

MEARS

Mears Group PLC

Annual report and accounts 2010

Success through partnerships



A woman in a red Mears uniform is vacuuming a living room. An elderly woman is sitting on a sofa, looking at the vacuum cleaner. The room has a large window, a lamp, and a framed picture on the wall.

Mears is... **a leading provider** of integrated social housing maintenance and domiciliary care

Mears' success is built on strong, long term partnerships with Local Authorities and Housing Associations, as well as with community groups, supply chain partners, staff and investors.

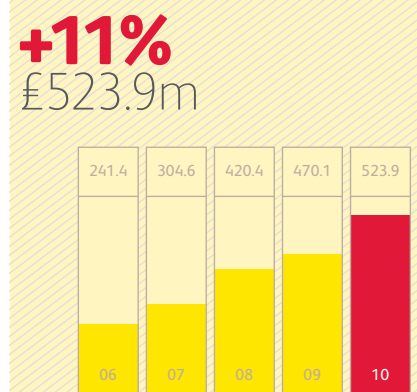
We believe the future requires new partnerships to be built, that link together housing, social care and the NHS. Partnerships that will provide integrated services which improve customer outcomes, as well as helping to meet the financial challenges that exist. Mears is uniquely placed to support this new integration and we welcome the opportunities that this will bring to the benefit of all our partners.



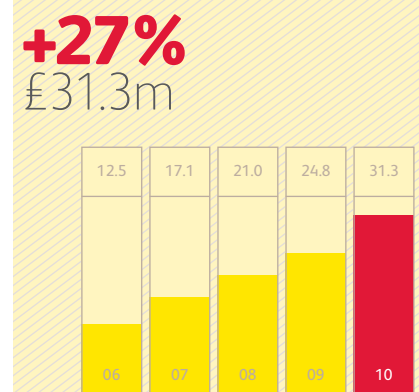
Partnerships in action

Turn to our Chief Executive Officer's Review to read more about some of Mears' strong partnerships and the benefits they are bringing **page 8**

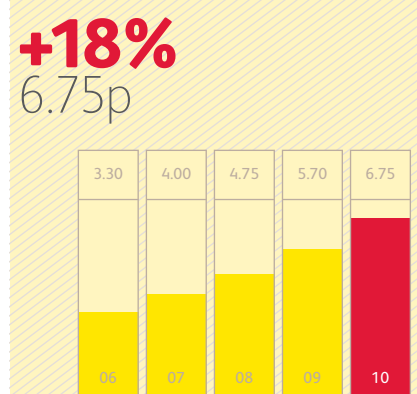
Group revenue (£m)



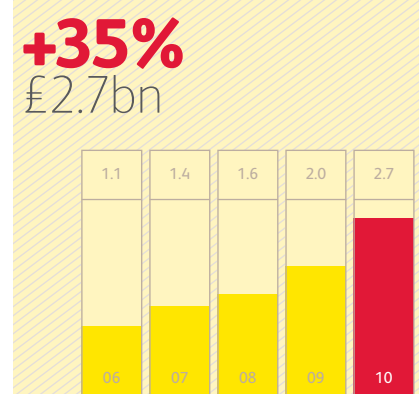
Operating profit* (£m)



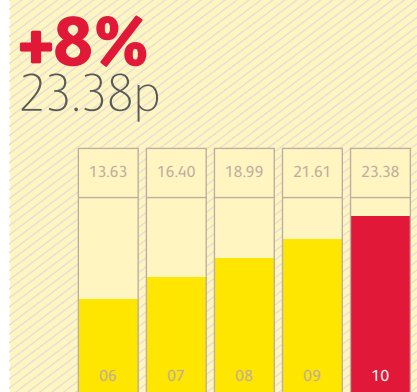
Dividends per share (p)



Order book growth (£bn)



Diluted earnings per share** (p)



* Before exceptional items and before amortisation of acquisition intangibles.

** Based on normalised earnings before exceptional items and the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge.

What's inside

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- ➔ In depth case study section

Mears is...

the market leader in two growth markets

We maintain and improve homes as well as care for the people who live in them.

Every day we carry out more than 4,000 repairs to people's homes. We also deliver over 8 million hours of care to people in need. For these people, the things that matter most are that we keep our promises and deliver a quality service.



Social Housing

We provide response and planned maintenance services to Local Authorities and other Registered Social Landlords to a portfolio of over 500,000 homes nationwide. Our work covers everything from small repairs, through to large scale refurbishment, including improving the energy efficiency of the homes that we serve.

We are leaders in terms of the number of repairs that we carry out but more importantly in the quality of service that we deliver and the innovative approach that we take to improving long term value for money through a partnering based approach.

We will continue to lead this sector through:

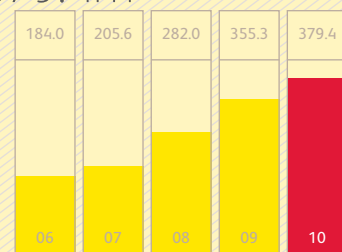
- Further development of the Mears in-sourcing model to provide support to clients where a fully outsourced solution is not appropriate
- Positioning Mears for emerging environmental opportunities utilising the British Gas partnership, increasing the energy efficiency of the social housing stock and addressing the fuel poverty agenda
- Continued investment in middle management development to build for future business leaders
- Building strength in Scotland and Wales

>4,000
Repairs made every day



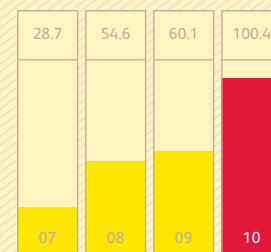
Social Housing revenue (£m)

+7%
£379.4m



Domiciliary Care revenue* (£m)

+67%
£100.4m



* The Domiciliary Care division was established in 2007.

 [Read more
ar10.mearsgroup.co.uk](http://ar10.mearsgroup.co.uk)

Domiciliary Care

We provide care to over 20,000 elderly and vulnerable people in their own homes, largely through contracts with Local Authorities. This is delivered through a highly skilled workforce of over 7,000 care workers. The service is personalised to the needs of individuals and includes support with mobility, hygiene, medication and simply staying connected to the communities in which that person lives.

Our unique approach towards integrating services for the home with care for the individual, combined with excellent operational management and increasingly efficient operational delivery, has established Mears as a leader in the sector.

We will continue to lead this sector through:

- ➔ Continued focus on achieving service integration
- ➔ Engaging with political stakeholders to influence political and policy direction
- ➔ Continued investment in middle management development to build for future business leaders
- ➔ Development of new Care IT platform generating opportunities for improved efficiencies for us and our clients



>8,000,000
Hours of care delivered per annum



Mears is... leading the way

“In this watershed year, we have consolidated our market leading position in our selected growth markets. We are well positioned commercially, operationally and financially to seek and capitalise on the many opportunities.”

Bob Holt
Chairman



Summary of the year

Revenue

In a year of tremendous success in new contract bidding and an unprecedented number of new contract mobilisations, revenue increased by 11 % to £523.9m.

Order book

Our order book stands at £2.7 billion and the demand for our services continues to be very strong with a bid pipeline of £3.0 billion.

Dividend

The Board is recommending a final dividend of 4.85p per share making 6.75p per share for the year, an increase of 18 %.

Strong cash generation

Cash generated from operations as a proportion of the profit for the year (before tax and amortisation) amounted to 97 % (2009: 109 %), with a net debt position at the year end of £12.2m.



Read this Chairman's Statement online
ar10.mearsgroup.co.uk/chairmansstatement



Success through partnerships

We have, in the current financial climate, an increased responsibility to continue to demonstrate how a long term partnering based approach, combined with greater services integration, is the most effective way to respond to the challenges faced by many Registered Social Landlords.

➔ [Turn to page 8 for more](#)

It gives me great pleasure to announce another record year in both revenue and operating profit before amortisation and exceptional items. 15 years of uninterrupted growth in revenue, profits and cash generation speak for themselves. The Mears management team has worked together for many years focusing on providing first class, value-for-money customer service through our partnership ethos. This has been rewarded in the significant success we have achieved in new contract bidding and the number of exciting new opportunities that are within our sales pipeline.

Strong results and cash generation

In the year ended 31 December 2010, revenue increased by 11% to £523.9m and operating profit before amortisation and exceptional items rising by 27% to £31.3m. Revenues in Social Housing grew by 7% and in Domiciliary Care increased by 67%, bolstered by the acquisition of Supporta plc. In a year of tremendous success in new contract bidding and an unprecedented number of new contract mobilisations, the normalised diluted earnings per share still increased by 8.2% to 23.38p. The Board is recommending a final dividend of 4.85p per share making 6.75p per share for the year, an increase of 18.4%. This is the second year that we have increased the dividend well ahead of earnings which reflects the Board's confidence in the future opportunities in our growth markets.

Of particular note is our strong cash generation. Cash generated from operations as a proportion of the profit for the year (before tax and amortisation) amounted to 97% (2009: 109%), with a net debt position at the year end of £12.2m. During a particularly active period in terms of new contract mobilisations, where one might anticipate a higher requirement for cash, it is a credit to the strength of our working capital management that we can report such robustness.

Record levels of contracts

This was a watershed year for Mears Group, the market leader in social housing and domiciliary care. We have won a record level of contracts in both divisions and we completed the acquisition of Supporta, thus cementing our leading position in domiciliary care, a market that continues to grow as care in the home is by far the most affordable solution for Local Authorities. Throughout our history we have sought to build a profitable long term platform for growth based on the fundamentals of our business model and the key drivers which protect both our revenue flow and our ability to build continually for the long term. The social housing sector has recently seen a number of very public corporate failures. A contributing factor to these failures was and continues to be the practice of tendering at unsustainable prices which leads to consequences that benefit no one. When businesses fail, tenants are left without essential services and employees lose their jobs. Fortunately for all concerned, Mears' long term partnership approach and financial and operational discipline means that it is well placed to 'pick up the pieces' from competitor failures.

It has always been fundamental to the success of our Social Housing division to ensure that we have the best operators in the sector. Until these recent corporate failures, I do not believe the quality of our operations received sufficient recognition. I am delighted to now be in a position whereby I feel the quality of the operational team within our Domiciliary Care division can now match that of their Social Housing colleagues. The quality of management acquired with Supporta has exceeded our expectations. Bernadette Walsh, now Managing Director of the combined Mears Care, shares the Mears ethos of customer service at the fore, whilst maintaining a strong commercial awareness which is crucial to sustained success in a low margin, blue collar service environment.

6.75p total dividend

The Board is recommending a final dividend of 4.85p per share making 6.75p per share for the year, an increase of 18.4%



£2.7bn

Our order book stands at £2.7 billion and the demand for our services continues to be very strong with a bid pipeline of £3.0 billion

Long term partnerships

We have, in the current financial climate, an increased responsibility to continue to demonstrate how a long term partnering based approach, combined with greater services integration, is the most effective way to respond to the challenges faced by many Local Authorities, Housing Associations and Landlords. This has always been our approach and one which is even more relevant today. Following the results of HM Government's Comprehensive Spending Review, we believe that our Social Housing operations will continue to benefit from increased outsourcing opportunities in the sector as Local Authorities look to achieve further efficiency gains, particularly in the supply of essential repair and maintenance services. The significant majority of our Social Housing revenues are non-discretionary spend for services which our clients have a legal obligation to provide. The changes to the system for housing benefit will, in our opinion, promote the migration away from private dwellings towards social housing. The changes to the housing finance system is providing Local Authorities with opportunities to invest further in their housing stock which can only be positive for the leading service providers. In addition, commitments have been made to build 150,000 new Social Homes and to meet funding commitments on the Decent Homes Programme. We continue to be highly selective on our bidding approach looking to build and reinforce long term partnerships that will be of value to the residents and our clients.

Social Housing – market leadership

Our Social Housing division has long been recognised as a market leader in terms of operational performance and tenant satisfaction. Our differentiated offering is focussed on quality of service and tenant facing value for money services which clients are able to measure. In a period of austerity, where our clients are suffering budgetary constraints, it has been encouraging that we continue to find clients procuring services with a bias towards value and quality rather than purely on price considerations.

Domiciliary Care – well positioned

Mears is well placed to lead and consolidate the domiciliary care market which, in procurement terms, is several years behind the more developed social housing market. We can use the experience gained in social housing to enhance the market efficiencies in domiciliary care and share the benefits with our clients. Targeted acquisitions will be considered which broaden the diversity of Mears' Domiciliary Care offering along the services supply chain

and expand the range of services we are able to provide to people in their own homes. Mears' clients will benefit from a national platform for the provision of an enhanced quality service.

Record order book – bid pipeline

Our order book stands at £2.7 billion and the demand for our services continues to be very strong with a bid pipeline of £3.0 billion. We are well placed to benefit from these trends and are confident that the demand and opportunity for our two growth markets will continue to be strong. We enter the current year with visibility of 93 % of the £625m consensus revenue forecast for 2011. We also have visibility of 80 % of the £666m consensus revenue forecast for 2012.

Board changes

I was delighted to hand over the business in good health to David Miles in November 2010 who was appointed Chief Executive Officer (CEO). David has been instrumental in the growth and development of Mears from a regional provider of services with just five branches to the market leading Group that Mears is today. He has an unparalleled track record of delivering complex contracts and managing client relationships with his customer-centric philosophy. Over the past three years David has also built a strong operational team which will support him in his new role as CEO. David has been selected after a rigorous process of succession planning which has involved discussions with major shareholders and customers. The process has been underway internally for some time resulting in a stable and smooth transition. I will continue in my role of Chairman.

Mears has an on-going agenda of seeking to achieve high standards in corporate governance and early in 2010 I was delighted to welcome to the Board Davida Marston and Rory Macnamara, who have brought to the team a wealth of experience from which the Group is benefiting. It would be remiss of me to ignore the tremendous contribution made to the Group by Reg Pomphrett who stepped down as a Director at the last Annual General Meeting (AGM). Reg, a former City regulator, ensured we were compliant on every aspect of public company life during his 14 year tenure. I am delighted that Reg has accepted the offer to continue to serve the company as Group Company Secretary. I would also highlight the huge contribution made to the Group by our Senior Independent Non-Executive Director, Michael Macario. It is Michael's intention to also step down at our next AGM in June 2011, at which time Peter Dicks will assume the role of Senior Independent Director.



British Gas partnership

This unique partnership brings funds, asset management planning and full implementation to our clients. The partnership addresses issues of carbon reduction and fuel poverty within Social Housing. We are well placed to help implement Government plans under its "Green Deal" commitment through the next decade.

➔ Turn to page 8 for more

Outlook

The demand for our services continues to be very strong. Our two growth markets, social housing and domiciliary care, are robust defensive sectors where spend is largely non-discretionary. We continue to place great emphasis on winning good quality contracts that can provide clear and sustainable margins whilst at the same time providing a first class service and value offering for our clients.

We are mindful of the need to ensure that the public sector receives the best value for money. The public sector faces unprecedented fiscal challenges which are made all the more difficult by rising consumer expectations and an ageing population. Mears' response is simple; to ensure efficiencies are realised wherever possible and working in partnership with our clients so that we continue to improve the quality of services delivered. The coalition Government has a difficult task to maintain public services whilst reducing a huge fiscal deficit. We anticipate challenges in 2011 and 2012 but through our commitment to working in partnership, the Group will remain well positioned.

Our focus for Social Housing will be to continue growing through further contract wins, expand the geographic coverage through targeted acquisitions of regional businesses with existing relationships with Registered Social Landlords and on-going innovation through further partnerships, such as that with British Gas. For Domiciliary Care, we will seek acquisitions that increase our ability to respond to the expected growing opportunities from NHS outsourcing and the increasing role General Practitioners will have in commissioning services locally.

We have a demonstrable track record of improving underdeveloped, inefficient markets for the benefit of customers, staff and investors. Lastly, we have the right management team in place to take our business forward and capitalise on the many opportunities in our growth markets.

I commend our employees for their commitment and energy throughout another significant year for the Group and I look forward to bringing you news of further successes during the coming year.

Bob Holt

bob.holt@mearsgroup.co.uk
Chairman

Key performance indicators (KPIs)

Our balanced scorecard approach ensures that the Group targets its resources around its customers, community, employees, operations and finance. Here are some of our financial and non-financial KPIs. For more information see the Directors' Report on page 25.

Social Housing revenue

+7%
to £379.4m

Profit cash conversion

97%
(2009: 109%)

Domiciliary Care revenue

+67%
to £100.4m

Normalised diluted earnings per share

+8%
to 23.38p

Jobs completed on time

91%

New contract bidding success rate (by value)

40%

Mears is... **a strategic partner**

“Reforms of the rental system, and greater freedom for Local Authorities to retain and source their own funding, will enable them to generate more income.”

David Miles
Chief Executive Officer



Summary of the year

Social Housing

Awarded over £750m of new Social Housing contracts and entered into British Gas partnership to jointly address energy efficiency challenges.

Domiciliary Care

Award of significant contracts, with an estimated value of £40m, reflects a trend towards awarding contracts to providers with an excellent quality and delivery reputation.

Completed acquisition and integration of Supporta plc.

Main focus to develop new Care IT platform, generating opportunities for improved efficiencies for us and our clients.

Care and repair

Taking opportunities to provide integrated housing and care service, combining branches where possible.

Completed acquisition of group of Anchor Housing Home Improvement Agencies, which play a vital role in keeping people in their own homes for longer.

Other services

Our Mechanical and Electrical business continued to make profit on back of a resilient housing market in Docklands.



Read this Chief Executive Officer's Review online
ar10.mearsgroup.co.uk/chiefexecutiveofficersreview

Integrating services around the customer

Mears is committed to delivering domiciliary care seamlessly alongside housing repair and maintenance, providing a platform for change which will improve service provision, meet stakeholder needs and deliver substantial cost savings.



1. Cross Keys Homes and Mears Peterborough Partnership

Cross Keys Homes (CKH) manages 10,000 homes in the City of Peterborough with a broad range of properties for single people, older people and families.

In 2004, CKH awarded Mears its five-year Decent Homes contract for the renewal of kitchens, bathrooms and central heating systems. In 2008 Mears secured a ten-year responsive repairs contract with the option to extend for five years.

Claire Higgins, CKH

"We have worked with Mears since the stock transfer from Peterborough City Council in 2004, initially on the Decent Homes contract. In 2007 we went out to tender for responsive repairs, maintenance and voids and, unusually at the time, added a full list of service requirements for housing including: 24/7 service and repairs for gas, LPG and oil heating systems and appliances; cyclical maintenance; major improvement works; electrical testing; and environmental works, including parking areas, paving, access and grounds maintenance.

"Putting all our eggs in one basket and awarding the contract to a single supplier could be perceived as a financial and/or service risk to the Association. In order to protect the interests of our residents and safeguard the integrity of CKH the contract is run on an 'open book' arrangement so there is complete cost transparency. Service quality and improvement data is benchmarked and in the last Housemark report, CKH was in the upper quartile of the group of 35 organisations, which included ALMOs, Local Authorities and other Housing Associations, for all but two indicators. Our tenants showed the highest level of satisfaction in our group."

"The partnership with Mears is a Partnership Plus. Our repairs call centre is based at Mears' local office and, as well as the day to day partnering on the contract, we also partner in the community and look for projects that we can work on together to support local people."





➔ Our aim

By taking responsibility for complete service delivery we are aiming to deliver year on year cost savings through innovation and improved efficiency while at the same time continuously improving service quality.

➔ What the partnership offers

Shared resources, co-location and a single contractor responsible for all services facilitates innovation and flexibility. Complete cost transparency and rigorous benchmarking protect client and tenant interests.

➔ How tenants benefit

Mears operatives work in people's homes and in the local community on a daily basis and are CKH's eyes and ears. They understand the tenants' needs and help deliver service excellence.

The partnership with Mears is a Partnership Plus. Our repairs call centre is based at Mears' local office and, as well as the day to day partnering on the contract, we also partner in the community and look for projects that we can work on together to support local people."

By creating a partnership model and giving Mears responsibility for complete service delivery, CKH has been able to reduce resources and significantly reduce maintenance costs. Within the first two years the partnership has delivered savings of £4m with responsive maintenance costs reduced from £6.9m to £5.5m per annum. As well as the financial benefits, service innovations are delivering more efficient and better services.

CKH's call centre has relocated to Mears' premises and this facilitates coordination of activity between the call takers and Mears schedulers, which is improving efficiency and enabling the schedulers to optimise operator time. This system maximises individual productivity while keeping tenants happy with a more efficient service. Since April 2010 99.8% of jobs are completed on time and 100% of emergencies.

CKH's personnel take the calls using the QL Housing Management System which connects to Mears Contract Management (MCM). Once a call is entered, MCM is automatically updated. CKH's call takers give an appointment time on the spot for 82% of calls. The rest – mainly for external works or communal areas where home access appointments are necessary – are scheduled by Mears. Optitime, a dynamic diary management system, picks up appointments and selects operators for the best use of time and skills.

The partnership has introduced a number of innovations which are reducing operational costs:

- * Mears has taken on the voids letting process – delays in letting voids has a significant cost implication from loss of rent revenue. Mears has control over the key to key time and has taken over the letting function. CKH is getting faster rental returns together with reduced management costs. Void costs have reduced from £1,085 to £980 per property, saving £94,500 per annum;
- * Mears is now responsible for maintaining communal areas which is reducing contractor overheads;
- * Mears installs basic aids and adaptations and, as part of the repairs and maintenance contract, has taken over responsibility for the management of fly-tipping, pest control and graffiti eradication; and
- * a pilot scheme using photovoltaic panels to provide free sustainable energy has been set up.



Read more on this partnership

ar10.mearsgroup.co.uk/crosskeyshomes

2. Wigan Care re-enablement

In order to reduce expenditure while continuing to meet Government objectives to keep older people living independently in their own homes, local care providers are introducing re-enablement programmes for selected service users.

In Wigan, Mears is partnering with the Council on a re-enablement programme that is helping minimise the effect of budget cuts on service provision for adult care.

Re-enablement encourages people to do more for themselves. It provides them with help and support to gradually increase their own capabilities with the view of reducing the number, or length, of care visits they need. This can be a challenge for the care workers delivering the programme as people become accustomed to having certain things done for them and lose belief and confidence in their ability to do it for themselves. When the programme was introduced both client and care teams expected considerable resistance to changes in people's routine and took this into account when designing the programme and training the care workers.

