

Southern Cross Healthcare Group PLC

Southern Cross reports strong maiden results following IPO

Monday, 11 December 2006 - Southern Cross Healthcare Group PLC (LSE: SCHE) ('Southern Cross' or the 'Company'), the UK's largest care home provider, today announces its preliminary results for the year ended 1 October 2006, the Company's first results since listing on the London Stock Exchange in July 2006.

Operating Highlights

- Ashbourne Healthcare, acquired in November 2005, successfully integrated, adding 10,000 beds to Group capacity.
- Other acquisitions added a further 950 beds with another 428 beds added through the Group's development programme.
- Available beds increased to 28,917 beds at year end (2005 – 17,000 beds).
- Average occupancy of 91.0% (2005 – 91.6%). Underlying occupancy of 91.6% (2005 – 91.6%)
- Average weekly fee up 8.0% to £478 (2005 – £443).
- Efficient cost control management, post acquisition and integration of new beds, has maintained operating margins.
- IPO successfully completed in July 2006, raising £175m. Proceeds of issue were used to refinance the business.

Statutory Financial Highlights

- Revenue of £610.9m (2005 : 28 weeks – £188.2m).
- Operating income of £1.6m (2005 : 28 weeks – £7.5m) after a charge of £30.7m (2005 : 28 weeks – £4.0m) for future minimum lease charges under IAS 17.
- Basic loss per share for the year of (9.4)p (2005 – (0.1)p).⁽⁶⁾

Other Financial Highlights

- Underlying revenues up 10.0% to £385.6m (2005 : annualised – £349.5m).⁽¹⁾
- Home EBITDAR before central costs of £189.6m (2005 : 28 weeks – £60.2m).⁽²⁾
- Underlying Home EBITDAR before central costs, up 11.0% to £124.3m (2005 : annualised – £111.8m).
- Adjusted EBITDA of £48.8m (2005 : 28 weeks – £15.7m).^{(3), (4)}
- Home EBITDAR, before central costs, margin of 31.0% (2005 : 28 weeks – 32.0%). The comparative period represents the most profitable part of the calendar year.
- Adjusted earnings per share of 10.0p.^{(5), (6)}
- Net cash inflow from operations of £50.6m (2005 : 28 weeks – £15.0m) representing cash conversion of Adjusted EBITDA of 103.7% (2005 – 95.6%).
- First dividend of 1.1p per share, representing pro rata dividend for period since IPO.

Notes:

1. Underlying results exclude the effect of acquisitions. 2005 (annualised) numbers are calculated using the audited numbers for the 28 weeks ended 2 October 2005, dividing by 28 weeks and multiplying by 52 weeks.
2. Home EBITDAR before central costs is defined as earnings before interest, tax, depreciation, amortisation and rental charges.
3. EBITDA is defined as Home EBITDAR less rental charges, central costs plus other operating income.
4. Adjusted EBITDA is EBITDA before exceptional central costs and charges for future minimum rental increases.
5. Adjusted earnings per share is defined as Loss attributable to ordinary shareholders before exceptional central costs, charges for future minimum rental increases and the taxation impact thereof, divided by the weighted average number of shares.
6. The weighted average number of shares for the 52 week period ended 1 October 2006 is calculated using the capital structure of the Company that existed throughout the period, after taking into account restructuring of the Company's share capital on 7 July 2006. Upon IPO the capital structure was materially changed, as such the weighted average number of shares for the 52 week period ended 1 October 2006, will not be representative of future periods.

Philip Scott, Chief Executive of Southern Cross, said:

“This has been a year of excellent progress for Southern Cross, with the acquisition and integration of Ashbourne Healthcare, the listing of the Company’s shares on the London market and strong underlying growth and cash generation in our existing businesses. Southern Cross is benefiting from the growing demand for high quality, value-for-money, long-term care services across the UK and we are confident that we are well placed to achieve further growth in the current year.”

Enquiries:

Southern Cross Healthcare Group PLC +44 (0)1325 351100
Philip Scott, Chief Executive
Graham Sizer, Finance Director

Financial Dynamics +44 (0)20 7831 3113
David Yates/
Deborah Scott

About Southern Cross

Southern Cross is, in terms of number of beds, the largest UK provider of care home services for the elderly and a major provider of specialist services for people with physical and/or learning disabilities. The Company's care homes for the elderly operate under two distinct brands: Southern Cross Healthcare and Ashbourne Senior Living. Both brands provide a range of social and personal care services and nursing care services for elderly people with physical frailties and differing forms of dementia. The Company's specialist services operate under the Active Care Partnerships brand and provide long-term care services for people with physical and/or learning disabilities and for younger people with complex forms of challenging behaviour.

