

Care UK Plc
("Care UK" or "the group")

Preliminary Results for the year ended 30 September 2009

Adjusted profit before taxation increased by 25%, significant reduction in net debt

Platform established to benefit from market reform and accelerate future growth

Care UK Plc, the leading health and social care provider, today announces preliminary results for the year ended 30 September 2009.

Financial highlights

- Revenue ¹ increased by 20% to £410.0m (2008: £341.6m)
- Adjusted ² operating profit increased by 7% to £38.9m (2008: £36.4m)
- Adjusted ³ profit before taxation increased by 25% to £28.1m (2008: £22.5m); profit before taxation £21.0m (2008: £1.6m)
- Adjusted ³ basic EPS increased by 13% to 31.46p (2008: 27.92p)
- Dividend per share, paid and proposed, increased by 10% to 4.85p (2008: 4.43p)
- Net debt reduced by 13% to £156.3m (2008: £180.2m)
- Forward contracted income of £1.4bn (2008: £1.5bn)

Operational highlights - Social Care

- Aggregate revenue increased by 5% and adjusted operating profit reduced by 4%, with solid performances in Residential Care and Specialist Care offset by the ongoing recovery in Community Care
- Across Social Care, CQC ratings for quality of service remain at industry-leading levels with almost 90% of services rated Excellent or Good
- Two new residential care homes added 240 complex dementia care beds, increasing total beds by 7% to 3,533, with mature financial occupancy at 96% and average weekly fee rates up by 3.4% to £642. Contract signed for new 92-bed care home in Portsmouth; development approved for new 74-bed care home in East Sussex; further site acquisition agreed for 70-bed care home
- Several new and renewed community care contracts awarded; total of 6.3 million hours of homecare delivered (2008: 6.2 million). Currently delivering 123,000 weekly hours of care
- Several new and extended learning disabilities contracts won; total learning disabilities service user numbers increased by 17%. Mental health revenue increased by 9% with an improved operating margin. Good recovery in children's services in the second half

Operational highlights - Health Care

- Strong growth in revenue, up 54%, and adjusted operating profit, up 44%, driven by full ownership of PHG throughout the year and the implementation of new services
- Established as largest independent sector provider of both primary and secondary care services to NHS patients with over 40 primary care sites and 9 specialist hospitals
- Continuing to achieve exceptional clinical outcomes and patient satisfaction ratings across the division, with no cases of MRSA
- Mobilisation of Phase 2 ISTC in Southampton (Oct '08) and Greater Manchester CATS service (Feb '09); volumes growing strongly for both services
- Awarded 14 contracts during and post year-end, mainly under 'Equitable Access' initiative; services commenced under 11 contracts with balance to start in 2010

John Nash, Chairman of Care UK, commented:

"Over the course of a year, Care UK cares for approximately half a million people through many different kinds of service, consistently delivering industry leading quality and patient satisfaction ratings.

"These results demonstrate the company's resilience and the benefits of investment in the market emerging as the NHS opens up to competition. Our high levels of contracted revenue and the non-discretionary nature of our services offer unusually good income visibility and relative market stability.

"The forthcoming challenges to public sector funding are apparent and our experience and expectation is that to achieve higher quality services at better value, public sector commissioners are increasingly turning to the Independent Sector to drive efficiency and reform. Furthermore, both the UK's largest political parties support the role that independent providers can play in helping to achieve this.

"Policy reform generally is focused on the migration of services from hospital to community and social care solutions in order to improve care quality and reduce cost. This is wholly aligned with Care UK's long term strategy and perfectly positions the company to drive exceptional levels of long-term growth."

Amounts in £m unless stated	30 Sept	30 Sept	
	2009	2008	Change %
Revenue: group and share of joint venture ¹	410.0	341.6	+20
Operating profit	31.8	12.8	+148
Adjusted operating profit ²	38.9	36.4	+7
Profit before group taxation	21.0	1.6	+1,212
Adjusted profit before group taxation ³	28.1	22.5	+25
Basic EPS/(LPS)	23.04p	(4.98)p	
Adjusted basic EPS ³	31.46p	27.92p	+13
Total dividend, paid and proposed	4.85p	4.43p	+9
Operating cash flow	58.1	46.9	+24
Total net debt	156.3	180.2	-13

¹ Includes share of joint venture revenue in 2008 only

² Before non-recurring items, amortisation of intangible assets and impairment charges; in 2008, also before share of joint venture net financing costs and taxation

³ Before non-recurring items, amortisation of intangible assets and impairment charges

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Care UK Plc
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Preliminary Results for the year ended 30 September 2009

Chairman's statement

Care UK's performance during 2009 demonstrates the resilience of the group and the benefits of investment in the market emerging as the NHS opens up to competition.

Adjusted operating profit, before non-recurring items and amortisation and impairment charges, increased 7% to £38.9m (2008: £36.4m) on revenue, including share of joint venture revenue in 2008, up 20% to £410.0m (2008: £341.6m). Adjusted profit before tax rose 25% to £28.1m (2008: £22.5m). Adjusted basic earnings per share were up 13% to 31.46p (2008: 27.92p). Total basic earnings per share were 23.04p (2008: loss of 4.98p). Operating cash flow was £58.1m (2008: £46.9m), an increase of 24%, representing a cash conversion ratio of 149% (2008: 147%) measured against adjusted operating profit excluding share of joint venture operating profit in 2008.

The most notable financial performance in the group has been in the Health Care division, partly reflecting the full year effect of full ownership of Partnership Health Group ("PHG"). A number of important and innovative services have commenced in this division during the year, which are yet to reach their full operational capability. Notwithstanding this, revenue and adjusted operating profit increased by 54% and 44% respectively and the division represented around 40% of both revenue and adjusted operating profit.