An initial trial took place in 2010 with two service users (Mrs G and Mr M), who were identified by Mears as being willing to participate and able to cope without suffering undue stress. Mears began by developing its own re-enablement training plan with the support of Wigan Metropolitan Borough Council's (MBC)'s Re-enablement Manager. Care workers were trained to understand and introduce re-enablement strategies. The pilot was an outstanding success for everyone involved, and particularly for the two participating service users.

Mrs G had a 30 minute morning call every day for a full body wash which she did not believe she could manage herself – she had had this support for more than two years. Mr M had a morning call to cook him breakfast every day and also believed he could not do it himself





because he found it painful to stand. He had also had this care service for more than two years. The aim was to try to get both service users taking back some of their care within a six week period.

Both service users understood the aims of the project and willingly co-operated. Equipment was provided by Wigan MBC, including a long-handled back scrubber for Mrs G to wash herself, and a perching stool for Mr M to help him sit in his kitchen while he prepared his breakfast. By the end of the six weeks both were able to do more for themselves and were enjoying an enhanced sense of freedom and control, relying less on care to begin their day. At the end of the pilot Mrs G's morning call was reduced to 15 minutes and Mr M's care package was cancelled completely as he could manage and enjoy making his own breakfast.

Following the successful trial all Mears Wigan care workers have been trained in re-enablement and it is now part of the induction training course for all new care workers. The Care team is working closely with occupational therapists and physiotherapists and for the service users are being re-assessed for the re-enablement process to reduce their care needs. Three service users have come out of domiciliary care completely. From June 2011 all new cases will go through an initial re-enablement process with their social worker. There is a heavy initial investment of resources but the long term effect is to increase independence and free up resources to ensure that more people with critical needs get the support that they cannot do without.

→ Our aim

To support and empower people to do more for themselves which will in turn free up hard-pressed resources for others with critical care needs.

→ What the partnership offers

Working together in a local care and healthcare partnership to provide a balance of services, aids and adaptations to ensure people can live safely and independently at home.

→ Service user benefits

Having the support and equipment required to take back control gives a greater sense of freedom, dignity and self-esteem.



Read more on this partnership
ar10.mearsgroup.co.uk/wigancare

3. Sedgefield Borough Homes

Sedgefield Borough Homes (SBH), based in North East England, is a Registered Social Landlord responsible for 8,555 homes. SBH was formed in March 2009 following the large scale voluntary transfer of Local Authority housing from Sedgefield Borough Council.

Mears was appointed by the Council in November 2007 as its strategic partner under the umbrella of 'Partnering for Construction Services'. The contract was novated to SBH in April 2009, with Mears as the sole delivery partner for voids and responsive repairs, Decent Homes, cyclical maintenance, gas servicing and grass cutting, for all 8,500 properties.

115 council staff transferred to Mears under TUPE arrangements. Following a further successful tender exercise, Mears is also delivering 50% of SBH's Major Improvement Programme (from July 09) to undertake property modernisation where needed. This includes whole house refurbishments such as kitchen, bathroom, heating systems, rewires, internal and external doors, roof coverings and environmental improvements.

From the outset the working model was set up as a three way collaborative partnership between SBH, Mears and its tenants through the tenant representation bodies. Sedgefield Borough Homes' overall objective is to achieve a VFM 3* R&M Service through on-going delivery improvements while achieving value for money, i.e. more for less.

Mears is achieving efficiency savings by remodelling the service provision to produce better outcomes and reduce costs. The estimated saving will be £2.5m over the duration of the five-year contract.





➔ Our aim

We aim to use Mears' innovation, service delivery expertise and buying power to maximise tenant experience and satisfaction on behalf of our client, SBH.

➔ What the partnership offers

This is a three way partnership between SBH, its tenants and Mears with continuous dialogue and feedback that inform strategic and operational decisions.

➔ How tenants benefit

Individual tenant needs and wishes are taken into account and through regular intercourse with tenant bodies they have a real say in shaping their services.

The partnership

Mears' planners and schedulers sit in the client's call centre; the client team set up appointments for priority or emergency repairs. Their Orchard Housing Management System interfaces with Mears Contract Management, so jobs are automatically sent across the system. As staff are co-located they can work together to best plan emergency visits with scheduled work.

Mears has access to SBH's 'Covalent' performance management system and uploads its operational performance data remotely, which is regularly monitored and reviewed.

Mears' voids team shares premises with the clients' voids team, facilitating communication and delivering faster timescales on re-letting. An innovative approach to voids is delivering much of the capital programme to properties that need refurbishing while they are waiting to be re-let. Once the winning tenant bidder for the home is known they are given a choice of styles and finishes for doors, kitchens and bathrooms. The approach to major improvements saves SBH money as refurbishment is completed faster in an empty property. The incoming tenant is spared the disruption of major improvement works after they have moved in.

Mears has created an in-house service improvement team which has developed a repairs service improvement plan for SBH. A core group has been established to agree and implement actions within the plan and to liaise with the Tenant Housing Services Group.

Since Mears' contract commenced in 2008 there has been a steady and consistent improvement in service and customer satisfaction:

- * 99.81 % urgent repairs completed within Government timescales – up from 89 %;
- * non urgent repairs are completed within 9.25 days – down from 29 days;
- * 7.89 days are spent in voids – down from 15 days;
- * 97.87 % of gas servicing is completed on time – up from 94 %; and
- * customer satisfaction has increased to 97.87 %.



Read more on this partnership

ar10.mearsgroup.co.uk/sedgefieldboroughhomes



Wayne Harris, Sedgefield Borough Homes' Executive Director of Homes and Assets

"SBH is committed to partnership working; there is a far greater value achieved through a trust-based, open-book working relationship with contractors. If Mears picks up additional contracts delivered out of the same operation we know that we will benefit from any overhead savings. We've saved £330,000 from this alone in the last couple of years. Co-location is working very well too, having a knowledgeable contractor in our call centre means we share intelligence, and the appointment system is providing a much more efficient service for tenants. We are also realising significant savings from Mears' procurement system and buying power.

"Partnering creates opportunities to explore new ways of working and enables us both to respond to opportunities that arise: we are currently evaluating a proposition for Mears to manage the budget for responsive repairs, cyclical maintenance and gas servicing, with a per property budget allocation. We believe this will avoid the wastage that arises from multiple visits to the same property to carry out repairs, which could all be undertaken in a single visit. Completing all repairs in one visit would make a substantial saving and operators could be incentivised to identify and carry out any necessary repairs. This would be a major benefit to tenants too who will get repairs completed before they have reported them.

"Tenant empowerment is another area we want to focus on, with Mears delivering training to tenants so they can carry out simple repairs, that are their responsibility, themselves."

"Mears' approach brings added value to the traditional contractor/client relationship. Its combination of local service quality and management, together with central procurement, IT systems, customer care and community engagement, reinforces our objectives to produce better outcomes, increase tenant satisfaction and create meaningful tenant engagement."

British Gas is working with Mears to deliver a more efficient service for Sedgefield Borough Homes (SBH)'s void properties.

Partnership: SBH, Mears and British Gas

British Gas is working with Mears to deliver a more efficient service for SBH's void properties. When tenants leave a property there is a period when nobody has ownership of the energy services and the gas supply is usually capped. Mears often has to bring in generators so that work can be carried out in the property, particularly in winter, when heating is necessary for plaster and paint to dry.

Under the agreement with British Gas, energy services are left connected, with a credit of £15, to allow work to be done without it being necessary to invoice. The meter is cleared by Mears for the incoming tenant who, in return, signs up to receive their dual fuel services from British Gas (they can change supplier within 28 days if they wish) and to ensure they get a competitive fuel rate. As well as avoiding the cost of bringing in generators, reducing the time taken on works and facilitating faster letting for SBH, tenants like the arrangement too because their services are already in place before they move in.

British Gas is providing all void properties with energy saver packs, which reduce CO₂ emissions and lower fuel use, which Mears installs on their behalf. British Gas also carries out a benefits check for the tenant to ensure they are receiving their maximum benefit entitlement.

The voids scheme has established a working relationship between the three partners and they are working together to create further propositions to benefit local residents. Sedgefield Borough Homes has announced that Mears and British Gas are its 'Strategic Energy Partners' to address and respond to energy issues and opportunities. Mears and British Gas are bidding jointly to install PV panels on 400 SBH homes in an energy saving pilot scheme. Mears will shortly begin energy surveys for SBH and issuing Energy Performance Certificates. This information is not only very helpful for incoming tenants but also places SBH in a prime position to attract energy efficiency grants as they become available.



Read more on this partnership

ar10.mearsgroup.co.uk/sedgefieldboroughhomes



→ Our aim

Through our strategic partnership with British Gas Mears is helping clients to meet their challenges of carbon reduction, fuel poverty and energy efficiency.

→ What the partnership offers

Access to funding streams, energy efficient technologies and expertise.

→ How tenants benefit

Major energy saving technologies, such as PV panels, air or ground source heat pumps are increasingly being piloted in communities around the country and as well as adding to their green credentials, save significant amounts of money. Smaller innovations, such as the energy saving packs, are being made available to all Mears tenants and help reduce fuel bills.

Forming strategic partnerships

Some of our clients and the organisations we work for include:

Birmingham City Council, Cross Keys Homes, Essex County Council, Northamptonshire County Council, Lancashire County Council, Wakefield District Housing and Your Homes Newcastle.

Visit us online:

ar10.mearsgroup.co.uk

Corporate website:

www.mearsgroup.co.uk





Multi-service partnering contracts

We are already seeing more bundling of services into single partnering contracts, which enable a strategic approach to be taken to the management of the asset base. Mears' breadth of services, including our presence in care provision, gives us real competitive advantage.

“In 2010, Mears has begun to strengthen its position in Scotland, with a number of contract wins being achieved across Glasgow and Edinburgh. We see several opportunities to build on this in 2011, as we do in Wales, following our acquisition of the Rok operations based out of Bristol.”

Social Housing

Social Housing has several growth drivers including the continued consolidation both in terms of the number of contractors and in the number of Landlords, both Local Authorities and Housing Associations. This trend in turn leads to increasing opportunities for organisations such as Mears who operate at a local level but who bring the benefits of a national player.

Reforms of the rental system and greater freedom for Local Authorities to retain and source their own funding, will enable Landlords to generate more income and fund both on-going maintenance and new build programmes. Demographic trends are also positive for the sector as more people will rely on social housing through their retirement given obvious limitations in income from pensions and benefits.

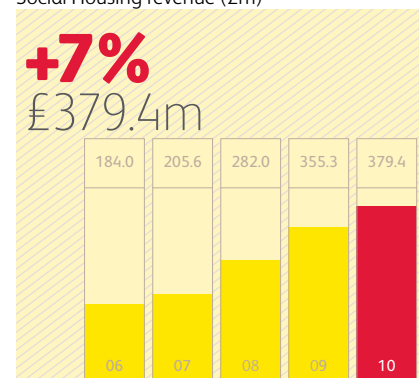
We are already seeing more bundling of services into single partnering contracts, which enable a strategic approach to be taken to the management of the asset base. Mears' breadth of services, including our presence in care provision, gives us real competitive advantage.

In 2010, Mears has begun to strengthen its position in Scotland, with a number of contract wins being achieved across Glasgow and Edinburgh. We see several opportunities to build on this in 2011, as we do in Wales, following our acquisition of the Rok operations based out of Bristol.

The next decade will see a significant expenditure on increasing the energy efficiency of the social housing stock. The Government has asked energy companies to fund a significant portion of this both in terms of energy efficiency and increasingly through micro-generation schemes, hence our strategic partnership with British Gas. Mears entered into this partnership to jointly address the challenges of energy efficiency within the social housing sector. The partnership will target funding opportunities under the Carbon Emissions Reduction Target (CERT) and the Community Energy Savings Programme (CESP) within our existing and growing Social Housing client base. Our aim is to increase our clients' share of British Gas' obligation funding streams, including CERT and CESP, enabling Social Housing Landlords to leverage more value from their capital budgets.

Through the latter part of 2010, we have been carrying out surveys on the entire housing stock for our Family Mosaic client. We have completed surveys on approximately 15% of the total stock and these surveys will be on-going throughout 2011. On the 4,000 properties where the surveys are complete, we have moved to a second phase. Through our relationship with British Gas, we are now making environmental improvements to traditional homes to reduce their energy requirements with the resulting impact to fuel poverty.

Social Housing revenue (£m)



Over 10%

market share of social housing repairs and maintenance

Social Housing – new contract bidding

In the last twelve months we have been awarded new Social Housing contracts valued in excess of £750m (£1.2 billion with extensions), including the following:

→ London Borough of Lambeth

The award of a seven-year partnership contract to provide responsive repairs, void refurbishment, estate management, Decent Homes and planned maintenance. The contract relates to the Northern housing region which includes around 8,000 of the 20,100 tenanted homes within Lambeth. The contract is valued at £119m for the initial seven-year period and also includes a performance option to extend to ten years giving a value of in excess of £170m and commenced in April 2011.

→ Family Mosaic

A ten-year partnership contract with a value of £300m. The contract provides services to homes in London and the Home Counties and commenced in August 2010. Mears, as the principal partner, provides a single 24 hour call centre service for all tenants of Family Mosaic and is responsible for responsive, void, gas maintenance, property surveying and estates management services. The contract also includes a performance option to extend to 22 years giving a value of in excess of £660m.

Family Mosaic was an existing client of Mears and is one of the largest Registered Social Landlords in the UK, providing homes and housing services to around 45,000 people in over 20,000 homes across London and the Home Counties.

→ Exeter City Council

The award of two contracts worth £13m (£20m with extensions). The first is a five-year partnership to provide responsive repairs and voids services worth £7.5m. There is an option to extend the contract for a further five years. The second is also a five-year contract to provide replacement heating systems valued at £5.5m over the period. Exeter City Council is one of the largest Landlords in the South West with a stock of over 5,000 properties.

→ Homes for Islington

The contract is valued at £48m for the initial four-year period, with an option to extend twice by up to three years each time (up to ten years maximum giving a contract value of £120m including extensions). The services to be provided include component renewal works involving redecoration, internal and external refurbishment works such as kitchen, heating and bathroom renewals, rewiring, and roof renewals. We are one of two partners appointed to deliver works to up to 22,000 tenanted and 8,000 leasehold properties.

→ Tower Hamlets

A five-year partnership contract to provide responsive repairs, void services, gas servicing and breakdown cover. The contract is valued at £60m for the initial five-year period, with an option to extend for a further five years giving a total contract value of £120m including extensions. We have been appointed as sole partner to deliver the services to 12,700 tenanted and 8,600 leasehold properties. The contract commenced in April 2011.

→ Penwith Housing Association and Devon and Cornwall Housing Association

A five-year contract to provide external cyclical maintenance and repair services in Cornwall. The contract is worth in excess of £6m. Penwith Housing Association (PHA) and Devon and Cornwall Housing Association (DCHA) own and manage more than 6,800 properties throughout Cornwall. This award represents a renewal for the cyclical repairs service with PHA and additional value from DCHA and started in April 2011.

→ Moat Homes

A ten-year partnership providing responsive repairs and void maintenance services. We have been appointed as sole partner to deliver these services to 15,000 properties, predominantly in the South East of England. The contract is valued at £67m over the life of the partnership. Moat is an existing client of Mears who awarded us an interim contract 18 months ago. We are delighted to be able to extend this relationship for the long term. The new contract mobilised in April 2011.

Geographical reach

Mears Care continues to build its capability with a geographical reach across the whole of the UK and is well placed to continue to take a leading position in the consolidation of the Domiciliary Care market. Investment in infrastructure and people continues as we grow the business.



“In 2010, we completed the acquisition and have now successfully integrated Supporta plc; a company that previously led the domiciliary care sector.”

Social Housing continued

We will also be commencing major environmental works on the properties of our client, Cross Keys Homes. We are optimistic that on completion of the current schemes of work, we will extend this work to the remainder of their portfolio.

Mears has continued to develop a number of in-sourcing models to address the needs of a wide range of clients. Approximately one quarter of the social housing maintenance market is yet to be outsourced, and there are various reasons why a full outsourcing model may not always be appropriate. Mears can offer solutions from joint ventures through to more traditional consultancy arrangements. We have been notified of an award of our first in-sourcing solutions contract with a Local Authority to provide support to their Direct Labour Organisation (DLO). This represents a new customer relationship for the Group. The existing DLO has a reputation for delivering a high quality of service to the tenants. Mears will support the DLO through enhanced IT and procurement approaches.

Domiciliary Care

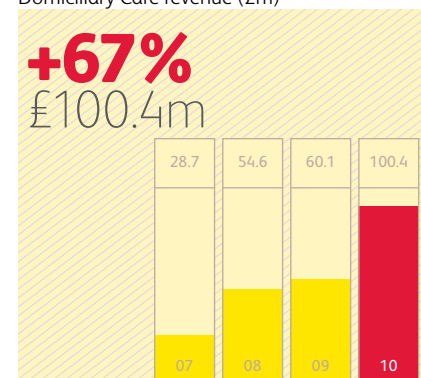
I am pleased that our Domiciliary Care division had a successful year in what has been a transformational period for the Group. Early in 2010, we completed the acquisition and have now successfully integrated Supporta plc; a company that previously led the domiciliary care sector in terms of operational excellence and quality of service provision. The division reported organic growth of 5% in the period which is pleasing at a time where management has been focused upon integrating two of the leading providers. The Domiciliary Care division has also benefited from the higher margin Supporta business.

Our main focus now is to complete the development of our new Care IT platform, using the skills and experience learnt from the Social Housing division to generate opportunities for efficiencies for both ourselves and our clients and provide significant competitive advantage. We are however, equally determined to reinvest those savings to our Care workforce, who provide quality care services for a relatively low wage and remain undervalued when considering the responsibility and social contribution of their roles.

Mears Care continues to build its capability with a geographical reach across the whole of the UK and is well placed to take a leading position in the consolidation of the domiciliary care market. Investment in infrastructure and people continues as we grow the business. The business has been successful in converting a high proportion of targeted tender opportunities into new contract awards as a result of our professional approach to long-term partnership contract bidding. The increasing trend of Local Authorities to procure care services from fewer and larger providers is entirely in line with our philosophy to work in partnership with our clients with the longer term aim towards improved outcome-based solutions.

The future for Domiciliary Care is very positive. Demographic changes mean 1.7m more adults will require care over the next 20 years. The political debate is not one of reducing care spend, but rather where the money will come from to help pay for increasing demand. A key factor here is the increasing role that the NHS is taking in joint commissioning across both health and care. The Comprehensive Spending Review (CSR) committed a further £2 billion of NHS money into supporting care in the community. This is a significant amount of money, which should overcome pressures on Council funding related to the reduction in central subsidies.

Domiciliary Care revenue (£m)



**1.7m
more adults**

Demographic changes mean
1.7m more adults will require
care over the next 20 years

Domiciliary Care – new contract bidding

We have announced previously our award of significant contracts during the last twelve months, estimated to be worth in the region of £40m, reflecting on-going trends in awarding consolidating contracts to providers with an excellent quality reputation and a capability to deliver against the emerging personalisation agenda. The most significant successes include the following:

→ London Borough of Enfield

The award for an initial three-year period with a two-year extension. It is worth an estimated £12m over this five year period. This is a new client relationship to the Group and has seen Enfield reduce the number of providers from 20 to 4. This further strengthens our operations across London where we have a presence in 25 of the 32 London Boroughs.

→ Wigan Council

Wigan was the Group's first Care contract win after Mears acquired Careforce in 2007. It is a testament to the success of this first contract that Mears has now been awarded a new contract with a volume that is likely to be three times the existing value. The contract is for an estimated value of £2m.

→ Staffordshire County Council

Staffordshire was an existing contract, where Mears has been able to secure significant additional volume on the back of a contract award. The contract is for three years and is worth an estimated £7m.

Domiciliary Care continued

The fundamental driver to growth is the fact that care in the service user's own home gives the most affordable solution, being significantly lower cost than both residential care and care provided within NHS facilities. From a service quality perspective also, most people prefer to be looked after in their own home and studies show that this can have a positive impact on their well-being. The Government has made it very clear that it wants Local Authorities to outsource the remaining in-house services in this area (around 20% of the market) and to see greater focus generally on prevention methodologies to limit what had been spiralling demand upon the NHS. Mears is well placed to service this increase in demand for outsourced solutions.

In total, 24 different care contracts were won in 2010, many of which being new clients further strengthening our geographic footprint.

Care and repair

We continue to see more opportunities to provide integrated housing and care service to our customers and as a result we are combining our Care and Housing branches wherever possible. For example, most recently in Welwyn, three Care branches were combined and co-located within our Housing branch. We are now operationally joining up the work of our Housing operatives with that of the Care worker, so that they operate as one team to the service recipient. The Care workers can often spot fall hazards in a home and report them as a repair requirement, well before the service user identifies the problem. The importance of this is illustrated by the fact that the NHS spends almost £5m per day on falls, most of which are suffered by elderly people, often in their home environment.

The National Housing Federation concluded in its recent report that, 'There are considerable advantages to service users, to the public purse, and to meeting the shared objectives of prevention and tackling inequalities, of increased collaboration across health, housing care and support. This is a key moment for public services, and a time at which there are major challenges facing service providers and commissioners in both sectors'.

The Government remains committed to prioritising the agenda of housing in an ageing society to ensure that as people grow older they also stay comfortable and secure in their own homes. We continue the roll out of our "integrated housing and care" offering which combines the service offerings of our Social Housing and Domiciliary Care divisions. The integration of services around the home aims to contribute to a high quality of life for the residents of the community by meeting diverse needs and providing choice to the relevant users of the service, as well as providing significant cost reduction opportunities.



Our communities

We work throughout the UK and all our branches are dedicated towards helping to improve people's lives. We do work in some of the most socially deprived areas of the country and so we feel a strong sense of responsibility toward the wider community.

➔ [Turn to page 20 for more](#)

“The future for Domiciliary Care is very positive. Demographic changes mean 1.7m more adults will require care over the next 20 years. The political debate is not one of reducing care spend, but rather where the money will come from to help pay for increasing demand.”

Since our year end, Mears has completed the acquisition of a group of Home Improvement Agencies from Anchor Housing for a nominal fee. Home Improvement Agencies are currently contracted by Local Authorities to provide primarily home adaptation and handyman services to vulnerable owner occupiers in local communities. Home Improvement Agencies play a vital role in helping to keep people in their own home for longer. Their role is likely to expand in the future to cover a broader range of services that support independent living, including home safety and signposting of services such as Domiciliary Care, to an increasing number of Individual Budget Holders. This further demonstrates the link we are forging with Local Authorities in providing integrated services and we thus see this acquisition as an important conduit to achieving this. We consider this purchase to be an excellent complement to our existing operations and which extends our geographic footprint into a number of Local Authorities where we previously had no presence.

