Care UK Health & Social Care Investments Limited

Quarterly Financial Report for the three and nine months ended 30 June 2014

£325,000,000 Senior Secured First Lien Floating Rate Notes due 2019
£75,000,000 Second Lien Floating Rate Notes due 2020

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SUMMARY

Care UK has delivered further steady operational performance in the three months ended 30 June 2014, with an improved financial performance compared with the first and second quarters of the financial year. Financial performance remains ahead of the prior year for the nine month period ended 30 June 2014. All figures and percentages quoted below are for the three months ended 30 June 2014 unless stated, and exclude the effects of IFRIC 12.

- **Group Highlights**
  - Consistent performance across the group
  - Revenue for the nine months ended 30 June 2014 increased by 13.4 per cent. to £545.6 million compared with the nine months ended 30 June 2013. Adjusted EBITDA for the same period increased by 5.2 per cent. to £38.3 million compared with £36.4 million for the nine months ended 30 June 2013
  - The Residential Care Services division continues to deliver its planned growth with total beds in the division having increased to 6,917 as at 30 June 2014. Three greenfield care homes opened in the quarter with eight now having opened in the year to date. The first of the ten new build Suffolk homes also opened in June 2014. As at 30 June 2014 a further five greenfield homes, with 379 beds in total, were at various stages of development and, in addition, all of the nine further new build Suffolk homes, with 630 beds in total, were either in construction or have received planning consent.
    - As at 30 June 2014 34 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 greenfield development programme and the replacement of the existing Suffolk homes with the ten planned new build homes has, as expected, impacted reported EBITDA and will continue to do so in the short term whilst the new homes, both greenfield and Suffolk, go through their initial ramp-up periods
  - On a pro-forma basis, adjusting for the start-up losses incurred by the residential care new home opening programme (but making no allowance for expected future positive EBITDA), LTM Adjusted EBITDA to net debt as at 30 June 2014 was 5.58x. The reported leverage ratio was 5.87x
  - Operating cash flow remains strong with an inflow of £3.7 million in the three months ended 30 June 2014, notwithstanding the regularisation of early NHS contract payments from the previous quarter, and an inflow of £34.1 million for the nine months ended 30 June 2014 compared with £2.3 million for the nine months ended 30 June 2013
  - In July 2014, after the reporting date for these interim financial statements, the group successfully undertook a full refinancing of its previous Senior Secured Notes and Revolving Credit Facility. More details are set out in the Recent Developments section on page 6.

This quarterly 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 quoted below exclude the effects of applying IFRIC 12.

Social Care	Health Care
• ***Residential Care Services:*** Care homes (113 homes with 6,917 beds) providing both residential and nursing 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 155,000 care hours per week delivered to more than 11,000 service users plus 133 residential learning disability places)	• Broad range of health care services centred around the key service streams of Primary Care (eg prison healthcare, GP services, out of hours support and the NHS 111 service) and Secondary Care (eg hospital based elective surgery, "CATS" contracts and support for enduring mental health conditions) • Almost 100 operating locations • Almost 16 million patients treated or supported annually by the Health Care division

Key figures, in £ million	Q3 / 2013	YTD / 2013	Q3 / 2014	YTD / 2014
Revenue	174.0	481.1	183.1	545.6
Adjusted EBITDA [1)]	17.1	36.4	13.0	38.3
Adjusted operating profit [1)]	10.5	18.1	4.8	14.9
Net loss for the period	(4.1)	(27.6)	(9.5)	(29.1)
Operating cash flow	(6.4)	2.3	3.7	34.1

[1] [1] See non-IFRS measures below

Financial leverage	As of and for the 12 month period ended			
Amounts in £ million	30 September 2013	31 December 2013	31 March 2014	30 June 2014
Adjusted EBITDA	56.2	60.5	62.2	58.1
Net debt	333.3	339.7	338.2	341.0
Net debt / Adjusted EBITDA	5.93x	5.61x	5.44x[1]	5.87x[2]

[1] Pro-forma Net debt / Adjusted EBITDA, excluding new home start-up losses of £1.8 million in the Residential Care Services division, was 5.28x as at 31 March 2014

[2] Pro-forma Net debt / Adjusted EBITDA, excluding new home start-up losses of £3.0 million in the Residential Care Services division, was 5.58x as at 30 June 2014

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.

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.

Adjusted operating profit, which includes Care UK's proportionate ownership share of EBITDA from joint venture enterprises, is defined as Operating profit before net financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items and excluding the impact of applying IAS 17 in respect of lease incentives as explained below.

Care UK enters into various lease arrangements with third parties within the normal course of business which can be subject to various types of incentive. Lease incentives on operating units typically take the form of rent free periods as they reflect the economic contribution profile of the unit during the early stages of occupancy, however under the terms of the lease cash rent does not become payable until the expiry of the rent free period. Other lease incentives may take the form of a cash premium received at inception or renewal of the lease with annual cash rent payable from commencement of the lease. Under IAS 17 'Leases', lease incentives are allocated on a straight line basis over the life of the lease. The non-IFRS financial measure adjusted operating profit is presented on a cash rent basis as it excludes the effect of applying the straight line method to lease incentives in order to reflect the underlying commercial arrangement and provide underlying operational performance and cash generation of the business.

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation.

Free cash flow is defined as Adjusted EBITDA less maintenance capital expenditure.

Net debt as at 30 June 2014 is defined as the principal amount of the Senior Secured Notes, all bank or other loans (net of unamortised arrangement fees), overdrafts and finance lease liabilities, less cash and cash equivalents. Following the group's recent refinancing, reported in the Recent Developments section on page 6, the definition of net debt will in future be amended to include the Senior Secured Notes and the Second Lien Notes (together the "Notes") issued as part of the Refinancing.

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

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 and as updated in the Offering Memorandum issued in respect of the Notes, dated 14 July 2014, 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

Refinancing

In July 2014 the group carried out a refinancing (the "Refinancing") in order to put in place a long term stable capital structure to underpin the group's future growth plans whilst significantly reducing the group's cost of debt. The Refinancing comprised the issue of the Notes with the company's intention being to use the net proceeds to (i) redeem all of the outstanding existing Senior Secured Notes; (ii) repay the outstanding amounts under the existing Revolving Credit Facility; and (iii) pay transaction fees and expenses in connection with the Refinancing. The intended Sources and Uses for the Refinancing are shown in the table below, reproduced from the Offering Memorandum relating to the offering of the Notes. In addition to the issue of the Notes, the company put a revised Revolving Credit Facility in place with a reduced total availability of £65.0 million, compared with the existing Revolving Credit Facility availability of £115.0 million.

Sources of Funds	£m	Uses of Funds	£m
Senior Secured Notes offered	325.0	Redemption of the existing Notes [1]	356.7
Second Lien Notes offered	75.0	Repayment of the existing Revolving Credit Facility	60.5
Cash	27.0	Transaction fees and expenses	9.8
Total	**427.0**	**Total**	**427.0**

[1] Includes the costs of the assumed redemption of all of the outstanding existing Notes at the redemption price of 104.875% together with the interest payment that fell due on 1 August 2014 in respect of the six month period ending 31 July 2014.

Suffolk Care Home Contract

Since 30 June 2014, Care UK has opened two new care homes within the Residential Care Services division under the Suffolk contract, bringing the total of new homes opened under this contract to three (out of ten to be built in total). The new homes are in Ipswich, with 80 beds, and Bury St Edmunds, with 60 beds. As a consequence of these openings, three of the originally transferred 16 homes have recently been closed, with 90 beds in total, bringing the total of closed homes to four. Good progress continues to be made in respect of the remaining seven new homes, with all but two being in construction and the remaining two both having received planning consent.

Care Home Closure

In July 2014 Care UK closed a residential care home in Poole, Dorset, which had operated under a contract with Poole Borough Council (the "Council") since 2006. The 50-bed home was considered by both Care UK and the Council not to be either operationally or financially sustainable and agreement was reached to transfer all remaining residents to the new build home in Poole that opened in October 2013, which has now safely been concluded. The previous site was held by Care UK on a short leasehold basis and has now reverted to the Council.

New Health Care contract

In July 2014 the Health Care division was awarded preferred bidder status for a five year contract to deliver healthcare services within a prison in Staffordshire. The contract is expected to commence in October 2014 and has projected annual revenue of approximately £4.5 million.

Organisation

In June 2014 the group commenced an organisational restructuring programme within the Health Care division in order to create a simplified structure aligned to market opportunity, improved service quality and operational effectiveness. This has resulted in the Mental Health division being absorbed into the group's Secondary Care sub-segment and the combination of the formerly separate Primary Care and Urgent Care sub-segments into an enlarged Primary Care sub-segment. The restructuring will be completed during the fourth quarter of the current financial year and will result in cost synergies being realised, with some one-off costs to be incurred as a result. In terms of financial reporting, the third quarter's results are being reported under the pre-existing structure but the full year results for the year to 30 September 2014, together with the comparative results for the year ended 30 September 2013, will be reported under the revised structure. Quarterly segmental results for the year to 30 September 2014 will also be provided under both structures.

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, 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 table on the following page sets out the key line items from the unaudited condensed Consolidated statement of comprehensive performance for the financial periods ended 30 June 2013 and 30 June 2014, both on a fully IFRS compliant basis and also before giving effect to the provisions of IFRIC 12.

	Nine months ended 30 June			
	Adjusted for IFRIC 12		Excluding IFRIC 12	
	2013	2014	2013	2014
	£m	£m	£m	£m
Revenue	479.3	543.9	481.1	545.6
Cost of sales	(421.3)	(480.6)	(422.7)	(481.1)
Gross profit	**58.0**	**63.3**	**58.4**	**64.5**
Administrative expenses	(64.7)	(73.7)	(64.4)	(73.3)
Operating loss before financing expenses	**(6.7)**	**(10.4)**	**(6.0)**	**(8.8)**
Adjusted EBITDA	34.3	35.7	36.4	38.3
Depreciation of tangible fixed assets	(16.6)	(22.0)	(18.3)	(23.4)
Adjusted operating profit	17.7	13.7	18.1	14.9
Amortisation of intangible assets	(15.0)	(16.1)	(14.7)	(15.7)
Non-recurring items	(9.4)	(6.4)	(9.4)	(6.4)
IAS 17 lease expense	-	(1.5)	-	(1.5)
Less: Share of joint venture EBITDA	-	(0.1)	-	(0.1)
Operating loss before financing expenses	(6.7)	(10.4)	(6.0)	(8.8)
Financial income	1.9	2.2	1.1	1.4
Financial expense	(27.4)	(28.9)	(27.4)	(28.9)
Net financing expense	**(25.5)**	**(26.7)**	**(26.3)**	**(27.5)**
Share of results of joint venture	**-**	(0.2)	**-**	(0.2)
Loss before taxation	**(32.2)**	**(37.3)**	**(32.3)**	**(36.5)**
Taxation	4.7	7.7	4.7	7.4
Loss for the period	**(27.5)**	**(29.6)**	**(27.6)**	**(29.1)**

Three and nine months ended 30 June 2014 compared to the three and nine months ended 30 June 2013 – 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 segmental reporting note to the unaudited pro-forma condensed Consolidated financial statements on page F-16 of this interim report.