Overall, the aggregate revenue of the three Social Care divisions was 5% higher than the previous year, all of which was organic growth, with adjusted operating profit 4% lower. Solid performances in both Residential Care and Specialist Care were balanced by the operational challenges in Community Care reported in the interim results, which is now showing signs of recovery.

Employees and quality

Over the course of a year, Care UK cares for approximately half a million people through many different kinds of service, with a workforce that is dedicated to providing excellent care. We are fortunate in having such a committed and professional team of employees and I would like to thank them on behalf of the Board, our patients and our other service users.

On 1 September 2009, Doug Umlers joined the group and the Board as Managing Director, Social Care to assume responsibility for the operational performance and development of the group's three social care divisions. Doug brings significant strategic and general management experience to the group and we are pleased to have him on board.

Our service user and patient base, as well as the UK population generally, are becoming increasingly diverse in their make-up. Care UK as an organisation seeks to reflect that diversity and to attract, retain and develop a wholly inclusive group of people who put the needs of our patients and service users at the heart of everything we do, recognising the difference that each of us can make and aspiring to deliver innovative solutions to individuals' care needs. These goals have been embedded into the group's "*Fulfilling Lives*" programme, a group-wide initiative to promote these values throughout Care UK.

Dividend

The Board is proposing a final dividend of 3.40p per share (2008: 3.10p), an increase of 10%, which will be paid on 17 February 2010 to shareholders on the register on 22 January 2010. This level of increase is consistent with the group's previously stated dividend policy.

Bid approach

On 30 September 2009, the Board confirmed that it had recently received an unsolicited approach from Bridgepoint Capital Limited regarding a possible offer for the company. The approach was very preliminary in nature and, having discussed it with its advisers, Investec, the Board rejected it.

Outlook

The group's Social Care and Health Care businesses continue to benefit from high levels of contracted revenue and the non-discretionary nature of our services offer unusually good income visibility and relative market stability.

The challenges to public sector funding over the coming years are apparent and our experience and expectation is that to achieve higher quality services at better value, public sector commissioners are increasingly turning to the Independent Sector to drive efficiency and reform.

Our Social Care markets are well established and we expect that the positive impact of funding pressures will be to further outsource services currently provided in-house and to utilise fewer providers, generating genuine efficiencies of scale. We are also continuing to see funding focused on people with the greatest need and this is best delivered by better resourced and effective providers.

In Health Care, there is a great opportunity to shift care from hospital environments to primary and community care settings. Services such as our enhanced GP-led health centres and consultant-led clinical assessment are demonstrating material savings for the NHS whilst delivering superior health benefits for patients.

We are pleased that centrally led initiatives are becoming embedded in mainstream Primary Care Trust ("PCT") and patient-led procurement and choice. During the year and post year-end, we have been awarded 14 new contracts, all procured by PCTs, and we are now seeing referrals to our specialist hospitals coming directly from GPs and patients, with dramatic increases once they are able to directly book referrals.

We are disappointed with progress with the post contract planning process for our specialist hospitals and the consequent lack of clarity and certainty. However, we remain optimistic that we will continue to operate most, if not all, of these high quality hospitals into the longer term.

Successive Governments have progressively introduced market-based reforms in social care and, latterly, in health care. It is remarkable to observe the distance we have travelled from historic ideological commitment to state-run monopolistic provision. The recent announcement by the Government to embed into legislation the 18 week target time for elective surgery and patient choice of provider is the latest example of this inexorable reform.

We welcome recent policy statements by the opposition Conservative Party in the UK which have substantially strengthened their commitment to more open market reform to allow new providers of NHS services and for greater freedom for patients to choose their GP and hospital provider. This builds on the significant reforms introduced by the current Government

in recent years and means both the largest political parties support the role that independent providers can play in helping to deliver the highest quality and most efficient care to patients.

As well as such market reform and stimulation, policy reform generally is focused on the migration of services from hospital to community and social care solutions in order to improve care quality and reduce cost. This is wholly aligned with Care UK's long term health and social care strategy and places the company extremely well to drive exceptional levels of long-term growth.

John Nash
Chairman
17 November 2009

Chief Executive's review

Social Care

The group's Social Care activities comprise the Residential Care, Community Care and Specialist Care divisions, which are commented on individually below. Aggregate Social Care revenue has increased by 5% with a fall in adjusted operating profit of 4%. The reduced operating margin reflects the cost implications of the additional holiday entitlements arising under the Work and Families Act 2006, which impacted the prior year for only six months, as well as the impact of start-up operations in Residential Care and operational challenges in Community Care.

Social Care aggregate results	2009	2008
Year ended 30 September	£m	£m
Revenue	249.9	237.7
Operating profit	25.7	28.2
Adjusted operating profit *	28.0	29.4
Operating margin *	11.2%	12.3%

* Before non-recurring contract loss of £0.9m (2008: £nil), amortisation of intangible assets of £1.2m (2008: £1.2m) and impairment of goodwill of £0.2m (2008: £nil)

Residential Care

	2009	2008
Year ended 30 September	£m	£m
Revenue	105.7	100.1
Operating profit	17.9	17.5
Operating margin	17.0%	17.5%

The Residential Care division achieved growth in revenue and operating profit of 6% and 3% respectively. The total number of beds at the end of the financial year, including daycare places, was 3,533 compared with 3,303 at the beginning of the year. Fee rates in the year averaged £642 per week compared with £621 in the previous year, an increase of 3.4%. The level of fee rate increase achieved during the year partly reflects the effect of a lower RPI index level than in previous years; despite this the underlying margin within the Residential Care division has been maintained. The mature level of financial occupancy in the year ('beds paid for') was 96% and the mature level of physical occupancy was 90%, both measures excluding the two new homes opened during the year. These measures compare favourably with other market participants and demonstrate the benefit of our increasing focus on high dependency dementia care.