Other services

The Group's other services comprise predominantly the Mears Mechanical and Electrical (M&E) business. This business performed well in the period and our M&E business continued to make profit on the back of a resilient housing market in Docklands. Our M&E operation has, for a number of years, been developing a modular affordable home. I am delighted that the Group has now received its first order from a Social Housing client for this approach to modular housing. This pilot is hoped to be the first of many such opportunities of providing this solution to Registered Social Landlords.

Safety, Health and Environment (SHE)

For the fourth consecutive year, Mears has seen a reduction in all accident rates. A 10% reduction in the year is the result of a team effort between branch management, staff, and the SHE team. The introduction of specific objectives set for each member of the SHE team has contributed, alongside the rigorous training regimes introduced in 2008 and 2009.

In 2008 we introduced our own in house training course that was accredited by the British Safety Council. This has been a great success and without doubt a contributor to the impressive accident reductions and improved safety performance. In 2009 Mears was presented with the prestigious RoSPA Training Trophy beating off hundreds of other entrants and in 2010 Mears retained the award for two years running. With the introduction of new systems, procedures, management and operative training during 2010, we are optimistic of reporting further improvements this year.

Our communities

We have operations throughout the UK and all our branches are dedicated towards helping to improve people's lives. We work in some of the most socially deprived areas of the country and so we feel a strong sense of responsibility toward the wider community. Helping a community to thrive increases the quality of life for residents and supports community cohesion and development.

David Miles

david.miles@mearsgroup.co.uk
Chief Executive Officer

RoSPA Training Trophy

In 2009 Mears was presented with the prestigious RoSPA Training Trophy beating off hundreds of other entrants and in 2010 Mears retained the award to become one of the few companies winning the award for two years running

10% reduction in accident rates

For the fourth consecutive year, Mears has seen a reduction in all accident rates

Mears is... **strong in financial management...**

“The tremendous successes in bidding new contract opportunities enjoyed in 2010 has provided the Group with unprecedented revenue visibility for the coming year and the Group is confident of reporting enhanced growth for 2011.”

Andrew Smith
Finance Director



Summary of the year

Income Statement

Group revenues increased 11 % to £523.9m; core Repairs and Maintenance revenues reported underlying organic growth in excess of 10 %. Growth of 67 % in Domiciliary Care revenue predominantly driven by Supporta plc acquisition. Operating profit before exceptional costs and the amortisation of acquisition intangibles increased by 27 % to £31.3m (2009: £24.8m); operating margin rose from 5.3 % to 6.0 %.

Balance Sheet

We maintain a conservative Balance Sheet. All costs relating to tender, contract set-up and the initial inefficiencies during period of contract mobilisation are written off as incurred.

Total shareholders' equity rose by £35.6m to £141.6m. The increase in net assets is primarily due to new share capital issued in respect of the Supporta transaction.

Cash generation

The Group's conversion of profit for the year before tax and pre amortisation to cash in the period was 97 % (2009: 109 %).



Read this Financial Review online
ar10.mearsgroup.co.uk/financialreview

Key Performance Indicators

We operate a balanced scorecard approach. This enables the business to be operated on a balanced basis with due regard for all stakeholders.

➔ [Turn to page 25 for more](#)

Income Statement

Revenue

In the year to 31 December 2010 we grew Group revenue to £523.9m (2009: £470.1m), an increase of 11.4%.

The Social Housing division contributed revenue of £379.4m (2009: £355.3m), growth of 6.8% including organic growth of 3.2%. The Group has consistently reported organic growth in excess of that achieved by the other major competitors in the sector, underpinned by our quality of service delivery. At no time has or will the Group lower its margin expectation to generate turnover. The Social Housing business continues its strong performance, although its organic growth in 2010 was diluted by the reduction in capital works as a number of Decent Homes schemes, which as expected, reached their natural conclusion. Revenue from Decent Homes works was down by £23m compared to 2009. Our core Repairs and Maintenance revenues reported underlying organic growth in excess of 10%. The reduced dependency on Decent Homes works will be mirrored in both 2011 and 2012 with the revenue stream from this type of work expected to reduce by approximately £30m in both years. This has been mitigated by the tremendous successes in bidding new contract opportunities enjoyed in 2010 and has provided the Group with unprecedented revenue visibility for the coming year and the Group is confident of reporting enhanced growth for 2011. New opportunities are emerging in the environmental space as landlords face the combined challenges of carbon reduction and reducing fuel poverty. This in turn will generate opportunities for our partnership with British Gas.

The Domiciliary Care division contributed revenue of £100.4m (2009: £60.1m). The growth of 67% in Domiciliary Care revenue is predominantly driven by the acquisition of Supporta plc. The underlying organic growth of 5% in the period is pleasing at a time where management has been focused upon integrating the two operations.

The high number of new contract successes over the course of the second half year will provide the foundations for delivering robust growth in 2011. Given the consolidation of what remains a relatively immature market, the Group continues to target double digit revenue growth for its Domiciliary Care division. The constricting factor to growth is not any shortage in new contract opportunities, but the availability of carers.

The other services division, which predominantly comprises our M&E operation, reported a 19% reduction in revenue to £44.2m compared to last year (2009: £54.8m). This was an improvement on our initial forecasts and, in a year of continuing economic instability, represents a solid achievement for this division.

Operating profit

At a Group level, operating profit before exceptional costs and the amortisation of acquisition intangibles increased by 26.5% to £31.3m (2009: £24.8m) with the operating margin rising from 5.3% to 6.0%. This increase is substantially due to the margin enhancing acquisition of Supporta plc.

At a divisional level, operating margin is struck before amortisation, exceptional items and share option costs. The Social Housing division maintained its operating margin above 6.0% which continues to be at the top end for the sector. This is a tremendous achievement in a period when it has mobilised a large number of new contracts. Typically the Group anticipates a low margin from a new contract during its mobilisation phase at a time where it is critical to ensure that robust processes are put in place while focusing on excellent customer service. Mears does not capitalise any of these initial inefficiencies and the losses associated with new mobilisations are fully expensed in the period. At a time of high growth, one would expect to see an initial dilution in operating margin. The two largest new contract mobilisations in 2010 were the existing clients of Brighton and Family Mosaic, both of which saw a significantly enhanced scope of works.

Operating margin increased from 5.3% to 6.0%

Results of the year

Group revenue

+11%
to £523.9m

Operating profit pre amortisation

+27%
to £31.3m

Diluted earnings per share

+8%
to 23.38p

Record order book growth

+27%
to £2.7bn

Income Statement continued

Operating profit continued

The financial performance of those contracts exceeded our expectations over the course of their mobilisation periods which reduced the originally estimated level of margin dilution, highlighting the strength of management and efficiencies of mobilisation. It is anticipated that all contracts mobilised during 2010 will make a positive contribution to 2011, whilst delivering a full operating margin by 2012.

Within Care, the operating margin has increased to 7.5% (2009: 5.2%) which represents a blend of the higher margin Supporta business and the lower margin of our original Careforce business. We do believe there are opportunities for further margin improvements through system enhancements, operating efficiency and economies of scale. Our focus remains on maintaining service quality whilst continuing to grow our Care offering. Our experience from Social Housing is that an enhanced margin will naturally follow from this.

The other services division's operating margin of 3.7% (2009: 1.6%) is pleasing as the business has shown strong management through difficult trading conditions. The other services division is well placed and enters 2011 with optimism.

Amortisation of acquisition intangibles

A charge of £10.1m (2009: £5.0m) arose in the period. The majority of this charge is in respect of the Group's Domiciliary Care division and represents the amortisation of the identified intangible assets acquired in relation to the acquisition of Careforce Group plc in 2007 and Supporta plc in 2010, together with a number of small bolt-on acquisitions between those two dates. In addition, the Social Housing division has completed a number of small acquisitions, typically of distressed businesses, over recent years.

The increase in the 2010 charge compared to the comparative period is primarily due to the acquisition of Supporta plc which contributed a charge of £2.0m in the year. In addition to this, the intangible asset recognised upon the acquisition of certain trade and assets of Connaught Partnership Limited and Rok Building Limited were written off entirely in the period resulting in a non-recurring charge of £1.5m.

Risk management

The Group's financial risk management is based upon sound economic objectives and good corporate practice.

➔ Turn to pages 27 and 28 for more

“These excellent results, combined with our confidence in the future opportunities in our growth markets, allow the Group to increase the dividend once again ahead of earnings.”

Finance costs

The net finance cost for the year was £2.4m (£1.4m). Whilst the interest charge in respect of the working capital facility was maintained at £0.9m (2009: £0.9m), the overall finance cost has increased due to an additional interest charge in respect of the hedge arrangement of £0.9m (2009: £0.4m) and the net interest charge in respect of the defined benefit pension scheme was £0.3m (2009: £nil).

Exceptional items

The Group has incurred exceptional costs during the year of £2.5m (2009: £nil) relating mainly to the costs of acquisitions and the subsequent integration of the Supporta business into the Mears Care division. The costs relating to the acquisitions would previously have been capitalised and included within goodwill.

Pensions

Following the announcement in the June 2010 budget, the UK Government has announced it will use the CPI measure of inflation rather than RPI to determine statutory pension increases for public sector schemes. The move to CPI has been treated as a change in benefits recognised as a negative past service cost in the Income Statement. As a result of this change, a credit of £3.7m has been recognised in the Income Statement. The credit is a non-cash item. As a result of this, the total credit to the result for the year in respect of defined benefit pension schemes was £1.0m (2009: £1.5m charge).

The latest full actuarial valuations for the schemes as at 31 December 2010 recorded an actuarial loss for the period of £3.8m (2009: £7.1m) which was recognised in the Statement of Comprehensive Income. The opening deficit in respect of defined benefit schemes recognised in the Balance Sheet at December 2009 amounted to £3.2m. The acquisition of Supporta contributed a further deficit of £4.9m. The impact of the change to CPI together with the actuarial loss resulted in a closing deficit of £7.7m.

Tax expense

A tax charge of £1.6m has been provided (2009: £4.4m). The effective current Corporation Tax rate recognised in the Income Statement before adjustments for deferred tax is 14.3% (2009: 25.7%). The significant reduction in the Group's tax charge is due to a number of contributing factors, notably:

- * a Corporation Tax deduction in respect of the exercise of 0.5m (2009: 0.4m) share options;
- * a deferred tax credit of £2.8m (2009: £1.4m) in respect of the amortisation of acquisition intangibles; and
- * a non-taxable pension benefit of £3.7m (2009: £nil) resulting from the change from RPI to CPI that resulted in a reduced past service cost.

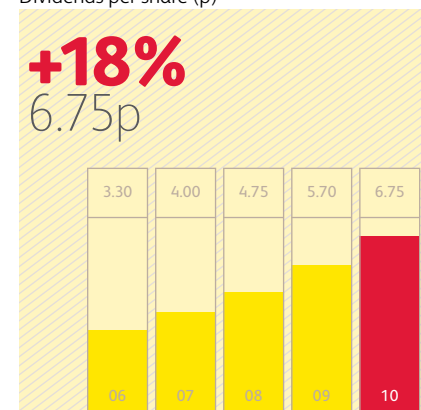
Earnings per share (EPS)

Normalised basic EPS increased by 10.1% to 24.96p (2009: 22.67p). The normalised diluted EPS, which allows for the potential diluting impact of outstanding share options, was up 8.2% to 23.38p (2009: 21.61p). Normalised earnings are stated before exceptional costs and exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge of 28%. We believe that this normalised diluted EPS measure better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance.

Dividend

These excellent results, combined with our confidence in the future opportunities in our growth markets, allow the Group to increase the dividend once again ahead of earnings. A final dividend of 4.85p per share is proposed which combined with the interim dividend, gives a total dividend for the year of 6.75p (2009: 5.70p), an 18.4% increase. The dividend is payable on 1 July 2011 to shareholders on the register on 10 June 2011.

Dividends per share (p)



>£750m
record contract
awards

Acquisitions and disposals completed during the period

➔ Acquisition of the share capital of Supporta plc (“Supporta”)

In January 2010 the Group acquired the entire issued share capital of Supporta by way of a share-for-share exchange, valuing the equity of Supporta at £26.9m and each Supporta share at 31.0p based on a Mears share price of 269.5p at the time of the offer. Mears issued 9.9m new shares in respect of this acquisition giving Supporta shareholders approximately 12% of the issued share capital of the enlarged Group.

➔ Acquisition of certain social housing business assets of Connaught Partnerships Limited (“Connaught”)

During September 2010, Mears acquired a number of contracts from the administrators to Connaught and as a result of the administration, has seen other opportunities for the Group to extend its customer base. A cash consideration of £0.5m was paid for a small number of contracts.

➔ Acquisition of the share capital of Jackson Lloyd Limited (“JL”)

During September 2010, Mears acquired the entire share capital of JL for an initial cash consideration of £2.1m. JL operates maintenance contracts with customers predominantly in the North West of England. An additional deferred consideration is payable up to a maximum of £1.0m, subject to the achievement of performance criteria linked to contract retention and profitability. The completion balance sheet reported net liabilities in the region of £5.2m, including a net debt of £2.9m which was repaid immediately upon acquisition.

➔ Acquisition of certain social housing business assets of Rok Building Limited (“Rok”)

During November 2010, Mears completed the acquisition of the social housing business assets of the Bristol social housing division of Rok. The acquisition provides access to five potential new customer relationships. The contracts are predominantly frameworks and as such the Group will not attribute any value to these within its order book valuation. A cash consideration of £0.5m was paid for the contracts themselves. A cash consideration of £1.5m was paid in respect of the working capital balances which represented a pound for pound payment against their book value.

➔ Disposal of Datacare Business Systems Limited (“Datacare”)

Datacare was acquired in 2010 as part of the Supporta acquisition. It was determined that Datacare was not core to the Group’s strategy. The disposal of this business generated net proceeds of £1.0m.

Working capital management

Cash generated from operations as a proportion of the profit for the year (before tax and amortisation) amounted to 97 % (2009: 109 %), with a net debt position at the year end of £12.2m.

Balance Sheet

Non-current assets

The value of goodwill carried within the Balance Sheet is £97.4m, of which over three-quarters relates to the Group's Domiciliary Care division. The opening balance of goodwill was £52.4m, with the significant increase primarily due to the acquisition of Supporta plc, and to a lesser extent Jackson Lloyd Limited. Similarly, these same two acquisitions also account for the increase in intangible assets, moving from £17.1m to £27.1m. Whilst the acquisition of certain business assets of Rok and Connaught also increased intangible assets by £1.4m, it was considered prudent to write this off in the same period given the short term nature of those contracts acquired.

Further detail on all acquisition and disposals completed during the period are included in the table on page 18.

All costs relating to tender, contract set-up and the initial inefficiencies during the period of contract mobilisation are written off as they are incurred. A balance of £1.9m (2009: £2.1m) is included within non-current trade and other receivables. This relates to sales retentions in relation to our M&E activities within our other services division. This is normal practice within that sector, where a small percentage of the contract sum is withheld for a short period. This is typically settled twelve months after the completion of works.

The Group capital expenditure of £2.9m (2009: £3.7m) relates to IT hardware, other office equipment and the refurbishment of new office premises. Given a number of the new contract mobilisations were with clients where we had an existing presence, the capital expenditure for the year was relatively low. Predominantly all our plant and machinery is hired and motor vehicles subject to operating leases and hence are not included within capital expenditure or recognised as an asset within the Balance Sheet.

Working capital balances

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group's conversion of profit for the year before tax and pre-amortisation to cash in the period was 96.8 % (2009: 108.7 %). The Group has consistently set high standards of working capital management and high levels of conversion of operating profit into cash with an average conversion rate during the last five years of in excess of 90 % over a period where the size of the business has more than doubled through organic growth. Our net debt position at 31 December 2010 was £12.2m (2009: net funds £6.5m).

Whilst the year end cash position was pleasing, the Group does currently operate with a core debt position of approximately £64m (2009: £40m). This increase in underlying core debt is primarily as a result of a cash outflow of £27.1m in respect of acquisitions (net of disposal proceeds). We have always been and remain conservative in respect of our appetite for debt.

On the back of the acquisition of Supporta plc, the Group took the opportunity to refinance to provide additional funding and to take the opportunity to ensure that the facility better addressed the future requirements of the Group. The new £85m facility is available to fund further acquisitions and to provide additional working capital to fund the existing business and future organic growth. The term was extended to June 2013. Our relationship with our banking partners, Barclays and HSBC, remains very positive.

Non-current liabilities

Non-current liabilities increased from £9.1m to £15.6m. The primary cause of the increase relates to liabilities in respect of defined benefit pension schemes which reported an increase from £3.2m to £7.7m, predominantly due to the acquired liability of £4.9m as a result of the acquisition of Supporta plc. In addition, the deferred tax liability, again the majority of which related to the Supporta acquisition, increased from £4.6m to £7.0m.

Equity

Total shareholders' equity rose by £35.6m to £141.6m at 31 December 2010. The increase in net assets is primarily due to the new share capital issued in respect of the Supporta transaction together with retained profits.

Andrew Smith

andrew.smith@mearsgroup.co.uk

Finance Director

Excellent profit to cash conversion
97%

Mears is... committed to improving lives

Our four goals:

- * to improve the lives of people living within our communities;
- * to reduce prejudice and improve understanding of differences within our diverse communities;
- * to provide career and skills development opportunities to those needing them the most; and
- * to be a positive contributor to our environment.



Read this CSR report online

ar10.mearsgroup.co.uk/corporatesocialresponsibility

We have three specific aims alongside our service commitments:

➔ Support

Support and strengthen the communities in which we work.

➔ Recruit

Recruit employees locally whenever we can.

➔ Encourage

Encourage employees to volunteer their time and skills to benefit their local community.

Mears continues to develop and extend its social and environmental programmes providing material benefits for the communities in which it operates and creating opportunities for personal development and experience for its employees.

Investors in People (IIP)

Mears has been accredited by IIP since 1994 when we employed less than 100 staff. Accreditation requires organisations to consistently operate in a way that develops employees and to actively engage with them to look for ways to improve the running of the Company. It is also important that the organisation is socially responsible and that people are committed to its success. However large we grow, our commitment to staff development will never change. Today, Mears employs more than 12,000 people who live and work in every region of the United Kingdom; their training and development lies at the heart of our employment ethos – we want every person who works for Mears to have access to opportunities and to build a career with us. The Group also provides its employees with the skills to develop their careers through professional development training such as formal accountancy and HR qualifications.

2011 sees the relaunch of the Mears Graduate Management Programme which will provide opportunities for the brightest and best and help us develop our managers of the future.

An ambitious apprenticeships programme is also being rolled out which will increase the number of apprenticeships around the Group, develop better local mentoring skills and which will also be extended to our Domiciliary Care business.

Safety, Health and Environment (SHE)

For the fourth consecutive year, Mears has seen a pro-rata reduction in all accident rates. In 2009 our accident frequency rate* was 0.43, in 2010 this reduced to 0.41. This reduction is thanks to the team effort between branch management, staff and the SHE team. The introduction of specific objectives set for each member of the SHE team has also contributed, alongside the rigorous training regimes introduced in 2009 that continued to be effective in 2010.

In 2008 Mears introduced its own in-house training course that was accredited by the British Safety Council. This has been a great success and without a doubt a contributor to the impressive accident reductions and improved safety performance. In 2009 Mears was presented with the prestigious RoSPA Training Trophy, beating off hundreds of other entrants and in 2010 we retained this award to become one of the few companies winning it for two years running. With the introduction of new systems, procedures, management and operative training we are optimistic that we will continue to report further improvements in the coming year.

* Accident frequency rate is the number of fatalities and reportable incidents divided by annual hours worked x 100,000.



CSR goals

Every year projects are nominated for special recognition, categorised by each of the four Mears Corporate Social Responsibility goals. In 2010 we received an unprecedented number of nominations.

➔ See below for the winners

“Mears continues to develop and extend its social and environmental programmes.”

Our communities

In 2010 more than 1,000 staff volunteered to take part in a community project and contributed 17,700 hours of their time towards 533 projects that made a difference in their local communities.

Every year projects are nominated for special recognition, categorised by each of the four Mears Corporate Social Responsibility goals. In 2010 we received an unprecedented number of nominations and the winners were as follows:

To improve the lives of people living in our communities:

Mears Projects Greenwich: Men in Sheds. The initiative supported Age Concern, fitting out a community building to enable isolated retired people to take part in community, DIY and repair projects.

To reduce prejudice and improve understanding of differences in our diverse communities:

Mears Broadstairs: Viking ship for Bradstow School. Employees and apprentices from the joint Mears and client, Orbit's, Future Builders' scheme built a Viking ship for this Special Needs School as part of a week-long celebration for the school's centenary.

To provide career and skills development opportunities for those who need them the most:

Mears Eastbourne: Street learning project. Staff at Eastbourne supported this initiative by their client, Eastbourne Homes, and provided a wide range of training and work development sessions, events and opportunities for local people of all ages.

To be a positive contributor to the environment:

Mears Newcastle: New visitor facilities at Hauxley Nature Reserve. Having learned that the nature reserve had been targeted by arsonists and lost most of its facilities, the Newcastle team converted unused buildings into a new visitor reception and information area.

Mears Foundation and overseas volunteering

The Mears Foundation, with six employees appointed as Trustees, was established in 2010 to provide us with a charitable arm to raise money for projects at home and overseas. The aim of the Foundation is to support projects for education and training, disaster aid and famine relief, sport and recreation, environment, conservation and heritage.

In Spring 2010, 20 staff took a convoy of vehicles carrying aid, including a fire engine, on a 1,000 mile journey to Belarus where the local community is still suffering the after effects of Chernobyl. They carried out work at Svaryn School to improve hygiene, create a medical centre and install IT facilities.

In Autumn 2010, a team of volunteers raised £2,000 each and travelled to South Africa to carry out major refurbishments at Sithabile, a child and youth centre near Johannesburg. Following the successful outcome of this project, we will return to Sithabile in 2011 to continue the work.

Environmental performance

During 2010 we maintained and built on our strong environmental performance in 2009. We saved 176 tonnes of CO₂ through our commitment to recycle all our paper and cardboard. This equates to taking around 220 cars off the road for a year. By working closely with our waste partner, we have achieved an 80% recycling rate and have set a target of 83% waste recycling for 2011. We have seen a steady improvement in our recycling rate over the last year increasing from 68% in 2009 to 80% in 2010.