Southern Cross is focused on providing high quality care in well invested facilities, seeking to be the home of choice in each local community in which it operates. The Company provides care services for most of the local authorities in the UK which, together with the NHS, represent over circa 70% of the Company's revenues. Its care home portfolio is largely purpose-built with a high percentage of single occupancy rooms and rooms with ensuite bathrooms. Occupancy levels in its elderly care segment are consistently in excess of 90%.

This announcement includes statements that are, or may be deemed to be, "forward looking statements". These forward looking statements can be identified by the use of forward looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will", or "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include matters that are not historical facts and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies and the outlook on the care home industry. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances.

CHAIRMAN'S STATEMENT

Introduction

It is with great pleasure that I welcome all new Southern Cross Healthcare ("Southern Cross") shareholders following the Initial Public Offering ("IPO") of shares earlier this year. The last 12 months have seen the Company grow significantly to a position where it is now the UK's leading provider of care home services for the elderly and also a major provider of specialist services for people with physical and/or learning-disabilities.

As the market leader, and primary consolidator in the UK care home services sector, Southern Cross has benefited from the growing demand for high-quality, value-for-money, long-term care services across the UK. The success of our strategy of acquiring and developing modern, purpose-built care homes in areas of high demand is reflected in the financial results for the 52 weeks to 1 October 2006.

Results and Dividends

Turnover for the 52 weeks ended 1 October 2006 increased by 75% on an annualised basis to £610.9m, primarily as a result of the acquisition of Ashbourne Healthcare completed in November 2005. Average fees per occupied bed also increased during the year by 8.0% and a number of individual new homes were acquired and developed from the Company's pipeline of growth opportunities.

Adjusted earnings before interest, tax, depreciation, exceptional charges and charges for future minimum rental increases ("Adjusted EBITDA") was £48.8m representing an increase of 67.1% compared to the prior year on an annualised basis. The loss before taxation was £17.4m, reflecting the impact of the IFRS adjustment for charges for future minimum rental increases of £30.7m, exceptional charges relating to the IPO which amounted to £3.1m, and the financing costs of the capital structure pre-IPO.

Basic loss per ordinary share was 9.4p after a UK corporation tax credit of £5.3m. Adjusted earnings per share before charges for future minimum rental increases, exceptional charges and the taxation impact thereof were 10.0p.

Had the Company been listed for the whole of the financial 52 weeks ended 1 October 2006, the Board considers that it would have recommended a dividend of 4.8 pence per ordinary share. Taking into account the 82 days for which the Company was listed prior to the financial year end, the Board is recommending a pro rata dividend of 1.1 pence per ordinary share. Going forward the Company expects to grow dividends from this level to reflect the growth prospects and cash flow generation of the business, while maintaining an appropriate level of dividend cover.

Management and Staff

The Board, on behalf of all shareholders, would like to thank all the dedicated staff working in our homes and also those supporting the homes, as well as the management team who oversee the entire national operation. Their hard work and commitment have enabled us to build Southern Cross to become market leader in the sector.

Outlook

Care home services are playing an increasingly important role in the overall healthcare provision across the UK. The combination of an ageing population and the reduction in overall bed numbers within the NHS and the long-term care sector have resulted in the growing demand for quality care services.

Looking ahead to the next 12 months, we believe Southern Cross is well placed to achieve further progress in both revenue growth and profitability. We have secured £300m of landlord funds to enable us to continue our acquisition plans and we have a significantly expanded development pipeline which will add a further 1,000 beds to our portfolio by December 2007. At the same time, we shall continue our drive for growth in fee and occupancy rates, as well as maintaining tight cost control.

The Board remains confident that there will be a growing demand for our services and remains firmly committed to ensuring that all our homes provide the best possible levels of care for all of our valued clients.

William Colvin
Chairman

CHIEF EXECUTIVE STATEMENT

Overview

I am delighted to confirm another excellent year for the Southern Cross Group.

During a year in which we have successfully listed the Company's shares on the London Stock Exchange, we have continued to grow our market presence, by adding volume to both of our principal business streams and expanding our development pipeline. Our funding strategy and business model ensures that we can continue to increase shareholder returns without recourse to additional shareholder equity, as the last 12 months' activity has demonstrated.

Strategically, the Group remains committed to the long-term care market, targeting further growth in both core and specialist divisions. The demand for long-term care services is anticipated to increase substantially over the next 25 years. On the basis that the percentage of elderly people currently living in residential care homes in each of the age groups 65 years to 74 years, 75 years to 84 years and over 85 remains unchanged, then the application of those percentages to forecast census figures from 2006 to 2031 suggests a need for an average of 14,000 new beds per annum just to satisfy emerging demand.

Given the ongoing contraction of supply in the marketplace – as a consequence of small providers selling their properties to realise the land value which is often greater than the care home business value, occupancy levels over the next few years are likely to reach capacity in excess of the current level of 91%, a figure which includes a portfolio of immature development homes.