Oak House, the new residential care facility in Slough, and Manor Lodge, the new build 120-bed care home in Chelmsford, both opened in March 2009. These homes are focused on providing complex dementia care and have flexible registration and home layout arrangements enabling them to serve a changing mix of nursing, residential and respite care services. The initial aggregate occupancy build up in these two units has been encouraging.

We are pleased to have signed the contract for the provision of a 92-bed care home in Portsmouth. As reported previously, the contract element of this development is for 25 years for 62 beds. Construction of the home has now commenced and will be funded by Portsmouth City Council. We expect to open the home in autumn 2010.

As reported in the August Interim Management Statement, planning permission has been received for the development of a new 74-bed residential care home in Crowborough, East Sussex, targeted primarily at the self-pay market for older people with higher acuity dementia

needs. Construction is due to start shortly and service delivery is expected to commence by spring 2011. This home does not have any block contracted beds.

The acquisition of a further site in the South East has now been agreed, subject to the receipt of suitable planning permission, for the development of a new 70-bed care home targeted primarily at the self-pay market. Assuming a 6 month period for achieving planning permission, this home would be expected to open towards the end of calendar year 2011.

We are continuing to evaluate a range of growth opportunities in Residential Care and have a number of potential new developments that we expect to approve in the forthcoming year.

Community Care

Year ended 30 September	2009 £m	2008 £m
Revenue	81.1	77.3
Operating profit	1.4	4.3
Adjusted operating profit *	3.5	5.5
Operating margin *	4.3%	7.1%

* Before non-recurring contract loss of £0.9m (2008: £nil) and amortisation of intangible assets of £1.2m (2008: £1.2m)

After achieving a compound average annual growth rate in revenue of 19% over the previous six years, the Community Care division delivered revenue growth of 5% in 2009, all of which was organic. The group has chosen to focus on performance improvement during the year and to temporarily suspend acquisition led growth, which has historically delivered around half of total revenue growth.

The reduced operating profit within Community Care reflects the previously reported operational costs of stabilising the Harrow branch and additional central management resources required to resolve immediate operational challenges and to enhance our prospects for further growth. Branch level performance in this division showed an operating margin at a similar level to 2008. The run rate operating profit in the last quarter of the financial year has shown some encouraging signs of improvement and we remain confident that the actions that have been taken will, in time, result in returning the division to similar levels of profitability experienced in previous years.

As well as those reported with the interim results, new and renewed contracts have been awarded in Sheffield, Brighton, Peterborough, Derby and Darlington.

At 30 September 2009, the weekly total of hours of care provided amounted to around 123,000, representing like-for-like growth in the year of around 2.5%, excluding the terminated Hertfordshire contract. The total hours delivered in the year amounted to around 6.3m compared with 6.2m in the previous year.

Specialist Care

Year ended 30 September	2009 £m	2008 £m
Revenue	63.1	60.3
Operating profit	6.4	6.4
Adjusted operating profit *	6.6	6.4
Operating margin *	10.5%	10.5%

* Before impairment charge of £0.2m (2008: £nil)

Specialist Care has delivered growth in revenue and operating profit of 5% and 4% respectively, all of which is organic growth. Across the division we have seen an increase of approximately 8% in the average number of service users being cared for.

The mental health business achieved revenue growth of 9% and a good improvement in the operating margin, mainly through better occupancy levels in higher value-added services such as specialist eating disorders and self-harm.

In learning disabilities, revenue growth of around 11% was achieved following the start of a number of new services resulting in growth in the year of around 17% in the number of service users cared for. Almost 90% of service users are looked after in independent supported living environments, the preferred form of care of service commissioners. The operating margin for the year reflected the start-up nature of these new services and was consequently slightly lower than the previous year.

In children's services we saw a revenue reduction of 12% over the previous year but a similar operating profit contribution, as expected, as a result of the rationalisation of capacity undertaken in the latter part of 2008 and early 2009. Encouragingly, we have seen a much stronger performance from this business in the second half, showing the benefits of the action taken.

Social Care strategy and outlook

It is clear that Local Government finances will be under pressure during the coming years and funding for Social Care has not received the same level of commitment by the main political parties as Health Care funding. However, we believe there is little room for further retrenchment of funding for the type of higher acuity service that we are increasingly focusing on as Local Authorities are now typically supporting hard core dependency requirements only and demographic trends are expected to add to demand rather than ease pressure.

As a consequence, Local Authorities are increasingly focusing on initiatives to deliver better value. These include further challenges to costly in-house supply, avoidance of unnecessary low dependency residential care placements and reductions in the number of suppliers in order to benefit from logistical synergy.

In addition, as illustrated in the recent Green Paper on the future of Social Care, "*Shaping the Future of Care Together*", there is a growing expectation that greater levels of personal contribution to the cost of care will be required, whether self or insurance funded.

Larger providers such as Care UK are better placed to leverage synergies, invest in cost-effective systems and provide consistently high quality services to meet the needs of ever more dependent service users.

Given these industry trends, Care UK remains strongly committed to its Social Care business and our strategy is to continue to drive operational excellence to further improve our organic growth as well as gaining greater scale through carefully targeted acquisitions at the right price.

Care UK is already one of the best rated care organisations by the Care Quality Commission with almost 90% of all of the group's Social Care services rated as Excellent or Good and our employees work constantly to achieve ever higher rates of service excellence.

Health Care

Year ended 30 September	2009 £m	2008 £m
Revenue	160.1	103.9
Operating profit	11.0	(11.5)
Adjusted operating profit *	15.8	10.9
Operating margin *	9.9%	10.5%

* Before property rectification costs of £0.8m (2008: £nil), gain on settlement of compensation claims of £2.3m (2008: £nil), amortisation of intangible assets of £6.3m (2008: £3.8m), impairment charges of £nil (2008: £15.9m) and joint venture net financing costs and taxation of £nil (2008: £2.7m)

The Health Care business has shown good improvement in financial performance compared with 2008, with revenue increasing by 54% and adjusted operating profit increasing by 44%. The full ownership of PHG for the full year, compared with only two months in the prior year, has contributed significantly to this level of growth. In addition, the two new Phase 2 ISTC schemes commissioned in the first half, in Manchester and Southampton, have contributed around £24.5m of revenue in aggregate. As expected during their ramp-up periods these two new contracts have delivered an aggregate break-even position. The underlying performance in Health Care - adjusting for full ownership of PHG and excluding the Phase 2 ISTC services and the West Midlands diagnostics contract in 2008 - saw growth of just over 12% in revenue with a similar operating margin being achieved.