To achieve this we will be using a network of recycling facilities and transfer stations, selected for their recycling capabilities. It is also our intention to use designated waste containers on sites, where space allows us, to achieve our maximum recycling potential.

Our year

Completed community projects

533

Staff involved

>1,000

Employee hours contributed

17,701

Board of Directors



Bob Holt (56)

Chairman

Bob had a controlling interest in Mears at the time of flotation in October 1996. He has a background in developing support service businesses. He has operated in the service sector since 1981, initially in a financial capacity then moving into general management.



David J Miles (45)

Chief Executive Officer

David joined Mears in May 1996 and, prior to his appointment to the Board in January 2007, was Managing Director of the Mears Social Housing division. Prior to joining Mears, David held a senior position with the MITIE Group. His background is in electrical engineering.



Michael A Macario (73)

Senior Independent Non-Executive Director

Michael is a Chartered Accountant and a Director of a number of companies. He joined Mears in 1996 upon flotation and is Chairman of the Group's Audit Committee.



Michael G Rogers (69)

Non-Executive Director

Michael founded Careforce in 1999 and has over 30 years' experience in healthcare services and care provision. In 1976 he joined Nestor Medical Group Limited as Managing Director and went on to become Chief Executive of Nestor Healthcare Group plc from 1986 to 1996. From 1996 to 1999 he worked as a consultant to a number of healthcare related organisations.



David L Hosein (47)

Non-Executive Director

David has over 17 years' consulting experience, the last five of which have been at OC&C Strategy Consultants Limited where David is a Director and Managing Partner. David has worked extensively in the support services sector for corporate and private equity clients. Previously, he was a partner in Arthur Andersen. He joined Mears in 2008.



Davida Marston (57)

Non-Executive Director

Davida Marston had a 30 year career in international banking, working in the UK, Spain and North and South America. She is a Non-Executive Director of several companies including one of the largest general insurers in the UK. She chaired the Audit and Risk Committee of Midland Heart and its predecessor Keynote Housing and was a member of the Audit Committee of Family Mosaic Housing.

**Andrew C M Smith (38)**

Finance Director

Andrew joined Mears in December 1999 and, prior to his appointment to the Board, was Finance Director covering all the Mears Group's subsidiaries. Andrew qualified as a Chartered Accountant in 1994 and worked in professional practice prior to joining Mears.

**Alan Long (48)**

Executive Director

Alan joined Mears in 2005 and prior to his appointment to the Board in August 2009, he was Managing Director of Careforce, the Group's Care business, having previously held the position of Group Sales and Marketing Director. Prior to joining Mears, Alan held senior roles for Britannia Building Society, Mars and Smith and Nephew.

**Peter F Dicks (68)**

Non-Executive Deputy Chairman

Peter has been active in the venture capital and investments fields for a number of years. He is currently a Director of a number of companies. He joined Mears in 2008 and is Chairman of the Remuneration Committee.

**Reginald B Pomphrett (67)**

Company Secretary

Reg has been involved in corporate finance for over 30 years and is Director of a number of companies. He is a Chartered Secretary and a member of the Securities Institute. He joined Mears in 1996.

**Rory Macnamara (56)**

Non-Executive Director

Rory is a Chartered Accountant with a wide range of corporate finance transaction experience. He was previously Vice Chairman and Head of Mergers and Acquisitions at Deutsche Morgan Grenfell and latterly a Managing Director at Lehman Brothers. He is currently a consultant to various companies and holds a number of directorships including Izodia Plc, Carpathian Plc, Dunedin Income Growth Investment Trust Plc and Private Equity Investor Plc. He is Chairman of the Group's Nomination Committee.

Financial calendar

- ➔ **Annual General Meeting**
8 June 2011
- ➔ **Record date for final dividend**
10 June 2011
- ➔ **Dividend warrants posted to shareholders**
1 July 2011
- ➔ **Interim results announced**
16 August 2011

Internet

The Group operates a website which can be found at www.mearsgroup.co.uk. This site is regularly updated to provide information about the Group. In particular all of the Group's press releases and announcements can be found on the site.

Registrar

Any enquiries concerning your shareholding should be addressed to the Company's Registrar. The Registrar should be notified promptly of any change in a shareholder's address or other details.

Investor relations

Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the registered office.

Registered office

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH
Tel: 01452 634600
www.mearsgroup.co.uk

Company registration number

3232863

Company Secretary

Reginald B Pomphrett
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Tel: 01452 634600

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West & Wales Corporate
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Auditor

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Registered Auditor
Chartered Accountants
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Bristol BS1 6FT
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Tel: 020 7597 2000

Collins Stewart Europe Ltd

88 Wood Street
London EC2V 7QR
Tel: 020 7523 8000

Advisers

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3 Ralli Courts
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Manchester M3 5FT
Tel: 0161 831 1512

Registrar

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18 Laurel Lane
Halesowen
West Midlands B63 3DA
Tel: 0121 585 1131

Investor relations

Gable Communications
34 Lime Street
London ECM 7AT

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2010.

Principal activities

The principal activities of the Group are the provision of a range of outsourced services to the public and private sectors. The principal activity of the Company is to act as a holding company.

Business review

The Company is required to set out a fair review of the business of the Group during the reporting period. The information that fulfils this requirement can be found in the At a Glance section, the Chairman's Statement, the Chief Executive Officer's Review and the Financial Review.

The results of the Group can be found within the Consolidated Income Statement.

Dividend

The final dividend in respect of 2009 of 4.10p per share was paid in July 2010. An interim dividend in respect of 2010 of 1.90p was paid to shareholders in November 2010. The Directors recommend a final dividend of 4.85p per share for payment on 1 July 2011 to shareholders on the Register of Members on 10 June 2011. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2010.

Key Performance Indicators (KPIs)

We operate a balanced scorecard approach. This ensures that the Group targets its resources around its customers, community, employees, operations and finance. This enables the business to be operated on a balanced basis with due regard for all stakeholders.

The primary KPIs used by the Group are:

	2010	2009
Social Housing revenue	£379.4m	£355.3m
Domiciliary Care revenue	£100.4m	£60.1m
Operating profit before exceptional items and pre amortisation of acquisition intangibles	£31.3m	£24.8m
Profit cash conversion*	96.8%	108.7%
Normalised diluted earnings per share**	23.38p	21.61p
Percentage of people rating service as excellent	77%	78%
Complaints as a percentage of jobs	0.32%	0.34%
Jobs completed on time	91%	92%
Value success rate on bids	40%	37%
Community projects completed	533	578
Community hours contributed	17,701	18,497

* Cash flow from operating activities before taxation divided by profit before amortisation of acquisition intangibles, acquisition costs and taxation.

** Before amortisation of acquisition intangibles, exceptional items and adjusted to reflect a full tax charge of 28%.

The Group has continued to develop its contract management system and a number of other secondary KPIs are monitored on a real time basis through what is known internally as the Digital Key Performance Indicator Dashboard.

The Social Housing division contributed revenue of £379.4m (2009: £355.3m), growth of 6.8% including organic growth of 3.2%. The Group has consistently reported organic growth in excess of that achieved by the other major competitors in the sector, underpinned by our quality of service delivery.

The Domiciliary Care division contributed revenue of £100.4m (2009: £60.1m). The growth of 67.1% in Domiciliary Care revenue is predominantly driven by the acquisition of Supporta plc. The underlying organic growth in excess of 5% in the period is pleasing at a time when management has been focused upon integrating the existing care operation with Supporta Care under the Mears Care brand.

At a Group level, operating profit before exceptional costs and the amortisation of acquisition intangibles increased by 26.5% to £31.3m (2009: £24.8m) with the operating margin rising from 5.3% to 6.0%. This increase is substantially due to the margin enhancing acquisition of Supporta plc.

The Group's conversion of profit for the year before tax and pre amortisation to cash in the period was 96.8% (2009: 108.7%). The Group has consistently set high standards of working capital management and high levels of conversion of operating profit into cash, with an average conversion rate during the last five years of in excess of 90% over a period where the size of the business has more than doubled through organic growth.

Report of the Directors

continued

Directors

The present membership of the Board is set out on pages 22 and 23. R Holt, P Dicks and D L Hosein retire by rotation and, being eligible, offer themselves for re-election. M A Macario retires and is not seeking re-election at the Annual General Meeting (AGM) in June 2011.

The beneficial interests of the Directors in the shares of the Company at 31 December 2010 and 31 December 2009 are detailed below. The Directors' emoluments are detailed within the Remuneration Report.

	Ordinary shares	
	31 December 2010 Number	31 December 2009 Number
R Holt	500,000	500,000
D J Miles	100,000	100,000
A C M Smith	50,000	50,000
A Long	4,108	4,108
M A Macario	—	—
R B Pomphrett*	—	25,000
M G Rogers	102,420	102,420
D L Hosein	—	—
P F Dicks	23,298	23,298
D Marston	10,500	—
R Macnamara	—	—

* R B Pomphrett retired as a Director on 9 June 2010.

No Director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business.

The Company has granted options to Directors. Details of these options are given in the Remuneration Report.

Going concern

A review of the Group's activities during the year and its outlook are set out in the Chairman's Statement and Chief Executive Officer's Review on pages 4 to 13. The financial position of the Group is described on pages 14 to 19. Our two growth markets, Social Housing and Domiciliary Care, are defensive sectors where spend is largely non discretionary and our contracts tend to be long-term partnerships.

The Group had net debt of £12.2m at 31 December 2010 and total funding headroom at that date of £72.8m which it considers more than sufficient to fund current trading plans. The Group renewed and increased its banking facility last year to £85m providing considerable financial resources. During this renewal process the Directors were pleased by the willingness of a number of banks to offer facilities.

The Directors consider that, as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

AGM

The AGM will be held at the offices of Collins Stewart Europe Limited, 88 Wood Street, London EC2V 7QR on Wednesday 8 June 2011 at 9.30am and a formal Notice of Meeting and Form of Proxy is enclosed. The ordinary business to be conducted will include the re-appointment of Directors who retire by rotation.

The special business will comprise the following resolutions:

- * to authorise the Directors to allot shares within defined limits. The Companies Act 2006 requires Directors to seek this authority and, following changes to FSA rules and Institutional guidelines, the authority, as in previous years, will be limited to one-third of the issued share capital, a total of £283,125 plus an additional one-third of issued share capital (£283,125) that can only be used for a rights issue or similar fundraising;
- * to authorise the Directors to issue shares for cash on a non pre-emptive basis. This authority is limited to 5% of the issued share capital (£42,469) and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and
- * to authorise the convening of General Meetings (other than an AGM) on 14 days' notice. This results from an European Union Directive which became effective on 3 August 2009 and will override Section 307 of the Companies Act 2006 where the requirement to give 21 days' notice for certain meetings has been amended.

Principal risks and uncertainties

Risk is an accepted part of doing business. The Group's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail within the Corporate Governance Statement. The key risks and mitigating factors are set out below.

Loss of revenue from publicly funded contracts

The Group is dependent on current UK Government policy regarding expenditure on improving social housing and domiciliary care, which may change. The Group is dependent on the policies and expenditure levels of its Local Government customers which follow their own strategies within the context of UK Government policy. The UK Government and Local Authorities may decide in future to change their priorities and programmes, including reducing present or future spending and investment where the Group would expect to compete for work. Any reduction in such Government investment and funding, or delays in implementing new funding, would be likely to adversely affect the Group's future revenues and profitability in the relevant businesses. In addition, there may be future changes in the structure of Government and Local Authorities which could have a material adverse effect on the Group's businesses.

The Group expects to continue to rely upon the ability and willingness of these publicly funded bodies to pay for its services. There are risks that budgetary changes could result in less funds being allocated to the services that the Group provides.

The Group's Care activities will be affected by the move from block contracts towards individual care budgets allowing the service users to choose their care provider. To date the Group has seen very little change in service user choice and considers that it is well placed given the breadth of service that is offered.

Health, safety and the environment

The nature of the businesses conducted by the Group results in exposure to health and safety risks for both employees and third parties. This requires the adoption and maintenance of rigorous operational and occupational health and safety procedures. This is critical to the success of all areas of our businesses. Any health and safety failure which results in a major or significant health and safety incident is likely to be costly for the relevant business in terms of potential liabilities incurred as a result. Furthermore, such a failure could generate significant adverse publicity and have a negative impact on the Group's reputation and their ability to win new business which, in turn, could adversely affect the operating, financial and share price performance of the Group. The markets in which the Group operate are subject to numerous health and safety and other regulations. Changes to, and increases in, regulation may adversely affect the Group.

Responsibility for health and safety lies with the Chief Executive Officer. The Chief Executive Officer is supported in this respect by the Group Health and Safety Director, by the Board and by the Senior Management Team. A rigorous training programme is in place to develop and improve employee health and safety. In 2008, we introduced our own in-house training course that was accredited by the British Safety Council which, without a doubt, has contributed significantly to the impressive accident reductions and improved safety performance.

Failure to comply with regulation and increased regulatory costs

The Group's operations are subject to laws and regulations. These include, but are not limited to, laws and regulations relating to licensing, conduct of operations, payment for services and referrals, benefits payable to staff and taxation. If the Group fails to comply with the laws and regulations that are applicable to its business, it could suffer civil and/or criminal penalties or it could be required to cease operations. There can be no assurance that operations will not be subject to increased regulations or laws which could have an adverse effect on the Group's business (including, without limitation, increasing its administrative or regulatory compliance costs or by restricting the Group's operations, in particular the Group's Care activities). There can be no assurance that the Group will be able to comply with any new regulations or laws to which it might become subject.

In particular, the Group's Care services are subject to a high level of regulation by the Care Quality Commission. In order to retain our contracts, the Group must ensure that it continues to operate to high standards of quality and meet the needs of its customers.

New legislation and regulations may result in increased costs to the Group. Whilst the Group would seek to recover such costs from its customers, there can be no assurance that regulatory changes will not adversely affect the Group's business.

Report of the Directors

continued

Principal risks and uncertainties continued

Performance and reputational risk

The major part of the Group's activities involves providing services to residents which are funded by Local Authorities and other public bodies. Any service failure or operational incident in any part of the Group could negatively impact upon the reputation of the Group and its operations and financial performance. The negative impact of this on the Group's activities may be increased by the nature of its activities and the profile of its direct or indirect customers, specifically publicly funded bodies, social housing residents and recipients of social care.

Many of the Group's contracts require certain client KPIs to be met. Failure to meet quality thresholds in contracts or complete contracts may affect future profitability and the ability to secure new contracts. The Group has in place quality standards and has developed systems to monitor key KPIs and take any action necessary as a result of that monitoring.

The work undertaken and services provided by the Group could be subject to additional quality measures imposed by customers and clients. In the event that the Group fails to achieve the quality measures imposed upon it, payments due under contracts for work undertaken may not be recovered in full or may not be recovered at all. In turn, this could have an adverse impact on the future profitability of the Group and could damage its reputation thereby adversely affecting its ability to secure future business, on terms acceptable to it or cause the termination of existing contracts. Even if amounts disputed under a contract are recovered in whole or in part, it remains a risk that the time to recover such amounts will be longer than anticipated and, where payments are delayed, cash flow may be adversely affected which, in turn, may adversely affect the financial condition of the business and prospects of the Group.

Mears is a market leader in both the social housing repair and domiciliary care markets and, therefore, any damage to Mears' reputation could have a negative impact on the Group's performance. The Group's Senior Management Team closely monitors the Group's activities to minimise this risk. Additionally, all new employees receive the appropriate training applicable to their role to help ensure the quality of work they perform.

Skill shortages

The success of the Group is dependent on recruiting, retaining, developing, motivating and communicating with appropriately skilled, competent people at all levels of their respective organisations. There may, at any time, be shortages in the availability of appropriately skilled people, at all levels within the Group, and these shortages may have a negative effect on the Group. The Group faces competition for personnel from other companies and organisations. The members of the Group's management team are expected to contribute to its ability to obtain, generate and manage opportunities. If the Group is not able to successfully attract, retain and motivate such personnel, it may not be able to maintain standards of service or continue to grow its businesses as anticipated. The loss of such personnel, or the inability to attract, retain, motivate and communicate with additional skilled employees required for their activities within an affordable cost base, could have an adverse effect on the Group's business and prospects.

We continually work on initiatives to recruit effectively and retain our workforce.

Liquidity, cash flow and price risk

The Group seeks to manage financial risk to ensure sufficient liquidity is available to fund the needs of the Group. Committed banking facilities of £85.0m are in place until 2013. Short-term flexibility is achieved through the use of the bank overdraft facilities.

The Group does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Group has entered into a hedging arrangement to manage its interest rate risks. Further information is provided in note 20 to the accounts.

Contracts of significance

The Group is party to significant contracts within each segment of its business. The Directors do not consider that any one of those contracts is essential in its own right to the continuation of the Group's activities.

Payment policy

The Company acts purely as a holding company and as such is non-trading. Accordingly, no payment policy has been defined. However, the policy for Group trading companies is to set the terms of payment with suppliers when entering into a transaction and to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 55 days (2009: 49 days) of average supplies for the year.

Substantial shareholdings

As at 5 March 2011 the Company has been notified of, or is aware of, the following shareholders holding 3 % or more of the issued share capital of the Company:

	Number of issued ordinary shares Number	Percentage of issued ordinary shares %
Majedie Asset Management	8,116,584	9.57
Artemis Investment Management	6,920,650	8.16
Schroder Investment Management	5,907,350	6.97
Legal & General Investment Management	5,191,170	6.12
Invesco Perpetual	4,803,247	5.67
BlackRock	3,785,674	4.46
Four Capital Partners	2,963,221	3.49

The Group actively encourages wider share ownership by its employees and the Group's Save As You Earn (SAYE) share schemes have been well received.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee information and consultation

The Group has received recognition under the 'Investors in People' Award. The Group continues to involve its staff in the future development of the business. Information is provided to employees through a quarterly newsletter, the Group website and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

CREST

CREST is the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and also makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Auditor

Grant Thornton UK LLP offers itself for re-appointment as auditor in accordance with Section 489 of the Companies Act 2006.

On behalf of the Board

R B Pomphrett

Secretary
15 April 2011

Statement of Directors' responsibilities

in respect of the Directors' Report and financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

- * there is no relevant audit information of which the Company's auditor is unaware; and
- * the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of my knowledge:

- * the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- * the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

A C M Smith

Finance Director

15 April 2011

Introduction

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy and financial performance. The Board is dedicated to upholding and achieving good standards of corporate governance, integrity and business ethics for all activities.

The Board continues to be committed to maintaining the Group's operations in accordance with the highest standards of corporate governance as set out in 'The UK Corporate Governance Code' issued in June 2008 and has complied with it throughout the year except for the following:

- * Paragraph A.2.1. The roles of Chairman and Chief Executive were exercised by R Holt until 24 November 2010. On 25 November 2010, D J Miles was appointed Chief Executive, at which point the Group complied with this paragraph; and
- * Paragraph A.3.1. One out of six Non-Executive Directors, M A Macario, has served as a Non-Executive Director for more than nine years. Mr Macario will not be standing for re-election at the AGM in June 2011, at which point the Group will be compliant with this paragraph. In addition R B Pomphrett had served for more than nine years as a Non-Executive Director until June 2010.

The Board of Directors

As at 31 December 2010, the Board of Directors was made up of ten members consisting of four Executive Directors and six Non-Executive Directors.

The Board's prime objective is to ensure on-going commercial and financial success of the Group. At the beginning of the year, the roles of Chairman and Chief Executive were exercised by R Holt. On 25 November 2011, D J Miles was appointed Chief Executive. The roles of Chairman and Chief Executive are now separate and are clearly defined with the division of responsibilities agreed by the Board. R Holt continues to fulfil the role of Chairman and, in line with best practice, ensures the effectiveness of the Board. D J Miles leads and manages the Group as Chief Executive. A central part of his role includes recommending and implementing key strategies, communicating to shareholders and managing the business operations.

Each of the six Non-Executive Directors are considered by the Board to be independent of management and free from any relationship which might materially interfere with the exercise of independent judgement. The Board does not consider the Non-Executive Directors' shareholdings or the number of years served in the case of M A Macario to impinge on his independence and he continues to represent the Non-Executive Directors as Senior Independent Director. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy, constructively challenging and helping develop proposals on strategy. A summary of the terms and conditions of appointment of the Non-Executive Directors is available on request from the Company Secretary.

The Board has been mindful as to the need to position the business for its next stage of growth and, alongside this, reinforce the Group's corporate governance to better reflect its Main List status. The following changes to the Group's Board have taken place in the last year:

- * D Marston was appointed to the Board and the Audit Committee at the AGM in June 2010. She has an excellent background in finance, banking and the public sector. It is envisaged that D Marston will be appointed Chair of the Audit Committee on the retirement of M A Macario; and
- * R Macnamara was appointed to the Board, the Remuneration Committee, the Nomination Committee and Audit Committee at the AGM in June 2010. He has an excellent background in finance and public company management. R Macnamara chairs the Nomination Committee.

The following changes to the Group's Board will take place:

- * M A Macario, who joined the Board in 1996, will not be seeking re-election at the AGM to be held in June 2011. He is currently Chair of the Audit Committee and is the Senior Independent Director; and
- * the role of Senior Independent Director will be assumed by P F Dicks on the retirement of M A Macario.

The biographical details of the Directors are shown on pages 22 and 23. These indicate the high level and range of business experience which enables the Group to be managed effectively. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its Committees, ensuring that matters are fully debated.

Corporate governance statement

continued

External appointments and commitments

The Chairman, R Holt, is also Chairman of Green Compliance plc.

Board responsibility

The Board maintains and regularly reviews a full list of matters and decisions which are reserved to, and can only be approved by, the Board. These are reviewed annually and include but are not limited to:

- * Group strategy and operating plans;
- * corporate governance and risk management;
- * compliance with laws, regulations and the Company's code of business conduct;
- * financing and treasury, including the approval of budgets and major capital acquisitions;
- * appointment, termination and remuneration of Directors and the Company Secretary;
- * financial reporting and audit, including interim and full-year results announcements and dividends;
- * approving significant acquisitions, disposals and new business start-ups;
- * ethics; and
- * employee benefits including pensions and share-based payments.

Evaluation of Board performance

The Board undertakes formal evaluation of its own performance and the Board Committees assess their respective roles, performance and terms of reference and report accordingly to the Board. The Board assesses the reviews of each Committee. The Chairman carried out an evaluation of the Board in the summer of 2010 by holding individual meetings with each Director to discuss their views and to canvass suggestions.

