. Excluding these items, administrative expenses increased by £3.6 million, or 26.7 per cent., from £13.5 million in the three months ended 31 December 2012 to £17.1 million in the three months ended 31 December 2013 as a result of the increased scale of the Care UK business. As a percentage of revenue, this represented 9.4 per cent. in the three months ended 31 December 2012 and 9.3 per cent. in the three months ended 31 December 2013.

Operating Profit/Loss before Financing Expenses

Care UK's operating loss before financing expenses decreased by £2.3 million from £4.3 million for the three months ended 31 December 2012 to £2.0 million for the three months ended 31 December 2013. This change reflects the positive benefits from the Harmoni and UKSH acquisitions together with organic growth across the group.

Operating profit for Care UK's Residential Care Services division decreased by £1.3 million from £1.8 million for the three months ended 31 December 2012 to £0.5 million for the three months ended 31 December 2013. This change reflects in particular the expected start-up losses incurred on the three new homes opened in the period, amounting to £0.9 million in aggregate, and the investment in additional support costs across the division required to facilitate the significant growth in capacity being delivered within the Residential Care Services division. This amounted to an increase in costs of approximately £0.9 million in the three months ended 31 December 2013 compared with the three months ended 31 December 2012. In addition, non-recurring costs increased by £0.4 million and amortisation charges by £0.1 million. The mature homes, including the former Southern Cross homes, contributed a similar

operating profit to the three months ended 31 December 2012 whilst the Suffolk homes increased operating profit by approximately £0.5 million. The immature homes, defined as those opened during the years ended 30 September 2012 and 30 September 2013, increased their operating profit by £0.6 million in aggregate, in line with their expected performance.

Following the occurrence of a subsidence issue at one of the Residential Care Services care homes, first reported in the period ended 31 December 2012, the decision has been taken to close this home whilst a permanent solution for either its complete replacement or its structural underpinning is determined. The ongoing rental costs for this home will continue to be incurred whilst a permanent solution is agreed and will be reported as a non-recurring cost.

Operating profit for the Community Services division decreased from a profit of £0.1 million for the three months ended 31 December 2012 to break even for the three months ended 31 December 2013. The small reduction in operating profit is attributable to the non-recurring restructuring charges of £0.2 million incurred in the three months ended 31 December 2013. Notwithstanding the public sector funding pressures referred to above, which have impacted on revenue in the domiciliary care side of this division, operating profit was slightly increased through the acquisitions made in the years ended 30 September 2012 and 30 September 2013 as well as through good operating cost control within the division.

Operating profit for the Health Care division changed from a loss of £4.3 million for the three months ended 31 December 2012 to a loss of £0.8 million for the three months ended 31 December 2013. The improvement of £3.5 million was driven by organic improvement across the business together with the contribution from UKSH, which was acquired in February 2013 and therefore contributed no operating profit to the three months ended 31 December 2012. In addition, a non-recurring charge of £2.3 million was incurred in the three months ended 31 December 2012 in relation to the acquisition and initial integration of Harmoni whilst no non-recurring charges were incurred in the three months ended 31 December 2013. These improvements were partly offset by an increase of £1.1 million in the charge for amortisation of intangible assets, which increased from £1.1 million for the three months ended 31 December 2012 to £2.2 million for the three months ended 31 December 2013 due to the charge arising in relation to the intangible assets recognised on the acquisitions of Harmoni and UKSH. In addition, the results for the three months include an operating loss on the 111 service of £1.3 million, including a non-cash depreciation charge of £0.6 million, compared with an operating loss in the three months ended 31 December 2012 of £0.4 million. The operational improvement plan that is anticipated to result in the 111 service becoming profitable is currently in process of implementation.

The operating result in the Other segment improved from a loss of £1.9 million for the three months ended 31 December 2012 to a loss of £1.7 million for the three months ended 31 December 2013. The contribution from both the Mental Health division and the Amicus ITS business increased by £0.1 million each in the three months ended 31 December 2013 compared with the three months ended 31 December 2012. The group's underlying central management costs reduced by £0.2 million in the three months ended 31 December 2013 compared with the three months ended 31 December 2012. Non-recurring charges of £0.2 million were incurred within the Other segment in the three months ended 31 December 2013 in relation to a restructuring programme that commenced towards the end of 2013. No non-recurring charges were incurred in the three months ended 31 December 2012.

Adjusted Operating Profit

Adjusted operating profit for the three months ended 31 December 2013 increased by 100 per cent., or £2.3 million, from £2.3 million for the three months ended 31 December 2012 to £4.6 million for the three months ended 31 December 2013. This increase in adjusted operating profit reflects the factors discussed above, other than the movement in amortisation charges and non-recurring items.