Primary Care

The Primary Care business now comprises over 40 operating sites delivering a range of services focused around GP services, out of hours and walk-in services, diagnostics and CATS services and prison health. During the year a total of twelve new contracts have been awarded, of which all but one are now operational; the final service is due to commence in 2010. All but one of these contracts has been awarded under the Department of Health's ("DoH") "Equitable Access to Primary Medical Care Services" procurement programme and will facilitate the creation of stronger customer relationships with the commissioning PCTs. The aggregate revenue from these contracts will amount to around £18m when fully operational. Since the year end we have been appointed as preferred bidder on a further two contracts.

The Greater Manchester Clinical Assessment and Treatment Support ("CATS") service commenced operational delivery in February 2009 as planned. This service is provided by highly sophisticated mobile units that deliver a range of outpatient services to NHS patients including the treatment of minor injuries, diagnostics & scanning, endoscopies and pre-operative assessments. Over the past three months we have seen significant growth in the use of the service with referral levels increasing by over 70% during this period. We have now also arranged to provide an eighth site in order to extend the benefits of the service to a higher number of potential patients. This highly innovative service benefits patients by reducing waiting times and treatment schedules for many conditions, bringing care closer to patients' homes, and reducing costs for the commissioning PCTs by up to 24%. As the service in Manchester becomes fully established we will be looking for opportunities to deliver similar services elsewhere.

Patient satisfaction levels in Primary Care services continue to be extremely high and reflect a strong culture of customer focus that differentiates Care UK.

The Primary Care team continues to devote considerable resources to bidding for a range of opportunities and we continue to see an encouraging pipeline of potential contracts being locally procured by PCTs. Local procurement brings the added benefit of shorter timescales and the creation of strong customer relationships with local decision makers.

Secondary Care

The six existing Wave 1 ISTCs within the Secondary Care business have continued to perform well, with excellent patient satisfaction levels and clinical outcomes and a commensurate financial performance.

The Phase 2 ISTC in Southampton commenced services early in the financial year. Following the initial ramp-up period, when patient numbers were slightly behind expectations, volumes have steadily increased and the centre's clinical outcomes and patient satisfaction ratings are comparable with other established centres.

We have now begun to implement a 'directly bookable' service to our specialist hospitals under the NHS 'Choose and Book' system, which enables patients to make online appointments for their procedures whilst at their GP practice. We are now seeing a significant increase in referral levels at the Barlborough Links site, the first of the existing ISTCs to implement this system. This is underscored by our own market research, which shows the importance and popularity of our hospitals, which have consistently delivered excellent clinical and patient satisfaction ratings, leading to strong word-of-mouth referrals from past patients.

Health Care strategy and outlook

The principal focus in the Health Care business remains the achievement of service continuity at the group's Wave 1 ISTC centres beyond their initial contracted periods. The DoH has confirmed that the contractual position on guaranteed value asset buybacks (where applicable) will operate as intended and that the planned model for service continuity will be through a leasehold structure.

The first two of the group's centres, in Plymouth and Barlborough, reach their initial contract expiry dates in February 2010 and April 2010 respectively; in 2009 these centres accounted for aggregate revenue of c£34m. In the case of Plymouth, the PCT is planning to confirm the appointment of the ongoing provider during March 2010. We are, therefore, in discussions to extend the existing contract. A similar process is yet to be established for the Barlborough Links site.

Given the scale of investment into these world-class hospitals and our excellent track record of patient care, we are extremely disappointed by the timescales and uncertainty of the processes around determining their continuation. Particularly given the extremely high patient satisfaction rates that we are achieving and the strong word-of-mouth referrals we are experiencing we remain optimistic that we will continue to operate most, if not all, of the centres in the longer term but regret that we have not been able to provide greater certainty to our patients, employees and shareholders.

We have also seen a growing interest in the NHS to explore the potential for alternative forms of management of NHS hospitals. We believe there would be significant scope for Care UK to add considerable expertise and value in such situations and the scale of such opportunities would potentially make this a transformational opportunity should viable operational and commercial concepts be developed.

The growing body of evidence is that high quality and appropriately equipped health care can deliver better and more convenient services to patients whilst achieving cost savings in excess of 20%. We are therefore confident that independent providers have a crucial role to play in the future provision of NHS services.

We welcome recent policy statements by the opposition Conservative Party which have substantially strengthened their commitment to more open market reform to allow new providers of NHS services and offer greater patient choice. Both the largest political parties support the long-term role that independent providers will play in helping to deliver high quality and cost effective care to patients.

Having invested significant resources, time and expertise in our Health Care capabilities and delivered first class results for patients, we believe Care UK is now extremely well placed to help lead the inexorable evolution of market principles within the NHS through high quality and innovative solutions delivered in partnership with PCT commissioners, GPs and other NHS providers.

Mike Parish

Chief Executive

17 November 2009

Financial review

The 2009 financial year has seen another solid performance for Care UK with a further increase in the contribution from the group's Health Care activities, a generally sound performance in Social Care and a substantial reduction in the group's net debt position. The combination of a continuing strong cash flow performance, sound property asset base and significant funding headroom mean that the group is well placed to deliver on identified growth opportunities.