Revenue

Revenue increased by 5.2 per cent., or £9.1 million, from £174.0 million for the three months ended 30 June 2013 to £183.1 million for the three months ended 30 June 2014. Revenue increased by 13.4 per cent., or £64.5 million, from £481.1 million for the nine months ended 30 June 2013 to £545.6 million for the nine months ended 30 June 2014. Approximately 50 per cent of the increase in the three months ended 30 June 2014 compared with the three months ended 30 June 2013 was attributable to the new homes opening programme in the Residential Care Services division, including homes opened in the years ended 30 September 2012 and 30 September 2013 as well as those opened in the nine months ended 30 June 2014. We have now fully lapped the Harmoni and UKSH acquisitions and therefore the step increase in revenue from adding these two businesses does not affect the comparison of the current quarter against the equivalent quarter in the prior year. This comparison is still relevant for the year to date, with these two acquisitions combined accounting for approximately 35 per cent. of the revenue increase of £64.5 million in the nine months ended 30 June 2014 compared with the nine months ended 30 June 2013. Other than this acquisition related contribution, the majority of the increases in revenue for the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013 have been delivered from organic growth initiatives including the opening of new care homes, winning new contracts and implementing the 111 contracts that were acquired with Harmoni in November 2012.

Revenue for the Residential Care division increased by 10.8 per cent., or £5.5 million, from £50.8 million for the three months ended 30 June 2013 to £56.3 million for the three months ended 30 June 2014 and by 13.3 per cent., or £19.4 million, from £145.9 million for the nine months ended 30

June 2013 to £165.3 million for the nine months ended 30 June 2014. Approximately 83 and 65 per cent. respectively of the increases in revenue in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013 is attributable to the new homes opened in the years ended 30 September 2012, 30 September 2013 and the nine months ended 30 June 2014. Eight greenfield care homes have opened in the nine months ended 30 June 2014, three of which opened in the three months ended 30 June 2014, as part of Care UK's significant development programme. These eight homes have contributed revenue of £1.7 million and £2.9 million for the three and nine months ended 30 June 2014 respectively. The Suffolk contract accounts for an increase in revenue of £3.2 million in the nine months ended 30 June 2014 compared with the nine months ended 30 June 2013 although, as expected, the revenue contribution in the three months ended 30 June 2014 fell by a small amount compared with the three months ended 30 June 2013 due to the impending opening of the first new build Suffolk homes, resulting in the commencement of the planned closure of the originally transferred homes. The mature homes in the division, including the former Southern Cross homes, contributed increased revenue of £1.1 million and £3.5 million in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013.

As noted above and previously reported, the revenue contribution from the homes initially transferred under the Suffolk contract has begun to reduce as we work towards their progressive closure and this reduction will increase as more homes are closed, until occupancy begins to build up in the new build homes. The first of the ten new build care homes opened in June 2014 with two more having opened since 30 June 2014 (see the Recent Developments section). A further five are currently under construction with the remaining two having received planning consent and expected to begin construction in the final quarter of 2014. A total of four of the originally transferred homes have now closed, one in May 2013 and three since 30 June 2014.

At 30 June 2014 Care UK operated 6,917 beds in 115 care homes, compared with 6,615 beds at 31 March 2014. At 30 June 2014 approximately 34 per cent. of all beds were operated under guaranteed commitment block contracts compared with 36 per cent. as at 31 March 2014. The increase in beds since 31 March 2014 reflects the opening of four new care homes, three greenfield homes in Newbury, Worcester and Leamington Spa, and the first new build care home under the Suffolk contract. We continue to seek a long-term solution for the home suffering from subsidence that closed in March 2014.

Further information regarding home openings and closures since 30 June 2014 can be found in the Recent Developments section on page 6. In addition to the homes referred to there and in the paragraphs above the Residential Care Services division currently has five further greenfield homes in various phases of construction, with a total of 379 beds. Several more projects have been given initial approval, subject either to final commercial negotiations and/or the receipt of satisfactory planning permission. Three of the further five homes in construction are being developed by the Silver Sea development company referred to in the 2013 Annual report.

Fee rates in the nine months ended 30 June 2014 averaged £705 per week compared with £670 per week in the nine months ended 30 June 2013, an increase of 5.2 per cent. The increase in fee rates reflects the fee rate increases achieved in April 2014, the higher fee rates being achieved in the more recently opened homes and the increasing level of dependency typically evident in the service users being cared for. Self-funding residents accounted for approximately 30 per cent. of revenue in the nine months ended 30 June 2014 compared with approximately 25 per cent. of revenue in the nine months ended 30 June 2013, reflecting the greater orientation of newer services towards self-funding residents. Total physical occupancy was 82.7 per cent. in the nine months ended 30 June 2014 compared with 84.4 per cent. in the nine months ended 30 June 2013. The overall reduction in occupancy is primarily caused by the number of new homes opened since 1 January 2013, which are still in their initial occupancy ramp-up phase. The Suffolk contract will have an additional short-term dilutive impact during the transitional occupancy ramp up phase for the new Suffolk homes due to the reduction in contracted beds and overall increase in bed numbers for the new homes compared with the originally transferred homes. Physical occupancy in the mature homes was 87.5 per cent. in the nine months ended 30 June 2014, compared with 87.3 per cent. in the nine months ended 30 June 2013. The benefit of the guaranteed commitment block contracts in the mature estate resulted in the financial occupancy of this portfolio being 91.4 per cent. in the nine months ended 30 June 2014 compared with 91.1 per cent. in the nine months ended 30 June 2013.

Revenue for the Community Services division increased by 4.4 per cent., or £1.3 million, from £29.5 million for the three months ended 30 June 2013 to £30.8 million for the three months ended 30 June 2014. Revenue for the Community Services division increased by 3.8 per cent., or £3.4 million, from £88.4 million for the nine months ended 30 June 2013 to £91.8 million for the nine months ended 30 June 2014.

These increases reflect the contribution from the Doncaster learning disabilities contract commenced in September 2013 and the Living Ambitions business acquired in April 2013, which together added revenue of £2.0 million and £6.8 million respectively in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013. This more than offsets the revenue reduction arising from the continued impact of Local Authority funding pressures, which are resulting both in fewer people receiving care funding and reductions in the size of funding packages. Average fee rates in the Community Services division for the nine months ended 30 June 2014 were £13.73 per hour compared with £13.64 per hour in the nine months ended 30 June 2013, an increase of 0.7 per cent., which is attributable to mix effects across the portfolio rather than absolute fee rate increases. Hours of care delivered averaged approximately 155,000 per week for the nine months ended 30 June 2014 compared with approximately 150,000 per week in the nine months ended 30 June 2014, an increase of 3.3 per cent. This increase reflects the positive impact of the Doncaster contract and the Living Ambitions acquisition with a partial offset from volume reductions arising due to the Local Authority funding pressures noted above. As at 30 June 2014 a total of 133 residential learning disabilities beds were operated, the same number as 30 June 2013, with average occupancy for the nine months ended 30 June 2014 of 93.1 per cent. and average fee rates of approximately £1,757 per week. In the nine months ended 30 June 2013 average occupancy was 92.4 per cent. and average fee rates £1,778 per week. The reduction in fee rates in this part of the business reflects a shift in the acuity levels of service users being referred into the service by commissioners, rather than like for like reductions in price.

Revenue for the Health Care division increased by 1.6 per cent., or £1.4 million, from £85.9 million for the three months ended 30 June 2013 to £87.3 million for the three months ended 30 June 2014. Revenue for the Health Care division increased by £37.9 million, or 16.9 per cent., from £223.7 million for the nine months ended 30 June 2013 to £261.6 million for the nine months ended 30 June 2014. The most significant factors contributing to these increases were the acquisition of UKSH, the implementation of the NHS 111 service and recently won and implemented new offender health contracts. As UKSH was acquired in February 2013 and therefore fully contributed to the three month period ended 30 June 2013, the increase in revenue from this acquisition in the three months ended 30 June 2014 was small. UKSH has contributed revenue growth of £24.5 million in the nine months ended 30 June 2014 compared with the nine months ended 30 June 2013. The NHS 111 service contributed increases in revenue of £1.6 million and £8.9 million respectively in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013. As previously reported, the full implementation of the NHS 111 service results in partial revenue reduction in out of hours primary care contracts due to the transfer of the call triaging responsibility for inbound patient calls. This change has resulted in revenue reductions of £2.5 million and £5.2 million respectively in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013. New and extended offender health contracts that have commenced in the twelve months ended 30 June 2014 have added revenue of £1.3 million and £5.3 million in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013. The balance of revenue growth in the Health Care division has primarily arisen due to organic growth in Secondary Care services due to higher procedure volumes, partly offset by a reduction in the three months ended 30 June 2014 arising from the loss of an out of hours contract in Sussex.

Revenue for the Other segment increased by 11.5 per cent., or £0.9 million, from £7.8 million for the three months ended 30 June 2013 to £8.7 million for the three months ended 30 June 2014. Revenue for the Other segment increased by £3.8 million, or 16.5 per cent., from £23.1 million for the nine months ended 30 June 2013 to £26.9 million for the nine months ended 30 June 2014. The Mental Health business contributed revenue of £5.7 million and £17.5 million respectively in the three and nine months ended 30 June 2014 compared with £4.9 million and £14.4 million respectively in the three and nine months ended 30 June 2013. These increases are due to a combination of improved occupancy in the core business and an increasing contribution from new services. The Amicus ITS business contributed revenue of £3.0 million and £9.4 million respectively in the three and nine months ended 30 June 2014 compared with £2.9 million and £8.7 million respectively in the three and nine months ended 30 June 2013.