We believe that the typical dependency levels of persons living in care homes today are such that 24-hour care is required to meet the range of social and nursing care needs presented. Whilst supportive of Government's strategy of ensuring elderly people have options for home care if possible, we remain convinced that the residential care model continues to offer "best economic value" for 24-hour care services. At current average weekly fee rates of £465 for Elderly Care, this equates to a price of just over £2.75 per hour.

We will therefore continue to pursue our strategy of increasing capacity via acquisition and organic growth programmes in anticipation of the growing demand for our services. As the UK's largest provider, we still have only a 6% share of a £12 billion revenue market, and consequently have resourced our development and acquisition teams to ensure that we continue to add capacity and increase our market penetration over the next five years.

Group Branding

With two business streams (elderly care and specialist services), we have, redefined our marketing strategy this year to create an additional brand, targeted specifically at clients who are funding their own placement. Rather like the hotel sector, we now offer – via our Ashbourne Senior Living brand – facilities with higher accommodation standards and those additional services often requested by self-funding residents.

Southern Cross Healthcare

The largest of the branded portfolios with 466 homes and 24,027 beds, Southern Cross provides services for clients predominantly funded by local authority payers. The facilities are in modern purpose built homes, with the majority of beds being in single ensuite rooms.

The Southern Cross branded homes are located throughout the United Kingdom, albeit with greater penetration in Scotland, and the North of England. The average home size is 55 beds and typically of a two storey construction.

Over the last year we have sustained good levels of occupancy whilst experiencing the usual seasonality, that being a marginal increase in occupancy post April of each year as local authorities enter a new budget year. That gain is in part offset by a slight reduction in occupancy over winter months as mortality rates increase and commissioners of service have extended periods of vacation, thus slowing referrals.

Homes operating under the Southern Cross brand seek to cater predominantly for high dependency residents with specific nursing or social care needs. Average length of stay for this client group is 11 months.

Average occupancy levels of 93% in our mature homes are in line with last year's performance. Group average occupancy remains stable at 91%.

Ashbourne Senior Living

Currently 72 homes with 3,974 beds that have been rebranded under the Ashbourne Senior Living brand. Recognising that a number of our clients self fund their care placement and often want additional services and perhaps a higher standard of accommodation, homes operating under this brand will in time be able to meet the demand for such.

Presently, any client (except in Scotland) with a net worth in excess of £21,000 has to fully fund his or her own care placement. Given the push towards home ownership in the 1970's and 1980's combined with such a low qualifying threshold and an increasing demand for long term care services, this will inevitably lead to more and more clients having to fund their own care. On that basis, rather like the hotel sector, service users will price differentiate on the basis of accommodation and service standards.

Occupancy performance is in line with group average of 91% and average fee rates are some 15% higher than those paid by local authorities.

Active Care Partnerships

With 42 homes and 916 beds Active Care Partnerships provides social and healthcare support services for clients with a range of learning disabilities. All homes, whilst registered with the Commission for Social Care Inspection, tend to be much smaller and discreetly located within residential communities. The care model is much more socially focussed with an emphasis on promoting and developing a range of skills to live as independently as possible.

Over the last year we have added two developments to the Active portfolio, Moorpark Place and the Green Door Clinic, both located in Scotland. These two units are modern purpose built in design providing the much needed space required by the respective client groups.

Average fees are £873 per week, reflecting the fact that pricing is negotiated on a case by case basis after a careful assessment of need and costing of resource package required to meet that need.

The Southern Cross brand will continue to predominantly cater for residents who are funded by local authorities. Those placements are generally procured on an agreed service specification linked to client dependency and price. Active Care Partnerships is our specialist services brand providing younger people with as much support as required to maximise their ability to lead active and independent lives.

Acquisition Activity

During the year we acquired the Ashbourne Group adding a further 193 leasehold care homes and over 10,000 beds to group capacity. Integration of that portfolio is now complete and I am pleased to report that occupancy has increased in that portfolio by 2% since acquisition in November 2005.

In addition to the Ashbourne purchase, we have added a total of 950 beds via small bolt on transactions.

This includes, post-flotation, the "United A" portfolio that added 270 beds to the Group. All beds, except for the "United A" portfolio, were funded utilising landlord facilities in line with our current funding strategy. We will shortly exchange contracts for the on-sale of the "United A" freeholds to one of our landlord funds.

Development Pipeline

Our development pipeline has expanded significantly and we currently have in excess of 2,000 beds in various stages of planning and construction. A further 1,000 beds will be delivered and open for business by the end of December 2007. Particular areas of focus continue to be Northern Ireland (NI) and Scotland (SC) where demographic pressure is increasing demand for elderly care services.