The performance evaluation process included: a review of the areas of Board responsibility; the structure and composition of the Board and its Committees and the performance of the Committees; the quantity, quality and scope of information provided to the Board; the content of Board meetings and presentations to meetings; and the openness of communications between the Board members and Executive management. The Board members concluded that appropriate actions had been identified to address areas that could be improved and that, overall, the Board and its Committees continued to operate effectively.

The performance of the Chairman was reviewed separately in a process led by the Senior Independent Director.

Following the performance evaluation of individual Directors, the Chairman has confirmed that the Non-Executive Directors standing for re-election at this year's AGM continue to perform effectively and demonstrate commitment to their roles. In particular the Board is strongly of the opinion that by their actions and conduct they demonstrate their independence notwithstanding the number of years they have served as Directors of the Company. It is the Board's intention to continue to annually review its performance and that of its Committees and individual Directors. A decision is taken each year on the performance evaluation process to be used.

Board meetings

The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs. The Board receives detailed financial information and regular presentations from Executives on Mears' business performance. Directors are supplied with an agenda and supporting papers for all Board meetings on a timely basis along with minutes of previous Board Committee meetings. This enables the Directors to make informed decisions on corporate and business issues under consideration. When Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

During the year, six scheduled Board meetings were held.

Board meetings continued

The Non-Executive Directors meet independently without the Chairman present, and also meet with the Chairman independently of management, on a regular basis. The Non-Executive Directors also independently meet each of the Executive Directors formally twice a year.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. Any Director, on appointment and throughout their service, receives an induction and is entitled to receive any training which is considered necessary to fulfil their responsibilities effectively.

The Directors delegate responsibilities for the day-to-day operational and financial management of the Group to the Senior Management Team.

Senior Management Team

The Senior Management Team, which comprises Senior Executives across each of the Group's operational divisions and support functions, is the principal forum for directing the operational and financial business of the Group and for delivering the strategy set by the Board. All Executive Directors are present at the bi-monthly meetings; all Non-Executive Directors are invited to attend.

Board Committees

The Board has established three Committees, each with clearly defined terms of reference, procedures, responsibilities and powers. The terms of reference of the Committees are available from the Company Secretary.

The Chairman of each Committee provides a report of any meeting of that Committee at the next Board meeting. Each Committee includes Non-Executive Directors, as required by the UK Corporate Governance Code 2008.

The Chairmen of each Committee are present at the AGM to answer questions from shareholders.

Through the Audit Committee, the Directors ensure the integrity of financial information, the effectiveness of the financial controls and the internal control and risk management systems. The Nomination Committee recommends the appointment of Board Directors and has responsibility for evaluating the balance of the Board and for succession planning at Board level. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements.

Meeting attendance

All Directors are encouraged to attend all Board meetings and meetings of Committees of which they are members.

Directors' attendance at Board meetings and Committee meetings during 2010 is shown on the table on page 35.

Audit Committee

Since 9 June 2010, the Audit Committee has comprised D Marston, R Macnamara and, its Chairman, M A Macario. Prior to 9 June 2010, the Audit Committee comprised R B Pomphrett, P F Dicks and M A Macario. The presence of other Senior Executives from the Group may be requested.

The Audit Committee is responsible for monitoring and reviewing:

- * the integrity of the interim and annual financial statements, including a review of the significant financial reporting judgements contained in them;
- * the effectiveness of the Group's internal control and risk management and control over financial reporting;
- * internal audit plans, including the review of significant findings, management action plans and timeliness of resolution;
- * the Group's overall approach to ensuring compliance with laws, regulations and Company policies in areas of risk, accounting standards and generally accepted accounting principles;
- * the Group's relationship with the external auditor, including their independence and management's response to any major external audit recommendations;
- * the Group's policy in relation to the provision of non-audit services by the auditor;
- * the appointment and review of the Group Risk Officer;
- * the effectiveness of the Group's internal audit function; and
- * the preservation of good financial practices throughout the Group.

In addition, the fees and objectivity of the Group's auditor are considered by the Committee.

Corporate governance statement

continued

Board Committees continued

Audit Committee continued

During the year, the Audit Committee received detailed presentations from the Group's auditor and reviewed the findings of the external auditor from its audit of the annual financial statements.

The Audit Committee is committed to ensuring the independence and objectivity of the external auditor. During the year the Committee assessed the qualifications, expertise, resources and independence of the external auditor, as well as its on-going effectiveness and considered the audit process on the basis of meetings and an internal review with finance, audit staff and other senior management. In reviewing the independence of the external auditor, the Audit Committee considered a number of factors, including: the standing, experience and tenure of the external audit partner; the nature and level of services provided by the external auditor; and confirmation from the external auditor that it has complied with relevant UK independence standards. This is particularly important in light of the tax compliance and advice being performed by the same firm. This is safeguarded through a review of the level of non-audit work which is given to the audit firm. The Committee also reviews the term of office of the external auditor.

The Audit Committee has monitored and reviewed the effectiveness of the internal systems and controls in place, taking into account the key business and financial risks and mitigation towards these.

The Audit Committee considers the need for an internal audit function annually. After due consideration the Committee has recommended to the Board that a formal internal audit function is not considered necessary due to the regular involvement of central functions such as business analysts and the regional finance team in branch activities. This position will be re-considered during 2011. The Committee has recommended to the Board that a small independent team continues to investigate any allegations brought to its attention through the Group's whistleblowing procedure. This team operated throughout 2010 and remains in place.

Nomination Committee

Since 9 June 2010, the Nomination Committee has comprised P F Dicks, M A Macario and, its Chairman, R Macnamara. Prior to 9 June 2010, the Nomination Committee comprised R Holt, R B Pomphrett, M A Macario, and its Chairman, P F Dicks.

The Committee meets at least once a year and is responsible for keeping under review the composition of the Board and succession to it and succession planning for senior management positions within the Group. It makes recommendations to the Board concerning appointments to the Board, whether of Executive or Non-Executive Directors, having regard to the balance and structure of the Board and the required blend of skills and experience. The Committee also makes recommendations to the Board concerning the re-appointment of any Non-Executive Director at the conclusion of his/her specified term and the re-election of any Director by shareholders under the retirement provisions of the Company's Articles of Association.

D J Miles was appointed as Chief Executive during the year after a rigorous process of succession planning which has involved discussions with major shareholders and customers. The appointment was approved by the Nomination Committee. The process has been underway internally for some time resulting in a stable and smooth transition.

Remuneration Committee

Since 9 June 2010, the Remuneration Committee has comprised M A Macario, R Macnamara and, its Chairman, P F Dicks. Prior to 9 June 2010, the Remuneration Committee comprised M A Macario, P F Dicks and, its Chairman, R B Pomphrett.

The Committee meets twice a year and is responsible for determining and agreeing with the Board the broad remuneration policy for:

- * the Chairman, the Executive Directors and senior management; and
- * the Executive Directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options.

No Director is involved in determining his own remuneration.

The Committee also approves the service agreements of each Executive Director, including termination arrangements.

All Directors are encouraged to attend all Board meetings and meetings of Committees of which they are members.

Board Committees continued

Remuneration Committee continued

Directors' attendance at Board meetings and Committee meetings during 2010 is shown in the following table:

Number of meetings	Board		Audit Committee		Nomination Committee		Remuneration Committee	
	Potential	Actual	Potential	Actual	Potential	Actual	Potential	Actual
R Holt	6	6	—	—	—	—	—	—
D J Miles	6	6	—	—	—	—	—	—
A C M Smith	6	6	—	—	—	—	—	—
A Long	6	6	—	—	—	—	—	—
M G Rogers	6	6	—	—	—	—	—	—
M A Macario	6	6	3	3	1	1	3	3
R B Pomphrett*	2	2	1	1	1	1	1	1
P F Dicks	6	6	1	1	1	1	3	3
D L Hosein	6	6	—	—	—	—	—	—
D Marston*	4	4	2	2	—	—	—	—
R Macnamara*	4	4	2	2	—	—	2	2

* D Marston and R Macnamara were appointed to the Board and R B Pomphrett did not seek re-election at the AGM on 9 June 2010.

Share capital

At 31 December 2010 the structure of the Company's capital is as follows:

	Issued Number	Nominal value per share p	Total £'000	Percentage of issued ordinary shares %
Ordinary shares	84,815,470	1	848	100

Rights and obligations**Dividends**

The 1p ordinary shares carry the right to discretionary dividends determined by the Company's Directors.

Voting rights

The 1p ordinary shares carry the right to one vote per share.

Restrictions on transfer of shareholdings

There are no restrictions on the transfer of the 1p ordinary shares in issue.

Special control rights

None of the shares in issue contain any special control rights.

Share schemes

At 31 December 2010, 7,502,411 options over 1p ordinary shares were in place. In addition, 2,500,000 options vested in November 2010 under the terms of the Special Incentive Plan approved by shareholders on 16 November 2007. Upon exercise the new 1p ordinary shares have equal rights with regards to the control of the Company as the 1p ordinary shares already in issue. Further detail on these options is available in note 6 to the accounts.

The Company and its shareholders

The Group places a great deal of importance on communication with its shareholders. The Board is committed to maintaining an on-going dialogue with its shareholders through the provision of regular Interim and Annual Reports and regular trading reports.

There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. Throughout the year the Group arranged a number of site visits for shareholders and other City commentators with the aim of providing them with increased exposure to our operations and management.

The principal methods of communication with private investors remain the Annual Report and Accounts, the interim statement, the quarterly newsletters and the Group's website (www.mearsgroup.co.uk), where the Group highlights the latest key business developments.

Internal control and risk management

The UK Corporate Governance Code requires that the Directors review the effectiveness of the Group's system of internal control. This extends the Directors' review to cover all material controls, including operational, compliance and financial controls and risk management systems. The Directors are satisfied that procedures are in place to ensure that the Group complies with the Turnbull Committee guidance published by the Institute of Chartered Accountants in England and Wales and that the procedures have been applied during the year.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board has delegated some of these responsibilities to the Audit Committee who has reviewed the effectiveness of the system of internal control and ensured that any remedial action has or is being taken on any identified weaknesses. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. It includes all controls including financial, operational and compliance controls and risk management procedures.

The Board confirms that the Group has in place an on-going process for identifying, evaluating and managing the significant risks faced by the Group. The Group endeavours to ensure that the appropriate controls, systems and training are in place and has established procedures for all business units to operate appropriate and effective risk management.

The processes used to assess the effectiveness of the internal control systems are on-going, allowing a cumulative assessment to be made, and include the following:

- * delegation of day-to-day management to operational management within clearly defined systems of control, including:
 - * the identification of levels of authority within clearly identified organisational reporting structures;
 - * the identification and appraisal of financial risks both formally, within the annual process of preparing business plans and budgets, and informally, through close monitoring of operations;
 - * a comprehensive financial reporting system within which actual results are compared with approved budgets, quarterly re-forecasts and previous years' figures on a monthly basis and reviewed at both local and Group level; and
 - * an investment evaluation procedure to ensure an appropriate level of approval for all capital and revenue expenditure;
- * discussion and approval by the Board of the Group's strategic directions, plans and objectives and the risks to achieving them, combined with regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- * review and approval by the Board of annual budgets, combined with regular operational and financial reviews of performance against budget, prior year results and regular forecasts by management and the Board;
- * the review and approval of all bids, acquisitions and capital expenditure within the Group;
- * regular reviews by the Board and Audit Committee of identified fraudulent activity and actions being taken to remedy any control weaknesses;
- * regular reviews by management and the Audit Committee of the scope and results of internal and external audit work across the Group and the implementation of recommendations; and
- * consideration by the Board and by the Audit Committee of the major risks facing the Group and of the procedures in place to manage them and to ensure controls react to changes in the Group's overall risk profile. These include health and safety, legal compliance, quality assurance, insurance and security and reputational, social, ethical and environmental risks.

Internal control and risk management *continued*

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. The system of internal control and risk management is embedded into the operations of the Group and the actions taken to mitigate any weaknesses are carefully monitored.

The key controls in place are:

- * a defined organisational structure and an appropriate level of delegated responsibility to operational management;
- * authorisation limits for financial and non-financial transactions;
- * written operational procedures;
- * a robust system of financial budgeting and forecasting;
- * a robust system of financial reporting with actual results compared to budget and forecast results; and
- * a regular reporting of operational performance and risks to the Board.

Additionally, in line with The UK Corporate Governance Code, the Group has arranged appropriate insurance cover in respect of legal action against its Directors.

This report was approved by the Board and has been signed on its behalf by:

M A Macario

Senior Independent Non-Executive Director

15 April 2011

Remuneration report

Introduction

This report has been prepared in accordance with SI 2008/410 Schedule 8 (the 'Regulations'). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the 2010 UK Corporate Governance Code ('Combined Code') relating to Directors' remuneration. As required by the Regulations, an advisory resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved.

The auditor is required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The report is therefore divided into separate sections for audited and unaudited information.

Part 2 of the Regulations – unaudited information

Remuneration Committee

The Directors who were members of the Remuneration Committee (the 'Committee') during the year are shown on page 34.

In 2010, the Committee continued to engage PwC and received wholly independent advice on Executive compensation.

The Committee is formally constituted with written terms of reference and its main responsibilities are detailed in the Corporate Governance Statement on page 34.

In summary, the Committee determines the total individual remuneration packages of each Executive Director of the Company and certain other senior employees (and any exit terms) and recommends to the Board the framework and broad policies of the Group in relation to Senior Executive remuneration. The Committee determines the targets for all of the Group's performance related remuneration and exercises the Board's powers in relation to all of the Group's share and incentive plans.

The Committee met three times during 2010 and discussed, amongst others, the issues set out in the table below:

Meeting	Key issues discussed	Attendees
March	– A review of Executive Directors' and senior management's base salaries and pension provision – Consideration and approval of bonus payments for Executive Directors – Approval of the 2009 Directors' Remuneration Report	All Committee members
August	– Approval of the performance targets for the Long-term Incentive Plan (LTIP) Awards granted to Executive Directors and associated awards	All Committee members
December	– Review of Executive Directors' base salaries and structure of 2011 bonus	All Committee members

Annual overview

R B Pomphrett was Chair of the Remuneration Committee until June 2010 when he did not seek re-election to the Board at the AGM. P F Dicks assumed this role from June 2010.

The Committee has continued to work to build investor confidence with regard to its Executive remuneration policies and is committed to the following actions:

- * a commitment to improve the level of openness and transparency in remuneration reporting through a detailed annual Remuneration Report;
- * no increase in the Chairman's salary for 2010, 2011 or 2012 and a commitment to reduce the salary level from October 2010 and to review at regular intervals thereafter to reflect the role and responsibilities of the Chairman going forward in accordance with the implementation of the succession planning strategy;
- * the introduction of a structured bonus arrangement with clear financial and individual performance targets for each year. This exercise was delayed into 2011 to take into account the changes to the Board and other corporate and business developments in what has been a transformational year for the Group;
- * a strategic review of the remuneration policies for other Executive Directors and other Senior Executives within the Group to ensure that they remain appropriate to retain and motivate such individuals. This will be undertaken on an annual basis;
- * a commitment to take into account the various changes principles proposed by the Walker Review and other pronouncements by regulatory bodies and institutional shareholders and their representative bodies;
- * to encourage Executive Directors and Senior Executives to build up a meaningful shareholding in the Company to more closely align the interests of shareholders and Executives; and
- * to be kept fully aware and informed on developments and best practice in the field of remuneration and corporate governance from both external advisers, institutional shareholders and their representative bodies.

Notwithstanding the above, the Committee recognises that the success of Mears is down to the efforts of key individuals and that they should be fairly rewarded for their efforts and contributions in making Mears the success it is. The following section details how remuneration is structured.

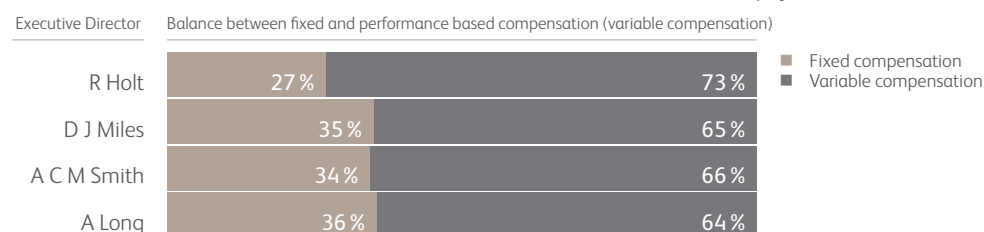
Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy

The Committee has adopted the following remuneration principles in supporting its primary objective of ensuring that the Group has in place a remuneration structure that is able to incentivise and retain highly skilled and motivated individuals who are the cornerstone of the continued success of the Group:

- * levels of remuneration should be appropriate to retain and motivate the Executive talent required to meet the Group's objectives;
- * incentive arrangements for key individuals should be capable of providing exceptional levels of total payment if outstanding performance is achieved;
- * the significant component of each Executive's total compensation should be delivered through performance related pay and the provision of equity; and
- * a commitment to fostering a strong performance culture that aligns individual's rewards with the key corporate metrics which drive shareholder value creation.

The charts below demonstrate the balance between fixed and maximum variable pay for each Executive Director for the year ended 31 December 2010:



Salary

The purpose of the base salary is to:

- * help recruit and retain key individuals;
- * reflect the individual's experience, role and contribution within the Group; and
- * ensure fair reward for 'doing the job'.

The Committee reviews base salaries annually in order to ensure that Executive Directors remain competitively aligned with external market practices.

The Committee will retain the discretion to increase an individual's salary (other than that of the Chairman) where there is a significant differential between current levels and a market competitive rate. However, in determining whether to increase levels the Committee will take the following into consideration:

- * the performance of the individual Executive Director;
- * the individual Executive Director's experience and responsibilities;
- * the impact on fixed costs of any increase; and
- * pay and conditions throughout the Group.

Remuneration report

continued

Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy continued

Annual bonus

The Group offers Executive Directors and senior management the opportunity to earn performance related bonuses.

The purpose of the annual bonus is to incentivise Executive Directors and senior management to achieve financial, strategic, operational and individual targets during a one-year period and reward on-going stewardship of the Group and contribution to core values.

Maximum bonus levels and the proportion payable for on-target performance are considered in the light of market bonus levels for the job in competitors and the quoted support services sector.

The maximum bonus potential for the Executive Directors for 2010 was 110 % of salary, reducing to 75 % in subsequent years.

The Committee recognises and appreciates the efforts and contributions of the Executive Directors and all employees of the Company in a challenging economic environment. There were no bonus payments in respect of 2010.

For 2011, the Committee will set clear objectives for each individual Executive Director relating to Group KPIs plus individual (where relevant) divisional and strategic targets taking into account where an individual has particular influence and responsibility. Such targets will include:

- * delivery and mobilisation of new contracts;
- * delivery of acquisition strategy;
- * shaping and development of Domiciliary Care business;
- * succession planning; and
- * financial performance.

The Committee will set out in its 2011 Remuneration Report further information of what those targets are for each individual and the level of performance attained against each of those targets and the resultant level of bonus payment. The Committee will also determine, prior to the payment of bonus, the level of deferral into Company shares, if any, which must be held for a period of three years.

It should be noted that all bonus payments are not pensionable.

For 2011 and future years, annual bonuses will be based on a combination of performance measures:

Measure	Proportion	Objective		Threshold	Budget	Maximum
Financial performance	2/3	The Group's financial performance is measured against annual budgets that drive corporate performance	Profit before Tax and Amortisation (PBTA)			
			Achievement	<100 %	100 %	110 %
			Payment – % of salary	0 %	26.67 %	50 %
Personal objectives	1/3	Performance is measured annually against agreed personal objectives that will support the achievement of the Group's business goals	Typical KPIs include: Business development Bid wins ratios Working capital control Service ratings Margins Complaint ratios Jobs completed on time ratios People development HSE targets Revenue growth	Below target	Target	Maximum
				Aggregate payout is 0 %	Aggregate payout is 13.33 %	Aggregate payout is 25 %
Total bonus (as % of base salary)				—	40%	75%

For the KPIs there will be a balanced scorecard approach applied to each of the Executive Directors.

Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy continued

Benefits and pension

The Executive Directors receive additional benefits including a Company provided car or an allowance in lieu, life assurance and private medical insurance. Benefits-in-kind are not pensionable.

All Executive Directors receive contributions into their respective defined contribution plans. The Committee is of the opinion that contribution rates are competitive against the market.

Full details of pension costs for Executive Directors are set out in the audited section of this report on page 44.

Share awards

Long-term Incentive Plan (LTIP)

For other Executive Directors and certain members of the Senior Management Team. The Remuneration Committee's policy is to provide annual share grants to Executives at a market competitive level. The Remuneration Committee believes that share awards under the LTIP enable the Group to provide a competitive incentive and retention tool which is also cost effective in respect of both shareholder dilution and income statement expense. This structure demonstrates the Remuneration Committee's desire to correlate incentive arrangements with the achievement of substantial performance.

The operation of the LTIP and the main terms and conditions are set out in the following table:

Feature	Terms and conditions		
Maximum individual limit p.a.	200 % of salary p.a.		
Performance conditions	Awards made annually in the form of nil-cost options. For LTIP Awards made in 2010, 75 % of the award vests based on the growth in Group EPS performance and a comparative TSR underpins whereby the Company's TSR must at least exceed the return of the FTSE All Share Index.		
2008–9 LTIP shares performance level p.a.	Level of vesting	2010 LTIP shares performance level p.a.	Level of vesting
10.0 %	10 %	8.0 %	10 %
12.5 %	30 %	12.5 %	30 %
15.0 %	100 %	15.0 %	100 %

Straight-line vesting between points. EPS will be calculated pre amortisation.

The other 25 % of the LTIP Award relates to the Company's TSR against the return of the FTSE All Share Support Services Sector as follows:

Company's performance level	Level of vesting
Below Index return	0 %
Equal to Index return	30 %
10 % outperformance of the Index p.a.	100 %

Straight-line vesting between points.

The two conditions are measured independently. Awards will be released on the third anniversary of the date of grant subject to the achievement of the relevant performance conditions over the same period.