Cost of Sales

Care UK's cost of sales increased by 6.5 per cent., or £9.8 million, from £151.5 million for the three months ended 30 June 2013 to £161.3 million for the three months ended 30 June 2014 and increased by 13.8 per cent., or £58.4 million, from £422.7 million for the nine months ended 30 June 2013 to £481.1 million for the nine months ended 30 June 2014. Measured as a percentage of revenue, cost of sales increased from 87.1 per cent. for the three months ended 30 June 2013 to 88.1 per cent. for the three months ended 30 June 2014 and increased from 87.9 per cent. for the nine months ended 30 June 2013 to 88.2 per cent. for the nine months ended 30 June 2014. The increase in the absolute value of cost of sales reflects the increase in scale of the group's activities, particularly the acquisitions in the Health Care division, the Suffolk and Doncaster contracts and organic growth across the group's operating divisions. The increase in cost of sales as a percentage of revenue in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013 particularly reflects the increased staffing costs in a number of services across the Residential Care Services division as previously reported. These higher staffing costs have largely arisen in response to the significantly higher degree of external regulatory scrutiny being seen across the industry generally, with the focus being to increase service quality and assurance. Much of the increased staffing cost has involved the use of external agency staff, with a commensurate cost premium. Over the most recent few weeks the level of agency use in the Residential Care Services division has begun to reduce as a result of the operational actions being taken within the business, with the longer term aim remaining to eliminate as much of this excess cost as possible whilst achieving staffing levels commensurate with the delivery of high quality services.

Administrative Expenses

Care UK's administrative expenses increased by 27.9 per cent., or £5.7 million, from £20.4 million for the three months ended 30 June 2013 to £26.1 million for the three months ended 30 June 2014 and increased by 13.8 per cent., or £8.9 million, from £64.4 million for the nine months ended 30 June 2013 to £73.3 million for the nine months ended 30 June 2014.

The increase in administrative expenses in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013 partly reflects the overall growth in the group. Administrative expenses in the three and nine months ended 30 June 2014 also reflect the increases in non-cash charges for depreciation, amortisation expense and IAS 17 rent charges. The total for these non-cash charges increased from £5.6 million and £17.0 million respectively in the three and nine months ended 30 June 2013 to £6.8 million and £20.9 million respectively in the three and nine months ended 30 June 2014.

Non-recurring charges of £3.5 million and £6.4 million respectively were incurred in the three and nine months ended 30 June 2014 compared with £3.5 million and £9.4 million respectively in the three and nine months ended 30 June 2013. A full analysis of non-recurring items is set out in Note 5 of the condensed Consolidated financial statements on page F-11.

Administrative expenses excluding the non-cash and non-recurring items noted above changed from £11.3 million and £38.0 million respectively for the three and nine months ended 30 June 2013 to £15.8 million and £46.0 million respectively for the three and nine months ended 30 June 2014. Measured as a percentage of revenue this measure of administrative expenses represented 8.6 per cent. and 8.4 percent. respectively in the three and nine months ended 30 June 2014 compared with 6.5 per cent. and 7.9 per cent. in the three and nine months ended 30 June 2013.

Operating Profit/(Loss) before Financing Expenses

Care UK's Operating profit/(loss) before financing expenses changed from a profit of £2.1 million for the three months ended 30 June 2013 to a loss of £4.3 million for the three months ended 30 June 2014 and changed from a loss of £6.0 million for the nine months ended 30 June 2013 to a loss of £8.8 million for the nine months ended 30 June 2014. These changes reflects the contributions from the Harmoni and UKSH acquisitions together with organic growth across the group, offset by a reduction in the Residential Care Services division as a result of the impact of the new home opening programme and labour cost pressures within the mature business, and a reduced contribution from the Community Services division due largely to Local Authority funding pressures.

Operating profit/(loss) for the Residential Care division changed from a profit of £3.4 million for the three months ended 30 June 2013 to a loss of £0.8 million for the three months ended 30 June

2014 and changed from a profit of £7.6 million for the nine months ended 30 June 2013 to a loss of £1.5 million for the nine months ended 30 June 2014. These changes reflect in particular the expected start-up losses incurred on the ten new homes opened in the twelve months ended 30 June 2014, amounting in aggregate to £1.6 million and £4.1 million respectively for the three and nine months ended 30 June 2014. These losses include depreciation charges of £0.1 million and £0.3 million respectively and IAS 17 non-cash lease expenses of £0.5 million and £1.0 million respectively, with Adjusted EBITDA for these homes consequently being losses of £1.0 million and £2.8 million respectively for the three and nine months ended 30 June 2014, in line with expectations during their ramp up phases.

In addition, non-recurring charges have increased by £0.8 million, from £0.6 million for the three months ended 30 June 2013 to £1.4 million for the three months ended 30 June 2014, and by £1.7 million, from £1.2 million for the nine months ended 30 June 2013 to £2.9 million for the nine months ended 30 June 2014. These increases are principally due to the progress being made on the change programme in respect of the Suffolk contract, as previously reported. This programme will extend into the year to 30 September 2015. Amortisation charges increased by £0.3 million, from £1.3 million for the three months ended 30 June 2013 to £1.6 million for the three months ended 30 June 2014, and by £0.6 million, from £4.4 million for the nine months ended 30 June 2013 to £5.0 million for the nine months ended 30 June 2014 as a result of increased amortisation charges relating to certain contract relationships.

Although the mature homes portfolio, including the former Southern Cross homes, has delivered a small amount of revenue growth in both the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013, a reduced operating profit contribution was delivered for both the three and nine months ended 30 June 2014 compared to the three and nine months ended 30 June 2013. These reduced contributions were driven mainly by a higher level of direct costs due to higher staffing costs generally and, specifically, greater use of external agency staffing. The residential care industry generally is seeing pressure being placed on staffing levels as a consequence of significantly heightened regulatory scrutiny, which in the short term often results in the increased usage of external agency staff. The primary focus of additional resource has been on the assurance of service quality. The operational actions taken with respect to staffing levels have also resulted in some decreases in agency usage being achieved in recent weeks, but with more yet to be achieved.

The Suffolk homes contributed a lower operating profit, before non-recurring charges, in the three months ended 30 June 2014 compared to the three months ended 30 June 2013 although the contribution for the nine months ended 30 June 2014 was slightly ahead of the nine months ended 30 June 2013 because the Suffolk contract only commenced on 1 December 2012. The reduction in the operating profit contribution from the Suffolk homes will increase in the short term as the existing homes will progressively close and the new homes will open. The first new build home opened in June, in Mildenhall, and the Recent Developments section deals with progress on the Suffolk homes since 30 June 2014. As previously reported, the priority on opening the new homes will be safely to transfer existing contracted residents, which will mean a period of operating the new homes without any self-funding residents being admitted as well as a natural period of dual running, with consequently higher operating costs, whilst the resident transfers take place. In addition, due to the funding structure for the new Suffolk homes, rental charges are payable from the date that the new homes open whereas no rental charges were payable in respect of the originally transferred homes.

The immature homes within the Residential Care Services division, defined as those opened during the years ended 30 September 2012 and 30 September 2013, increased their operating profit contribution for both the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013, in line with their expected maturity profile.

The operating result for the Community Services division changed from a profit of £0.6 million for the three months ended 30 June 2013 to a loss of £0.6 million for the three months ended 30 June 2014 and changed from £nil for the nine months ended 30 June 2013 to a loss of £0.4 million for the nine months ended 30 June 2014. The principal factors in these changes are the non-recurring charges incurred, the reduction in amortisation expense and, for the three months ended 30 June 2014 only, the reduction in operating profit arising from continued Local Authority funding pressures, particularly in the domiciliary care business. Non-recurring charges of £0.9 million and £1.3 million respectively were incurred in the three and nine months ended 30 June 2014 compared with £0.2

million in both the three and nine months ended 30 June 2013. The charges incurred in the period ended 30 June 2014 are contract change costs whilst those incurred in the period ended 30 June 2013 were acquisition and integration costs in respect of the Living Ambitions business acquired in April 2013. The non-cash amortisation expense decreased by £0.1 million, from £1.3 million for the three months ended 30 June 2013 to £1.2 million for the three months ended 30 June 2014, and by £0.7 million, from £4.7 million for the nine months ended 30 June 2013 to £4.0 million for the nine months ended 30 June 2014. These decreases reflect the reduced amortisation expense from intangible assets recognised some years ago, partially offset by an increased cost arising from intangible assets recognised on more recent acquisitions. In the nine months ended 30 June 2014 the increase in operating profit arising from the Doncaster learning disabilities contract and Living Ambitions acquisition were more than offset by a reduction in the domiciliary care business generally due to Local Authority funding pressures and the consequent reductions in volumes and, to some extent, fee rates. In the three months ended 30 June 2014 the reduced contribution from the domiciliary care business, due to these market pressures, more than offset the benefit of the Doncaster contract and Living Ambitions acquisition. The Community Services division is continuing to introduce technology that will enable further reduction in the indirect cost base of the business as well as considering the most effective organisational structure to meet customer's needs.

The operating result for the Health Care division changed from a profit of £0.1 million for the three months ended 30 June 2013 to a loss of £0.1 million for the three months ended 30 June 2014 and changed from a loss of £7.9 million for the nine months ended 30 June 2013 to a profit of £0.4 million for the nine months ended 30 June 2014. The most significant factor in the change in the nine months ended 30 June 2014 compared with the nine months ended 30 June 2013 is the reduction in non-recurring charges, coupled with the benefit of a full period contribution from the UKSH acquisition and organic growth across the business, partly offset by a reduced contribution from the NHS 111 service and out of hours contracts.

Non-recurring charges reduced by £1.5 million, from £2.5 million for the three months ended 30 June 2013 to £1.0 million for the three months ended 30 June 2014, and by £6.8 million, from £7.8 million for the nine months ended 30 June 2013 to £1.0 million for the nine months ended 30 June 2014. An elective surgery unit in Bradford, which Care UK has operated for almost four years, closed in July 2014 following the decision of the local commissioners not to re-tender the service. Care UK incurred non-recurring exit and redundancy costs of £0.7 million for both the three and nine months ended 30 June 2014. The financial impact of this closure is small as the centre made a negligible operating profit contribution in the nine months ended 30 June 2014. In addition, non-recurring charges were incurred amounting to £0.3 million in both the three and nine months ended 30 June 2014 in respect of an organisational simplification programme (see the Recent Developments section for further details). Non-recurring charges of £1.2 million and £6.5 million respectively were incurred in the three and nine months ended 30 June 2013 in respect of the acquisition and integration of both the Harmoni and UKSH businesses. In addition, in both the three and nine months ended 30 June 2013, non-recurring excess operating costs of £1.3 million were incurred in respect of the start-up phase of the NHS 111 service.

The UKSH acquisition has contributed increased operating profit, at unit level, in both the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013. The small increase in contribution in the three months ended 30 June 2014 compared with the three months ended 30 June 2013 is due to organic volume growth in the acquired services whilst the increase in contribution in the nine months ended 30 June 2014 compared with the nine months ended 30 June 2013 is more than accounted for by the benefit of owning UKSH throughout the period, the acquisition having been completed in February 2013.