The non-cash amortisation charge for the three months ended 31 December 2013 amounted to £5.5 million compared to £4.0 million for the three months ended 31 December 2012. The increase in the amortisation charge primarily reflects amortisation arising on intangible assets recognised in relation to the Harmoni and UKSH acquisitions, as well as the acquisitions made within the Community Services

division in the years ended 30 September 2012 and 30 September 2013. These increases were partly offset by the expected reduction in the charge relating to the intangible assets originally recognised on the acquisition of Care UK in 2010. Non-recurring items in the three months ended 31 December 2012 amounted to a loss of £2.6 million comprising transaction and integration costs of £0.3 million relating to the Residential Care Services division's Suffolk care homes contract and transaction and integration costs of £2.3 million relating to the Health Care division's acquisition of Harmoni. Non-recurring items in the three months ended 31 December 2013 amounted to a loss of £1.1 million comprising aggregate contract transfer and integration costs of £0.8 million relating to the Residential Care Services and Community Services divisions, property related issues of £0.1 million and restructuring charges of £0.2 million as outlined above.

Adjusted operating profit for the Residential Care division decreased by £0.8 million from £3.7 million for the three months ended 31 December 2012 to £2.9 million for the three months ended 31 December 2013. This decrease in Adjusted operating profit was principally due to the same factors as drove the change in operating profit other than the increase in non-recurring charges of £0.4 million and the increase of £0.1 million in amortisation charges in the three months ended 31 December 2013.

Adjusted operating profit for the Community Services division increased by 28.6 per cent., or £0.4 million, from £1.4 million for the three months ended 31 December 2012 to £1.8 million for the three months ended 31 December 2013. This outcome was driven by the same factors as for operating profit except for the increase of £0.2 million in non-recurring charges and the increase of £0.3 million in the amortisation charge in the three months ended 31 December 2013 compared with the three months ended 31 December 2012.

Adjusted operating profit for the Health Care division increased by £2.3 million from a loss of £0.9 million for the three months ended 31 December 2012 to a profit of £1.4 million for the three months ended 31 December 2013. This increase was mainly due to the same factors as for operating profit, particularly the organic improvement across the business and the contribution from UKSH, with the important differences that Adjusted operating profit does not reflect either the non-recurring charge of £2.3 million incurred in the three months ended 31 December 2012 or the amortisation charges recorded in the three months ended 31 December 2012 and the three months ended 31 December 2013.

The Adjusted operating loss in the Other segment changed from a loss of £1.9 million for the three months ended 31 December 2012 to a loss of £1.5 million for the three months ended 31 December 2013. This outcome was driven by the same factors as for operating profit with the exception that Adjusted operating profit does not reflect the non-recurring charge of £0.2 million incurred in the three months ended 31 December 2013.

Adjusted EBITDA

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

Adjusted EBITDA increased by £4.3 million, or 56.6 per cent., from £7.6 million for the three months ended 31 December 2012 to £11.9 million for the three months ended 31 December 2013. The improvement 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.

Financing Expenses

Net financing expenses for the three months ended 31 December 2013 were £9.5 million compared with £7.9 million for the three months ended 31 December 2012. Net financing costs mostly

comprises the interest payable on the group's Senior Secured Notes as well as interest, performance bond commission and commitment fees payable on the group's Revolving Credit Facility and interest payable in relation to other bank loans acquired with the UKSH business in February 2013. The increase in net financing expenses in the three months ended 31 December 2013 compared with the three months ended 31 December 2012 resulted from the additional Senior Secured Notes issued in November 2012, the UKSH bank loan and the increased utilisation of the Revolving Credit Facility.

Taxation

In the three months ended 31 December 2013 Care UK recorded a taxation credit of £0.5 million compared with a taxation credit of £1.5 million for the three months ended 31 December 2012. This change reflects the underlying change in taxable group profits in the period.

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

Loss for the Period

As a result of the factors discussed above, Care UK reported a loss for the three months ended 31 December 2013 of £11.0 million compared with a loss of £10.7 million for the three months ended 31 December 2012.

Three months ended 31 December 2013 – 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 2013.

The following table shows the effects of IFRIC 12 on the condensed Consolidated statement of comprehensive performance.

	Period ended 31 December 2013		
	Pre-IFRIC 12 adoption	IFRIC 12 adjustments	Post IFRIC 12 adjustments
	£m	£m	£m
Revenue	183.0	(0.6)	182.4
Cost of sales	(161.3)	0.1	(161.2)
Gross profit	21.7	(0.5)	21.2
Administrative expenses	(23.7)	(0.1)	(23.8)
Operating loss before financing expenses	(2.0)	(0.6)	(2.6)
Adjusted EBITDA	11.9	(0.9)	11.0
Depreciation of tangible assets	(7.3)	0.4	(6.9)
Adjusted operating profit	4.6	(0.5)	4.1
Amortisation of intangible assets	(5.5)	(0.1)	(5.6)
Non-recurring items	(1.1)	-	(1.1)
Operating loss before financing expenses	(2.0)	(0.6)	(2.6)
Financial income	0.3	0.3	0.6
Financial expenses	(9.8)	-	(9.8)
Net financing (expense)/income	(9.5)	0.3	(9.2)
Loss before taxation	(11.5)	(0.3)	(11.8)
Taxation	0.5	0.4	0.9
(Loss)/profit for the period	(11.0)	0.1	(10.9)

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 three months ended 31 December 2013 is to decrease the loss for the period by £0.1 million.

