Elli Investments Limited

Half Year Review 2013

Following the publication in April 2013 of the Annual Report for the period ended 31 December 2012, Elli Investments Limited (the "Group") is pleased to provide an update on the performance of its business for the first six months of the 2013 financial year.

Group Financial Highlights[1]

- H1 2013 turnover for Elli Investments Limited is £3.5m (1.0%) higher than H1 2012
- Like-for-like turnover in the period is £4.4m higher than the comparative period at £248.5m
- H1 2013 occupancy in the Care Home Division ("CHD") was 87.5%, down from 87.8% in the prior year
- The Huntercombe Group ("THG") occupancy, at 75.0% in H1 2013, is 4.9 percentage points above the 2012 comparative
- In H1 2013 payroll as a percentage of turnover in both CHD and THG has improved since the comparative period in 2012, driven by a 2.5 percentage point reduction in agency costs as a percentage of total payroll
- H1 2013 EBITDA of £48.2m is up by £2.4m compared to the comparative period in 2012
- June 2013 LTM EBITDA of £99.0m, is £1.9m higher than the £97.1m for the year to 31 March 2013
- £38.3m net cash inflow from operating activities during H1 2013
- Closing H1 2013 cash balance of £28.7m; net debt of £510.0m at June 2013 (excluding amounts owed to related undertakings and debt issue costs)

[1] Unaudited

Operating Update

EBITDA for H1 2013 is £48.2 million compared to £45.8 million in H1 2012, an increase of £2.4 million.

Average occupancy in the Care Home Division ("CHD") in the first half of 2013 was 87.5%, having been significantly impacted by an unseasonal number of deaths around March/April due to an extended flu season and diarrhoea and vomiting viruses. Occupancy trended upwards again in May and June finishing with 250 more residents in the division than at the low point in April of this year.

Overall average occupancy is around 0.3% lower than the same period in 2012 however this has been influenced by the sale/closure of seven homes as well as a reduction in the number of homes operated under management agreements. Two new homes were opened at the end of 2012 and another in the first half of 2013.

Occupancy in The Huntercombe Group ("THG") has climbed steadily in the period. At June 2013 the division was at 75% occupancy which is the highest percentage achieved in the last 3 years. This improvement was driven primarily by the reconfiguration of service offerings in two of the ex-Care Principles units.

Despite the lower occupancy in CHD, fee rate settlements achieved to date in 2013 are generally above those in recent years. Fee rates that have been agreed this year, together with on-going settlement discussions, indicate an average increase of approximately 1.5% in English fee rates compared to 2012/2013. Northern Ireland and Scotland increases for 2013/2014 were 3% and 2.5% respectively, compared to 2.5% and 2.75% for 2012/2013. However, despite these increases, the fee environment remains tough, with funding constraints continuing at local authorities and future fee settlements expected to remain below cost inflation.

THG average fee rates have strengthened during H1 2013, in part reflecting the strong mix of patients across the division's units.

As a result of the failure of Southern Cross and revelations regarding the quality of care at Castlebeck, the level of regulatory scrutiny has significantly increased across the entire Four Seasons Health Care business and the number of the group's regulatory inspections has generally been above the average of the most inspected organisations over the last two years – despite this, significant progress was achieved on embargo reduction during the first half of this year. The group had five embargoes at the end of June 13, with an historical low of three having been achieved in May. However a further step up in regulatory scrutiny in Q3 2013 has resulted in an increase in the number of embargoes across the group.

CHD payroll as a percentage of turnover has reduced by approximately 1% compared to H1 2012. The reduction in payroll costs has followed the reduction in embargoes mainly due to reduced agency costs. However, the cost benefit resulting from lower agency usage has been reduced by increased regulatory staffing requirements.

Total expenses as a percentage of turnover are down by around 0.4% compared to the prior year. This is due to continued procurement and efficiency activities taking effect, with annualised cost savings currently estimated at over £5 million.

Developments

The newly developed St Margaret's care home opened in Edinburgh in February of this year, whilst York Court in south London opened in the summer. In addition the group acquired four care homes previously operated by Mimosa Healthcare.

Strategy Update

In July 2013 the group announced that the business is going to be focussed in three strategic areas going forward:

- Dementia-focussed and nursing care;
- Private-focussed residential and nursing; and
- The Huntercombe Group

Four Seasons is already a leader in dementia care and we intend to step up our programmes of staff training and remodelling homes to create dementia-care environments alongside our nursing care services. This will meet a growing demand, with the number of people requiring dementia care projected to increase by around 40% within 15 years.

Secondly, there will be a private care division, with a chain of homes offering high-quality elderly care, together with hotel-standard services and activity programmes designed for self-funded customers who see the option of a care home as a life-enhancing choice.

Finally, The Huntercombe Group will continue to provide care, treatment and rehabilitation services in mental health and acquired brain injury that are complementary to, and in partnership with, the NHS.

These businesses will each have their own leadership and management team and they will continue to share the group's corporate services. The group's owners, Terra Firma, are committed to supporting the strategy with investments in recruitment, staff training, upgrading the existing estate and in strategic acquisitions.

Corporate Social Responsibility

The group continues to invest in the framework, structure and support required to enable our employees to both fulfil their potential and deliver a high quality service to our residents and patients.

The group's care homes and facilities form part of the communities around them which gives a responsibility to help those communities where possible. This can include raising funds for causes that local communities believe in, as well as supporting the wider community by raising funds for national charities.

The group's environmental commitment is to endeavour to minimise the consumption of resources within the properties we occupy and consider the environmental impact of our operations, concentrating particularly on the use of energy and waste disposal.

Market Developments and Outlook

In the health and social care sector prevailing market conditions are likely to result in greater consolidation of care home operators as smaller operators tend to be more vulnerable to an operating environment requiring an increased focus on higher dependency services together with continuous pressure to achieve operating efficiencies.

In February 2013 the Government issued a Policy Statement on Care and Support Funding Reform based on the recommendations of the Dilnot Commission. From April 2017 the new measures will place a lifetime cap on an individual's care costs and increase the level above which means-tested financial support for residential care costs is not received.

Other developments include newly formed Clinical Commissioning Groups ("CCGs") which have been in place since 1 April 2013 and have arisen as a result of the Health and Social Care Act 2012. These CCGs put clinicians at the centre of commissioning whilst the Act also enables patients to choose services which best meet their needs.

With this in mind, the key focus of management will be to continue managing increased regulatory scrutiny and implementing the new business strategy to give the group the ability to provide distinct product offerings and have unique selling propositions compared to the competition.

September 2013