Organic growth has principally been achieved in the offender health and elective care businesses within Health Care. In offender health, two new contracts commenced in the second half of the year ended 30 September 2013 and the contract for the delivery of healthcare in Pentonville prison commenced in April 2014, although the contribution from this contract in the three and nine months ended 30 June 2014 is negligible given the start up nature of this contract. In elective care, the business has benefited from additional procedure volumes, including certain initiatives to support the reduction of NHS waiting lists. The out of hours business has seen a reduced contribution as a result of the reduction in revenue reported above, with the transfer of the call triaging responsibility to the NHS 111 service, and also due to the loss of the out of hours contract in Sussex. The NHS 111 service contributed operating losses of £0.8 million and £2.2 million respectively for the three and nine months ended 30 June 2014. Further improvements are being introduced in the NHS 111 service to improve both operational and financial performance, particularly around workforce planning and call centre networking, although it is likely to be some months before the effects of these actions will be seen.

Support costs within the Health Care division have increased in both the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013, due to the significantly larger scale of the combined business. In addition, the Health Care division has borne specific costs of approximately £0.4 million and £0.9 million in the three and nine months ended 30 June 2014 in relation to certain large scale bids. These costs are in addition to the normal recurring level of business development costs and have been incurred earlier in the underlying tender processes than would normally be the case, due to the scale of the contracts being tendered. The revenue values of the underlying contract opportunities to which these costs relate are material, although it will be several months before the outcomes of the tender processes will be known. Some further costs are expected to be incurred in the final quarter of the current financial year and, possibly, into the early part of the year to 30 September 2015.

The operating loss of the Other segment changed from £2.0 million for the three months ended 30 June 2013 to £2.8 million for the three months ended 30 June 2014 and changed from £5.7 million for the nine months ended 30 June 2013 to £7.3 million for the nine months ended 30 June 2014. The operating profit contribution from the Mental Health division increased by £1.0 million and £1.1 million respectively in the three and nine months ended 30 June 2014 compared with the three and nine months ended 30 June 2013. The three months ended 30 June 2014 included a profit on disposal of £0.2 million from a site that was sold in June 2014 following its closure in March 2014, whilst the three months ended 30 June 2013 include a non-recurring closure charge of £0.2 million. The increased underlying contribution is principally due to a combination of stronger occupancy in the core business as well as an improved contribution from new and recently opened services. The contribution from the Amicus ITS business remained unchanged in the three months ended 30 June 2014 compared to the three months ended 30 June 2013 and increased by £0.2 million for the nine months ended 30 June 2014 compared to the nine months ended 30 June 2013. The group's underlying central management costs increased by £1.3 million in the three months ended 30 June 2014 compared with the three months ended 30 June 2013 and increased by £1.2 million in the nine months ended 30 June 2014 compared with the nine months ended 30 June 2013. The Operating loss within this segment also includes non-cash IAS 17 lease expense charges of £0.1 million and £0.5 million respectively for the three and nine months ended 30 June 2014. No such charges were incurred in the three and nine months ended 30 June 2013. Central non-recurring charges of £0.4 million and £1.2 million respectively were incurred in the three and nine months ended 30 June 2014 in relation to an ongoing restructuring and transformation programme. Non-recurring charges of £0.2 million were recorded in the three and nine months ended 30 June 2013 in relation to the closure of former Mental Health homes.

Adjusted Operating Profit

Adjusted operating profit, which includes Care UK's proportionate ownership share of EBITDA from joint venture enterprises, is defined as Operating profit before net financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items and excluding the impact of applying IAS 17 in respect of lease incentives.

Adjusted operating profit decreased from £10.5 million for the three months ended 30 June 2013 to £4.8 million for the three months ended 30 June 2014. Adjusted operating profit decreased from £18.1 million for the nine months ended 30 June 2013 to £14.9 million for the nine months ended 30 June 2014. These changes in Adjusted operating profit reflect the factors discussed above, other than the movement in amortisation expense, non-recurring charges and the IAS 17 lease expense.

The non-cash amortisation charge for the three months ended 30 June 2014 was £5.0 million, compared to £4.9 million for the three months ended 30 June 2013 and was £15.7 million for the nine months ended 30 June 2014 compared with £14.7 million for the nine months ended 30 June 2013. Non-recurring charges of £3.5 million were incurred in both the three months ended 30 June 2014 and the three months ended 30 June 2013. Non-recurring charges of £6.4 million were incurred in the nine months ended 30 June 2014 compared with a charge of £9.4 million in the nine months ended 30 June 2013. The non-cash IAS 17 lease expense was £0.6 million and £1.5 million respectively for the three and nine months ended 30 June 2014. No IAS 17 lease expenses were recorded in the three and nine months ended 30 June 2013.

Adjusted operating profit for the Residential Care Services division decreased from £5.3 million for the three months ended 30 June 2013 to £2.7 million for the three months ended 30 June 2014 and from £13.2 million for the nine months ended 30 June 2013 to £7.4 million for the nine months ended 30 June 2014. These changes in Adjusted operating profit were principally due to the same factors as drove the changes in Operating profit, particularly the impact of the start-up losses in the new homes opened in the respective periods, other than the increases of £0.8 million and £1.7 million in non-recurring charges in the three and nine months ended 30 June 2014 compared with the three and six months ended 30 June 2013 and the IAS 17 lease expense of £0.5 million and £1.0 million recorded in the three and nine months ended 30 June 2014 respectively. No IAS 17 lease expense was incurred in the three and nine months ended 30 June 2013.

Adjusted operating profit for the Community Services division decreased from £2.1 million for the three months ended 30 June 2013 to £1.5 million for the three months ended 30 June 2014 and was £4.9 million for the nine months ended 30 June 2014, the same as reported for the nine months ended 30 June 2013. The movements in Adjusted operating profit were driven by the same factors as for Operating profit other than the decreases in amortisation charges and increase in non-recurring items for both the three and nine months ended 30 June 2014.

Adjusted operating profit for the Health Care division decreased from £4.9 million for the three months ended 30 June 2013 to £3.0 million for the three months ended 30 June 2014 and increased from £5.5 million for the nine months ended 30 June 2013 to £8.0 million for the nine months ended 30 June 2014. These changes were principally due to the same factors as for Operating profit other than the changes in amortisation and non-recurring items. Amortisation charges decreased from £2.3 million in the three months ended 30 June 2013 to £2.1 million for the three months ended 30 June 2014 and increased from £5.6 million in the nine months ended 30 June 2013 to £6.6 million for the nine months ended 30 June 2014, due to the full year effect of the UKSH acquisition made in February 2013.

The Adjusted operating loss for the Other segment was £2.4 million for the three months ended 30 June 2014 compared with £1.8 million for the three months ended 30 June 2013 and was £5.4 million for the nine months ended 30 June 2014 compared with £5.5 million for the nine months ended 30 June 2013. These outcomes were driven by the same factors as for Operating profit other than the changes in amortisation expense, non-recurring charges and the IAS 17 lease expense.

Adjusted EBITDA

Adjusted EBITDA is defined as Adjusted operating profit plus depreciation. This measure is presented 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.

Care UK's Adjusted EBITDA decreased by 24.0 per cent., or £4.1 million, from £17.1 million for the three months ended 30 June 2013 to £13.0 million for the three months ended 30 June 2014. Adjusted EBITDA increased by 5.2 per cent., or £1.9 million, from £36.4 million for the nine months ended 30 June 2013 to £38.3 million for the nine months ended 30 June 2014. The changes in Adjusted EBITDA are driven by the factors discussed above in relation to Operating profit and Adjusted operating profit, particularly the positive effects of those matters discussed in relation to the Health Care division offset by the impact of the new home start up programme and short term operational factors in the Residential Care Services division.

Net Financing Expense

The net financing expense for the three months ended 30 June 2014 was £8.9 million compared with £9.4 million for the three months ended 30 June 2013. The net financing expense for the nine months ended 30 June 2014 was £27.5 million compared with £26.3 million for the nine months ended 30 June 2013. Net financing expense 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. The increase in net financing expense in the nine months ended 30 June 2014 compared with the nine months ended 30 June 2013 resulted primarily from the additional Senior Secured Notes issued in November 2012, the bank loan acquired with UKSH and increased utilisation of the Revolving Credit Facility.

Taxation

The taxation credit for the three months ended 30 June 2014 was £3.8 million compared with a credit of £3.2 million for the three months ended 30 June 2013. The taxation credit for the nine months ended 30 June 2014 was £7.4 million compared with a taxation credit of £4.7 million for the nine months ended 30 June 2013. The differences in the taxation credit largely reflect the change in taxable group profit. The underlying tax rate on Care UK's profit or loss 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 30 June 2014 of £9.5 million compared with a loss of £4.1 million for the three months ended 30 June 2013 and a loss of £29.1 million for the nine months ended 30 June 2014 compared with a loss of £27.6 million for the nine months ended 30 June 2013.

Three and nine months ended 30 June 2014 – IFRS compliant basis

The comparisons presented within this section of the Management discussion and analysis use financial information presented on an IFRS compliant basis, in respect of applying the provisions of IFRIC 12. For further information on the impact of IFRIC 12, see the Annual report 2013.

The table below shows the effects of IFRIC 12 on the condensed consolidated Statement of comprehensive performance.

	Nine months ended 30 June 2014		
	Pre-IFRIC 12 adoption	**IFRIC 12 adjustments**	**Post IFRIC 12 adjustments**
	£m	**£m**	**£m**
Revenue	545.6	(1.7)	543.9
Cost of sales	(481.1)	0.5	(480.6)
Gross profit	**64.5**	(1.2)	**63.3**
Administrative expenses	(73.3)	(0.4)	(73.7)
Operating loss before financing expenses	**(8.8)**	(1.6)	**(10.4)**
Adjusted EBITDA	38.3	(2.6)	35.7
Depreciation of tangible fixed assets	(23.4)	1.4	(22.0)
Adjusted operating profit	14.9	(1.2)	13.7
Amortisation of intangible assets	(15.7)	(0.4)	(16.1)
Non-recurring items	(6.4)	-	(6.4)
IAS 17 lease expense	(1.5)	-	(1.5)
Less: Share of joint venture EBITDA	(0.1)	-	(0.1)
Operating loss before financing expenses	(8.8)	(1.6)	(10.4)
Financial income	1.4	0.8	2.2
Financial expenses	(28.9)	-	(28.9)
Net financing expense	**(27.5)**	0.8	**(26.7)**
Share of results of joint venture	(0.2)	-	(0.2)
Loss before taxation	**(36.5)**	(0.8)	**(37.3)**
Taxation	7.4	0.3	7.7
Loss for the period	**(29.1)**	(0.5)	**(29.6)**

The application of IFRIC 12 does not change the overall profit or loss on a contract. However, it does change both the disposition of income and operating costs and the related timing of their recognition, within the consolidated statement of comprehensive performance. The net effect of these changes in the nine months ended 30 June 2014 is to increase the loss for the period by £0.5 million.