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

	As at 31 December 2013		
	Pre-IFRIC 12 adoption	IFRIC 12 adjustments	Post IFRIC 12 adjustments
	£m	£m	£m
Property, plant and equipment	310.2	(30.6)	279.6
Intangible assets	217.8	9.0	226.8
Other financial assets	-	21.9	21.9
Total non-current assets	550.3	0.3	550.6
Other financial assets	-	1.0	1.0
Total current assets	149.1	1.0	150.1
Trade and other payables	(151.9)	(10.2)	(162.1)
Total current liabilities	(154.2)	(10.2)	(164.4)
Deferred tax liabilities	(18.5)	2.2	(16.3)
Total non-current liabilities	(415.0)	2.2	(412.8)
Net assets	130.2	(6.7)	123.5

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 following table shows the effects of IFRIC 12 on the condensed consolidated cash flow statement.

	Three months ended 31 December 2013		
	Pre-IFRIC 12 adoption	IFRIC 12 adjustments	Post IFRIC 12 adjustments
	£m	£m	£m
Net cash from operating activities	5.2	(0.3)	4.9
Net cash from investing activities	(9.6)	0.3	(9.3)
Net cash from financing activities	20.9	-	20.9
Net increase in cash and cash equivalents	16.5	-	16.5
Cash and cash equivalents carried forward	51.1	-	51.1

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

Net Debt and Liquidity

The following table shows the comparative net debt position as at 31 December 2012 and 31 December 2013.

	As at 31 December	
	2012	2013
	(£ in millions)	
Senior Secured Notes ¹	325.0	325.0
Cash and cash equivalents	(43.9)	(51.1)
Finance lease obligations	0.9	3.3
Bank loans	-	72.0
Deferred financing costs	(12.5)	(9.5)
Total net debt	269.5	339.7

¹ Excluding premium on issue of £3.7 million (2012: £4.6m).

Liquidity and Capital Resources

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

Care UK expects, as set out in the Annual report 2013, that its key sources of liquidity for the foreseeable future will continue to be cash flows from operations plus, if required, drawings under the Revolving Credit Facility.

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

	For the three months ended 31 December	
	2012	2013
Net cash flow from operating activities	(1.5)	5.2
Net cash flow from investing activities	(59.8)	(9.6)
Net cash flow from financing activities	66.9	20.9
Net increase in cash and cash equivalents	5.6	16.5
Cash and cash equivalents carried forward	43.9	51.1

Three months ended 31 December 2013 compared to three months ended 31 December 2012

The net increase in cash and cash equivalents in the three months ended 31 December 2013 was £16.5 million compared with a net increase of £5.6 million in the three months ended 31 December 2012. The total reported group net debt increased by £6.4 million in the three months ended 31 December 2013 from £333.3 million as at 30 September 2013 to £339.7 million as at 31 December 2013.

The net cash flow from operating activities for the three months ended 31 December 2013 was an inflow of £5.2 million compared with an outflow of £1.5 million for the three months ended 31 December 2012. The inflow in the three months ended 31 December 2013 was in line with the expected position. The three months ended 31 December 2012 was adversely impacted by the timing of certain working capital movements, which resulted in a cash outflow in this period balancing a higher than expected cash inflow as at 30 September 2012. The underlying working capital position is in line with management expectations and reflects the continued growth of the group.

The net cash flow from investing activities for the three months ended 31 December 2013 was an

outflow of £9.6 million compared with an outflow of £59.8 million for the three months ended 31 December 2012. In the three months ended 31 December 2013 capital expenditure of £8.3 million was incurred, loans to related party undertakings of £1.5 million were made, disposal proceeds of £0.1 million were received and interest of £0.1m was received. The most significant capital expenditure items were incurred in the Residential Care division in respect of the new home and service optimisation programmes, the latter intended to enhance the opportunities for attracting self-funding residents. The combined spend in these areas amounted to £6.2 million. In the three months ended 31 December 2012 capital expenditure of £10.1 million was incurred, acquisition consideration of £46.6 million was paid and loans of £3.1 million were made, of which £2.2 million was to related party undertakings and £0.9 million was to joint venture interests. No disposal proceeds were received in this period. The acquisition consideration paid all related to the acquisition of Harmoni, which was completed in November 2012.