During the year we have opened a 64-bedded facility in Enniskillen (NI), 90 beds in Wishaw and 85 beds in Renfrew (both SC). We have also added an 80-bedded unit in York and a further 66 beds by way of extensions to existing facilities.

In addition we have added two specialist units in Scotland under the Active Care Partnerships brand.

Disposal Programme

The Group continues to review the long-term sustainability of particular homes acquired as part of material acquisitions. In the last 12 months we have assigned the leasehold interest for three homes that did not meet our trading performance expectations and were unlikely to do so in the long term. As part of the Ashbourne acquisition, we acquired a number of unencumbered freeholds. Two of these have been sold and a further five will be marketed for sale given the age and limitations of the properties. We are likely to achieve a small profit on the disposal of these businesses.

Sale and Leaseback Financing

The Group has funded its growth using sale and leaseback financing since incorporation in 1996. That funding mechanism remains at the core of our financing strategy and I am delighted to report that we have secured £300m of landlord funds available for a two-year period at a fixed initial yield, to enable us to continue our acquisition plan unabated. These funds give us real visibility over forward rents and over the last year we have as a consequence of our covenant strength, continued to access new funding sources with relatively low yield expectations.

Market Outlook

With the anticipated demographic pressures compounded by the continued contraction in supply and the ongoing burden of legislation (such as the Care Standards Act and National Minimum Wage) pushing up operating costs, we expect that fee rates will continue to rise in excess of inflation. That is essential to reduce the number of beds leaving the market, to encourage new development to meet the anticipated emerging demand and to provide full cost recovery in respect of increased legislation.

Given the quality of our modern, well-invested, purpose-built portfolio and the fact that we are now compliant with most of the legislative requirements that required material capital expenditure, we expect our operating costs to remain relatively stable. Home payroll costs account for the largest proportion of our operating cost base. However, we have a recognition agreement with the GMB union and therefore continue to have real visibility over likely cost increases, as negotiation and agreement of pay awards precede fee reviews. In addition, we continue to recruit, personnel directly from overseas and as a consequence our reliance on agency personnel has continued to reduce during the year.

Acquisition and development opportunities continue to present themselves and we expect to participate in the ongoing consolidation of the sector. We are on course to exceed our annual target of adding 1,200 beds in 2007 and therefore our efforts are now focused on adding to the 2008 development pipeline.

Philip Scott
Chief Executive

FINANCIAL REVIEW

Acquisition and Development Activity

This has been another year of significant growth and development for the Group. November 2005 saw the acquisition of the Ashbourne portfolio, increasing the size of the Group by 193 homes and over 10,000 beds. Outside of that major acquisition, the Group has continued to grow through its development programme (428 through new homes and extensions) and through bolt-on acquisitions (950 new beds via eight transactions). It is the Group's intention to continue with this two-pronged strategy and the completion of dedicated landlord funds totalling £300m will enable us to facilitate this growth.

Initial Public Offering ("IPO")

On 12 July 2006, the shares of the Company were admitted to the Official List of the London Stock Exchange. The primary share offer raised £175m which was used to refinance debt, redeeming shareholder deep discounted bonds and loan notes and reducing bank indebtedness. Approximately £20m of the proceeds were used to meet the costs of flotation.

In September 2006, the Company entered the FTSE 250 list. The IPO has strengthened our financial position, simplified our capital structure and given the Group a solid base to further consolidate the UK care home sector.

Integration and Restructuring

During the year we have completed the integration of the operations and back-office support systems of Highfield (acquired in late March 2005) and Ashbourne (referred to above). These two acquisitions added some 380 care homes and 18,000 beds to the Group. This has resulted in significant synergy savings for procurement at home level but in particular we have reduced the level of central costs required to manage the enlarged Group. These savings are only partly reflected in the current financial year. A full year impact will be recorded in 2007.

International Financial Reporting Standards (IFRS)

As a listed group, the financial statements have been prepared in accordance with applicable IFRS and are effective at 1 October 2006. The primary effects of the transition to IFRS on the Group were in relation to rental charges, in respect of operating leases, in accordance with IAS17. The application of IAS 17 meant that rental charges, included in the income statement, increased by £30.7m and £4.0m in the periods to 1 October 2006 and 2 October 2005, respectively, representing an incremental charge for future minimum rental increases.