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

	As at 30 June 2014		
	Pre-IFRIC 12 adoption £m	IFRIC 12 adjustments £m	Post IFRIC 12 adjustments £m
Property, plant and equipment	305.2	(30.3)	274.9
Intangible assets	207.5	8.7	216.2
Other financial assets	-	21.4	21.4
Total non-current assets	536.0	(0.2)	535.8
Other financial assets	-	1.0	1.0
Total current assets	136.5	1.0	137.5
Trade and other payables	(167.6)	(10.3)	(177.9)
Total current liabilities	(169.1)	(10.3)	(179.4)
Deferred tax liabilities	(11.6)	2.2	(9.4)
Total non-current liabilities	(391.3)	2.2	(389.1)
Net assets	**112.1**	**(7.3)**	**104.8**

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.

	Nine months ended 30 June 2014		
	Pre-IFRIC 12 adoption £m	IFRIC 12 adjustments £m	Post IFRIC 12 adjustments £m
Net cash from operating activities	34.1	(0.9)	33.2
Net cash used in investing activities	(19.9)	0.9	(19.0)
Net cash used in financing activities	(16.0)	-	(16.0)
Net decrease in cash and cash equivalents	(1.8)	-	(1.8)
Cash and cash equivalents carried forward	32.8	-	32.8

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 30 June 2013 and 30 June 2014.

	As at 30 June	
	2013	**2014**
	(£ in millions)	
Senior Secured Notes	325.0 [1]	325.0 [1]
Finance lease obligations	4.8	1.8
Bank loans	46.5	55.0
Deferred financing costs	(11.0)	(8.0)
Cash and cash equivalents	(30.1)	(32.8)
Total net debt	**335.2**	**341.0**

[1] Excluding premium on issue of £3.3 million (2013: £4.2 million).

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.

Following the refinancing carried out in July 2014 (see the Recent Developments section on page 6) Care UK expects that its key sources of liquidity for the foreseeable future will be cash flows from operations plus, if required, drawings under Care UK's new Revolving Credit Facility.

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

	For the three months ended 30 June		For the nine months ended 30 June	
	2013	**2014**	**2013**	**2014**
Net cash flow from operating activities	(6.4)	3.7	2.3	34.1
Net cash flow from investing activities	(10.7)	(4.2)	(100.7)	(19.9)
Net cash flow from financing activities	6.3	(10.3)	90.2	(16.0)
Net decrease in cash and cash equivalents	(10.8)	(10.8)	(8.2)	(1.8)
Cash and cash equivalents carried forward	30.1	32.8	30.1	32.8

Three and nine months ended 30 June 2014 compared to three and nine months ended 30 June 2013

The net decrease in cash and cash equivalents in the three months ended 30 June 2014 was £10.8 million compared to a decrease of £10.8 million for the three months ended 30 June 2013. The net decrease in cash and cash equivalents in the nine months ended 30 June 2014 was £1.8 million compared with a net decrease of £8.2 million in the nine months ended 30 June 2013. Total reported group net debt increased by £2.8 million in the three months ended 30 June 2014 from £338.2 million as at 31 March 2014 to £341.0 million as at 30 June 2014. Total reported net debt increased by £7.7 million in the nine months ended 30 June 2014 from £333.3 million as at 30 September 2013 to £341.0 million as at 30 June 2014.

The net cash flow from operating activities for the three months ended 30 June 2014 was an inflow of £3.7 million compared with an outflow of £6.4 million for the three months ended 30 June 2013. The net cash flow from operating activities in the nine months ended 30 June 2014 was an inflow of £34.1 million compared with an inflow of £2.3 million for the nine months ended 30 June 2013. As expected, the inflow from operating activities in the three months ended 30 June 2014 was impacted by the reversal of the early payments received from NHS bodies in the three months ended 31 March 2014 with the receivables position largely normalising during the period. Notwithstanding this impact, the working capital position as at 30 June 2014 and operating cash inflow for the nine months ended 30 June 2014 were both ahead of management expectations.

The net cash flow from investing activities for the three months ended 30 June 2014 was an outflow of £4.2 million compared with an outflow of £10.7 million for the three months ended 30 June 2013. The net cash flow from investing activities for the nine months ended 30 June 2014 was an outflow of £19.9 million compared with an outflow of £100.7 million for the nine months ended 30 June 2013. Capital expenditure in the three and nine months ended 30 June 2014 amounted to £7.2 million and £21.7 million respectively compared with £7.2 million and £25.6 million respectively in the three and nine months ended 30 June 2013. The most significant expansionary capital expenditure items in both the three and nine months ended 30 June 2014 were incurred in the Residential Care Services division in respect of the new home development programme, including the new Suffolk homes, and expenditure on service optimisation. Disposal proceeds of £3.0 million were received in the three months ended 30 June 2014 from the disposal of the Mental Health unit that closed at the end of March 2014. Funding of £nil and £1.5 million respectively was provided to the Silver Sea independent development company in the three and nine months ended 30 June 2014 compared with £nil and £3.3 million provided in the three and nine months ended 30 June 2013. Funding of £0.3 million has been provided in both the three and nine months ended 30 June 2014 to the joint venture company within the Mental Health division compared to funding of £nil and £4.9 million respectively in the three and nine months ended 30 June 2013. In the prior financial year the net cash outflow in relation to acquired businesses was £3.5 million and £67.0 million respectively in the three and nine months ended 30 June 2013. No acquisitions have been made in the current financial year.

The net cash flow from financing activities was an outflow of £10.3 million and an outflow of £16.0 million respectively for the three and nine months ended 30 June 2014 compared with inflows of £6.3 million and £90.2 million respectively for the three and nine months ended 30 June 2013. During the three months ended 30 June 2014, the group repaid loans of £8.5 million from the Revolving Credit Facility (net of utilisations), paid £1.4 million of interest and made capital repayments on finance leases of £0.4 million. In the nine months ended 30 June 2014, the group utilised loans of £5.5 million from the Revolving Credit Facility (net of repayments), paid £19.6 million of interest and made capital repayments on finance leases of £1.9 million. In the three months ended 30 June 2013 Care UK utilised loans under the Revolving Credit Facility of £8.7 million (net of repayments). In addition, interest, financing costs and finance lease capital repayments of £1.0 million, £0.5 million and £0.9 million respectively were made. In the nine months ended 30 June 2013, 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 capital repayments amounting to £19.0 million in aggregate and paid financing costs of £4.5 million. Care UK also drew down £88.7 million from the Revolving Credit Facility in the nine months ended 30 June 2013 and repaid £44.0 million of this amount from the proceeds received from the issue of the additional Senior Secured Notes in November 2012.

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 30 June 2014, Care UK had net cash and cash equivalents of £32.8 million, compared to £30.1 million as at 30 June 2013.

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: since 30 June 2014 the group has put certain such instruments in place, which are described below.

Cash Flow Interest Rate Risk

Prior to the Refinancing the majority of Care UK's borrowings carried a fixed interest rate with relatively limited use being required of the group's previous Revolving Credit Facility. Consequently Care UK had not employed derivative financial instruments to manage interest rate risk prior to the Refinancing. The Notes issued as part of the Refinancing all carry a combination of a fixed margin together with a LIBOR floating interest rate. As a result, in July 2014, Care UK entered into interest rate cap arrangements to protect its downside interest rate risk. Interest rate caps have been taken with a principal value of £400 million, equal to the value of the Notes, for the three year period to July

2017 with the floating rate LIBOR exposure capped at 2.00 per cent. for the first twelve months, 3.00 per cent. for the second twelve months and 3.50 per cent. for the final twelve months. A premium of just over £1.0 million was paid in relation to the purchase of these caps.

In addition, Care UK currently carries an amount of short-term cash deposits. 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.

Care UK would expect to make some use of the new 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. However, the group considers this risk as not material in view of the interest rate protection documented above.

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, Clinical Commissioning Groups and other NHS funded bodies 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. Around 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 bodies. 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, see note 13 of the Annual report 2013.

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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Care UK Health & Social Care Investments Limited

Group condensed consolidated financial statements (unaudited)

Three month and nine month periods ended 30 June 2014

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE (UNAUDITED)
THIRD QUARTER
For the three month and nine month periods ended 30 June 2014

	Notes	**Three months to 30 June 2014**	Three months to 30 June 2013	**Nine months to 30 June 2014**	Nine months to 30 June 2013
		£m	£m	**£m**	£m
Revenue	4	**182.6**	173.4	**543.9**	479.3
Cost of sales		**(161.1)**	(151.0)	**(480.6)**	(421.3)
Gross profit		**21.5**	22.4	**63.3**	58.0
Administrative expenses		**(26.2)**	(20.7)	**(73.7)**	(64.7)
Operating (loss)/profit before financing expenses	4, 7	**(4.7)**	1.7	**(10.4)**	(6.7)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)		**12.3**	16.4	**35.7**	34.3
Depreciation of tangible assets		**(7.7)**	(6.1)	**(22.0)**	(16.6)
Adjusted operating profit		**4.6**	10.3	**13.7**	17.7
Amortisation of intangible assets		**(5.2)**	(5.1)	**(16.1)**	(15.0)
Non-recurring items	5	**(3.5)**	(3.5)	**(6.4)**	(9.4)
IAS 17 lease expense		**(0.6)**	-	**(1.5)**	-
Less: Share of joint venture EBITDA		**-**	-	**(0.1)**	-
Operating (loss)/profit before financing expenses		**(4.7)**	1.7	**(10.4)**	(6.7)
Financial income	6	**0.7**	0.8	**2.2**	1.9
Financial expense	6	**(9.4)**	(10.0)	**(28.9)**	(27.4)
Net financing expense		**(8.7)**	(9.2)	**(26.7)**	(25.5)
Share of results of joint venture		**(0.1)**	-	**(0.2)**	-
Loss before taxation		**(13.5)**	(7.5)	**(37.3)**	(32.2)
Taxation		**3.9**	3.4	**7.7**	4.7
Loss for the period attributable to equity holders of the parent		**(9.6)**	(4.1)	**(29.6)**	(27.5)
Total comprehensive loss for the period attributable to equity holders of the parent		**(9.6)**	(4.1)	**(29.6)**	(27.5)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 30 June 2014