The net cash flow from financing activities was an inflow of £20.9 million for the three months ended 31 December 2013 compared to an inflow for the three months ended 31 December 2012 of £66.9 million. In the three months ended 31 December 2013, Care UK utilised an amount of £22.5m from the Revolving Credit Facility, net of repayments, for capital investment and general short-term working capital requirements. Utilisations on the Revolving Credit Facility are subject to a minimum duration of three months. Consequently the timing of the utilisations, together with the cash inflows and outflows from operations and investing activities explained above, resulted in the increase in cash and cash equivalents held by the group as at 31 December 2013 compared with the level as at 30 September 2013. Interest and finance lease payments of £1.2 million and £0.4 million respectively were made in the three months ended 31 December 2013. In the three months ended 31 December 2012, Care UK issued additional Senior Secured Notes that resulted in a net cash inflow of £80.9 million, repaid amounts previously drawn down under the Revolving Credit Facility of £11.9 million, made interest and finance lease payments amounting to £0.5 million in aggregate and paid costs of £2.6 million relating to the issue of the additional Senior Secured Notes and the increase in the group's Revolving Credit Facility. In addition, Care UK drew down £37.5 million from the Revolving Credit Facility in the period to finance the Harmoni acquisition, as well as to pay related loan arrangement fees, and repaid the whole of this amount from the proceeds received from the issue of the additional Senior Secured Notes in November 2012.

Cash and Cash Equivalents

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 2013, Care UK had net cash and cash equivalents of £51.1 million, compared to £43.9 million as at 31 December 2012.

Qualitative and Quantitative Disclosures about Market Risk

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

Cash Flow Interest Rate Risk

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

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

policy. Interest rates obtained on deposits are variable and linked to LIBOR.

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

Price Risk

Care UK is not exposed to commodity price risk but as a provider of services is subject to both general and industry specific wage pressures, including legislative changes concerning the 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 2013, a 1 per cent. increase in salary costs would have decreased profit before tax by £3.7 million.

In common with the majority of government-funded providers, most of Care UK's price changes take effect annually on 1 April. Approximately 26 per cent. of Care UK's revenue is linked to general inflation indices.

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. Credit exposures in relation to customers is limited given that the majority of Care UK's revenue is attributable to publicly funded entities such as Local Authorities, Clinical Commissioning Groups and other NHS entities. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted. For an analysis of trade receivables which are past due but not impaired and trade receivables which are past due and impaired, see note 13 of the Annual report 2013.

Liquidity Risk

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

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**Care UK Health & Social Care
Investments Limited**

Group condensed consolidated
financial statements (unaudited)

Three month period ended
31 December 2013

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
For the three month period ended 31 December 2013

	Notes	Three months to 31 December 2013 £m	Three months to 31 December 2012 £m
Revenue	3	182.4	143.1
Cost of sales.....		<u>(161.2)</u>	<u>(127.4)</u>
Gross profit		21.2	15.7
Administrative expenses		<u>(23.8)</u>	<u>(20.3)</u>
Operating loss before financing expenses	3, 6	<u>(2.6)</u>	<u>(4.6)</u>
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)			
		11.0	6.9
Depreciation of tangible assets		<u>(6.9)</u>	<u>(4.8)</u>
Adjusted operating profit		4.1	2.1
Amortisation of intangible assets		<u>(5.6)</u>	<u>(4.1)</u>
Non-recurring items.....	4	<u>(1.1)</u>	<u>(2.6)</u>
Operating loss before financing expenses		<u>(2.6)</u>	<u>(4.6)</u>
Financial income	5	0.6	0.6
Financial expense	5	<u>(9.8)</u>	<u>(8.2)</u>
Net financing expense		<u>(9.2)</u>	<u>(7.6)</u>
Loss before taxation		(11.8)	(12.2)
Taxation.....		0.9	1.3
Loss for the period attributable to equity holders of the parent		<u>(10.9)</u>	<u>(10.9)</u>
Total comprehensive loss for the period attributable to equity holders of the parent		<u>(10.9)</u>	<u>(10.9)</u>

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 31 December 2013

	Notes	31 December 2013 £m	31 December 2012 £m	30 September 2013 £m
Assets				
Property, plant and equipment	7	279.6	259.7	276.2
Intangible assets.....	8	226.8	221.1	232.1
Other financial assets	9	21.9	23.0	22.2
Amounts due from related party undertakings		16.9	10.9	15.1
Equity-accounted investments		5.4	-	5.4
Other investments		-	1.0	0.1
Total non-current assets		550.6	515.7	551.1
Inventories		3.4	2.2	3.0
Trade and other receivables.....		94.6	75.9	87.5
Other financial assets	9	1.0	0.9	1.0
Cash and cash equivalents		51.1	43.9	34.6
Assets held for sale		-	1.4	0.3
Total current assets		150.1	124.3	126.4
Total assets		700.7	640.0	677.5
Liabilities				
Financial liabilities — borrowings	10	(2.3)	(0.4)	(1.9)
Trade and other payables		(162.1)	(141.5)	(148.9)
Current tax liabilities		-	(0.2)	-
Total current liabilities		(164.4)	(142.1)	(150.8)
Financial liabilities — borrowings	10	(392.2)	(317.6)	(370.0)
Other non-current liabilities		(4.3)	(5.7)	(4.3)
Deferred tax liabilities		(16.3)	(22.1)	(18.0)
Total non-current liabilities		(412.8)	(345.4)	(392.3)
Total liabilities		(577.2)	(487.5)	(543.1)
Net assets		123.5	152.5	134.4
Equity				
Issued share capital.....		210.7	210.7	210.7
Retained earnings		(87.2)	(58.2)	(76.3)
Total equity attributable to equity holders of the parent		123.5	152.5	134.4

