Care UK
Interim results - 31 March 2007

Mike Parish, Chief Executive

Paul Humphreys, Finance Director

22 May 2007

2007 interim results and business highlights

CARE UK

Business highlights

- Another period of good progress
  - Revenue up by 27%
  - Operating profit [1] up by 31%
  - Adjusted EPS up by 30%
  - Overall improvement in operating margin
- Total forward contracted revenue £921m *
- Further £376m * revenue at preferred bidder stage
- Well positioned for further growth

- Excellent organic growth in Residential Care
- Strong Community Care growth, both acquisition and organic
- Positive momentum in Specialist Care; new management appointed
- PHG well established with continuing good performance
- Care UK positioned as sector leader in Primary Care
- Major strategic acquisition (Mercury Health) completed
- A number of key projects either in process of contract finalisation or in operational start-up phase

Financial highlights

£m unless stated	**H1 2007**	*H1 2006*	*% increase*
Revenue	**118.0**	93.3	26.5%
Operating profit [1]	**11.6**	8.9	30.6%
Margin (%)	***9.8%***	*9.5%*	
Profit before tax [1]	**7.1**	5.7	23.6%
Earnings per share (p) [1]	**9.80**	7.54	30.0%
Interim dividend (p)	**1.22**	1.12	8.9%

[1] Stated before amortisation of other intangible assets of £0.3m (2006: £0.2m) and joint venture net financing charges and taxation of £1.3m (2006: £0.7m)

* At period end, excluding Mercury Health

Net assets

£m	Period ended Mar-07	Mar-06
Tangible fixed assets (at historic NBV [1])	**145.5**	133.3
Intangible assets & investments	**51.5**	34.0
Other assets excluding cash	**25.9**	24.3
Gross assets	**222.9**	**191.6**
Liabilities excluding net debt	**-34.8**	-29.0
Net assets before net debt	**188.1**	**162.6**
Net debt	**-119.5**	-105.0
Net assets	**68.6**	**57.6**
Gearing against tangible fixed assets	82%	79%
Gearing on net assets	174%	182%
Interest cover (group EBITDA)	**3.8**	3.9

[1] 'Informal' valuation surplus at Sep-06 of c£120m for freehold/long leasehold properties

Cash flow and net debt

CARE UK

£m	Period ended Mar-07	Mar-06
EBITA (group only - excluding JV)	**9.7**	8.4
Depreciation (+/- loss/profit on FA disposals)	**3.2**	2.5
IFRS non-cash charges	**0.3**	0.3
Working capital movements	**0.5**	1.4
Operating cash flow	**13.7**	**12.6**
Capital expenditure (net)	**-7.2**	-8.9
Acquisitions and investments (including JV)	**-4.3**	-2.7
Investment cash flow	**-11.5**	**-11.6**
Share issues (net of own shares purchased)	**-**	-0.9
Taxation paid	**-2.3**	-1.9
Interest paid	**-2.9**	-2.6
Dividends paid	**-1.3**	-1.2
Stakeholder cash flow	**-6.5**	**-6.6**
Total movement in net debt	**-4.3**	**-5.6**
Operating cash flow conversion ratio v EBITA	142%	151%

Group bank facilities

CARE UK

- Debt facilities
  - Main group facility increased by £50m to gross level of £230m in April 2007 to accommodate the acquisition of Mercury Health
  - Actual utilisation of £120.8m at March 2007, plus performance bonds of £2.4m
  - Pro-forma additional utilisation of £24.2m in April 2007 for Mercury acquisition, including transaction costs
  - Effective hedging for £106m: £45m in swaps (average rate 5.24%) and £61m in collars (average floor 4.31%, average cap 5.82%)
  - Mercury Health includes additional non-recourse senior debt facility of £32.5m as at completion for GC8 contract, as part of overall net debt on acquisition of £20.7m; fully hedged with swaps at average rate 4.99%
  - Total pro-forma debt following Mercury Health acquisition of £165.7m plus performance bonds

- Bank covenants
  - EBITDA interest cover minimum 3.0x [1]
  - Senior debt maximum 6.5x EBITDA (including performance bonds)
  - Net cash flow to debt service minimum 1.0x [1]

[1] Measured on a rolling historic 12-month basis

Group organisation and pro-forma divisional revenue (post-Mercury)

CARE UK

Mike Parish
Chief Executive

- Paul Humphreys, Finance Director
- Steve Bennett, HR Director
- Professor Hilary Thomas, Medical Director
- Geoff Benn, Development Director
- Andrew Russell, Director New Ventures

Social Care Executive

- Tony Hosking, MD Residential Care
- Roger Booker, MD Community Care
- Richard Jackson, MD Specialist Care