Remuneration report

continued

Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy continued

Share awards continued

Long-term Incentive Plan (LTIP) continued

The following table sets out the level of vesting based on performance to date for all outstanding LTIP awards:

Year of grant	Percentage of award vesting			
	Performance period	TSR	EPS	Total
2008	October 2008 – October 2011	0 %	30 %	15.0 %
2009	October 2009 – October 2012	0 %	30 %	15.0 %
2010	August 2010 – August 2013	0 %	10 %	7.5 %

Share options

Although the policy on equity incentivisation is through the provision of the LTIP Awards, Executive Directors and senior management hold share options in the Company.

The tables on pages 45 and 46 set out the number of share awards held by the Executive Directors.

All-employee share plans

The Group encourages share ownership by employees and, accordingly, it operates an all-employee share plan.

Under the terms of the Sharesave Plan all UK employees can save up to £250 per month and receive three or five year options to acquire the Company's shares priced at a discount of up to 20 %.

Dilution

In accordance with the Association of British Insurers' guidelines, the Company can issue a maximum of 10 % of its issued share capital (in addition to the SIP) in a rolling ten-year period to employees under all its share plans. In addition, of this 10 % the Company can only issue 5 % to satisfy awards under discretionary or Executive plans. The Company operates all its share plans within these guidelines.

Other remuneration matters

Executive Directors' contracts

Details of the service contracts of the Executive Directors of the Company are as follows:

Name	Company notice period	Contract date
R Holt	6 months	4 June 2008
D J Miles	12 months	4 June 2008
A C M Smith	12 months	4 June 2008
A Long	12 months	18 August 2009

All Executive Directors' contracts are rolling and, therefore, will continue unless terminated by the written notice set out above. In the event of the termination of an Executive's contract, salary and benefits will be payable during the notice period (there will, however, be no automatic entitlement to bonus payments or share incentive grants during the period of notice other than where normal good leaver provisions apply). The Committee will ensure that there have been no unjustified payments for performance failure on an Executive Director's termination of employment. There are no special provisions in the contracts of employment extending notice periods on the liquidation of the Company or cessation of employment. The maximum notice period on a change of control is twelve months.

Executive Directors have an obligation to inform the Board, specifically the Remuneration Committee, of any Non-Executive positions held or being contemplated and of the associated remuneration package. The Remuneration Committee will consider the merits of each case and carefully consider the work and time commitment required to fulfil the Non-Executive duties and the potential benefit to the Group, and then determine whether the remuneration should be retained by the Executive or passed over to the Group.

Part 2 of the Regulations – unaudited information continued

Other remuneration matters continued

Non-Executive Directors' fee level

The remuneration of the Non-Executive Directors is determined by the Board and is within the limits set by the Articles of Association. Assistance is also available from the Group's remuneration advisers.

The Non-Executive Director fees are set out in the following table:

Name	2010 £'000	2009 £'000
R B Pomphrett*	18	42
M A Macario	42	42
D L Hosein	42	42
M G Rogers	42	42
P F Dicks	42	42
D Marston*	23	—
R Macnamara*	23	—

* D Marston and R Macnamara were appointed to the Board and R B Pomphrett did not seek re-election at the AGM on 9 June 2010.

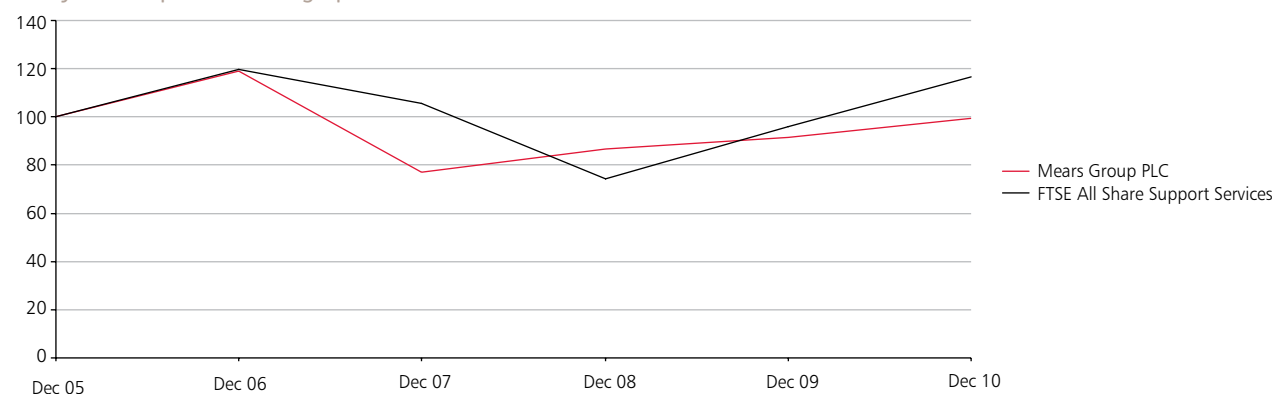
The levels of fees for the Non-Executive Directors are set taking into account the following factors:

- * the role and responsibility of the Non-Executive Director;
- * the experience of the Non-Executive Director; and
- * comparative levels using the same comparators as are used for setting the salary levels for the Executive Directors.

Details of the current Non-Executive Directors' appointment dates are:

Name	Effective date of letter of appointment or last renewal
M A Macario	4 June 2008
D L Hosein	4 June 2008
M G Rogers	4 June 2008
P F Dicks	4 June 2008
D Marston	9 June 2010
R Macnamara	9 June 2010

Non-Executive Directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions. The Non-Executive Directors do not have service contracts. Letters of appointment run for a rolling six-month period.

Five-year TSR performance graph

The graph shows the Group's performance, measured by TSR, compared with the constituents of the FTSE All Share Support Service Sector over the last five years. The Index is the most relevant to compare the Group's performance against its peers.

Remuneration report

continued

Part 3 of the Regulations – audited information

The remuneration of each Director, excluding long-term, share-based incentive awards and pensions, during the year ended 31 December 2010 compared with 2009 is set out in the table below:

Directors' remuneration	Fees/ basic salary £'000	Bonus £'000	Benefits in kind £'000	2010 Total £'000	2009 Total £'000
Executive					
R Holt	450	—	15	465	960
D J Miles	230	—	9	239	219
A C M Smith	170	—	4	174	154
A Long	160	—	4	164	153
	1,010	—	32	1,042	1,486
Non-Executive					
R B Pomphrett*	18	—	—	18	42
M A Macario	42	—	—	42	42
D L Hosein	42	—	—	42	42
M G Rogers	42	—	—	42	42
P F Dicks	42	—	—	42	42
D Marston*	23	—	—	23	—
R Macnamara*	23	—	—	23	—
	232	—	—	232	210
Total remuneration	1,242	—	32	1,274	1,696

* D Marston and R Macnamara were appointed to the Board and R B Pomphrett did not seek re-election at the AGM on 9 June 2010.

Executive Directors' pensions (defined contribution)

	2010 Total £'000	2009 Total £'000
R Holt	135	135
D J Miles	31	28
A C M Smith	17	15
A Long	16	15
	199	193

Part 3 of the Regulations – audited information continued**Mears Group PLC Special Incentive Plan (SIP)**

The SIP was approved by shareholders on 16 November 2007 and its terms and conditions amended following shareholder approval in July 2009.

Awards under the LTIP are set out in the table below:

Date of grant	SIP Awards to 1 January 2010	Granted	Lapsed	SIP Awards held at 31 December 2010	Date of release
R Holt					
28 September 2009*	2,500,000	—	—	2,500,000	November 2010 – 60 % November 2011 – 20 % November 2012 – 20 %

* The performance conditions attaching to this award were satisfied in full and therefore the award vested in full in November 2010.

Mears Group PLC Long-term Incentive Plan (LTIP)

The LTIP was approved by shareholders on 1 October 2008. Awards under the LTIP are set out in the table below:

Date of grant	LTIP Awards to 1 January 2010	Granted	Lapsed	LTIP Awards held at 31 December 2010	Date of release
D J Miles					
13 October 2008	100,000	—	—	100,000	October 2011
28 October 2009	100,000	—	—	100,000	October 2012
24 August 2010	—	175,000	—	175,000	August 2013
A C M Smith					
13 October 2008	100,000	—	—	100,000	October 2011
28 October 2009	100,000	—	—	100,000	October 2012
24 August 2010	—	130,000	—	130,000	August 2013
A Long					
13 October 2008	100,000	—	—	100,000	October 2011
28 October 2009	100,000	—	—	100,000	October 2012
24 August 2010	—	100,000	—	100,000	August 2013

LTIP Awards are in the form of nil-cost options. If the relevant EPS and TSR performance conditions attaching to the awards are satisfied then the Director has seven years in which to exercise the award.

Remuneration report

continued

Part 3 of the Regulations – audited information continued

Details of Directors' interests in shares held under option

Executive Directors hold the following options granted under the Mears Group Share Option Scheme:

Date of grant	At 1 January 2010	Lapsed	Exercised	At 31 December 2010	Exercise price p	Exercisable dates
R Holt						
10 April 2003	129,870	—	—	129,870	77	2006 – 2013
10 April 2003	240,642	—	—	240,642	1	2006 – 2013
1 April 2004	30,453	—	—	30,453	1	2007 – 2014
D J Miles						
1 April 2004	30,453	—	—	30,453	1	2007 – 2014
8 April 2005	7,220	—	—	7,220	1	2008 – 2015
21 April 2006	10,000	—	—	10,000	300	2009 – 2016
21 April 2006	6,087	—	—	6,087	1	2009 – 2016
28 September 2007	50,045	—	—	50,045	1	2010 – 2017
20 March 2008	151,149	—	—	151,149	1	2011 – 2018
A C M Smith						
10 April 2003	50,000	—	—	50,000	77	2006 – 2013
1 April 2004	24,363	—	—	24,363	1	2007 – 2014
8 April 2005	7,220	—	—	7,220	1	2008 – 2015
21 April 2006	10,000	—	—	10,000	300	2009 – 2016
21 April 2006	6,087	—	—	6,087	1	2009 – 2016
28 September 2007	50,045	—	—	50,045	1	2010 – 2017
20 March 2008	100,766	—	—	100,766	1	2011 – 2018
A Long						
21 April 2006	10,000	—	—	10,000	300	2009 – 2016
21 April 2006	6,087	—	—	6,087	1	2009 – 2016
28 September 2007	20,018	—	—	20,018	1	2010 – 2017
20 March 2008	75,575	—	—	75,575	1	2011 – 2018

Options are exercisable at the prices indicated which are equal to the average quoted market price of the Company's shares on the three dealing days prior to the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire and are forfeited if the Director leaves Mears Group PLC before the option vests.

For those options with an exercise price of 1p, these options which were previously market-priced options but were replaced with a lower number of nil-cost options with the same expected value and terms and conditions. These nil-cost options can only be exercised if the share price is greater than the original exercise price of the market-priced options.

The agreements covering Directors' options and LTIP Awards are available for inspection at the Group's offices. The Company's Register of Directors' Interests (which is also open to inspection) contains full details of the Directors' shareholdings and options to subscribe.

This report was approved by the Board and has been signed on its behalf by:

P F Dicks

Chairman of the Remuneration Committee

15 April 2011

We have audited the financial statements of Mears Group PLC for the year ended 31 December 2010 which comprise the Group principal accounting policies, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, related Group notes, Company principal accounting policies, Parent Company Balance Sheet and related Company notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- * the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- * the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- * the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- * the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- * the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- * the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- * the information given in the Corporate Governance Statement set out on pages 31 to 37 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Report of the independent auditor

to the members of Mears Group PLC
continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- * adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us;
- * the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns;
- * certain disclosures of Directors' remuneration specified by law are not made;
- * we have not received all the information and explanations we require for our audit; or
- * a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules, we are required to review:

- * the Directors' statement, set out on page 26, in relation to going concern;
- * the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- * certain elements of the report to the shareholders by the Board on Directors' remuneration.

J Geraint Davies

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
15 April 2011

Principal accounting policies – Group

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRS as adopted by the European Union. The financial statements are prepared under the historical cost convention.

The accounting policies remain unchanged from the previous year except for the adoption of IAS 27 (Revised) 'Consolidated and Separate Financial Statements' and IFRS 3 (Revised) 'Business Combinations'.

IFRS 3 (Revised) 'Business Combinations' (effective from 1 July 2009) continues to apply the acquisition method to business combinations. There is no requirement to restate comparative acquisitions made on or before 31 December 2009. The Group has applied IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010. The most significant change from the Group's previous policies on business combinations is that any acquisition transaction costs, which would have previously been included in the cost of a business combination, are now expensed through the Income Statement as they are incurred.

IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from 1 July 2009), was applied from 1 January 2010, but has not had a material impact on the Group.

The Directors consider that as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. The Directors have discussed the principal risks and uncertainties of the business in the report of the Directors on pages 27 and 28.

Basis of consolidation

The Consolidated Balance Sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2010. Entities over which the Group has the ability to exercise control over financial and operating policies are accounted for as subsidiaries. Control is obtained and exercised through voting rights so as to obtain benefits from its activities. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

Business combinations are accounted for using the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Balance Sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

The Company is entitled to the merger relief offered by Section 612 of the Companies Act 2006 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Careforce Group plc and Supporta plc.

All significant intercompany transactions and balances between Group enterprises, including unrealised profits arising from intra-group transactions, are eliminated on consolidation; no profit is taken on sales between Group companies.

Costs relating to acquisitions in the year have been expensed.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost, net of depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated to write down the cost less estimated residual value over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	–	2 % per annum, straight-line
Leasehold improvements	–	over the period of the lease, straight-line
Plant and machinery	–	25 % per annum, reducing balance
Fixtures, fittings and equipment	–	25 % per annum, reducing balance
Motor vehicles	–	25 % per annum, reducing balance
Assets under construction	–	nil

Residual values are reviewed annually and updated if appropriate. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the Income Statement.

Intangible assets

In accordance with IFRS 3 (Revised) 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Group are not reliably measurable. Where the individual fair value of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are amortised over the useful economic life of those assets.

Development costs incurred on software development are capitalised when all the following conditions are satisfied:

- * completion of the software module is technically feasible so that it will be available for use;
- * the Group intends to complete the development of the module and use it;
- * the software will be used in generating probable future economic benefits;
- * there are adequate technical, financial and other resources to complete the development and to use the software; and
- * the expenditure attributable to the software during its development can be measured reliably.

Costs incurred making intellectual property available for use (including any associated borrowing costs) are capitalised when all of the following conditions are satisfied:

- * completion of the data set is technically feasible so that it will be available for use;
- * the Group intends to complete the preparation of the data and use it;
- * the data will be used in generating probable future economic benefits;
- * there are adequate technical, financial and other resources to complete the data set and to use it; and
- * the expenditure attributable to the intellectual property during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software are continuously monitored by management.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on software development.

Amortisation commences upon completion of the asset and is shown within other administrative expenses. Until completion of the project, the assets are subject to impairment testing only. Development expenditure is amortised over the period expected to benefit.

The identifiable intangible assets and associated periods of amortisation are as follows:

Order book	–	over the period of the order book, typically three years
Client relationships	–	over the period expected to benefit, typically five years
Development expenditure	–	25 % per annum, straight-line
Intellectual property	–	over the period of usefulness of the intellectual property, typically five years

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combinations exemption of IFRS 1, goodwill previously written off direct to reserves under UK GAAP is not recycled to the Income Statement on calculating a gain or loss on disposal.

Principal accounting policies – Group

continued

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, Cash-Generating Units (CGUs). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or CGUs that include goodwill, other intangible assets with an indefinite useful life and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Income Statement for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use based on an internal discounted cash flow evaluation. Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the purchase price of materials.

Work in progress

Work in progress is included in inventories after deducting any foreseeable losses and payments on account not matched with turnover. Work in progress represents costs incurred on contracts that cannot be matched with contract work accounted for as turnover. Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and any subcontracted work which has been incurred in bringing the inventories and work in progress to their present location and condition.

Amounts recoverable on contracts

Amounts recoverable on contracts are included in trade and other receivables and represent turnover recognised in excess of payments on account.

Accounting for taxes

Income tax comprises current and deferred taxation.

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the Income Statement, any related tax generated is recognised as a component of tax expense in the Income Statement. Where an item is recognised directly to equity or presented within the Consolidated Statement of Comprehensive Income, any related tax generated is treated similarly.

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences in full with no discounting. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue

Revenue is measured in accordance with IAS 18 'Revenue' at the fair value of the consideration received or receivable, for goods and services provided in the normal course of business, net of rebates and discounts and after eliminating sales within the Group.

Social Housing

Revenue is recognised when the outcome of a job or contract can be estimated reliably; revenue associated with the transaction is recognised by reference to the stage of completion of work at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- * the amount of revenue can be measured reliably;
- * it is probable that the economic benefits associated with the transaction will flow to the entity;
- * the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- * the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Whilst all Social Housing contracts can fit within the guidelines laid down for revenue and profit recognition as detailed above, the alternative contractual pricing mechanisms do result in different methods of assessing the stage of completion. The Group has therefore recognised revenue dependent on the nature of transactions in line with IAS 18.

There are numerous contractual pricing mechanisms but one can broadly divide these into three types:

Schedule of Rates (SOR) contracts

There is an element of SOR in approximately two-thirds of contracts. At tender stage we enter a price for each of the numerous tasks carried out in respect to property maintenance. Typically we price for uplift or a discount against a pre-priced schedule. This price will, in some cases, be an all-encompassing price for the cost of direct works, the local site overhead, central overhead and profit contribution. In other instances, the SOR tendered may only recover direct works with an alternative mechanism to recover the other elements. Wherever possible, we seek to identify all individual works tickets received individually and capture costs and billing at the individual work ticket level. In so doing, this allows revenue to be recognised with a high degree of accuracy. Typically reactive maintenance works are invoiced within a month of completion, hence the majority of revenue recognised has already been individually valued at the work ticket level and the significant majority has been subsequently settled. The only element of revenue or profit recognition that requires judgement is against those jobs that are part complete or those completed works that have not been subject to a final valuation.

For part completed works, it is probable that the Group will recover the transaction costs incurred. Whether the outcome of the transaction can be estimated reliably needs to be considered contract by contract based on historic outcomes and knowledge of any events that may affect future job profitability. Where the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent that the costs incurred are anticipated to be recovered. Where the outcome of the transaction can be estimated reliably, an element of anticipated profit is recognised within revenue to the extent that historic outcomes adjusted for knowledge of any events that may affect future job profitability supports such recognition.

For completed but not yet valued works, the outcome of the individual valued work tickets is not reviewed individually for the purposes of profit and revenue recognition. However, given the high volume of historical data to provide an accurate indication of underlying contract margin at a particular site, the Group considers that the application of an anticipated profit margin on cost to all completed and unbilled works produces a reliable measure.

For completed and valued works, the likely outcome for the individual work ticket can be determined individually for the purposes of profit and revenue recognition. The Group considers that the recognition of the anticipated profit for the individual job within revenue is appropriate.

Open book contracts

Typically the open book element of contracts relates to the local site overhead. A priced overhead model is usually provided to a client at tender stage and the client pays the Group a fixed sum for maintaining this local site. This is typically an agreed fixed price. Any over or under spends are typically at the risk of the Group. The actual overhead spend is often subject to an open book review which is then used as the basis for agreeing future pricing.

On the rare occasions that a contract does recover costs under a pure 'cost plus' arrangement, revenue is recognised in line with cost incurred and similarly the attributable profit recognised against that cost.

Principal accounting policies – Group

continued

Revenue continued

Social Housing continued

Lump sum contracts

This type of contract is becoming more commonplace. To avoid the onerous burden of administering a high volume, low value activity, the pricing mechanism is reduced to either a price per ticket or a price per property. Historically, many gas servicing and breakdown contracts have been procured on a lump sum basis. However, it is now becoming increasingly common within the reactive maintenance environment. There is typically an exclusions list for works that are not considered repairs and not deemed to fall within the lump sum price. It is normal for this excluded element of the works to be billed under an SOR arrangement.

For practical purposes, in the majority of lump sum contracts, revenue is recognised on a straight-line basis over the contract term. There is not a material impact of seasonality in a client's reactive maintenance spend (in terms of either volume or value of orders received). In terms of the lump sum element of the contract, the revenue is split evenly across the twelve monthly reporting periods. No element of revenue is either advanced or deferred.

There are a small number of lump sum contracts where recognising revenue on a straight-line basis would be inappropriate. These are contracts where the phasing of the works over the contract term varies materially over the period of the contract and there is a mismatch between the delivery of works and the timing of invoicing against those works. For these contracts, the Group has historically reverted to recognising profit based on the proportion of costs incurred to date compared with the estimated total costs of the contract.

Domiciliary Care

Revenue is recognised when the actual care has been delivered. Revenue relating to care delivered and not invoiced is accrued and disclosed under trade and other receivables as amounts recoverable on contracts. Revenue attributable to any unused capacity under block contracts, where the Group is able to invoice for contracted services, not provided, is recognised when the recovery of income is considered virtually certain. There is minimal scope for judgement based on the Domiciliary Care process.

Mears Care has two primary rostering systems in use. Both of these systems are used widely by UK-based domiciliary care providers. These systems allow for planning a rota for each staff member, together with the corresponding pay and bill rates for the particular service type, length of service and time of delivery. These results are very accurate in the calculation of billable time, income and corresponding employee pay for a particular contract, branch or region.

Accrued income is determined by applying an average historical billing rate to the number of unbilled hours delivered at the balance sheet date. Variances are reviewed in the following month once actual billing is known. The rostering systems allow unbilled hours to be calculated based on planned rostered and actual visits along with the corresponding pay and bill rates for the particular service type, length of service and time of delivery. These results are very accurate in the calculation of billable time, income and corresponding employee pay for a particular contract, branch or region.

Construction contracts

Revenue from the Mechanical & Electrical (M&E) sector reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is usually assessed by comparing the proportion of costs incurred to estimated total contract costs. Where this is not representative, contract milestones are used as a basis of assessing the stage of completion. Where the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- * it is probable that economic benefits associated with the contract will flow to the Group;
- * both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
- * the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred, plus recognised profits (less recognised losses), exceed progress billings. The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

Segment reporting

Segment information is presented in respect of the Group's operating segments based upon the format that the Group reports to its chief operating decision maker. The Group considers that the chief operating decision makers are the Directors and Senior Executives of the business.

Exceptional items

Exceptional items are disclosed on the face of the Consolidated Income Statement where these are material and considered necessary to explain the underlying financial performance of the Group. They are either one off in nature or necessary elements of expenditure to derive future benefits for the Group which have not been capitalised in the Consolidated Balance Sheet.

Costs of restructure are only considered to be exceptional where the restructure is transformational and the resultant cost is significant.