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the three month period ended 31 December 2013

Group	Attributable to equity holders of the parent		
	Issued Share capital	Retained earnings	Total parent equity
	£m	£m	£m
At 30 September 2013	210.7	(76.3)	134.4
Total comprehensive loss for the period	-	(10.9)	(10.9)
At 31 December 2013	210.7	(87.2)	123.5

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
For the three month period ended 31 December 2013

	Three months to 31 December 2013 £m	Three months to 31 December 2012 £m
Cash flows from operating activities		
Loss for the period before taxation	(11.8)	(12.2)
Financial income	(0.6)	(0.6)
Financial expense	9.8	8.2
Depreciation of tangible assets.....	6.9	4.8
Amortisation of intangible assets	5.6	4.1
Decrease in IFRIC 12 financial asset	0.6	0.6
Increase in inventory.....	-	(0.1)
Increase in trade and other receivables	(7.0)	(13.4)
Increase in trade and other payables	1.4	7.3
Cash flows from operations	4.9	(1.3)
Income tax paid.....	-	(0.3)
Net cash flows from operating activities	4.9	(1.6)
Cash flows from investing activities		
Payments to acquire property, plant and equipment.....	(8.0)	(10.0)
Proceeds from the sale of property, plant and equipment.....	0.1	-
Loans to related party undertakings	(1.5)	(2.2)
Loans to joint venture	-	(0.9)
Interest received	0.1	-
Payments to acquire subsidiary undertakings (net of cash acquired)	-	(46.6)
Net cash flows used investing activities	(9.3)	(59.7)
Cash flows from financing activities		
Proceeds from new loans	82.5	119.4
Repayment of amounts borrowed.....	(60.0)	(49.4)
Interest paid	(1.2)	(0.4)
Finance costs.....	-	(2.6)
Payment of capital element of finance lease payments	(0.4)	(0.1)
Net cash flows from financing activities	20.9	66.9
Net increase in cash and cash equivalents	16.5	5.6
Cash and cash equivalents at the beginning of the period.....	34.6	38.3
Cash and cash equivalents at the end of the period	51.1	43.9

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Care UK Health & Social Care Investments Limited (the “company”) is a company domiciled in England and Wales. The condensed consolidated quarterly financial statements of the company for the three months ended 31 December 2013 comprise the company and its subsidiaries (together referred to as the “group”).

This quarterly report, for the three months ended 31 December 2013, does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. Statutory consolidated financial statements for the group for the year ended 30 September 2013, prepared in accordance with International Financial Reporting Standards as adopted by the EU (“adopted IFRS”), including International Financial Reporting Interpretations Committee (“IFRIC”) interpretations, on which KPMG Audit Plc gave an unqualified opinion, have been delivered to the Registrar of Companies. The financial statements also did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Comparative annual figures as at 30 September 2013 set out within this report have been extracted from the 2013 annual report and accounts published on 9 December 2013.

2. ACCOUNTING POLICIES

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

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

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

Adjusted operating profit is defined as Operating profit before financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items and before the effects of applying IFRIC 12. Adjusted EBITDA is defined as adjusted operating profit plus depreciation. The same accounting policies and methods of computation are followed in these condensed consolidated financial statements as were applied in the company’s 2013 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 pension plans: As permitted by adopted IAS 34, an interim actuarial valuation has not been obtained as at the end of the first quarter balance sheet date. For interim reporting purposes, reliable measurement has been obtained by extrapolation from the latest full actuarial valuations.

3. SEGMENT REPORTING

Segment information is presented in respect of the group's business segments. The primary business segments are based on the group's management and internal reporting structure. Care UK Health & Social Care Investments Limited operates solely within the UK hence no geographical segment disclosures are presented. Inter-segment pricing, where applicable, is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest bearing loans, borrowings and expenses, corporation taxes and corporate assets and expenses.

Business segments

The group comprises the following main business segments:

- Residential Care Services operates care homes for older people;
- Community Services supports people in their own homes, including older people and others with specialist needs;
- Health Care provides a range of primary, secondary and urgent care services; and
- Other includes the group's central functions and smaller trading operations.