Summary of group performance	2009	2008	Increase
	£m	£m	%
Revenue (group and share of joint venture)	410.0	341.6	+20
Operating profit	31.8	12.8	
Amortisation of IFRS 3 intangible assets	7.5	5.0	
Impairment of goodwill and intangible assets	0.2	15.9	
Non-recurring items	(0.6)	-	
Joint venture net financing costs and taxation	-	2.7	
Adjusted operating profit	38.9	36.4	+7
Share of joint venture net financing costs	-	(1.1)	
Net financing costs (group only)	(10.8)	(11.2)	
Adjusted profit before tax	28.1	24.1	+17

Overview

The group's results show revenue, including in 2008 the group's share of joint venture revenue, of £410.0m (2008: £341.6m), an increase of 20%, and adjusted operating profit of £38.9m (2008: £36.4m), an increase of 7%. Adjusted profit before tax was £28.1m (2008: £24.1m), an increase of 17%. Overall group profit before tax was £21.0m (2008: £1.6m), the 2008 figure reflecting the £15.9m of non-cash impairment charges taken in that year in relation to the terminated West Midlands diagnostics contract. The group's forward contracted revenue was £1.4bn at 30 September 2009 (2008: £1.5bn).

Operating performance

The group's underlying operating performance is shown in the table above as "Adjusted operating profit", reflecting three adjustments for 2009.

Amortisation of IFRS 3 intangible assets

Under IFRS 3 all business combinations are reviewed in order to identify any intangible assets required to be recognised. Such intangible assets are then amortised over their estimated useful lives. The non-cash amortisation charge for the year amounted to £7.5m (2008: £5.0m), the increase from the prior year reflecting the annualisation of the acquisition of PHG, the group's former 50% owned joint venture, in August 2008.

Impairment of goodwill and intangible assets

Goodwill of £0.2m relating to a small unit in the Specialist Care division has been impaired following the unit's closure during the year.

Non-recurring items

There are three items covered by this heading as follows, amounting to a gain of £0.6m in aggregate.

(a) Contract loss

As reported in the group's interim results, a loss of £0.9m arose in the first half of the year from the termination of the Community Care division's Hertfordshire contract.

(b) Property rectification costs

During the year, two related incidents have occurred at one of the group's ISTC sites that have required significant construction remediation work to be carried out. The group has funded this remediation work in view of the urgency with which it required to be undertaken. It is the group's belief, based on advice received, that the responsibility for a substantial proportion of these costs falls on either the host hospital Trust or the group's insurers. However, at the year end, discussions relating to this issue had not reached a sufficiently advanced position to allow for the recognition of a contingent asset to reflect any potential recovery. Accordingly, the rectification costs incurred, amounting to £0.8m, have been taken to the income statement in full and any recovery will be reflected as and when received.

(c) Gain on settlement of compensation claims

The group has now settled all outstanding claims with the DoH for the terminated West Midlands diagnostics contract and abortive costs for Phase 2 ISTC projects. The settlement reached with respect to the last of these claims has resulted in an accounting gain of £2.3m being reported in the current year. However, this gain relates to a Phase 2 ISTC scheme that had been bid for by Mercury Health before its acquisition by Care UK in April 2007. A fair value adjustment of £2.4m was made on the acquisition of Mercury Health in respect of the receivable relating to this item given the substantial doubts regarding its recoverability that existed at that time.

Taxation

The group's headline rate of tax for 2009 is 32.8%; the equivalent rate in 2008 is not considered to be a relevant comparator because of the distortion arising from the impairment charges recognised in that year. The headline tax charge is measured against total pre-tax profit and includes the deferred tax credit accounted for under IAS 12, which arises in respect of the amortisation and impairment of other intangible assets recorded in the Income statement. The more significant tax measure is the underlying tax rate that reflects the tax charge applying to the adjusted profit before taxation. In 2009 this rate was 31.3% (2008: 33.7%). Although the underlying rate remains above the statutory rate of 28%, mainly as a result of the proportion of the group's capital expenditure that is non-qualifying for tax purposes, it has reduced from the prior year as a result of a review of the level of capital allowances claimed, which has resulted in an improvement in the proportion of capital expenditure classified as qualifying.

Earnings per share

Adjusted basic earnings per share were 31.46p (2008: 27.92p), an increase of 13%. The total basic earnings per share were 23.04p (2008: loss per share of 4.98p). Adjusted diluted earnings per share were 31.24p (2008: 27.92p), an increase of 12%, and the total diluted earnings per share were 22.87p (2008: loss per share of 4.98p).

Dividends

The Board is proposing a final dividend of 3.40p per share (2008: 3.10p), which will be paid on 17 February 2010 to shareholders on the register on 22 January 2010. If approved by shareholders, this would result in a total dividend in respect of the year of 4.85p (2008: 4.43p) when added to the interim dividend of 1.45p per share (2008: 1.33p) paid in July 2009.

Compensation claims

In the 2009 interim results we reported that we had agreed a mutually satisfactory full and final settlement with the DoH for the group's compensation claim raised following the DoH's voluntary termination of the West Midlands diagnostics contract. The final compensation payment was received as expected in the second half of the year. We also reported in the interim results that we had agreed settlements for three of the four compensation claims that were submitted for abortive bid and development costs for Phase 2 ISTC contracts and that we expected to agree a settlement for the final claim in the second half of the year. It is pleasing to report that the fourth such claim was agreed as expected during the second half and that all outstanding claim amounts were paid by the DoH before the year end. There are now no remaining outstanding claims with the DoH.

Financing, treasury and cash flow

Total net debt reduced substantially during the period by £23.9m to £156.3m. The total borrowing facilities available to the group at the period end amounted to £262.4m. All but £3m of this is available under committed facilities with £216.3m under the syndicated group facility and the balance of £43.1m under the non-recourse facilities set up to fund the Wave 1 ISTC programme. At 30 September 2009 a total of £170.7m of the syndicated facility was being utilised, including £11.4m of performance bonds not classified as net debt, and the total funding headroom available to the group, including cash, amounted to over £94m. The group remains comfortably within its key covenants under the syndicated facility, which is committed until February 2015.