	Notes	30 June 2014	30 June 2013	30 September 2013
		£m	£m	£m
Assets				
Property, plant and equipment	8	**274.9**	273.7	276.2
Intangible assets	9	**216.2**	238.8	232.1
Other financial assets	10	**21.4**	22.3	22.2
Amounts due from related party undertakings		**17.8**	13.1	15.1
Equity-accounted investments		**5.5**	4.8	5.4
Other investments		**-**	-	0.1
Total non-current assets		**535.8**	552.7	551.1
Assets held for sale		**-**	0.7	0.3
Inventories		**4.1**	3.2	3.0
Trade and other receivables		**99.6**	97.1	87.5
Other financial assets	10	**1.0**	0.9	1.0
Cash and cash equivalents		**32.8**	30.1	34.6
Current tax asset		**-**	0.4	-
Total current assets		**137.5**	132.4	126.4
Total assets		**673.3**	685.1	677.5
Liabilities				
Financial liabilities — borrowings	11	**(1.5)**	(3.0)	(1.9)
Trade and other payables		**(177.9)**	(148.0)	(148.9)
Current tax liabilities		**-**	-	-
Total current liabilities		**(179.4)**	(151.0)	(150.8)
Financial liabilities — borrowings	11	**(375.6)**	(366.5)	(370.0)
Other non-current liabilities		**(4.1)**	(5.6)	(4.3)
Deferred tax liabilities		**(9.4)**	(26.1)	(18.0)
Total non-current liabilities		**(389.1)**	(398.2)	(392.3)
Total liabilities		**(568.5)**	(549.2)	(543.1)
Net assets		**104.8**	135.9	134.4
Equity				
Issued share capital		**210.7**	210.7	210.7
Retained earnings		**(105.9)**	(74.8)	(76.3)
Total equity attributable to equity holders of the parent		**104.8**	135.9	134.4

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
THIRD QUARTER
For the nine month period ending 30 June 2014

	Attributable to equity holders of the parent		
Group	**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	-	(29.6)	(29.6)
At 30 June 2014	**210.7**	**(105.9)**	**104.8**

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED) - THIRD QUARTER
For the three month and nine month periods ended 30 June 2014

	Note	**Three months to 30 June 2014**	Three months to 30 June 2013	**Nine months to 30 June 2014**	Nine months to 30 June 2013
		£m	£m	**£m**	£m
Cash flows from operating activities					
Loss for the period before taxation		**(13.5)**	(7.5)	**(37.3)**	(32.2)
Share of results of joint venture		**0.1**	-	**0.2**	-
Financial income		**(0.7)**	(0.8)	**(2.2)**	(1.9)
Financial expense		**9.4**	10.0	**28.9**	27.4
Depreciation of tangible assets		**7.7**	6.1	**22.0**	16.6
Amortisation of intangible assets		**5.2**	5.1	**16.1**	15.0
Profit on disposal of fixed assets		**(0.2)**	-	**(0.2)**	-
Decrease in IFRIC 12 financial asset		**0.6**	0.6	**1.7**	1.8
(Increase)/decrease in inventory		**(0.1)**	0.9	**(0.7)**	0.7
Increase in trade and other receivables		**(14.3)**	(18.4)	**(11.3)**	(28.1)
Increase/(decrease) in trade and other payables		**9.3**	(2.4)	**16.0**	3.1
Cash flows from operations		**3.5**	(6.4)	**33.2**	2.4
Income taxes paid		**-**	(0.1)	**-**	(0.4)
Net cash flows from operating activities		**3.5**	(6.5)	**33.2**	2.0
Cash flows from investing activities					
Payments to acquire property, plant and equipment		**(7.0)**	(7.1)	**(20.8)**	(25.3)
Proceeds from sale of property, plant and equipment		**3.0**	-	**3.1**	-
Loans to related party undertakings		**-**	-	**(1.5)**	(3.3)
Investment in joint venture		**(0.1)**	-	**(0.1)**	(0.2)
Loans to joint venture		**(0.2)**	-	**(0.2)**	(4.7)
Interest received		**0.3**	-	**0.5**	0.1
Payments to acquire subsidiary undertakings (net of cash acquired)		**-**	(3.5)	**-**	(67.0)
Net cash flows used in investing activities		**(4.0)**	(10.6)	**(19.0)**	(100.4)
Cash flows from financing activities					
Proceeds from new loans		**80.8**	15.2	**202.4**	169.6
Repayment of amounts borrowed		**(89.3)**	(6.5)	**(196.9)**	(55.9)
Interest paid		**(1.4)**	(1.0)	**(19.6)**	(17.8)
Finance costs		**-**	(0.5)	**-**	(4.5)
Payment of capital element of finance lease payments		**(0.4)**	(0.9)	**(1.9)**	(1.2)
Net cash flows from financing activities		**(10.3)**	6.3	**(16.0)**	90.2
Net decrease in cash and cash equivalents		**(10.8)**	(10.8)	**(1.8)**	(8.2)
Cash and cash equivalents at the beginning of the period		**43.6**	40.9	**34.6**	38.3
Cash and cash equivalents at the end of the period	10	**32.8**	30.1	**32.8**	30.1

1. REPORTING ENTITY

Care UK Health & Social Care Investments Limited (the “company”) is a company domiciled in England and Wales. The condensed consolidated interim financial statements of the company for the three months and nine months ended 30 June 2014 comprise the company and its subsidiaries (together referred to as the “group”).

This interim report, for the three months and nine months ended 30 June 2014, 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies specific to interim financial statements

The same accounting policies and methods of computation are followed in these condensed consolidated financial statements as were applied in the group’s 2013 annual report.

Taxation: The income tax expense to be recognised in each interim period is based on the best estimate of the weighted average annual income tax rate expected for the full year applied to the income before taxation of the interim period. The expected tax rate takes into account changes in tax rates that are enacted, or substantively enacted, that are expected to take effect later in the year. 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 the third quarter balance sheet date. For interim reporting purposes, reliable measurement has been obtained by extrapolation from the latest full actuarial valuations.

***Joint ventures*:** Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group’s share of the profits less losses of joint ventures in the consolidated statement of comprehensive performance and its interest in their net assets in the consolidated balance sheet in accordance with the equity method of accounting.

***Leased assets*:** Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is classified as a finance lease. The asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Future instalments under such leases, net of finance charges, are included within creditors. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are accounted for as operating leases. Payments made under operating leases are recognised in the statement of comprehensive performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive performance as an integral part of the total lease expense. The alternative performance measure 'adjusted operating profit' defined in non-IFRS measures below applies a cash rent basis to accounting for operating lease incentives.

The group is required to perform dilapidation repairs on leased properties prior to the properties being vacated at the end of their lease term. Provision for such costs is made where a legal obligation is identified and the liability can be reasonably quantified.

3. NON-IFRS FINANCIAL MEASURES

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, which includes Care UK's proportionate ownership share of EBITDA from joint ventures, is defined as Operating profit before net financing expenses adjusted to exclude amortisation of IFRS 3 intangible assets, impairment charges and non-recurring items and excluding the impact of applying IAS 17 in respect of lease incentives.

Care UK enters into various lease arrangements with third parties within the normal course of business which can be subject to various types of incentive. Lease incentives on operating units typically take the form of rent free periods as they reflect the economic contribution profile of the unit during the early stages of occupancy, however under the terms of the lease cash rent does not become payable until the expiry of the rent free period. Other lease incentives may take the form of a cash premium received at inception or renewal of the lease with annual cash rent payable from commencement of the lease. Under IAS 17 'Leases', lease incentives are allocated on a straight line basis over the life of the lease. The non-IFRS financial measure adjusted operating profit is presented on a cash rent basis as it excludes the effect of applying the straight line method to lease incentives in order to reflect the underlying commercial arrangement and provide underlying operational performance and cash generation of the business.

Adjusted EBITDA is defined as adjusted operating profit plus depreciation.

4. SEGMENTAL 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 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 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 central functions and smaller trading operations.

Three months to 30 June 2014	**Residential Care Services**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	55.8	30.8	87.3	8.7	**182.6**
Adjusted EBITDA	5.1	2.0	6.9	(1.7)	**12.3**
Depreciation of tangible assets	(2.5)	(0.5)	(4.0)	(0.7)	**(7.7)**
Adjusted operating profit/(loss)	2.6	1.5	2.9	(2.4)	**4.6**
Amortisation of intangible assets	(1.8)	(1.2)	(2.1)	(0.1)	**(5.2)**
Non-recurring items	(1.4)	(0.9)	(1.0)	(0.2)	**(3.5)**
IAS 17 lease expense	(0.5)	-	-	(0.1)	**(0.6)**
Less: Share of joint venture EBITDA	-	-	-	-	**-**
Operating loss before financing expenses and taxation	(1.1)	(0.6)	(0.2)	(2.8)	**(4.7)**
Net financing expense					**(8.7)**
Share of results of joint venture					**(0.1)**
Taxation					**3.9**
Loss for the period					**(9.6)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(3.9)	(0.5)	(3.3)	(0.2)	**(7.9)**

Three months to 30 June 2013	**Residential Care Services**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	50.2	29.5	85.9	7.8	**173.4**
Adjusted EBITDA	7.1	2.5	7.9	(1.1)	**16.4**
Depreciation of tangible assets	(2.0)	(0.4)	(3.0)	(0.7)	**(6.1)**
Adjusted operating profit/(loss)	5.1	2.1	4.9	(1.8)	**10.3**
Amortisation of intangible assets	(1.5)	(1.3)	(2.3)	-	**(5.1)**
Non-recurring items	(0.6)	(0.2)	(2.5)	(0.2)	**(3.5)**
Operating profit/(loss) before financing expenses and taxation	3.0	0.6	0.1	(2.0)	**1.7**
Net financing expense					**(9.2)**
Taxation					**3.4**
Loss for the period					**(4.1)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(2.9)	(0.5)	(3.8)	-	**(7.2)**

Nine months to 30 June 2014	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Group revenue	163.6	91.8	261.6	26.9	**543.9**
Adjusted EBITDA	13.9	6.3	18.7	(3.2)	**35.7**
Depreciation of tangible assets	(7.6)	(1.4)	(10.8)	(2.2)	**(22.0)**
Adjusted operating profit/(loss)	6.3	4.9	7.9	(5.4)	**13.7**
Amortisation of intangible assets	(5.4)	(4.0)	(6.6)	(0.1)	**(16.1)**
Non-recurring items	(2.9)	(1.3)	(1.0)	(1.2)	**(6.4)**
IAS 17 lease expense	(1.0)	-	-	(0.5)	**(1.5)**
Less: Share of joint venture EBITDA	-	-	-	(0.1)	**(0.1)**
Operating (loss)/profit before financing expenses and taxation	(3.0)	(0.4)	0.3	(7.3)	**(10.4)**
Net financing expense					**(26.7)**
Share of results of joint venture					**(0.2)**
Taxation					**7.7**
Loss for the period					**(29.6)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(11.2)	(1.4)	(10.7)	(0.2)	**(23.5)**