Three months to 31 December 2013	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Revenue.....	54.3	30.8	88.1	9.2	182.4
Adjusted EBITDA.....	4.7	2.3	4.8	(0.8)	11.0
Depreciation of tangible assets.....	(2.3)	(0.5)	(3.4)	(0.7)	(6.9)
Adjusted operating profit/(loss).....	2.4	1.8	1.4	(1.5)	4.1
Amortisation of intangible assets.....	(1.8)	(1.6)	(2.2)	-	(5.6)
Non-recurring items.....	(0.7)	(0.2)	-	(0.2)	(1.1)
Operating (loss)/profit before financing expenses and taxation.....	(0.1)	-	(0.8)	(1.7)	(2.6)
Net financing expense.....					(9.2)
Taxation.....					0.9
Loss for the period.....					(10.9)
Operating lease charges: Land and buildings	(3.5)	(0.4)	(3.7)	(0.2)	(7.8)

Three months to 31 December 2012	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Revenue.....	45.8	29.9	60.1	7.3	143.1
Adjusted EBITDA.....	5.3	1.8	1.0	(1.2)	6.9
Depreciation of tangible assets.....	(1.8)	(0.4)	(1.9)	(0.7)	(4.8)
Adjusted operating profit/(loss).....	3.5	1.4	(0.9)	(1.9)	2.1
Amortisation of intangible assets.....	(1.7)	(1.3)	(1.1)	-	(4.1)
Non-recurring items.....	(0.3)	-	(2.3)	-	(2.6)
Operating profit/(loss) before financing expenses and taxation.....	1.5	0.1	(4.3)	(1.9)	(4.6)
Net financing expense.....					(7.6)
Taxation.....					1.3
Loss for the period.....					(10.9)
Operating lease charges: Land and buildings	(2.7)	(0.5)	(2.2)	(0.1)	(5.5)

4. NON-RECURRING ITEMS

The following non-recurring items have been adjusted for on the face of the statement of comprehensive performance in arriving at Adjusted operating profit:

	Note	Three months to 31 December 2013 £m	Three months to 31 December 2012 £m
Non-recurring items:			
— Acquisition and integration costs.....	(a)	-	(2.3)
— Contract transfer and integration costs	(b)	(0.8)	(0.3)
— Restructuring	(c)	(0.2)	-
— Property related costs.....	(d)	(0.1)	-
		(1.1)	(2.6)

Non-recurring items in the three months to 31 December 2013 amounted to a charge of £1.1m in aggregate. The non-recurring charges in the three months to 31 December 2012 amounted to £2.6m in aggregate. The key elements of the charges for both periods are set out below.

(a) *Acquisition and integration costs*

During the 3 months to 31 December 2012 Care UK incurred costs in relation to the acquisition of Harmoni. In accordance with IFRS 3, such costs cannot be included in the cost of the business combination and therefore cannot be capitalised. Total transaction and integration costs of £2.3m were incurred in relation to the acquisition and subsequent integration into the Care UK group.

(b) *Contract transfer and integration costs*

During the 2013 financial year Care UK Residential Care division transferred 16 existing care homes from Suffolk County Council as the initial stage of a long term contract and the Community Services division commenced the operation of a significant learning disabilities supported living contract in Doncaster. In the 3 months to 31 December 2013 aggregate transaction and integration costs of £0.8m (2012: £0.3m) were incurred in relation to the transfer of these contracts to Care UK.

(c) *Restructuring*

In the final quarter of the 2013 financial year restructuring programmes were initiated within divisions and central functions aimed at reducing operating costs through business process redesign and simplification. Implementation costs of £0.2m were incurred in relation to these initiatives during the 3 months to 31 December 2013 (2012: £nil).

(d) *Property related costs*

During the 3 months to 31 December 2013 Care UK incurred losses of £0.1m (2012: £nil) due to property related issues that restricted the business's ability to deliver its services.

5. NET FINANCING EXPENSE

	Three months to 31 December 2013	Three months to 31 December 2012
	£m	£m
Financial income:		
Interest receivable	0.3	0.3
IFRIC-12 interest receivable.....	0.3	0.3
Financial income.....	0.6	0.6
Financial expense — interest payable on bank overdrafts and loans.....	(9.8)	(8.2)
Net financing expense	<u>(9.2)</u>	<u>(7.6)</u>

6. LOSS BEFORE TAXATION

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

	Three months to 31 December 2013	Three months to 31 December 2012
	£m	£m
Depreciation of tangible assets	6.9	4.8
Amortisation of intangible assets	5.6	4.1
Operating lease charges: Land and buildings	7.8	5.5
IFRIC 12 infrastructure costs expensed in the period	<u>0.3</u>	<u>0.1</u>

7. PROPERTY, PLANT AND EQUIPMENT

	31 December 2013	31 December 2012	30 September 2013
	£m	£m	£m
Opening net book value	276.2	252.1	252.1
Acquired	-	3.3	10.6
Additions	10.4	8.5	37.0
Transfers from current assets	-	0.6	0.6
Disposal and transfers to current assets	(0.1)	-	(1.0)
Depreciation charge for the period	(6.9)	(4.8)	(23.1)
Closing net book value.....	<u>279.6</u>	<u>259.7</u>	<u>276.2</u>