	2009	2008
	£m	£m
Summary of cash flows and change in net debt		
Adjusted operating profit (excluding joint venture in 2008)	38.9	31.8
Depreciation and other non-cash movements	21.0	15.6
Change in working capital and non-recurring items	(1.8)	(0.5)
Operating cash flow	58.1	46.9
Net capital expenditure	(14.1)	(14.9)
Loan repayments from joint venture	-	5.9
Cash consideration paid for acquired businesses	(0.1)	(4.4)
Stakeholder cash flows (interest, tax and dividends paid, shares issued)	(19.3)	(17.8)
Movement in net debt arising from cash flows	24.6	15.7
Net debt acquired with acquired businesses	-	(25.1)
Other non-cash movements in net debt	(0.7)	(0.5)
Total movement in net debt	23.9	(9.9)
Net debt at 30 September	(156.3)	(180.2)
Cash conversion ratio (operating cash flow/adjusted operating profit)	149%	147%

Adjusted operating cash flow for the year was £58.1m, an increase of 24% over the equivalent figure in 2008 of £46.9m. This represents a cash conversion ratio, measured against adjusted operating profit excluding share of profit of joint venture, of 149% (2008: 147%).

Net stakeholder cash flows (interest, tax, dividends and equity issues) represented a net outflow of £19.3m (2008: £17.8m). Maintenance and infrastructure capital expenditure absorbed £9.6m (2008: £6.2m), disposal proceeds were £12.5m (2008: £1.8m); in 2008 loan repayments totalling £5.9m were received from PHG prior to the group's acquisition of the 50% of the business not previously owned. The disposals proceeds figure in 2009 includes £10.9m of compensation proceeds received in relation to items previously accounted for as Property, Plant and Equipment. The free cash flow available for discretionary investment consequently amounted to £41.7m (2008: £30.6m).

Against this available free cash flow the discretionary investment in the year in new services amounted to £17.1m (2008: £14.9m), comprising capital expenditure of £17.0m (2008: £10.5m) and cash consideration for the acquisition of businesses in prior years of £0.1m (2008: £4.4m).

The group continues to follow a policy of having a high proportion of its borrowings subject to interest rate hedging arrangements. At 30 September 2009 the total drawn debt, excluding cash and cash equivalents and finance leases, was £202.3m comprising £159.2m under the group's syndicated facility and £43.1m under the ring-fenced non-recourse facilities that finance the Wave 1 ISTC programme. Of this, a total of £150.6m was subject to effective hedging arrangements with £107.6m swapped into fixed rates with an average life of 4.2 years and an average LIBOR rate of 4.94%, and £43.0m in 'collar' arrangements with an average life of 3.8 years, an average LIBOR floor of 4.14% and an average LIBOR cap of 5.75%. The group has considered alternative structures to replace some or all of these structures given current LIBOR rates but has currently concluded that none of these alternatives are currently sufficiently attractive to break the existing position.

Future changes to adopted IFRS

The European Union endorsed "IFRIC 12 - Service concession arrangements" on 25 March 2009 and this interpretation is mandatory for accounting periods commencing after that date. Consequently, this standard will apply to Care UK in 2010 and the group's evaluation, supported by the group's auditor, is that IFRIC 12 applies both to the majority of the group's Wave 1 ISTC contracts as well as to certain PFI contracts in the Residential Care division. Further information will be included in the 2009 Annual report.

IFRS generally is subject to ongoing review and revision by the International Accounting Standards Board and subsequent endorsement by the EU. Care UK continues to monitor any proposed changes to IFRS and will both assess how best practice develops as well as gauge the impact of any changes. Shareholders will continue to be kept informed as to how such changes may impact the group's financial statements.

Paul Humphreys
Finance Director
17 November 2009

Care UK Plc
Unaudited consolidated income statement
for the year ended 30 September 2009

	2009	2008
	£m	£m
Revenue: group and share of joint venture	410.0	341.6
Less: share of joint venture	-	(25.8)
Group revenue	410.0	315.8
Cost of sales	(332.6)	(250.4)
Gross profit	77.4	65.4
Administrative expenses	(45.6)	(54.5)
Share of profit of joint venture	-	1.9
Operating profit before financing expenses	31.8	12.8
Adjusted operating profit ¹	38.9	36.4
Amortisation of intangible assets	(7.5)	(5.0)
Impairment of goodwill and intangible assets	(0.2)	(15.9)
Non-recurring items (see note 5)	0.6	-
Joint venture net financing costs and taxation	-	(2.7)
Operating profit before financing expenses	31.8	12.8
Financial income	0.6	2.0
Financial expenses	(11.4)	(13.2)
Net financing costs	(10.8)	(11.2)
Profit before taxation	21.0	1.6
Taxation	(6.9)	(4.5)
Profit/(loss) for the period	14.1	(2.9)
Attributable to:		
Equity holders of the parent	14.1	(2.9)
Earnings/(loss) per share		
Basic	23.04p	(4.98)p
Diluted	22.87p	(4.98)p

¹ Adjusted operating profit is stated before amortisation of intangible assets, impairment of goodwill and non-recurring items as set out in note 5 (2008: before amortisation of intangible assets, impairment of intangible assets and goodwill and joint venture net financing costs and taxation).