Nine months to 30 June 2013	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	£m
Group revenue	144.1	88.4	223.7	23.1	**479.3**
Adjusted EBITDA	18.5	6.2	13.0	(3.4)	**34.3**
Depreciation of tangible assets	(5.7)	(1.3)	(7.5)	(2.1)	**(16.6)**
Adjusted operating profit/(loss)	12.8	4.9	5.5	(5.5)	**17.7**
Amortisation of intangible assets	(4.7)	(4.7)	(5.6)	-	**(15.0)**
Non-recurring items	(1.2)	(0.2)	(7.8)	(0.2)	**(9.4)**
Operating profit/(loss) before financing expenses and taxation	6.9	-	(7.9)	(5.7)	**(6.7)**
Net financing expense					**(25.5)**
Taxation					**4.7**
Loss for the period					**(27.5)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(8.2)	(1.4)	(8.8)	(0.1)	**(18.5)**

5. 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 30 June 2014**	Three months to 30 June 2013	**Nine months to 30 June 2014**	Nine months to 30 June 2013
		£m	£m	**£m**	£m
Non-recurring items:					
— Contract transfer and integration costs	*(a)*	**(2.3)**	(0.5)	**(3.8)**	(0.9)
— Restructuring	*(b)*	**(0.6)**	-	**(1.5)**	-
— Closure costs	*(c)*	**(0.6)**	-	**(0.7)**	-
— Property related costs	*(d)*	**-**	(0.3)	**(0.4)**	(0.5)
— Acquisition and integration costs	*(e)*	**-**	(1.4)	**-**	(6.7)
— Excess contract implementation costs..............	*(f)*	**-**	(1.3)	**-**	(1.3)
		(3.5)	(3.5)	**(6.4)**	(9.4)

Non-recurring items in the nine months to 30 June 2014 amounted to a charge of £6.4m in aggregate (nine months to 30 June 2013: charge £9.4m). The key elements of the charges for both years are set out below.

(a) Contract transfer and integration costs

During the 2013 financial year the Residential Care Services 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 nine months to 30 June 2014 aggregate transaction and integration costs of £3.8m were incurred in relation to the transfer of these contracts to Care UK (2013: £0.9m, Suffolk contract only).

(b) Restructuring

In the final quarter of the 2013 financial year a restructuring programme was initiated in order to reduce ongoing operating costs through various business efficiency initiatives. Costs of £1.5m were incurred in relation to these initiatives during the nine months to 30 June 2014 (2013: £nil).

(c) Closure costs

During the nine months ended 30 June 2014 an operational unit within the Health Care division closed following the decision by the NHS to close an adjacent accident and emergency department. As a result of the closure Care UK incurred unit closure and contract exit costs of £0.7m (2013: £nil).

(d) Property related costs

During the nine months ended 30 June 2014 Care UK incurred losses of £0.4m (2013: £0.5m) due to a residential care home suffering subsidence. This home closed in March 2014 and a solution for the future of the site, and the related underlying operating lease, continues to be sought.

(e) Acquisition and integration costs

During the 2013 financial year Care UK incurred costs in relation to a number of acquisitions as set out in the 2013 annual report. In accordance with IFRS 3, such costs cannot be included in the cost of business combination and therefore cannot be capitalised. In the nine months ended 30 June 2013 total transaction and integration costs of £6.7m (£8.2m in total for the 2013 financial year) were incurred in relation to these acquisitions and their subsequent integration into the Care UK group.

(f) Excess contract implementation costs

During the initial implementation period of the NHS 111 service, substantially higher implementation costs were incurred than originally expected, with the principal focus being on achieving operational stability within these services. In addition, a number of revenue deductions were agreed with the commissioners of these services on a commercial, rather than contractually based, agreement. A charge of £1.3m (£2.5m in total for the 2013 financial year) was recognised for both the three and nine months ended 30 June 2013 in relation to certain specific non-recurring excess implementation costs incurred in these periods.

6. NET FINANCING EXPENSE

	Three months to 30 June 2014	Three months to 30 June 2013	**Nine months to 30 June 2014**	Nine months to 30 June 2013
	£m	£m	**£m**	£m
Financial income:				
Interest receivable	**0.4**	0.5	**1.4**	1.0
IFRIC-12 interest receivable	**0.3**	0.3	**0.8**	0.9
Financial income	**0.7**	0.8	**2.2**	1.9
Financial expenses — interest payable on bank overdrafts and loans	**(9.4)**	(10.0)	**(28.9)**	(27.4)
Net financing expense	**(8.7)**	(9.2)	**(26.7)**	(25.5)

7. OPERATING LOSS BEFORE TAXATION

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

	Three months to 30 June 2014	Three months to 30 June 2013	**Nine months to 30 June 2014**	Nine months to 30 June 2013
	£m	£m	**£m**	£m
Depreciation of tangible assets	**7.7**	6.1	**22.0**	16.6
Amortisation of intangible assets	**5.2**	5.1	**16.1**	15.0
Operating lease charges: Land & buildings (including IAS 17 lease expense)	**8.5**	7.2	**25.0**	18.5
IFRIC 12 infrastructure costs expensed in the period	**0.3**	0.1	**1.0**	0.3

8. PROPERTY, PLANT AND EQUIPMENT

	30 June 2014	30 June 2013	30 September 2013
	£m	£m	£m
Opening net book value	**276.2**	252.1	252.1
Acquired	**-**	10.6	10.6
Additions	**24.4**	27.1	37.0
Transfer from current assets	**-**	0.5	0.6
Disposal and transfers to current assets	**(3.7)**	-	(1.0)
Depreciation charge for the period	**(22.0)**	(16.6)	(23.1)
Closing net book value	**274.9**	273.7	276.2

9. INTANGIBLE ASSETS

	30 June 2014	30 June 2013	30 September 2013
	£m	£m	£m
Opening net book value	**232.1**	170.7	170.7
Acquired	**-**	82.9	83.8
Adjustment	**0.2**	0.2	-
Impairment charge	**-**	-	(1.8)
Amortisation charge for the period	**(16.1)**	(15.0)	(20.6)
Closing net book value	**216.2**	238.8	232.1

10. OTHER FINANCIAL ASSETS

	30 June 2014	30 June 2013	30 September 2013
	£m	£m	£m
IFRIC-12 financial asset: brought forward	**23.2**	24.2	24.2
Released in the period	**(0.8)**	(1.0)	(1.0)
IFRIC-12 financial asset: carried forward	**22.4**	23.2	23.2
Disclosed as:			
Non-current assets: IFRIC-12 financial asset	**21.4**	22.3	22.2
Current assets: IFRIC-12 financial asset	**1.0**	0.9	1.0
	22.4	23.2	23.2

These financial assets were recognised upon the 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 there is an unconditional right to receive a specified amount of cash or other financial assets over the life of the arrangement.

11. 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	1.9	(5.5)	(3.6)
Other non-cash changes	(1.5)	(0.1)	(1.6)
At 30 June 2014	**(1.5)**	**(375.6)**	**(377.1)**

As at 30 June 2014 there was accrued interest of £16.2m (30 June 2013: £13.7m; 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 30 June 2014 Care UK Health & Social Care Plc ("the Issuer") had £325.0m of 9¾% Senior Secured Notes in issue (the "Existing Notes").

On 17 July 2014 the Issuer issued £400.0m of floating rate Senior Secured Notes (“the Notes”). The proceeds of the issue were used to redeem all of the outstanding Existing Notes, the associated accrued interest and the related redemption premium. The remaining proceeds were used to repay outstanding amounts under the Existing Revolving Credit Facility and pay transaction fees and expenses in connection with the issue of the Notes.

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

The Issuer may redeem the Notes in whole or in part at any time on or after 15 July 2015 at the redemption prices set out in the Offering Memorandum. Prior to 15 July 2015, the Issuer may redeem all or part of the Notes by paying a ‘make whole’ premium as set out in the Offering Memorandum.

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

ii) Super Senior Revolving Credit Facility

As at 30 June 2014 the group had a £115.0m Super Senior Revolving Credit Facility (the “Existing RCF”) with £52.0m (30 June 2013: £43.5m) of the facility utilised as cash drawings. The remainder of the facility remained undrawn, with the exception of £10.1m (30 June 2013: £9.4m) utilised in relation to certain performance bonds and £0.5m (30 June 2013: £0.5m) in relation to other ancillary utilisations.

On 11 July 2014 the Existing RCF was replaced by a new Revolving Credit Facility (the "new RCF") with the main change being that the new RCF amounts to £65.0m rather than the Existing RCF, which amounted to £115.0m. On 17 July 2014 the Existing RCF utilisations were repaid in full from the proceeds of the issue of the Notes together with utilisations drawn on the new RCF.

The margin payable on any loan utilisation under the new RCF is in the range of 2.25% to 3.25% above LIBOR plus any mandatory costs depending on the total net leverage of the group. Each utilisation under the facility is repayable and capable of being redrawn at the end of each interest period. The final repayment date is 11 May 2019.

The Super Senior Revolving Facility Agreement requires Care UK Health & Social Care Investments Limited, as the parent guarantor, to ensure compliance with a financial covenant relating to super senior gross leverage (calculated as the ratio of total super senior gross debt at each quarter end to EBITDA for the 12 months ending on that quarter end). 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.

12. POST BALANCE SHEET EVENT

In July 2014 Care UK Health & Social Care Investments Limited carried out a refinancing (the "Refinancing") in order to put in place a long term stable capital structure to underpin the group's future growth plans whilst significantly reducing the group's cost of debt.

In summary, the Refinancing comprised the issue of £400.0m of floating rate Senior Secured Notes ("July 2014 Notes") and the repayment of the existing £325.0m 9¾% Senior Secured Notes, the repayment of amounts drawn under the group's existing Revolving Credit Facility and the entering into of a revised Revolving Credit Facility. In consequence, the company's intention was to use the proceeds from the issue of the Notes to (i) redeem all of the outstanding existing Senior Secured Notes; (ii) repay the outstanding amounts under the existing Revolving Credit Facility; and (iii) pay transaction fees and expenses in connection with the Refinancing. Further details are provided in note 11.

Care UK Health & Social Care Investments Limited

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

Three month and nine month periods ended 30 June 2014

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 and have been prepared under the historic cost convention.

The group proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) have been prepared by the directors pursuant to the requirements detailed on page 205 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 information (unaudited) has been defined on page 205 of the offering memorandum as 'prepared in accordance with GAAP before giving effect to the accounting standard IFRIC 12 as amended or supplemented from time to time'.