8. INTANGIBLE ASSETS

	31 December 2013	31 December 2012	30 September 2013
	£m	£m	£m
Opening net book value.....	232.1	170.7	170.7
Acquired.....	-	54.2	83.8
Adjustment.....	0.3	0.3	-
Impairment charge.....	-	-	(1.8)
Amortisation charge for the period	(5.6)	(4.1)	(20.6)
Closing net book value	226.8	221.1	232.1

9. OTHER FINANCIAL ASSETS

	31 December 2013	31 December 2012	30 September 2013
	£m	£m	£m
IFRIC-12 financial asset: brought forward.....	23.2	24.2	24.2
Released in the period.....	(0.3)	(0.3)	(1.0)
IFRIC-12 financial asset: carried forward	22.9	23.9	23.2
Disclosed as:			
Non-current assets: IFRIC-12 financial asset.....	21.9	23.0	22.2
Current assets: IFRIC-12 financial asset.....	1.0	0.9	1.0
	22.9	23.9	23.2

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

10. FINANCIAL LIABILITIES

	Borrowings due within one year	Borrowings due after one year	Total Financial Liabilities
	£m	£m	£m
At 1 October 2012.....	(0.2)	(253.3)	(253.5)
Cash flow.....	1.5	(116.5)	(115.0)
Other non-cash changes.....	(3.2)	(0.2)	(3.4)
At 30 September 2013.....	(1.9)	(370.0)	(371.9)
Cash flow.....	0.4	(22.5)	(22.1)
Other non-cash changes.....	(0.8)	0.3	(0.5)
At 31 December 2013.....	(2.3)	(392.2)	(394.5)

As at 31 December 2013 there was accrued interest of £16.0m (31 December 2012: £14.2m; 30 September 2013: £7.8m) included in 'Trade and Other payables' disclosed within current liabilities in the balance sheet but excluded from this note.

Terms and conditions

i) Senior Secured Notes

As at 31 December 2013 Care UK Health & Social Care Plc (the issuer) had £325 million of 9¾% Senior Secured Notes in issue. Interest is payable semi-annually in arrears on 1 February and 1 August.

There have been no material changes to the terms and conditions or maturity and redemption profile outlined in the group's 2013 annual report.

ii) Super Senior Revolving Credit Facility

As at 31 December 2013 the group had an £115m Super Senior Revolving Credit Facility (the "RCF"), which expires on 13 July 2016. The margin payable on the outstanding loan is in the range of 2.5% to 4.0% above LIBOR, plus any mandatory costs, depending on the total net leverage of the group. Each utilisation under the facility is repayable and capable of being redrawn at the end of each interest period. The final repayment date is 13 July 2016.

As at 31 December 2013, £69.0m (31 December 2012: £nil) of the RCF has been utilised as cash drawings. The remainder of the facility remained undrawn, with the exception of £10.1m (31 December 2012: £9.4m) utilised in relation to performance bonds provided in relation certain contracts in the Health Care and Community Services divisions and £0.5m (31 December 2012: £0.5m) in relation to other ancillary utilisations.

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

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

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

**Care UK Health & Social Care
Investments Limited**

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

Three month period ended
31 December 2013

BASIS OF PREPARATION

These 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 annual financial statements.

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

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

Definition

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

Accounting policies

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

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

Except as described below, the same accounting policies and methods of computation are followed in this group proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) as were applied in the group's condensed financial information for the three months ended 31 December 2013:

IFRIC 12 "Service Concession Arrangements" – this interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the interpretation, the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to the usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator now recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising. In addition, the timing of profit recognition changes over the life of the contract with no change in the overall project cash flows arising therein. This group proforma pre-IFRIC 12 non-statutory condensed 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 month period ended 31 December 2013

	Three months to 31 December 2013	Three months to 31 December 2012
	£m	£m
Revenue	183.0	143.7
Cost of sales.....	(161.3)	(127.9)
Gross profit	21.7	15.8
Administrative expenses	(23.7)	(20.1)
Operating loss before financing expenses	(2.0)	(4.3)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)	11.9	7.6
Depreciation of tangible assets	(7.3)	(5.3)
Adjusted operating profit	4.6	2.3
Amortisation of intangible assets	(5.5)	(4.0)
Non-recurring items.....	(1.1)	(2.6)
Operating loss before financing expenses	(2.0)	(4.3)
Financial income	0.3	0.3
Financial expense	(9.8)	(8.2)
Net financing expense	(9.5)	(7.9)
Loss before taxation	(11.5)	(12.2)
Taxation.....	0.5	1.5
Loss for the period attributable to equity holders of the parent	(11.0)	(10.7)
Total comprehensive loss for the period attributable to equity holders of the parent	(11.0)	(10.7)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED BALANCE
SHEET (UNAUDITED)
As at 31 December 2013