Health Care Executive

- Dr Sushil Jathanna, MD Secondary Care
- Paul Hobson, MD Diagnostics
- Dr Mark Hunt, MD Primary Care

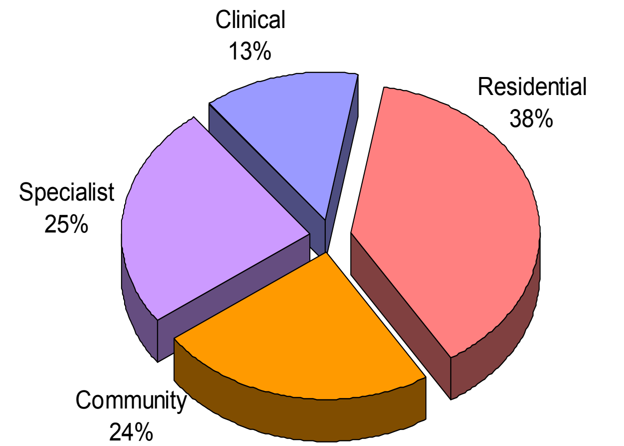
Actual revenue by division H1 2007

Residential £45.2m (£37.8m)

Community £28.2m (£23.1m)

Specialist £28.9m (£23.7m)

Clinical £15.7m (£8.7m)



Pro-forma revenue split by division including full year value of all acquisitions and current preferred bidder awards (base = 2007 H1 x 2)

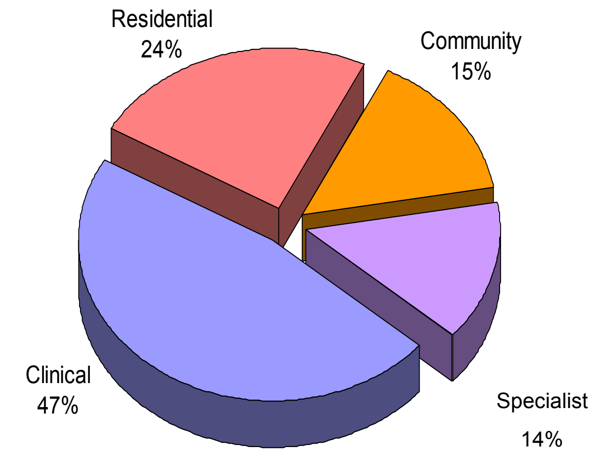
Residential £102m

Community £64m

Specialist £60m

Clinical £200m

For illustration purposes only, excluding currently unspecified growth



Divisional overview – Residential Care

CARE UK

Financial performance

	H1 2007	H1 2006	% change
Revenue (£m)	**45.2**	37.8	+19.8%
EBITA (£m)	**7.3**	6.2	+18.4%
Margin (%)	***16.1%***	*16.3%*	

Business highlights

- New contracts awarded by Slough (15 years, 120 beds, 90 contracted) and Kensington & Chelsea (21 years, 60 beds, 30 contracted)
- Birchwoods in Newbury, West Berkshire, with 60 beds opened Spring 2007
- Lennox House in Islington with 87 beds due to open Summer 2007
- Good pipeline of new contract opportunities, greenfield developments and extensions

Business profile

- Care UK is the largest UK provider and operator of long term contracted nursing homes, often involving transfer of Local Authority homes and staff
- Main competitors include BUPA, Shaw Homes and other 'not for profits'
- 3,144 beds/daycare places across 56 homes, average weekly fee level £590 (beds only)
  - Dementia nursing 36%
  - Frail nursing 30%
  - Frail elderly 34%
- 75% of beds contracted for an average remaining 9.2 years
- Financial occupancy typically 98% in mature homes
- Annual price indexation (c3% pa) and regular case mix review
- Potential for increased fees for greater case complexity

Drivers for growth and strategy

- Favourable demographic trends, proportion of over 85 year olds to double
- Local Authorities or PCTs fund 66% of all beds and are seeking more sophisticated solutions that avoid or reduce hospital and nursing home admissions and lengths of stay
- Local Authorities still own and manage over 35,000 nursing home beds for older people, many of which require investment and re-modelled service design
- Non-nursing residential care to be replaced by homecare solutions
- ***To provide complex, value add solutions for the more highly dependent service users, focus on rehabilitation and integration with community based care***
- ***To maintain a high proportion of long term contracted income from the public sector – some reduction from current level likely***

Divisional overview – Community Care

CARE UK

Financial performance

	H1 2007	H1 2006	% change
Revenue (£m) *	**28.6**	23.1	+23.5%
EBITA (£m) **	**1.9**	1.5	+25.5%
Margin (%)	***6.5%***	*6.4%*	