Trading Activities

During the 52 weeks ended 1 October 2006, we have experienced strong business growth through acquisitions combined with improvements in revenue and earnings of the underlying business. Both factors contributed to the Group's strong operating performance, which is summarised in the table below:

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m	Growth ² %	Underlying growth ³ %
Revenue	610.9	188.2	75	10
Operating income	1.6	7.5	(89)	–
Adjusted EBITDA ¹	48.8	15.7	67	11
Loss before taxation	(17.4)	(2.4)	(287)	–
Average number of available beds	27,008	16,575	63	3
Cash generated from operating activities	50.6	15.0	–	–

1 Adjusted EBITDA before exceptional central costs and charge for future minimum rental increases.

2 Growth and underlying growth has been calculated based upon the annualised results of 2005.

3 Underlying growth excludes the impact of acquisitions.

The impact of acquisitions upon the Group's revenue and Home EBITDA before central costs in the year amounted to £225.3m and £65.3m respectively.

The Group results show a decrease of £5.9m of operating income, but an increase in earnings before interest, tax, depreciation and amortisation of goodwill ("EBITDA") from £10.6m to £12.9m. Excluding the charge for future minimum rental increases under IAS 17 and exceptional central costs, Adjusted EBITDA increased by 67.0% on an annualised basis, from £15.7m to £48.8m. The loss for the year before taxation amounted to £17.4m (2005 – £2.4m).

Earnings per Share

Basic loss per share for the year was (9.4)p (2005 – (0.1)p). Earnings per share for the 52 week period ended 1 October 2006, before future minimum rental increase charges, exceptional costs and the taxation impact thereof, was 10.0p (2005 – 0.0p). This adjusted measure excludes non-recurring and non-cash-based charges, however it does not reflect a full year impact of the new capital structure of the Company.

Segmental Results

The Group has two distinct segments within its operations, namely Elderly Care and Specialist. Both segments noted significant growth in the year primarily through acquisitions.

Elderly Care

Elderly Care recorded an increase in average available beds from 15,874 beds to 26,039 beds and revenue on an annualised basis from £321.1m to £575.6m. The growth in this segment was predominantly as a result of acquisition activity with associated average available beds and revenue of 10,606 beds and £218.8m respectively. The average weekly fee for Elderly Care increased by £41.3 per week (9.7%) to £465.1 per week. The operating margin of Elderly Care decreased slightly from 31.8% to 31.4%, for the period ended 1 October 2006. However, the decrease is predominately due to the comparative period being the most profitable part of the calendar year. Total Home EBITDAR before central costs on an annualised basis increasing from £102.3m to £181.0m.

Specialist Care

The Specialist segment also recorded an increase in available beds, increasing from 701 beds to 969 beds. Revenue for the segment increased from £28.4m on an annualised basis to £35.3m for the 52 weeks ended 1 October 2006. The average weekly fee for this segment was in line with expectations at £872.6. Acquisition activity within this sector accounted for increased average available beds and revenue of 206 beds and £6.5m respectively. Total Home EBITDAR before central costs on an annualised basis decreased from £9.5m to £8.6m.

Rent

The rent charge for the year amounted to £146.8m (2005 : 28 weeks – £40.5m). Excluding the non-cash charge under IAS17 for leases with fixed or minimum annual increases, the rental charge for the year was £116.1m giving a rent cover of Home EBITDAR before central costs: cash rent of 1.63 times (2005 – 1.65 times).

Central Costs

Total central costs for the year amounted to £30.8m, an increase of £12.8m on an annualised basis compared to central costs of £9.7m for the 28-week period ended 2 October 2005. The increase is a reflection of increased central overhead as a result of the acquisition of the Ashbourne Group. Also included within total central costs for the current year are exceptional costs of £5.2m. Excluding these non-recurring charges, central costs amounted to £25.6m.

This adjusted central cost charge is still in excess of current recorded levels on an annualised basis, as it does not incorporate a full year's cost savings as a result of synergy and restructuring, relating to the acquisitions completed throughout the year. The central support function of the Group has been relocated to a new purpose-built head office in Darlington. The transition including the integration of Ashbourne's central support function was completed before the year end.

Exceptional Central Costs

The Group incurred significant, non-recurring, exceptional costs during the year, primarily as a result of restructuring following the acquisition of Ashbourne (£1.8m) and costs incurred in relation to the Listing of the Company's shares on the London Stock Exchange (£3.1m).

Finance Income and Costs

Total net financing costs for the year amounted to £19.0m and predominantly related to charges based on the financing structure prior to flotation. Of the total charge, £7.0m related to interest payable upon deep discount bonds and £5.1m related to bank term loans in issue prior to refinancing during July 2006. The charge for amortisation of loan arrangement fees, on bank facilities repaid in the period, amounted to £3.2m.

Taxation

The tax credit on earnings before taxation of £5.3m (2005 – £1.0m charge) represents a headline rate of 30.5% (2005 – 41.6%). However, this headline rate is significantly affected by the tax effect, amounting to £8.1m credit of translation adjustments to IFRS. Such effects predominantly relate to the future tax benefit of the additional rental charge under IAS17. This amounts to £9.2m.