Care UK Plc
Unaudited consolidated statement of recognised income and expense
for the year ended 30 September 2009

	2009	2008
	£m	£m
Cash flow hedge reserve movement	(11.0)	(1.8)
Deferred taxation on cash flow hedge reserve	3.1	0.5
Deferred taxation on equity-settled share-based payments	-	(0.1)
Actuarial (losses)/gains on defined benefit pension plan	(1.3)	0.1
Deferred taxation on actuarial gains and losses	0.4	-
Net expense recorded directly in equity	(8.8)	(1.3)
Profit/(loss) for the period	14.1	(2.9)
Total recognised income and expense for the period	5.3	(4.2)
Attributable to:		
Equity holders of the parent	5.3	(4.2)

Care UK Plc
Unaudited consolidated balance sheet
as at 30 September 2009

	2009	2008
	£m	£m
Assets		
Property, plant and equipment	244.0	247.8
Intangible assets	85.1	92.9
Financial assets – derivative financial instruments	-	0.9
Total non-current assets	329.1	341.6
Inventories	2.5	1.7
Trade and other receivables	50.7	54.1
Cash and cash equivalents	45.8	22.9
Properties classified as held for sale	0.4	0.4
Total current assets	99.4	79.1
Total assets	428.5	420.7
Liabilities		
Financial liabilities – borrowings	(26.0)	(8.6)
Financial liabilities – derivative financial instruments	(10.4)	(0.3)
Trade and other payables	(68.6)	(70.7)
Current tax liabilities	(7.1)	(5.1)
Total current liabilities	(112.1)	(84.7)
Financial liabilities – borrowings	(176.1)	(194.5)
Other non-current liabilities	(6.2)	(5.6)
Deferred tax liabilities	(13.9)	(19.1)
Total non-current liabilities	(196.2)	(219.2)
Total liabilities	(308.3)	(303.9)
Net assets	120.2	116.8
Equity		
Issued share capital	6.2	6.1
Share premium	55.7	55.3
Retained earnings	66.2	55.4
Hedging reserve	(7.9)	-
Total equity attributable to equity holders of the parent	120.2	116.8

Care UK Plc
Unaudited consolidated cash flow statement
for the year ended 30 September 2009

	2009 £m	2008 £m
Cash inflow from operating activities		
Profit/(loss) for the period	14.1	(2.9)
Depreciation	20.4	15.3
Amortisation of intangible assets	7.5	5.0
Impairment of goodwill	0.2	15.9
Profit on disposal of fixed assets	(2.3)	(0.2)
Increase in inventory	(0.8)	-
Decrease/(increase) in receivables	3.6	(13.6)
(Decrease)/increase in payables	(2.9)	13.1
Equity-settled share-based payments	0.6	0.5
Share of profit of joint venture	-	(1.9)
Financial income	(0.6)	(2.0)
Financial expense	11.4	13.2
Tax expense	6.9	4.5
Cash generated from operations	58.1	46.9
Income taxes paid	(6.5)	(5.5)
Net cash from operating activities	51.6	41.4
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(26.6)	(16.7)
Proceeds from sales of property, plant and equipment	12.5	1.8
Interest received	0.5	2.3
Repayments from joint venture	-	5.9
Payments to acquire subsidiary undertakings and businesses (net of cash acquired)	(0.1)	(0.6)
Net cash from investing activities	(13.7)	(7.3)
Cash flows from financing activities		
Proceeds from issue of share capital	0.4	1.5
Repurchase of own shares	(0.1)	(0.3)
Proceeds from new secured loans	10.0	-
Repayments of amounts borrowed	(11.4)	(14.0)
Interest paid	(10.8)	(13.4)
Payment of capital element of finance lease payments	(0.3)	(0.3)
Dividends paid	(2.8)	(2.4)
Net cash from financing activities	(15.0)	(28.9)
Net increase in net cash and cash equivalents	22.9	5.2
Cash and cash equivalents brought forward	22.9	17.7
Cash and cash equivalents carried forward	45.8	22.9

Care UK Plc
Notes to the preliminary announcement

1. Accounting policies

The results for the year ended 30 September 2009 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, International Financial Reporting Interpretations Committee (“IFRIC”) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

2. Segment reporting

	Social Care					Consolidated
	Residential Care	Community Care	Specialist Care	Health Care	Central costs/ Eliminations	
	£m	£m	£m	£m	£m	
Group revenue	105.7	81.1	63.1	160.1	-	410.0
Adjusted operating profit ¹	17.9	3.5	6.6	15.8	(4.9)	38.9
Impairment of goodwill and intangible assets	-	-	(0.2)	-	-	(0.2)
Amortisation of intangible assets	-	(1.2)	-	(6.3)	-	(7.5)
Non-recurring items:						
Contract loss	-	(0.9)	-	-	-	(0.9)
Property rectification costs	-	-	-	(0.8)	-	(0.8)
Settlement of compensation claims	-	-	-	2.3	-	2.3
Operating profit	17.9	1.4	6.4	11.0	(4.9)	31.8
Net financing costs						(10.8)
Taxation						(6.9)
Profit for the period						14.1
Segment assets	129.6	41.9	59.3	164.0	-	394.8
Unallocated assets	-	-	-	-	33.7	33.7
	129.6	41.9	59.3	164.0	33.7	428.5
Total liabilities	(103.3)	(36.1)	(43.1)	(160.5)	34.7	(308.3)
Capital expenditure						
Property, plant and equipment:						
- additions	9.1	0.4	1.6	13.6	2.2	26.9
Total capital expenditure	9.1	0.4	1.6	13.6	2.2	26.9
Depreciation	(5.9)	(0.3)	(1.0)	(12.1)	(1.1)	(20.4)
Impairment of goodwill and intangible assets	-	-	(0.2)	-	-	(0.2)
Amortisation of intangible assets	-	(1.2)	-	(6.3)	-	(7.5)
Total depreciation and amortisation	(5.9)	(1.5)	(1.2)	(18.4)	(1.1)	(28.1)

¹ Adjusted operating profit is stated before amortisation of intangible assets, impairment of goodwill and non-recurring costs as set out in note 5.