Acquisition costs are only considered to be exceptional where the acquisition is significant and the resultant cost is significant.

Employee benefits

Retirement benefit obligations

The Group operates both defined benefit and defined contribution pension schemes as follows:

i) Defined contribution pensions

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

The assets of the schemes are held separately from those of the Group in an independently administered fund.

ii) Defined benefit pensions

The Group contributes to 13 principal defined benefit schemes which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Group.

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. Appropriate adjustments are made for past service costs. Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that benefits are already vested, the Group recognises past service cost immediately.

Actuarial gains and losses are recognised immediately through the Consolidated Statement of Comprehensive Income. The net surplus or deficit is presented with other net assets on the Consolidated Balance Sheet. Any related deferred tax is shown with other deferred tax balances. A surplus is recognised only to the extent that it is recoverable by the Group.

The Group's contributions to the scheme are paid in accordance with the rules of the schemes and the recommendations of the actuary.

In accordance with IFRIC 14, the asset that is recognised is restricted to the amount by which the IAS 19 service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Where the pension scheme has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Group is not set so as to contribute to reducing the deficit in the scheme.

Principal accounting policies – Group

continued

Employee benefits continued

Share-based employee remuneration

All share-based payment arrangements that were granted after 7 November 2002 and had not vested before 1 January 2005 are recognised in the consolidated financial statements in accordance with IFRS 2.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value (excluding the effect of non-market based vesting conditions) of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Binomial and Monte Carlo option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period. For SAYE plans, employees are required to contribute towards the plan. This non market-based vesting condition is built into the estimate of expected forfeitures.

All share-based remuneration is ultimately recognised as an expense in the Income Statement with a corresponding credit to share-based payment reserve.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital, with any excess being recorded as share premium.

Modifications to share-based payment arrangements are accounted for in accordance with IFRS 2. The modifications made by the Group has not increased the fair value of the equity instruments granted and, therefore, there has been no change to the share-based payment charge as a result.

Leases

In accordance with IAS 17 'Leases', the economic ownership of a leased asset is transferred to the lessee if they bear substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable acquired assets. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

All other leases are treated as operating leases. Payment on operating lease agreements is recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group does not act as a lessor.

Financial instruments

Financial assets and liabilities are recognised in the Balance Sheet when the Group becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

Financial assets

When financial assets are recognised initially under IAS 39 'Financial Instruments: Recognition and Measurement', they are measured at fair value.

The Group's financial assets are included in the Balance Sheet as current assets, except for maturities greater than twelve months after the balance sheet date, whereupon they are classified as non-current assets. The Group's financial assets comprise 'Trade and other receivables', 'Amounts recoverable on contracts' and 'Cash at bank and in hand' in the Balance Sheet.

Loans and receivables

Trade receivables and amounts recoverable on contracts are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Trade receivables and amounts recoverable on contracts, are initially recorded at amortised cost, being invoiced value less a provisional estimate for impairment. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Income Statement.

Provisions against trade receivables and amounts recoverable on contracts, are made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are grouped into credit risk categories and reviewed in aggregate.

Cash and cash equivalents include cash at bank and in hand and bank deposits available at less than 24 hours' notice. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Following initial recognition, financial assets are subsequently remeasured at amortised cost using the effective interest rate method.

Financial instruments continued

Financial liabilities

The Group's financial liabilities are overdrafts, trade and other payables and finance leasing liabilities. They are included in the Balance Sheet line items 'Short-term borrowings and overdrafts', 'Non-current financial liabilities' and 'Trade and other payables'.

All interest related charges are recognised as an expense in 'Finance cost' in the Income Statement with the exception of those which are directly attributable to the construction of a qualifying asset which are capitalised as part of that asset.

Bank and other borrowings are initially recognised at fair value net of transaction costs. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance costs. Borrowing costs are recognised as an expense in the period in which they are incurred with the exception of those which are directly attributable to the construction of a qualifying asset which are capitalised as part of that asset.

Finance lease liabilities are initially measured at the lower of the fair value of the leased property and the present value of the minimum lease payments as determined at the inception of the lease. The initial value is reduced by the capital element of lease repayments over the period of the lease.

Trade payables on normal terms are not interest bearing and are stated at their fair value.

Following initial recognition, financial liabilities are subsequently remeasured at amortised cost using the effective interest rate method.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The resulting gain or loss is recognised in the Income Statement.

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from its financing activities. In accordance with its treasury policy the Group does not hold or issue derivative financial instruments for trading purposes. The Group does not hedge account and recognises gains or losses on derivatives at fair value through the Income Statement.

Equity instruments

Share capital is determined using the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Equity-settled shared-based employee remuneration is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The merger reserve relates to the difference between the nominal value and total consideration in respect of the acquisition of Careforce Group plc and Supporta plc, where the Company was entitled to the merger relief offered by the Companies Act.

Dividend distributions payable to equity shareholders are included in 'Current financial liabilities' when the dividends are approved in the General Meeting prior to the balance sheet date.

Use of judgements and estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying judgements are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of these consolidated financial statements, estimates and judgements have been made by management concerning the selection of useful lives of property, plant and equipment, provisions necessary for certain liabilities, when to recognise revenue on long-term contracts, actuarial judgements, discount rates used within impairment reviews, the underlying share price volatility for valuing equity-based payments and other similar evaluations. Actual amounts could differ from those estimates.

Critical judgements in applying the Group's accounting policies

Revenue recognition

Revenue is recognised based on the stage of completion of job or contract activity. As described in the revenue section above, certain types of social housing pricing mechanisms and domiciliary care require minimal judgement, however social housing lump sum contracts and construction contracts do require judgements and estimates to be made to determine the stage of completion and the expected outcome for the individual contract.

Principal accounting policies – Group

continued

Use of judgements and estimates continued

Key sources of estimation uncertainty

Impairment of goodwill

Determining whether goodwill is impaired requires an estimate of the value-in-use of the CGUs to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the CGUs and also the selection of appropriate discount rates to calculate present values. Future cash flows are estimated using the current one-year budget forecast, extrapolated for a future growth rate. The estimated growth rates are based on past experience and knowledge of the individual sector's markets. Changes in the estimated growth rate could result in variations to the carrying value of goodwill. The Directors consider that the estimates and judgements involved in determining the value in use of the Domiciliary Care CGU goodwill are the most significant and have therefore utilised the services of an external consultant to undertake this impairment review. The estimated cash flows and future growth rates are based on past experience and knowledge of the sector. The value in use is most sensitive to changes in the terminal growth rate, the explicit growth rate and the discount rate. The sensitivity to changes in these estimations is detailed in note 11.

Share-based employee remuneration

The fair values of options granted have been determined using the Binomial and Monte Carlo option pricing models. Significant estimates involved in the calculation include share price volatility and the risk-free interest rate. Details of these judgements are included in the share-based employee remuneration note.

Defined benefit liabilities

A number of key estimates have been made, which are given below, which are largely dependent on factors outside the control of the Group:

- * expected return on plan assets;
- * inflation rates;
- * mortality;
- * discount rate; and
- * salary and pension increases.

Details of the particular estimates used are included in the pensions note.

Where the Group has a contractual right to recover the costs of making good any deficit in the scheme, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The Directors have made judgements in respect of whether any of the deficit is as a result of such situations.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Group is not set so as to contribute to reducing the deficit in the scheme. The Directors, in conjunction with the scheme actuaries, have made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised.

Following the announcement in the June 2010 budget, the UK Government has announced they will use the Consumer Price Index (CPI) measure of inflation rather than the Retail Price Index (RPI) to determine statutory pension increases for public sector schemes. The move to CPI has been treated as a change in benefits recognised as a negative past service cost in the Income Statement.

In the absence of guidance on accounting for this change under IFRS, management has applied judgement and has referred to guidance on the change issued by the Urgent Issued Task Force (UITF). The UITF issued advice on this matter which noted that the change should be recognised when the "necessary consultations have been concluded or employees' valid expectations have been changed". As the change was made by Government, and as the announcement made will affect the future statutory instruments which up-rate pensions, no other action, such as consultation, is required in respect of the change. HM Treasury has announced that the 2011 pension increase will be 3.1% in line with the September to September CPI increase. The publicity surrounding the change was extensive and the change is highlighted in the Local Government Pension Scheme (LGPS) website and in the newest scheme booklets available to members. Consequently, we consider, in line with our actuarial advice, that it is appropriate to recognise the change in the current period.

The UITF issued further guidance on whether to recognise the change in scheme liabilities as a change in benefit giving rise to a negative past service cost or as a change in estimated pension increase rate giving rise to an actuarial gain. The Directors, in conjunction with the scheme actuaries, consider that there was a constructive obligation to pay benefits based on RPI and have therefore recognised a negative past service cost.

New standards and interpretations not yet applied

IFRS 9 'Financial Instruments' (effective 1 January 2013) specifies how an entity should classify and measure financial assets, including some hybrid contracts. It requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. It requires financial assets to be initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value. The Group will apply IFRS 9 for the Group's 31 December 2013 financial statements.

Consolidated income statement

for the year ended 31 December 2010

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	Note	2010		2009	
		£'000	£'000	£'000	£'000
Sales revenue	1	523,935		470,146	
Cost of sales		(373,402)		(336,848)	
Gross profit			150,533		133,298
Other administrative expenses		(119,213)		(108,545)	
Operating result before amortisation of acquisition intangibles and exceptional items		31,320		24,753	
Exceptional items	7	(2,450)		—	
Amortisation of acquisition intangibles	12	(10,119)		(4,980)	
Total administrative costs			(131,782)		(113,525)
Operating profit			18,751		19,773
Finance income	4		63		190
Finance costs	4		(2,462)		(1,584)
Profit for the year before tax	2		16,352		18,379
Tax expense	8		(1,588)		(4,423)
Net profit for the year			14,764		13,956
Earnings per share					
Basic	10		17.70p		18.81p
Diluted	10		16.57p		17.94p

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net result for the year		14,764	13,956
Other comprehensive income/(expense):			
– actuarial loss on defined benefit pension scheme	26	(3,651)	(3,634)
– increase in deferred tax asset in respect of defined benefit pension schemes	21	1,022	919
Other comprehensive expense for the year		(2,629)	(2,715)
Total comprehensive income for the year		12,135	11,241
Attributable to:			
– equity holders of the parent		12,135	11,241

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated balance sheet

as at 31 December 2010

Company number: 3232863

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	Note	2010 £'000	2009 £'000
Assets			
Non-current			
Goodwill	11	97,405	52,393
Intangible assets	12	27,136	17,072
Property, plant and equipment	13	12,113	12,142
Deferred tax asset	21	8,056	6,098
Trade and other receivables	17	1,929	2,119
		146,639	89,824
Current			
Inventories	15	12,147	17,349
Trade and other receivables	17	109,765	82,933
Cash at bank and in hand		21,757	23,511
		143,669	123,793
Total assets		290,308	213,617
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	22	848	744
Share premium account		33,243	32,505
Share-based payment reserve		2,905	2,649
Merger reserve		38,243	11,548
Retained earnings		66,315	58,482
Total equity		141,554	105,928
Liabilities			
Non-current			
Pension and other employee benefits	26	7,693	3,205
Deferred tax liabilities	21	6,983	4,646
Other liabilities	19	959	1,230
		15,635	9,081
Current			
Short-term borrowings and overdrafts		34,000	17,000
Trade and other payables	18	97,879	77,607
Current tax liabilities		1,240	4,001
Current liabilities		133,119	98,608
Total liabilities		148,754	107,689
Total equity and liabilities		290,308	213,617

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 15 April 2011.

R Holt
Director

A C M Smith
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Operating activities			
Result for the year before tax		16,352	18,379
Adjustments	23	17,799	9,368
Change in inventories		5,588	(6,738)
Change in trade and other receivables		(13,835)	8,097
Change in trade and other payables		431	(3,712)
Cash flow from operating activities before taxation		26,335	25,394
Taxes paid		(6,599)	(4,814)
Net cash inflow from operating activities		19,736	20,580
Investing activities			
Additions to property, plant and equipment		(2,935)	(3,732)
Additions to other intangible assets		(920)	(796)
Proceeds from disposals of property, plant and equipment		243	82
Acquisition of subsidiary undertaking, net of cash		(28,122)	(11,056)
Disposal of business activities, net of cash		986	—
Interest received		2	190
Net cash outflow from investing activities		(30,746)	(15,312)
Financing activities			
Proceeds from share issue		743	569
Discharge of finance lease liability		(557)	(820)
Interest paid		(2,851)	(1,390)
Dividends paid		(5,079)	(3,710)
Net cash outflow from financing activities		(7,744)	(5,351)
Cash and cash equivalents, beginning of year		6,511	6,594
Net decrease in cash and cash equivalents		(18,754)	(83)
Cash and cash equivalents, end of year		(12,243)	6,511
Cash and cash equivalents is comprised as follows:			
– cash at bank and in hand		21,757	23,511
– short-term borrowings and overdrafts		(34,000)	(17,000)
Cash and cash equivalents		(12,243)	6,511

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2010

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	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2009	740	31,940	3,235	11,548	48,241	95,704
Net profit for the year	—	—	—	—	13,956	13,956
Other comprehensive income/(expense):						
– deferred tax on pension obligation	—	—	—	—	919	919
– actuarial loss on pension and other employee benefits	—	—	—	—	(3,634)	(3,634)
Total comprehensive income for the year	—	—	—	—	11,241	11,241
Deferred tax on share-based payments	—	—	—	—	1,624	1,624
Issue of shares	4	565	—	—	—	569
Share option charges	—	—	500	—	—	500
Exercise of share options	—	—	(1,086)	—	1,086	—
Dividends	—	—	—	—	(3,710)	(3,710)
At 1 January 2010	744	32,505	2,649	11,548	58,482	105,928
Net profit for the year	—	—	—	—	14,764	14,764
Other comprehensive income/(expense):						
– deferred tax on pension obligation	—	—	—	—	1,022	1,022
– actuarial loss on pension and other employee benefits	—	—	—	—	(3,651)	(3,651)
Total comprehensive income for the year	—	—	—	—	12,135	12,135
Deferred tax on share-based payments	—	—	—	—	283	283
Issue of shares	104	738	—	26,695	—	27,537
Share option charges	—	—	750	—	—	750
Exercise of share options	—	—	(494)	—	494	—
Dividends	—	—	—	—	(5,079)	(5,079)
At 31 December 2010	848	33,243	2,905	38,243	66,315	141,554

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements – Group

1. Segment reporting

Segment information is presented in respect of the Group's operating segments. Segments are determined by reference to the internal reports reviewed by the Board.

The Group operated three operating segments during the year:

- * Social Housing – services within this sector comprise a full repairs and maintenance service to Local Authorities and other Registered Social Housing Landlords;
- * Domiciliary Care – services within this sector comprise personal care services to people in their own homes; and
- * Other – services within this sector comprise provision of design and build M&E services.

All of the Group's activities are carried out within the United Kingdom and the Group's principal reporting to its chief operating decision maker is not segmented by geography.

The principal measures utilised by the chief operating decision maker to review the performance of the business are operating result pre amortisation of acquisition intangibles and share-based payment.

Business segments	2010				2009			
	Social Housing £'000	Domiciliary Care £'000	Other £'000	Total £'000	Social Housing £'000	Domiciliary Care £'000	Other £'000	Total £'000
Revenue	379,400	100,358	44,177	523,935	355,260	60,050	54,836	470,146
Operating result pre amortisation of acquisition intangibles, exceptional items and share-based payment	22,896	7,532	1,642	32,070	21,252	3,151	850	25,253
Operating margin pre amortisation of acquisition intangibles, exceptional items and share-based payment	6.0%	7.5%	3.7%	6.1%	6.0%	5.2%	1.6%	5.4%
Share-based payment	(600)	(50)	(100)	(750)	(400)	(25)	(75)	(500)
Operating result pre amortisation of acquisition intangibles and exceptional items	22,296	7,482	1,542	31,320	20,852	3,126	775	24,753

All revenue and all non-current assets arise within the United Kingdom. All of the revenue reported is external to the Group. No revenue in respect of a single customer comprises more than 10% of the total revenue reported.

Reconciliation to the Consolidated Income Statement:

	2010 £'000	2009 £'000
Operating result pre amortisation of acquisition intangibles and exceptional items	31,320	24,753
Exceptional items	(2,450)	—
Amortisation of acquisition intangibles	(10,119)	(4,980)
Finance costs, net	(2,399)	(1,394)
Tax expense	(1,588)	(4,423)
Net profit for the year	14,764	13,956

In addition the following disclosures have been provided in respect of segmental analysis required by IFRS 8 'Operating Segments':

Business segments	2010				2009			
	Social Housing £'000	Domiciliary Care £'000	Other £'000	Total £'000	Social Housing £'000	Domiciliary Care £'000	Other £'000	Total £'000
Segment assets	209,126	60,178	21,004	290,308	148,562	42,561	22,494	213,617
Segment liabilities	(100,979)	(38,029)	(9,746)	(148,754)	(61,557)	(32,557)	(13,575)	(107,689)
Property, plant and equipment acquired	2,314	510	111	2,935	1,907	1,651	175	3,733
Depreciation	1,963	1,013	206	3,182	1,763	245	138	2,146

2. Profit for the year before tax

Profit for the year before tax is stated after:

	2010 £'000	2009 £'000
Share-based payments	750	500
Depreciation	3,182	2,146
Amortisation	10,511	5,214
Hire of plant and machinery	2,514	3,488
Other operating lease rentals	14,503	13,364

3. Auditor's remuneration

	2010 £'000	2009 £'000
Fees payable to the auditor for the audit of the Group's financial statements	61	70
Other fees payable to the auditor in respect of:		
– auditing of accounts of subsidiary undertakings pursuant to legislation	107	98
– taxation compliance fees	38	35
– taxation advice fees	30	25
Total auditor's remuneration	236	228

4. Finance income and finance costs

	2010 £'000	2009 £'000
Interest charge on overdrafts and short-term loans	(920)	(896)
Interest charge on interest rate swap	(913)	(368)
Finance charges in respect of finance leases	(216)	(137)
Interest charge on defined benefit obligation	(373)	(143)
Unwinding of discounting in deferred consideration	(40)	(40)
Finance costs	(2,462)	(1,584)
Interest income resulting from short-term bank deposits	2	74
Interest income resulting from defined benefit obligation	61	116
Finance income	63	190
Net finance charge	(2,399)	(1,394)

5. Employees

Staff costs during the year were as follows:

	2010 £'000	2009 £'000
Wages and salaries	189,362	151,007
Social security costs	15,721	12,691
Other pension costs	63	2,013
	205,146	165,711

The average number of employees of the Group during the year was:

	2010 Number	2009 Number
Site workers	2,508	2,337
Carers	6,090	4,092
Office and management	2,203	1,741
Total	10,801	8,170

Notes to the financial statements – Group

continued

5. Employees continued

Remuneration in respect of Directors was as follows:

	2010 £'000	2009 £'000
Emoluments	1,300	1,700
Pension contributions to personal pension schemes	199	193
	1,499	1,893

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2010 £'000	2009 £'000
Emoluments	465	960
Pension contributions to personal pension schemes	135	135

During the year contributions were paid to personal pension schemes for four Directors (2009: four).

During the year no Directors (2009: none) exercised share options.

6. Share-based employee remuneration

As at 31 December 2010 the Group maintained six share-based payment schemes for employee remuneration.

The Mears Group PLC Long-term Incentive Plan 2008 (LTIP)

The LTIP was introduced in October 2008 following shareholder approval. The award of options is offered to a small number of key senior management. The principal terms of the LTIP are detailed below:

Principal terms of LTIP

Number of options	Maximum award limit under the plan will be 200 % of salary per annum.		
Exercise price	Nil		
Performance period	3 years		
Performance conditions	There are two performance targets attaching to the LTIP Award. 50 % of the LTIP Award will relate to an EPS growth target. The other 50 % of the LTIP Award relates to the Company's TSR against the return of the FTSE All Share Support Services Sector.		
Expiry conditions	Options are forfeited if the employee leaves the Group before the options have vested.		

Performance conditions of LTIP

EPS growth target		TSR target	
Performance levels	Level of vesting	Performance levels	Level of vesting
10.0 %	10 %	Below index return	0 %
12.5 %	30 %	Equal to index	30 %
17.5 %	100 %	10 % outperformance of the index per annum	100 %

The Mears Group PLC Long-term Incentive Plan 2009 (LTIP)

The LTIP was introduced in October 2008 following shareholder approval. The award of options is offered to a small number of key senior management. The principal terms of the LTIP are detailed below:

Principal terms of LTIP

Number of options	Maximum award limit under the plan will be 200 % of salary per annum.		
Exercise price	Nil		
Performance period	3 years		
Performance conditions	There are two performance targets attaching to the LTIP Award. 75 % of the LTIP Award will relate to an EPS growth target. The other 25 % of the LTIP Award relates to the Company's TSR against the return of the FTSE All Share Support Services Sector.		
Expiry conditions	Options are forfeited if the employee leaves the Group before the options have vested.		

6. Share-based employee remuneration continued

The Mears Group PLC Long-term Incentive Plan 2009 (LTIP) continued

Performance conditions of LTIP

EPS growth target		TSR target	
Performance levels	Level of vesting	Performance levels	Level of vesting
10.0 %	10 %	Below index return	0 %
12.5 %	30 %	Equal to index	30 %
17.5 %	100 %	10 % outperformance of the index per annum	100 %

The Mears Group PLC Long-term Incentive Plan 2010 (LTIP)

The LTIP was introduced in October 2008 following shareholder approval. The award of options is offered to a small number of key senior management. The principal terms of the LTIP are detailed below:

Principal terms of LTIP

Number of options	Maximum award limit under the plan will be 200 % of salary per annum.
Exercise price	Nil
Performance period	3 years
Performance conditions	There are two performance targets attaching to the LTIP Award. 75 % of the LTIP Award will relate to an EPS growth target. The other 25 % of the LTIP Award relates to the Company's TSR against the return of the FTSE All Share Support Services Sector.
Expiry conditions	Options are forfeited if the employee leaves the Group before the options have vested.

Performance conditions of LTIP

EPS growth target		TSR target	
Performance levels	Level of vesting	Performance levels	Level of vesting
8.0 %	10 %	Below index return	0 %
12.5 %	30 %	Equal to index	30 %
17.5 %	100 %	10 % outperformance of the index per annum	100 %

Approved share option plan

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three dealing days prior to the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Mears Group before the options vest.