The pre-exceptional, pre-goodwill amortisation tax charge under UK GAAP of £4.2m (2005 : 28 weeks – £3.1m) represents an effective tax rate of 25.6% (2005 : 28 weeks – 55.7%) of earnings before goodwill amortisation and exceptional costs. Excluding the tax impact of prior year credits, predominantly a credit of £0.8m arising from enhanced capital allowance claims, the effective rate is 30.5%. The cause of the variance of the effective rate to the standard rate of 30.0% is the disallowance of non-qualifying depreciation.

Going forward, the Group expects the pre-exceptional, pre-goodwill UK GAAP effective tax rate to remain below the standard rate of tax.

Dividends

Total dividends paid during the year amount to Nil (2005 – Nil). The Group has proposed a dividend of £2.1m, being 1.1p per ordinary share at 1 October 2006, to be paid on 9 February 2007, to those Shareholders on the register of members, at close of business on 12 January 2007.

Non-current Assets

Non-current assets increased by £126.8m over the year to £310.1m, predominantly as a result of goodwill increasing to £196.0m through acquisitions. Property, plant and equipment increased by £57.4m primarily as a consequence of acquisitions over the year. However, the balance at 1 October 2006 included £27.9m of freehold property which will be disposed after the year end.

Financing

The Group renegotiated its borrowing facilities as part of the refinancing process. It currently has a £60.0m term loan facility, £50.0m development facility and £30.0m revolving credit facility plus a £8.3m mortgage facility. The Group used the revolving credit facility to issue £15.1m of guarantees to landlords and loan note holders. At 1 October 2006, the total unutilised portion of these facilities amounted to £48.5m.

Group net debt decreased during the year by £91.0m to £67.6m, as a consequence of refinancing through the Listing process when proceeds from the primary issue of shares plus new bank funding were used to repay deep discount bonds, plus accrued interest amounting to £107.1m, existing bank loans amounting to £121.3m and £1.7m of management loan notes.

Group borrowings at 1 October 2006 consist of £60.0m of bank term loans, £18.1m of bank development loans and £6.5m of mortgage debt. The development loan is expected to be repaid shortly after the year end through the sale of freehold properties to which it relates. In addition to bank borrowings the Group had £6.7m of loan notes and £0.4m of finance lease borrowings in issue at the year end.

In July 2006 the Group entered into a three-year interest rate swap for £30.0m, at a fixed rate of 5.07%. Under the Group's treasury policy, this position will be reviewed on a regular basis.

Equity

As part of its public offering process, the Group completed a bonus issue of 240 shares: one share followed by a primary issue of 77.8m shares. The process raised £175.0m. Issued share capital increased to £1.9m with a share premium account of £173.1m. In addition, £11.6m of legal and professional costs directly attributable to the primary issue of shares have been offset against the share premium account.

Cash Flow

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Cash flows from operating activities	50.6	15.0
Interest and taxation	(28.7)	(7.0)
Investing activities	(72.0)	30.4
Financing activities	67.8	(34.2)
Net increase in cash	17.7	4.2

Net cash inflow from operations was £50.6m (2005 – £15.0m), representing a cash conversion ratio compared to Adjusted EBITDA¹ of 103.7% (2005 – 95.6%).

Net cash flow from investing activities amounted to £72.0m outflow (2005 – £30.4m inflow). Gross investing activities amounted to £123.9m, being £94.8m investment on acquisition of subsidiaries, £14.2m representing development capital, predominantly freeholds, and £14.9m representing maintenance capital. Excluding the acquisition of Ashbourne, the Group invested £55.4m on new subsidiaries. Disposal proceeds relating to the disposal of subsidiary undertakings and freehold properties amounted to £51.9m (2005 – £97.3m). This frequency of acquisition and disposal of subsidiary entities is consistent with our sale and leaseback funding model.

The net cash outflow from interest charges amounted to £27.1m (2005 : 28 weeks – £5.7m). The increase was primarily due to settlement of £11.0m of accrued interest upon the redemption of shareholder deep discount bonds and £6.5m upon loan notes. The remainder relates to increased bank borrowings for the Ashbourne acquisition (see below).

As described earlier, the capital structure has now been changed and future interest payments will be significantly reduced as a result.

The net cash flow from financing for the year amounted to £67.8m inflow (2005 : 28 weeks – £34.2m outflow). In November 2005, the Group initially increased bank borrowings by £40.7m and issued deep discount bonds amounting to £32.3m as part of the Ashbourne acquisition. Existing loan notes within Ashbourne amounting to £18.0m were repaid as part of the acquisition.

As part of the Listing upon the London Stock Exchange, £175.0m was raised through a primary issue of shares and £67.2m through new bank loan finance which was used to redeem £96.1m of deep discount bonds in issue plus associated accrued interest of £11.0m. Existing bank loan finance amounting to £121.3m and management loan notes of £1.7m were also repaid.