2008

	Social Care					Consolidated
	Residential Care	Community Care	Specialist Care	Health Care	Central costs/ Eliminations	
	£m	£m	£m	£m	£m	
Total revenue - from external customers	100.1	77.3	60.3	103.9	-	341.6
Less: share of revenue from joint ventures	-	-	-	(25.8)	-	(25.8)
Group revenue	100.1	77.3	60.3	78.1	-	315.8
Adjusted operating profit ¹	17.5	5.5	6.4	10.9	(3.9)	36.4
Impairment of goodwill and intangible assets	-	-	-	(15.9)	-	(15.9)
Amortisation of intangible assets	-	(1.2)	-	(3.8)	-	(5.0)
Group share of joint venture net financing costs and taxation	-	-	-	(2.7)	-	(2.7)
Operating profit	17.5	4.3	6.4	(11.5)	(3.9)	12.8
Net financing costs						(11.2)
Taxation						(4.5)
Loss for the period						(2.9)
Share of profit of joint venture						1.9
Segment assets	122.7	45.1	57.6	185.8	-	411.2
Unallocated assets	-	-	-	-	9.5	9.5
	122.7	45.1	57.6	185.8	9.5	420.7
Total liabilities	(106.5)	(38.3)	(46.8)	(145.5)	33.2	(303.9)
Capital expenditure						
Property, plant and equipment:						
- additions	9.9	0.3	0.9	2.8	3.4	17.3
- acquisitions	-	-	-	47.3	-	47.3
Intangible assets:						
- acquisitions	-	1.5	-	11.1	-	12.6
Total capital expenditure	9.9	1.8	0.9	61.2	3.4	77.2
Depreciation	(5.4)	(0.3)	(1.0)	(8.0)	(0.6)	(15.3)
Impairment of goodwill and intangible assets	-	-	-	(15.9)	-	(15.9)
Amortisation of intangible assets	-	(1.2)	-	(3.8)	-	(5.0)
Total depreciation and amortisation	(5.4)	(1.5)	(1.0)	(27.7)	(0.6)	(36.2)

¹ Adjusted operating profit is stated amortisation of intangible assets, impairment of goodwill and intangible assets and joint venture net financing costs and taxation.

3. Dividends

	2009 £m	2008 £m
Ordinary dividends		
Final paid of 3.10p per share (2008: 2.80p)	1.9	1.6
Interim paid of 1.45p per share (2008: 1.33p)	0.9	0.8
	2.8	2.4

The directors are proposing a final dividend in respect of the financial year ended 30 September 2009 of 3.40p per ordinary share, subject to shareholders' approval. If approved, this will absorb an estimated £2.1m of shareholders' funds. If approved, this dividend will be paid on 17 February 2010 to shareholders on the register at 22 January 2010. The final dividend proposed was not included as a liability as at 30 September 2009, in accordance with 'IAS 10 – Events after the Balance Sheet Date'.

4. Earnings per share

	2009	2008
Basic EPS/(LPS)	23.04p	(4.98)p
Diluted EPS/(LPS) ²	22.87p	(4.98)p
Additional disclosures:		
Adjusted Basic EPS ¹	31.46p	27.92p
Adjusted Diluted EPS ^{1,2}	31.24p	27.92p

¹ Adjusted EPS is calculated before amortisation of intangible assets, impairment of goodwill and non-recurring contract loss (2008: before amortisation of intangible assets and impairment of goodwill and intangible assets). The tax effects of these items have also been excluded from these calculations.

² In accordance with 'IAS 33 – Earnings Per Share', potential ordinary shares have not been included in the September 2008 diluted and adjusted diluted EPS calculations. Potential ordinary shares are only treated as dilutive when they reduce earnings per share and additional disclosures are required to the use the same denominator as the IAS 33 required disclosures.

Profit attributable to ordinary shareholders

The profit attributable to ordinary shareholders before and after adjustments, for both basic and diluted earnings per share, is:

	2009 £m	2008 £m
Profit/(loss) attributable to shareholders	14.1	(2.9)
Adjustments:		
Non-recurring items (net of taxation)	(0.5)	-
Amortisation of intangible assets (net of taxation)	5.4	3.5
Impairment of goodwill and intangible assets (net of taxation)	0.2	15.3
Adjusted profit attributable to shareholders	19.2	15.9

Weighted average number of ordinary shares

The calculation of earnings per share is based on a weighted average of ordinary shares in issue during the period. The diluted earnings per share figure is based on a weighted average of ordinary shares calculated in accordance with 'IAS 33 – Earnings per share', which assumes that all dilutive options will be exercised. The adjusted basic and diluted EPS use the same weighted average number of ordinary shares as the basic and diluted EPS.

In thousands of shares	2009	2008
Weighted average number of shares in issue	61,209	57,118
Adjustment: Weighted average number of dilutive shares and share options	441	-
Weighted average number of shares for calculating diluted earnings per share	61,650	57,118

There were no anti-dilutive shares not included in the above earnings per share calculation (2008: 731,654).

5. Non-recurring items

The following non-recurring items have been aggregated on the face of the Income Statement in arriving at the non-GAAP adjusted operating profit.

	2009	2008
	£m	£m
Non-recurring items:		
Contract loss	(0.9)	-
Property rectification costs	(0.8)	-
Settlement of compensation claims	2.3	-
Total non-recurring items	0.6	-

6. Comparative information

The financial information set out above does not constitute the group's statutory financial statements for the years ended 30 September 2009 or 2008. Statutory consolidated financial statements for the group for the year ended 30 September 2008, prepared in accordance with adopted IFRS, have been delivered to the Registrar of Companies. The auditors have reported on the 2008 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of any emphasis without qualifying their opinion and (iii) did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

7. Financial statements

The statutory consolidated financial statements for 2009 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies in due course.

Copies of the 2009 statutory financial statements will be sent to shareholders when available. Further copies may be obtained from the company's registered office, Connaught House, 850 The Crescent, Colchester Business Park, Colchester, CO4 9QB.

Our website address is www.careuk.com. From this site you may access our financial reports and presentations, recent press releases and details about the company and its operations.