	31 December 2013	31 December 2012	30 September 2013
	£m	£m	£m
Assets			
Property, plant and equipment	310.2	291.9	306.9
Intangible assets	217.8	211.6	223.3
Amounts due from related party undertakings	16.9	10.9	15.1
Equity-accounted investments	5.4	-	5.4
Other investments	-	1.0	0.1
Total non-current assets	550.3	515.4	550.8
Inventories	3.4	2.2	3.0
Trade and other receivables.....	94.6	75.9	87.5
Cash and cash equivalents	51.1	43.9	34.6
Assets classified as held for sale	-	1.4	0.3
Total current assets	149.1	123.4	125.4
Total assets.....	699.4	638.8	676.2
Liabilities			
Financial liabilities — borrowings	(2.3)	(0.4)	(1.9)
Trade and other payables	(151.9)	(131.7)	(138.8)
Current tax liabilities	-	(0.2)	-
Total current liabilities	(154.2)	(132.3)	(140.7)
Financial liabilities — borrowings	(392.2)	(317.6)	(370.0)
Other non-current liabilities	(4.3)	(5.7)	(4.3)
Deferred tax liabilities	(18.5)	(24.1)	(20.0)
Total non-current liabilities	(415.0)	(347.4)	(394.3)
Total liabilities	(569.2)	(479.7)	(535.0)
Net assets.....	130.2	159.1	141.2
Equity			
Issued share capital	210.7	210.7	210.7
Retained earnings	(80.5)	(51.6)	(69.5)
Total equity attributable to equity holders of the parent	130.2	159.1	141.2

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED CASH FLOW
STATEMENT (UNAUDITED)
For the three month period ended 31 December 2013

	Three months to 31 December 2013 £m	Three months to 31 December 2012 £m
Cash flows from operating activities		
Loss for the period before taxation.....	(11.5)	(12.2)
Financial income.....	(0.3)	(0.3)
Financial expense.....	9.8	8.2
Depreciation of tangible assets	7.3	5.3
Amortisation of intangible assets.....	5.5	4.0
Increase in inventory	-	(0.1)
Increase in trade and other receivables	(7.0)	(13.4)
Increase in trade and other payables	1.4	7.3
Cash flows from operations	5.2	(1.2)
Income tax paid	-	(0.3)
Net cash flows from operating activities	5.2	(1.5)
Cash flows from investing activities		
Payments to acquire property, plant and equipment.....	(8.3)	(10.1)
Proceeds from sales of property, plant and equipment.....	0.1	-
Loans to related party undertakings	(1.5)	(2.2)
Loans to joint venture	-	(0.9)
Interest received.....	0.1	-
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	-	(46.6)
Net cash flows used investing activities.....	(9.6)	(59.8)
Cash flows from financing activities		
Proceeds from new loans	82.5	119.4
Repayment of amounts borrowed	(60.0)	(49.4)
Interest paid.....	(1.2)	(0.4)
Finance costs	-	(2.6)
Payment of capital element of finance lease payments	(0.4)	(0.1)
Net cash flows from financing activities.....	20.9	66.9
Net increase in cash and cash equivalents	16.5	5.6
Cash and cash equivalents at the beginning of the period	34.6	38.3
Cash and cash equivalents at the end of the period	51.1	43.9

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

Three months to 31 December 2013	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Revenue	54.9	30.8	88.1	9.2	183.0
Adjusted EBITDA	5.6	2.3	4.8	(0.8)	11.9
Depreciation of tangible assets	(2.7)	(0.5)	(3.4)	(0.7)	(7.3)
Adjusted operating profit/(loss)	2.9	1.8	1.4	(1.5)	4.6
Amortisation of intangible assets	(1.7)	(1.6)	(2.2)	-	(5.5)
Non-recurring items	(0.7)	(0.2)	-	(0.2)	(1.1)
Operating profit/(loss) before financing expenses and taxation	0.5	-	(0.8)	(1.7)	(2.0)
Net financing expense					(9.5)
Taxation					0.5
Loss for the period					(11.0)
Operating lease charges: Land and buildings	(3.5)	(0.4)	(3.7)	(0.2)	(7.8)

Three months to 31 December 2012	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Revenue	46.4	29.9	60.1	7.3	143.7
Adjusted EBITDA	6.0	1.8	1.0	(1.2)	7.6
Depreciation of tangible assets	(2.3)	(0.4)	(1.9)	(0.7)	(5.3)
Adjusted operating profit/(loss)	3.7	1.4	(0.9)	(1.9)	2.3
Amortisation of intangible assets	(1.6)	(1.3)	(1.1)	-	(4.0)
Non-recurring items	(0.3)	-	(2.3)	-	(2.6)
Operating profit/(loss) before financing expenses and taxation	1.8	0.1	(4.3)	(1.9)	(4.3)
Net financing expense					(7.9)
Taxation					1.5
Loss for the period					(10.7)
Operating lease charges: Land and buildings	(2.7)	(0.5)	(2.2)	(0.1)	(5.5)