The increase in cash and cash equivalents during the year was £17.7m (2005 : 28 weeks – £4.2m) resulting in a year-end cash of £21.9m (2005 – £4.2m).

Conclusion

2006 has been another strong year for Southern Cross Healthcare. The integration of acquisitions is complete and we have seen strong underlying growth and cash generation in our existing businesses. Refinancing as part of the Listing on the London Stock Exchange has strengthened our balance sheet and we have new banking facilities in place. The Group is well positioned for future growth.

Graham Sizer
Group Finance Director

Consolidated Income Statement – IFRS

	Note	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Revenue		610.9	188.2
Home payroll costs		(343.0)	(104.8)
Home running costs		(78.3)	(23.2)
Home EBITDAR before central costs		189.6	60.2
Rent			
Charge for rental amounts currently payable		(116.1)	(36.5)
Charge for future minimum rental increases		(30.7)	(4.0)
Total rent		(146.8)	(40.5)
Home EBITDA before central costs		42.8	19.7
Central costs		(30.8)	(9.7)
Other operating income		0.9	0.6
Adjusted EBITDA before exceptional central costs and charge for future minimum rental increases		48.8	15.7
Exceptional central costs		(5.2)	(1.1)
Charge for future minimum rental increases		(30.7)	(4.0)
EBITDA		12.9	10.6
Profit on disposal of property, plant and equipment and subsidiary undertakings		0.4	0.4
Depreciation		(10.1)	(2.6)
Amortisation		(1.6)	(0.9)
Operating income		1.6	7.5
Finance costs		(19.3)	(9.9)
Finance income		0.3	–
Loss before taxation		(17.4)	(2.4)
Taxation	2	5.3	(1.0)
Loss attributable to ordinary shareholders		(12.1)	(3.4)
	Note	Pence per share	Pence per share
Loss per share attributable to equity shareholders			
Basic	4	(9.35)	(0.05)
Diluted	4	(9.35)	(0.05)

All of the above activities relate to continuing operations.

Consolidated Balance Sheet – IFRS

	1 October 2006 £'m	2 October 2005 £'m
Note		
ASSETS		
Non-current assets		
Property, plant and equipment	96.3	38.9
Goodwill	196.0	136.3
Other intangible assets	2.4	4.0
Deferred tax assets	12.9	4.0
Other non-current assets	2.5	0.1
Total non-current assets	310.1	183.3
Current assets		
Cash and cash equivalents	21.9	4.2
Accounts receivable	28.8	22.3
Inventories	1.1	0.4
Other current assets	12.8	8.1
Total current assets	64.6	35.0
Total assets	374.7	218.3
LIABILITIES		
Current liabilities		
Short-term financial liabilities	(25.9)	(33.8)
Trade and other payables	(65.4)	(37.2)
Total current liabilities	(91.3)	(71.0)
Non-current liabilities		
Long-term financial liabilities	(63.6)	(129.0)
Provisions and similar obligations	(8.1)	(1.1)
Future minimum rental payable	(63.7)	(20.6)
Total non-current liabilities	(135.4)	(150.7)
Total liabilities	(226.7)	(221.7)
Net assets/(liabilities)	148.0	(3.4)
Equity		
Ordinary shares	1.9	–
Share premium	161.5	–
Retained deficit	(15.4)	(3.4)
Shareholders' equity/(deficit)	148.0	(3.4)

Consolidated Cash Flow Statement – IFRS

	52 weeks ended 1 October 2006	28 weeks ended 2 October 2005
Note	£'m	£'m
Cash flows from operating activities		
Cash flows from operations	50.6	15.0
Interest received	0.3	–
Interest and bank loan arrangement fees paid	(27.4)	(5.7)
Tax paid	(1.6)	(1.3)
Net cash from operating activities	21.9	8.0
Cash flows from investing activities		
Purchase of subsidiary undertakings net of cash acquired	(94.8)	(51.2)
Sales of subsidiary undertakings	47.9	0.4
Proceeds from sale of freehold properties	–	93.9
Purchase of property, plant and equipment	(29.1)	(15.7)
Receipts from the sale of property, plant and equipment	4.0	3.0
Net cash (used)/generated (in)/from investing activities	(72.0)	30.4
Cash flows from financing activities		
Repayment of borrowings	(332.2)	(197.5)
New borrowings	236.4	163.4
Capital element of finance leases	(0.2)	(0.1)
Proceeds from share issues	163.8	–
Net cash generated/(used) from/(in) financing activities	67.8	(34.2)
Net increase in cash and cash equivalents	17.7	4.2
Opening cash and cash equivalents	4.2	–
Closing cash and cash equivalents	21.9	4.2

Note: Included within the purchase of property, plant and equipment are purchase of freehold properties totalling £6.1m (2005 – £10.0m) and development expenditure on new properties totalling £7.1m (2005 – £1.8m).