Accounting policies

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

The estimates and underlying assumptions are reviewed on an on-going 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 these group proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) as were applied in the group's condensed consolidated financial statements for the nine months ended 30 June 2014:

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. These group proforma pre-IFRIC 12 non-statutory condensed consolidated financial statements (unaudited) have 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)
– THIRD QUARTER
For the three month and nine month periods ended 30 June 2014

	Three months to 30 June 2014	Three months to 30 June 2013	**Nine months to 30 June 2014**	Nine months to 30 June 2013
	£m	£m	**£m**	£m
Revenue	**183.1**	174.0	**545.6**	481.1
Cost of sales	**(161.3)**	(151.5)	**(481.1)**	(422.7)
Gross profit	**21.8**	22.5	**64.5**	58.4
Administrative expenses	**(26.1)**	(20.4)	**(73.3)**	(64.4)
Operating (loss)/profit before financing expenses	**(4.3)**	2.1	**(8.8)**	(6.0)
Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation)	**13.0**	17.1	**38.3**	36.4
Depreciation of tangible assets	**(8.2)**	(6.6)	**(23.4)**	(18.3)
Adjusted operating profit	**4.8**	10.5	**14.9**	18.1
Amortisation of intangible assets	**(5.0)**	(4.9)	**(15.7)**	(14.7)
Non-recurring items	**(3.5)**	(3.5)	**(6.4)**	(9.4)
IAS 17 lease expense	**(0.6)**	-	**(1.5)**	-
Less: Share of joint venture EBITDA	**-**	-	**(0.1)**	-
Operating (loss)/profit before financing expenses	**(4.3)**	2.1	**(8.8)**	(6.0)
Financial income	**0.5**	0.6	**1.4**	1.1
Financial expense	**(9.4)**	(10.0)	**(28.9)**	(27.4)
Net financing expense	**(8.9)**	(9.4)	**(27.5)**	(26.3)
Share of results of joint venture	**(0.1)**	-	**(0.2)**	-
Loss before taxation	**(13.3)**	(7.3)	**(36.5)**	(32.3)
Taxation	**3.8**	3.2	**7.4**	4.7
Loss for the period attributable to equity holders of the parent	**(9.5)**	(4.1)	**(29.1)**	(27.6)
Total comprehensive loss for the period attributable to the equity holders of the parent	**(9.5)**	(4.1)	**(29.1)**	(27.6)

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 30 June 2014

	30 June 2014	30 June 2013	30 September 2013
	£m	£m	£m
Assets			
Property, plant and equipment	**305.2**	304.9	306.9
Intangible assets	**207.5**	229.5	223.3
Amounts due from related party undertakings	**17.8**	13.1	15.1
Equity-accounted investments	**5.5**	4.8	5.4
Other investments	**-**	-	0.1
Total non-current assets	**536.0**	552.3	550.8
Assets held for sale	**-**	0.7	0.3
Inventories	**4.1**	3.2	3.0
Trade and other receivables	**99.6**	97.1	87.5
Cash and cash equivalents	**32.8**	30.1	34.6
Current tax asset	**-**	0.4	-
Total current assets	**136.5**	131.5	125.4
Total assets	**672.5**	683.8	676.2
Liabilities			
Financial liabilities — borrowings	**(1.5)**	(3.0)	(1.9)
Trade and other payables	**(167.6)**	(138.4)	(138.8)
Current tax liabilities	**-**	-	-
Total current liabilities	**(169.1)**	(141.4)	(140.7)
Financial liabilities — borrowings	**(375.6)**	(366.5)	(370.0)
Other non-current liabilities	**(4.1)**	(5.6)	(4.3)
Deferred tax liabilities	**(11.6)**	(28.0)	(20.0)
Total non-current liabilities	**(391.3)**	(400.1)	(394.3)
Total liabilities	**(560.4)**	(541.5)	(535.0)
Net assets	**112.1**	142.3	141.2
Equity			
Issued share capital	**210.7**	210.7	210.7
Retained earnings	**(98.6)**	(68.4)	(69.5)
Total equity attributable to equity holders of the parent	**112.1**	142.3	141.2

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
PROFORMA PRE-IFRIC 12 NON-STATUTORY CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
– THIRD QUARTER
For the three month and nine month periods ended 30 June 2014

	Three months to 30 June 2014	Three months to 30 June 2013	**Nine months to 30 June 2014**	Nine months to 30 June 2013
	£m	£m	**£m**	£m
Cash flows from operating activities				
Loss for the period before taxation	**(13.3)**	(7.3)	**(36.5)**	(32.3)
Share of results of joint venture	**0.1**	-	**0.2**	-
Financial income	**(0.5)**	(0.6)	**(1.4)**	(1.1)
Financial expense	**9.4**	10.0	**28.9**	27.4
Depreciation of tangible assets	**8.2**	6.6	**23.4**	18.3
Amortisation of intangible assets	**5.0**	4.9	**15.7**	14.7
Profit on disposal of fixed assets	**(0.2)**	-	**(0.2)**	-
(Increase)/decrease in inventory	**(0.1)**	0.9	**(0.7)**	0.7
Increase in trade and other receivables	**(14.3)**	(18.2)	**(11.3)**	(28.1)
Increase/(decrease) in trade and other payables	**9.4**	(2.6)	**16.0**	(3.1)
Cash flows from operations	**3.7**	(6.3)	**34.1**	2.7
Income taxes paid	**-**	(0.1)	**-**	(0.4)
Net cash from operating activities	**3.7**	(6.4)	**34.1**	2.3
Cash flows from investing activities				
Payments to acquire property, plant and equipment	**(7.2)**	(7.2)	**(21.7)**	(25.6)
Proceeds from sales of property, plant and equipment	**3.0**	-	**3.1**	-
Loans to related party undertakings	**-**	-	**(1.5)**	(3.3)
Investment in joint venture	**(0.1)**	-	**(0.1)**	(0.2)
Loans to joint venture	**(0.2)**	-	**(0.2)**	(4.7)
Interest received	**0.3**	-	**0.5**	0.1
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	**-**	(3.5)	**-**	(67.0)
Net cash flows used in investing activities	**(4.2)**	(10.7)	**(19.9)**	(100.7)
Cash flows from financing activities				
Proceeds from new loans	**80.8**	15.2	**202.4**	169.6
Repayment of amounts borrowed	**(89.3)**	(6.5)	**(196.9)**	(55.9)
Interest paid	**(1.4)**	(1.0)	**(19.6)**	(17.8)
Finance costs	**-**	(0.5)	**-**	(4.5)
Payment of capital element of finance lease payments	**(0.4)**	(0.9)	**(1.9)**	(1.2)
Net cash flows from financing activities	**(10.3)**	6.3	**(16.0)**	90.2
Net decrease in cash and cash equivalents	**(10.8)**	(10.8)	**(1.8)**	(8.2)
Cash and cash equivalents at the beginning of the period	**43.6**	40.9	**34.6**	38.3
Cash and cash equivalents at the end of the period	**32.8**	30.1	**32.8**	30.1

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

Three months to 30 June 2014	**Residential Care Services**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	56.3	30.8	87.3	8.7	**183.1**
Adjusted EBITDA	5.8	2.0	6.9	(1.7)	**13.0**
Depreciation of tangible assets	(3.1)	(0.5)	(3.9)	(0.7)	**(8.2)**
Adjusted operating profit/(loss)	2.7	1.5	3.0	(2.4)	**4.8**
Amortisation of intangible assets	(1.6)	(1.2)	(2.1)	(0.1)	**(5.0)**
Non-recurring items	(1.4)	(0.9)	(1.0)	(0.2)	**(3.5)**
IAS 17 lease expense	(0.5)	-	-	(0.1)	**(0.6)**
Less: Share of joint venture EBITDA	-	-	-	-	**-**
Operating loss before financing expenses and taxation	(0.8)	(0.6)	(0.1)	(2.8)	**(4.3)**
Net financing expense					**(8.9)**
Share of results of joint venture					**(0.1)**
Taxation					**3.8**
Loss for the period					**(9.5)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(3.9)	(0.5)	(3.3)	(0.2)	**(7.9)**

Three months to 30 June 2013	**Residential Care Services**	**Community Services**	**Health Care**	**Other**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Group revenue	50.8	29.5	85.9	7.8	**174.0**
Adjusted EBITDA	7.8	2.5	7.9	(1.1)	**17.1**
Depreciation of tangible assets	(2.5)	(0.4)	(3.0)	(0.7)	**(6.6)**
Adjusted operating profit/(loss)	5.3	2.1	4.9	(1.8)	**10.5**
Amortisation of intangible assets	(1.3)	(1.3)	(2.3)	-	**(4.9)**
Non-recurring items	(0.6)	(0.2)	(2.5)	(0.2)	**(3.5)**
Operating profit/(loss) before financing expenses and taxation	3.4	0.6	0.1	(2.0)	**2.1**
Net financing expense					**(9.4)**
Taxation					**3.2**
Loss for the period					**(4.1)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(2.9)	(0.5)	(3.8)	-	**(7.2)**

Nine months to 30 June 2014	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	165.3	91.8	261.6	26.9	**545.6**
Adjusted EBITDA	16.5	6.3	18.7	(3.2)	**38.3**
Depreciation of tangible assets	(9.1)	(1.4)	(10.7)	(2.2)	**(23.4)**
Adjusted operating profit/(loss)	7.4	4.9	8.0	(5.4)	**14.9**
Amortisation of intangible assets	(5.0)	(4.0)	(6.6)	(0.1)	**(15.7)**
Non-recurring items	(2.9)	(1.3)	(1.0)	(1.2)	**(6.4)**
IAS 17 lease expense	(1.0)	-	-	(0.5)	**(1.5)**
Less: Share of joint venture EBITDA	-	-	-	(0.1)	**(0.1)**
Operating profit/(loss) before financing expenses and taxation	(1.5)	(0.4)	0.4	(7.3)	**(8.8)**
Net financing expense					**(27.5)**
Share of results of joint venture					**(0.2)**
Taxation					**7.4**
Loss for the period					**(29.1)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(11.2)	(1.4)	(10.7)	(0.2)	**(23.5)**

Nine months to 30 June 2013	Residential Care Services	Community Services	Health Care	Other	Group
	£m	£m	£m	£m	**£m**
Group revenue	145.9	88.4	223.7	23.1	**481.1**
Adjusted EBITDA	20.6	6.2	13.0	(3.4)	**36.4**
Depreciation of tangible assets	(7.4)	(1.3)	(7.5)	(2.1)	**(18.3)**
Adjusted operating profit/(loss)	13.2	4.9	5.5	(5.5)	**18.1**
Amortisation of intangible assets	(4.4)	(4.7)	(5.6)	-	**(14.7)**
Non-recurring items	(1.2)	(0.2)	(7.8)	(0.2)	**(9.4)**
Operating profit/(loss) before financing expenses and taxation	7.6	-	(7.9)	(5.7)	**(6.0)**
Net financing expense					**(26.3)**
Taxation					**4.7**
Loss for the period					**(27.6)**
Operating lease charges: Land & buildings (excluding IAS 17 lease expense)	(8.2)	(1.4)	(8.8)	(0.1)	**(18.5)**