** Before elimination of inter-segmental revenues of £0.4m (2006: £nil)*

*** Before amortisation of other intangible assets of £0.3m (2006: £0.1m)*

Business highlights

- Strong year on year growth, including 8% organic growth
- Contract wins during 2007 in Liverpool, Bradford, Bracknell and Ealing partly offset by loss of Lambeth contract
- Acquisitions of Access Homecare (Manchester) and St Andrews (Stoke-on-Trent) collectively providing over 10,000 hours pw
- Good pipeline of contract and acquisition opportunities. Volume growth of 11% since September 2006 to 94,000 hours pw despite some evidence of funding restrictions

Business profile

- Care UK Homecare service, funded by Social Services, providing personal and domiciliary care to service users in their own home
- Total homecare hours of c94,000 pw at the period end, 92% funded by Social Services, average weekly spend per client c£90
  - Frail elderly 70%
  - Dementia 15%
  - Other specialist 15%
- c65% of hours contracted, average remaining term c2.2 years
- Strong focus on outcome measured services
- Main competitors include Nestor, Allied, Careforce, Supporta and Claimar

Drivers for growth and strategy

- Social Services seeking to substitute homecare for residential care
- Increasing regulation and supplier rationalisation favours larger providers. However, purchasers still support local providers
- Trend toward more service user responsive and outcome focussed services, with rising acuity balancing funding restrictions for more basic services
- Homecare market is highly fragmented providing consolidation opportunities
- Ongoing transfer from "in-house" Local Authority homecare to the private sector (>30% still "in-house" in England)
- ***To increase volume with existing clients and to expand geographically through contract wins and acquisitions***
- ***To provide for increasingly complex community based care needs***

Divisional overview – Specialist Care

CARE UK

Financial performance

	H1 2007	H1 2006	% change
Revenue (£m)	**28.9**	23.7	+22.2%
EBITA (£m)	**2.9**	2.4	+21.6%
Margin (%)	***10.2%***	*10.2%*	

Business highlights

- Organic growth of 8% plus impact of prior year acquisitions of 14%
- Mental Health revenue increase of 15% despite selective funding restrictions
- Learning Disabilities growth of 16% (all organic) with improved margin
- Children's Services up by 48% reflecting prior year acquisitions; margin improvement of 4% due to occupancy build and reorganisation costs
- Appointment of new divisional MD, Richard Jackson, and heads of Mental Health, Learning Disabilities and Children's Services
- Performance, growth prospects and strategy to be reviewed

Business profile

- The Specialist Care division provides residential and community care for adults and young people with mental health issues, learning disabilities and a range of social, educational and behavioural challenges.
- 1,025 places across 173 homes (plus FSG), average fees £1,150 pw
  - Learning disabilities 44%
  - Mental health 31%
  - Children 25%
- Focus on stability, rehabilitation, therapy and education to achieve positive outcomes
- Diverse competitors include private equity owned, private and not for profits

Drivers for growth and strategy

- NHS and Local Authority services being outsourced and some existing services to be re-provided
- Many niche providers present opportunities for consolidation
- Mental health exposure to short term NHS funding pressures, purchasers challenging children's care residential care with focus on specialist foster care
- Trend from acute residential settings toward step down, supported living and community solutions
- ***To focus on therapy, rehabilitation, education and positive outcomes to enable migration to less intensive services***
- ***To develop Care UK solutions and brand across mental health, learning disabilities and children's care through service innovation, organic expansion, contract wins and further acquisitions***

Divisional overview – Clinical Care (1)

Business profile

- Clinical Care includes:
  - The group's 50:50 joint venture with Life Healthcare of South Africa, PHG (Partnership Health Group), in the ISTC sector;
  - An increasing range of primary care and diagnostics services provided directly by Care UK;
  - The recent acquisition of Mercury Health, a leading ISTC operator providing surgical, diagnostics and primary care services
- Total potential annualised revenues of c £200m including all current contracts and preferred bidder awards (all planned to be operational in financial year 2009).
- ISTC contracts for initial five years with minimum volumes underwritten and, in most cases, guaranteed asset buyback at residual value

Drivers for growth and strategy

- Government and Department of Health strategy is to create a mixed economy of NHS service delivery with substantially increased services to be provided by the independent sector. Role of the independent sector is embedded as a fundamental part of NHS strategy
- Market creation initially through centrally procured, revenue guaranteed contracts to attract new entrants. Future market structure will be locally procured patient demand driven contracts
- Government plans to reform primary care and to encourage transfer from hospital to primary care settings through the evolution of larger private sector organisations alongside larger GP practices and co-operatives
- ***To be one of the main providers of acute and primary care services contracted by the NHS.***