1. Accounting policies

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and effective at 1 October 2006. Comparative information has been restated on an IFRS basis.

Details of the IFRS policies applied together with reconciliations of comparative figures figures between UK GAAP and IFRS can be found in the Group's consolidated financial statements for the 52 week period ended 1 October 2006.

2. Taxation

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Current tax		
– current period	(0.3)	1.0
– prior period	0.1	–
Deferred tax		
– current period	(4.2)	–
– prior period	(0.9)	–
Taxation	(5.3)	1.0

Corporation tax is calculated at 30% (2005 – 30%) of the estimated assessable profit for the period.

3. Dividends Paid and Proposed

On 11 December 2006 the Board of Directors of Southern Cross Healthcare Group PLC recommended the payment of a final dividend of 1.1 pence per ordinary share in respect of the 52 weeks ended 1 October 2006. The company in its prospectus indicated that it would not propose a dividend for the period ended 1 October 2006. However the Board subsequently decided that it would be appropriate to recommend a final dividend because of strong trading and healthy cash flows in the last quarter of the financial year. If approved by shareholders at the Company's Annual General Meeting to be held on 30 January 2007, the final dividend will be paid on 9 February 2007 to those members on the register on 12 January 2007, with the associated ex-dividend date being 10 January 2007.

4. Earnings per Ordinary Share

Basic earnings per share is calculated by dividing the loss for the period attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the loss for the period attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the share data used in the basic and diluted earnings per share calculations and incorporates the impact of the bonus issue made to all shareholders on 5 July 2006.

	52 weeks ended 1 October 2006 Number	28 weeks ended 2 October 2005 Number
Basic weighted average number of shares (excluding treasury shares)	128,879,343	74,043,101
Dilutive potential ordinary shares: Employee share options	–	–
Diluted weighted average number of shares	128,879,343	74,043,101

The Group presents exceptional items and future minimum rental increases on the face of the income statement. Items that are considered exceptional, by virtue of their size or incidence, are disclosed in order to improve a reader's understanding of the financial information. To this end, additional basic and diluted earnings per share information is also presented on this basis. Reconciliations of earnings and the weighted average number of ordinary shares used are set out below:

	52 weeks ended 1 October 2006			28 weeks ended 2 October 2005		
	Earnings £'m	Basic per share amount p	Diluted per share amount p	Earnings £'m	Basic per share amount p	Diluted per share amount p
Loss attributable to ordinary shareholders	(12.1)	(9.35)	(9.35)	(3.4)	(0.05)	(0.05)
Charge for future minimum rental increases	30.7	23.82	23.82	4.0	0.05	0.05
Exceptional central costs:						
– Flotation costs	3.1	2.37	2.37	–	–	–
– Restructuring and integration costs	1.8	1.37	1.37	0.9	0.02	0.02
– Other	0.3	0.27	0.27	0.2	–	–
Taxation impact of above	(10.8)	(8.39)	(8.39)	(1.5)	(0.02)	(0.02)
Profit attributable to ordinary shareholders before charges for future minimum rental increases, exceptional central costs and the taxation impact thereof	13.0	10.04	10.04	0.2	–	–

**5. Shareholders' Funds and Statement of Changes in Shareholders'
(Deficit)/Equity**

Group	Share capital £'m	Share premium account £'m	Profit and loss equity £'m	Total £'m
On incorporation	–	–	–	–
Loss attributable to ordinary shareholders	–	–	(3.4)	(3.4)
At 2 October 2005		–	(3.4)	(3.4)
Loss attributable to ordinary shareholders	–	–	(12.1)	(12.1)
Share-based payments	–	–	0.1	0.1
Issue of ordinary share capital	1.9	173.1	–	175.0
Costs incurred in relation to issuance of ordinary share capital	–	(11.6)	–	(11.6)
At 1 October 2006	1.9	161.5	(15.4)	148.0

6. Statutory Accounts

The financial information included in this document for the 52 week period ended 1 October 2006 has been derived from the audited consolidated financial statements of the Group for the 52 week period ended 1 October 2006.

This financial information does not constitute statutory consolidated financial statements for the 52 week period ended 1 October 2006 or the 28 week period ended 2 October 2005 (as restated for IFRS), which will be filed with the Registrar of Companies for the 52 week period ended 1 October 2006, following the Company's annual general meeting.

The comparative financial information has been prepared on an IFRS basis. The comparative figures for the 28 week period ended 2 October 2005 are not the statutory consolidated financial statements of the Group for the 28 week period ended 2 October 2005. Those accounts, which were prepared under UK GAAP, have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.