	Primary Care (pro-forma 17%)	Secondary Care (64%)	Diagnostics (19%)
Fully operational	Southend out of hours Chelmsford Prison GP service	Barlborough Links ISTC Plymouth (Peninsula) ISTC Portsmouth ISTC Medway ISTC	High Wycombe ISTC
Implementation/ ramp-up phase [1]	Newcastle walk-in centre Barking & Dagenham walk-in centre & GP practice City & Hackney walk-in centre & GP practice London Victoria walk-in centre Luton & Bedfordshire urgent care centre Wellingborough Prison GP service	Maidstone ISTC NE London ISTC Sussex ISTC	West Midlands regional Havant ISTC
At preferred bidder	Manchester assessment and treatment centres (CATSS) Heart of Birmingham GP service Garth, Wymott & Preston Prisons GP service Additional primary care service in City & Hackney	Hampshire/Isle of Wight wave 2 ISTC Essex wave 2 ISTC	North East regional

As at May 2007 [1] Projects still within the first 12 months from start-up

Care UK + **Mercury Health** + **PHG**

Divisional overview – Clinical Care (2)

CARE UK

Financial performance and business highlights

	H1 2007	H1 2006	% change
Revenue (£m)	**15.7**	8.7	+80%
EBITA (£m) *	**0.7**	-0.2	N/A
Margin (%)	***4.5%***	*-2.0%*	

* Before amortisation of other intangible assets of £0.1m (2006: £0.1m) and joint venture net financing costs and taxation of £1.3m (2006: £0.7m)

Primary Care

Existing services:

- Southend out of hours contract, Barking and Dagenham primary care and walk-in centre, Prison health contracts in Chelmsford and Wellingborough, all on plan
- Walk-in centres in Newcastle and Victoria opened as planned – patient volumes good in Victoria, Newcastle behind target
- Challenging start-up on Luton and Beds urgent care centre

Services to be implemented:

- Financial close imminent for North East regional diagnostics contract
- Prison health contract in North West and GP services contract in Birmingham on track
- Manchester CATSS contract pending commercial close

Good pipeline of local opportunities and new central procurement pending

Partnership Health Group (PHG)

- Plymouth and Barlborough ISTCs successfully operating in line with financial plans, Maidstone and North East London opened in October and December 2006 as planned, with a gradual build up of activity
- Excellent clinical outcomes and patient satisfaction levels
- PHG appointed preferred bidder for Hampshire involving 2 centres in Lymington (new community hospital) and Southampton (refurbishment of part of NHS hospital). First time a NHS hospital has been outsourced in its entirety

Mercury Health

Acquired on 20 April from Tribal Group for £76.8m

- Equity consideration of £31.5m, net debt of £20.7m, repayment of inter-company borrowings £24.6m
- Earnings neutral in current year, before integration costs and amortisation. Accretive next year, before amortisation
- Wave 1 ISTC contract operational (GC8) involving orthopaedic centre in Haywards Heath, primary care walk-in, diagnostics and day case surgery centre in Portsmouth, diagnostics centre in High Wycombe and diagnostics and minor surgery centre in Medway. Further diagnostics centre in Havant due to open in Spring 2008
- Primary care contract in City & Hackney
- Wave 2 diagnostics contract in West Midlands providing a fully mobile service, currently being implemented following some contract delays
- Preferred bidder award for a wave 2 ISTC contract in Essex pending commercial close

Summary strategy and targeted growth

CARE UK

To be the UK's leading provider of a range of health and social care solutions to the NHS and Social Services

Residential Care Total market size £10.4bn Local Authority in-house £0.8bn	***Grow organically by 12% to 15% annually from new contract awards, extensions on existing homes and from new home developments*** ***Make selective acquisitions to complement existing geographic coverage***
Community Care Total market size £5.4bn Homecare £1.2bn (including Local Authority in-house £0.3bn)	***Maintain growth rate of over 20% annually through a combination of organic growth and acquisitions*** ***Develop services to support higher acuity needs and enhanced service user independence***
Specialist Care Total market size £11.7bn Psychiatric £4.0bn, Learning Disabilities £4.0bn, Children £3.7bn	***Division grown from a mix of acquisition and organic developments focussed on independent supported living, rehabilitation, therapeutic and educational development*** ***Current focus on performance improvement and integration of recent acquisitions. New management team developing overall strategy***
Clinical Care Market size for secondary acute care £35bn Wave one ISTC £0.5bn Wave two ISTC £0.6bn Primary Care c£10bn, c5% GP out of hours	***Now the clear leader in the provision of services to the NHS*** ***Reach contractual close and fully implement current preferred bidder awards and projects in operational start-up, valued at c£120m in total*** ***Grow by 20% annually by replicating current solutions and by winning new locally procured contracts. Subject to the implementation of Government policy for patient choice, develop new "greenfield" services***