Enterprise management incentive plan

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three dealing days prior to the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Mears Group before the options vest.

Unapproved share option plan

Options are exercisable at a price equal to the average quoted market price of the Company's shares on the three dealing days prior to the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Mears Group before the options vest. With the introduction of the LTIP in 2008, the Remuneration Committee has decided that no further awards will be made under the unapproved share option plan.

In October 2008, shareholders approved a proposal to cancel outstanding unapproved market-priced options (subject to approval by option holders) and replace them with a lower number of nil-cost options with the same expected value and terms and conditions. The nil-cost options will only be able to be exercised if the share price is greater than the original exercise price of the market-priced options. This significantly reduced the current levels of dilution and ensures that the Group will be able to manage the overall levels of dilution within the accepted limits endorsed by the Association of British Insurers and which are recognised by institutional investors as best practice.

Notes to the financial statements – Group

continued

6. Share-based employee remuneration continued

Save As You Earn (SAYE) scheme

Options are available to all employees. Options are granted for a period of either three or five years. Options are exercisable at a price based on the quoted market price of the Company's shares at the time of invitation, discounted by up to 20%. Options are forfeited if the employee leaves the Mears Group before the options vest which results in an acceleration of the share-based payment charge.

Special Incentive Plan 2007 (SIP)

The SIP was introduced in 2007 to reward the Chief Executive Officer with premium priced options linked to long-term performance. The terms and conditions were subsequently amended on 3 July 2009. The principal terms of the SIP and performance conditions are detailed below:

Principal terms of SIP

Number of options	2,500,000
Exercise price	Nil
Performance conditions	Average real EPS growth attained over three financial years with the base period for calculating EPS being 31 December 2006. EPS was calculated before amortisation and IFRS 2 costs. The performance was measured at the end of the three-year period. The performance conditions relating to this award were satisfied in full.
Vesting conditions	The award vested in full in November 2010, 60% became exercisable in November 2010, 20% will become exercisable in November 2011 and the remaining 20% will become exercisable in November 2012.

Performance conditions of SIP

Performance levels	Level of vesting
5% + RPI per annum	10%
10% + RPI per annum	50%
15% + RPI per annum	100%

Details of the share options outstanding (excluding those issued under the SIP) are as follows:

	2010		2009	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	7,142	126	6,850	131
Granted	875	—	995	—
Forfeited	(177)	148	(313)	163
Exercised	(338)	121	(390)	146
Outstanding at 31 December	7,502	75	7,142	126

The weighted average share price at the date of exercise for share options exercised during the period was 121p. The options outstanding at 31 December 2010, excluding the SIP Award, were exercisable at prices between 1p and 300p and had a weighted average remaining contractual life of five years and eleven months.

The fair values of options granted were determined using the Binomial and Monte Carlo option pricing models. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and the risk-free interest rate.

6. Share-based employee remuneration continued

The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon Government bond at the date of grant. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions. In the case of the SAYE scheme the expected forfeitures takes account of the requirement to save throughout the life of the scheme. The inputs into the option pricing model are as follows:

	2010	2009
Share price (p)	275	275
Exercise price (p)	1-300	1-300
Expected volatility (%)	20	20
Expected life (years)	3-5	3-5
Risk-free rate (%)	1.97	1.97

177,000 options lapsed during the year. The market price at 31 December 2010 was 303p and the range during 2010 was 227p to 315.5p.

At 31 December 2010, 2.9m options had vested and were still exercisable at a weighted average exercise price of 103p.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

The Group recognises the following expenses related to share-based payments:

	2010 £'000	2009 £'000
LTIP	101	11
Approved share option plan	35	52
Unapproved share option plan	108	181
SAYE	20	18
SIP	486	238
	750	500

In total, £0.75m of employee remuneration expense has been included in the Consolidated Income Statement for 2010 (2009: £0.5m), which gave rise to additional share-based payment reserves. No liabilities were recognised due to share-based payment transactions.

7. Exceptional items

Exceptional items have arisen as a result of acquisition and integration costs in the period.

	2010 £'000	2009 £'000
Costs of acquisition	1,289	—
Costs of integration	1,161	—
Exceptional items	2,450	—

The costs of acquisition relate to the acquisition of Supporta plc and Jackson Lloyd Limited in the period.

The costs of integration relate to the integration of the Careforce and Supporta Care businesses and re-branding as Mears Care.

Notes to the financial statements – Group

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8. Tax expense

Tax recognised in the Income Statement:

	2010 £'000	2009 £'000
United Kingdom Corporation Tax effective rate 14.3 % (2009: 25.7 %)	3,779	6,001
Adjustment in respect of previous periods	(159)	(114)
Total current tax recognised in Income Statement	3,620	5,887
Deferred taxation charge:		
– on defined benefit pension obligations	1,150	157
– on share-based payments	(418)	(227)
– on accelerated capital allowances	69	—
– on amortisation of acquisition intangibles	(2,833)	(1,394)
Total deferred taxation recognised in Income Statement	(2,032)	(1,464)
Total tax expense recognised in Income Statement	1,588	4,423
Results for the year before tax	16,352	18,379
Result for the year multiplied by standard rate of Corporation Tax in the United Kingdom of 28 % (2009: 28 %)	4,579	5,146
Effect of:		
– expenses not deductible for tax purposes	350	73
– income not subject to tax	(1,050)	—
– capital allowances in excess of depreciation	155	(140)
– tax relief on exercise of share options	(362)	(290)
– tax rate difference	(9)	(12)
– utilisation of tax losses	(23)	(240)
– tax relief on purchased goodwill amortisation	(1,893)	—
– adjustment in respect of prior periods	(159)	(114)
Actual tax expense, net	1,588	4,423
Deferred tax recognised directly in equity		
Deferred taxation charge:		
– on defined benefit pension obligations	(1,022)	(919)
– on share-based payments	(283)	(1,624)
Total deferred taxation recognised in equity	(1,305)	(2,543)
Total tax		
Total current tax	3,620	5,887
Total deferred tax	(3,337)	(4,007)

9. Dividends

The following dividends were paid on ordinary shares in the year:

	2010 £'000	2009 £'000
Final 2009 dividend of 4.1p (2009: final 2008 dividend of 3.40p) per share	3,469	2,522
Interim 2010 dividend of 1.9p (2009: interim 2009 dividend of 1.60p) per share	1,610	1,188
	5,079	3,710

The proposed final 2010 dividend of 4.85p per share has not been included within the consolidated financial statements as no obligation existed at 31 December 2010.

10. Earnings per share

	Basic		Diluted	
	2010 p	2009 p	2010 p	2009 p
Earnings per share	17.70	18.81	16.57	17.94
Effect of amortisation of acquisition intangibles	12.13	6.71	11.36	6.40
Effect of full tax adjustment	(6.98)	(2.85)	(6.54)	(2.73)
Effect of exceptional items (including tax impact)	2.11	—	1.99	—
Normalised earnings per share	24.96	22.67	23.38	21.61

A normalised EPS is disclosed in order to show performance undistorted by amortisation of intangibles. The Group defines normalised earnings as excluding the amortisation of acquisition intangibles, exceptional items and adjusted to reflect a full tax charge of 28%. The profit attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	2010 £'000	2009 £'000
Profit attributable to shareholders:	14,764	13,956
– amortisation of acquisition intangibles	10,119	4,980
– full tax adjustment	(5,824)	(2,118)
– exceptional items (including tax impact)	1,764	—
Normalised earnings	20,823	16,818

The calculation of EPS is based on a weighted average of ordinary shares in issue during the year. The diluted EPS 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 additional normalised basic and diluted EPS use the same weighted average number of shares as the basic and diluted EPS.

	2010 Millions	2009 Millions
Weighted average number of shares in issue:	83.42	74.20
– dilutive effect of share options	5.66	3.62
Weighted average number of shares for calculating diluted earnings per share	89.08	77.82

11. Goodwill

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2009	49,852	406	50,258
Additions	2,879	—	2,879
Revision	(744)	—	(744)
At 1 January 2010	51,987	406	52,393
Additions	44,378	—	44,378
Revision	996	—	996
Disposals	(362)	—	(362)
At 31 December 2010	96,999	406	97,405
Accumulated impairment losses			
At 1 January 2009, at 1 January 2010 and at 31 December 2010	—	—	—
Carrying amount			
At 31 December 2010	96,999	406	97,405
At 31 December 2009	51,987	406	52,393
At 31 December 2008	49,852	406	50,258

Notes to the financial statements – Group

continued

11. Goodwill continued

Goodwill on consolidation arises on the excess of cost of acquisition over the fair value of the net assets acquired on purchase of a Company.

Purchased goodwill arises on the excess of cost of acquisition over the fair value of the net assets acquired on the purchase of the trade and assets of a business.

Additions to goodwill arising on consolidation are detailed within note 24.

Revisions totalling £0.05m relate to reductions in contingent consideration payable in respect of prior year acquisitions and revisions totalling £0.95m relate to reductions to the estimated fair value of assets acquired. The reduction in fair value of assets acquired relates to costs not accrued at the time of the acquisition. The revisions are not considered sufficiently material to warrant the restatement of the prior year provisional balances.

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there are any indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which management monitors that goodwill. Goodwill is carried at cost less accumulated impairment losses.

The carrying value of goodwill is primarily comprised of the following CGUs:

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Social Housing	18,509	406	18,915
Domiciliary Care	74,159	—	74,159
M&E	4,331	—	4,331
	96,999	406	97,405

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value-in-use. At 31 December 2010 impairment reviews were performed by comparing the carrying value of the CGU with the value-in-use of the CGUs to which goodwill has been allocated. The value-in-use is calculated based upon the cash flow projections of the latest one-year budget forecast extrapolated for nine years by a growth rate applicable to each unit and an appropriate terminal value based on a perpetuity.

The rates used were as follows:

	Corporation Tax	Discount rate	Growth rates (years 1–5)	Growth rates (years 6–10)	Terminal growth rate
Social Housing	28 %	9.3 %	2.5 %–5.0 %	2.5 %	2.5 %
Domiciliary Care	28 %	10.9 %	10 %	2.5 %	2.5 %

The estimated growth rates are based on past experience and knowledge of the individual sector's markets.

Social Housing

The contracts awarded within the Social Housing area are significant in size and the contract terms are typically three to ten years in duration. The record of Mears in retaining contracts on expiry is typically over 90 %. The impairment reviews have always taken a particularly prudent stance and incorporated a minimal growth assumption.

Budgeted operating profits during the budget period are estimated by reference to the average operating margins achieved in the period immediately before the start of the budget period. There is no inclusion for any anticipated efficiency improvements.

The Directors consider that reasonably possible changes in these key assumptions would not cause a unit's carrying amount to exceed its recoverable amount. The Directors consider that the Social Housing value-in-use calculation is most sensitive to changes in the growth rate. Impairment would result only if negative growth of 2.5 % was incorporated into the value-in-use calculation.

11. Goodwill continued

Domiciliary Care

The domiciliary care market is becoming increasingly sophisticated and the expectation of management is for significant consolidation within the sector, offering an opportunity to achieve significant organic growth. Each year, Local Authorities spend in excess of £2 billion on domiciliary care. The Directors believe that future growth is underpinned by a number of factors including the increasingly ageing population in the United Kingdom and the increased desire of the elderly to lead independent lives. Local Authorities' expenditure on homecare for the elderly has grown rapidly over recent years, averaging 10 % per year since 2003. The amount outsourced to independent providers has also risen sharply from 59 % in 2001 to in excess of 81 % today. It is the Directors' belief that this trend will continue.

The market is highly fragmented with an estimated 4,900 independent providers of homecare services. The increasing regulation in this sector is also expected by the Directors to continue, leading to increased consolidation. Furthermore, the Directors believe that the domiciliary care sector will evolve towards a partnership approach similar to that of the Social Housing sector and Mears has already begun to see examples of such an approach with its customers. The Directors believe that stakeholders at all levels could benefit from this long-term investment approach.

The Directors believe that there are a number of combined developments in Government thinking that are likely to improve the prospects for business in the domiciliary care sector. Most notably these include the Lifetime Homes, Lifetime Neighbourhoods paper in 2008 and the delivery of the Social Care Transformation Programme as signalled in the concordat Putting People First. These build on the consensus across the social care sector to put together a social care system based on the provision of good quality information, advice and advocacy.

The impairment reviews have incorporated a growth assumption of 10 % which the Directors believe to be realistic given the tremendous growth opportunities within Domiciliary Care.

Budgeted operating profits during the budget period are estimated by reference to the average operating margins achieved in the period immediately before the start of the budget period. There is no inclusion for any anticipated efficiency improvements.

The Directors consider that the Domiciliary Care value-in-use is most sensitive to changes in the terminal growth rate. The sensitivity of the calculated value-in-use to changes in explicit growth rate, terminal growth rate and discount rate is shown in the table below. The shaded values indicate situations which would result in impairment.

The table below shows the sensitivity to simultaneous changes in the discount rate and the long-term growth rate.

		Terminal growth rate				
		1.50 %	2.00 %	2.50 %	3.00 %	3.50 %
Discount rate	8.90 %	39,346	46,417	54,592	64,154	75,485
	9.40 %	31,150	37,210	44,149	52,171	61,553
	9.90 %	23,937	29,176	35,123	41,932	49,805
	10.40 %	17,541	22,105	27,247	33,084	39,766
	10.90 %	11,831	15,834	20,314	25,361	31,090
	11.40 %	6,703	10,235	14,165	18,563	23,517
	11.90 %	2,073	5,207	8,676	12,534	16,851
	12.40 %	(2,128)	668	3,745	7,150	10,938
	12.90 %	(5,956)	(3,452)	(707)	2,315	5,658

The table below shows sensitivity to simultaneous changes in the explicit growth rate (2011 – 2015) and the long-term growth rate.

		Terminal growth rate				
		1.50 %	2.00 %	2.50 %	3.00 %	3.50 %
Annual growth rate	6.00 %	(514)	2,873	6,664	10,935	15,783
	7.00 %	2,445	5,980	9,935	14,392	19,450
	8.00 %	5,488	9,174	13,300	17,947	23,223
	9.00 %	8,616	12,459	16,759	21,603	27,102
	10.00 %	11,831	15,834	20,314	25,361	31,090
	11.00 %	15,133	19,302	23,967	29,223	35,189
	12.00 %	18,526	22,865	27,720	33,191	39,400
	13.00 %	22,010	26,524	31,576	37,267	43,727
	14.00 %	25,587	30,281	35,534	41,452	48,170

12. Other intangible assets

	Acquisition intangibles			Other intangibles			Total intangibles £'000
	Client relationships £'000	Order book £'000	Total acquisition intangibles £'000	Development expenditure £'000	Intellectual property £'000	Total other intangibles £'000	
Gross carrying amount							
At 1 January 2009	9,902	5,662	15,564	948	224	1,172	16,736
Acquired on acquisition	8,769	1,515	10,284	—	—	—	10,284
Additions	—	—	—	788	—	788	788
At 1 January 2010	18,671	7,177	25,848	1,736	224	1,960	27,808
Acquired on acquisition	13,466	6,453	19,919	—	—	—	19,919
Additions	—	—	—	920	—	920	920
Disposals	(405)	(81)	(486)	—	—	—	(486)
At 31 December 2010	31,732	13,549	45,281	2,656	224	2,880	48,161
Accumulated amortisation							
At 1 January 2009	3,453	1,902	5,355	167	—	167	5,522
Amortisation charge for period	3,320	1,660	4,980	189	45	234	5,214
At 1 January 2010	6,773	3,562	10,335	356	45	401	10,736
Amortisation charge for period	6,891	3,228	10,119	347	45	392	10,511
Disposals	(184)	(38)	(222)	—	—	—	(222)
At 31 December 2010	13,480	6,752	20,232	703	90	793	21,025
Carrying amount							
At 31 December 2010	18,252	6,797	25,049	1,953	134	2,087	27,136
At 31 December 2009	11,898	3,615	15,513	1,380	179	1,559	17,072
At 31 December 2008	6,449	3,760	10,209	781	224	1,005	11,214

Development expenditure relates to the development of the Group's Social Housing job management system. This is amortised over its useful economic life of 4.0 years. The weighted average remaining economic life of the asset is 4.1 years.

Intellectual property is amortised over its useful economic life of 5.0 years. The weighted average remaining economic life is 3.0 years.

Amortisation of development expenditure is included within other administrative expenses. Amortisation of acquisition intangibles is disclosed individually.

The value placed on the order book is based upon the cash flow projections over the contracts in place when a business is acquired. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have taken a measure of prudence and value contracts over the contractual term only. The value of the order book is amortised over its remaining life.

The value placed on the customer relationships are based upon the non-contractual expected cash inflows. These cash flow projections assume a customer attrition rate of 5% based upon three-year historic trends.

Additions to intangible assets arising on consolidation are detailed within note 24.

13. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Gross carrying amount					
At 1 January 2009	4,588	2,485	11,877	949	19,899
Additions	540	112	3,062	19	3,733
Acquired on acquisition	226	4	793	3,355	4,378
Disposals	—	(183)	(461)	(653)	(1,297)
At 1 January 2010	5,354	2,418	15,271	3,670	26,713
Additions	1,021	163	1,744	7	2,935
Acquired on acquisition	1,061	754	4,152	46	6,013
Disposals	(66)	(483)	(553)	(1,005)	(2,107)
Disposal of subsidiary undertaking	—	—	(914)	(29)	(943)
At 31 December 2010	7,370	2,852	19,700	2,689	32,611
Depreciation					
At 1 January 2009	1,258	1,827	6,552	745	10,382
Provided in the year	546	103	1,317	180	2,146
Acquired on acquisition	98	1	491	2,554	3,144
Eliminated on disposals	—	(161)	(409)	(531)	(1,101)
At 1 January 2010	1,902	1,770	7,951	2,948	14,571
Provided in the year	700	115	2,227	140	3,182
Acquired on acquisition	1,016	733	3,210	46	5,005
Eliminated on disposals	(10)	(469)	(472)	(819)	(1,770)
Eliminated on disposals of subsidiary undertaking	—	—	(461)	(29)	(490)
At 31 December 2010	3,608	2,149	12,455	2,286	20,498
Carrying amount					
At 31 December 2010	3,762	703	7,245	403	12,113
At 31 December 2009	3,452	648	7,320	722	12,142
At 31 December 2008	3,330	658	5,325	204	9,517

The figures stated above include assets held under finance leases as follows:

	Plant and machinery £'000
Net book amount	
At 31 December 2010	—
At 31 December 2009	1,191
Depreciation provided in the year	1,191

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14. Investments

The principal undertakings within the Group at 31 December 2010 are shown below:

	Proportion held	Nature of business
Mears Limited	100 %	Provision of maintenance services
Haydon Mechanical & Electrical Limited	100 %	Provision of M&E services
Scion Group Limited	100 %	Provision of M&E services and grounds maintenance
Laidlaw Scott Limited	100 %	Provision of maintenance services
3c Asset Management Limited	100 %	Provision of maintenance services
Careforce Group plc	100 %	Provision of domiciliary care
Mears Care Limited	100 %	Provision of domiciliary care
Mears Care (Northern Ireland) Limited	100 %	Provision of domiciliary care
Mears Care (Scotland) Limited	100 %	Provision of domiciliary care
Terraquest Solutions Limited	100 %	Provision of professional services
Mears Insurance Captive Limited	99.99 %	Provision of insurance services

All material subsidiary undertakings prepare accounts to 31 December. All material subsidiary undertakings are registered in England and Wales with the exception of Mears Insurance Captive Limited which is registered in Guernsey, Mears Care (Northern Ireland) which is registered in Northern Ireland and Mears Care (Scotland) and Laidlaw Scott Limited which are registered in Scotland.

A full list of subsidiary undertakings is available from the Company Secretary upon request.

15. Inventories

	2010 £'000	2009 £'000
Materials and consumables	1,778	1,417
Work in progress	10,369	15,932
	12,147	17,349

The Group consumed inventories totalling £303.3m during the year (2009: £297.8m). No items are being carried at fair value less costs to sell (2009: £nil).

16. Construction contracts

Revenue of £51.4m (2009: £54.8m) relating to construction contracts has been included in the Consolidated Income Statement.

	2010 £'000	2009 £'000
Contract costs incurred	38,091	41,527
Recognised gross profits	13,344	13,309
Recognised gross losses	—	—
	51,435	54,836
Balances outstanding comprise:		
– retentions	3,976	4,003
– due from customers for construction contract work	1,690	3,015
– due to customers for construction contract work	(72)	(5,566)

Retentions will be payable upon acceptance of the work performed by the customer. Retentions are included in 'Trade receivables'. The amounts due to customers for construction work are included in 'Trade and other payables'.

17. Trade and other receivables

	2010 £'000	2009 £'000
Current assets:		
– trade receivables	53,543	46,048
– amounts recoverable on construction contracts	1,690	3,015
– amounts recoverable on non-construction contracts	50,235	30,704
– prepayments and accrued income	4,297	3,166
	109,765	82,933
Non-current assets:		
– trade receivables	1,929	2,119
Total trade and other receivables	111,694	85,052

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. Social Housing customers are typically Local Authorities and Housing Associations where credit risk is minimal. Domiciliary Care customers are typically County Councils where credit risk is minimal. The credit risk within the M&E division is insured. Included in trade receivables is an amount of £1.9m (2009: £2.1m) which is due after more than one year and represents retention balances.

The ageing analysis of trade receivables is as follows:

	2010 £'000	2009 £'000
Neither impaired nor past due	45,708	40,308
Less than three months past due but not impaired	6,354	5,212
More than three months but not impaired	3,410	2,647
Total trade and other receivables	55,472	48,167

18. Trade and other payables

	2010 £'000	2009 £'000
Trade payables	56,103	42,941
Accruals and deferred income	19,612	11,648
Social security and other taxes	15,986	12,469
Due to customers for construction contract work	72	5,566
Due to customers for non-construction contract work	607	132
Other creditors	5,375	4,440
Amounts due under finance lease contracts	124	411
	97,879	77,607

The fair value of trade payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the Balance Sheet to be a reasonable approximation of their fair value.

The amounts due under construction contract work will generally be utilised within the next reporting period.

The amounts due under finance lease contracts are secured on the assets to which they relate.

Included in other creditors is £1,861,000 (2009: £1,801,000) relating to deferred consideration on acquisitions.

19. Long-term financial liabilities

	2010 £'000	2009 £'000
Other creditors	959	1,230

Included in other creditors is £0.96m (2009: £1.23m) relating to deferred consideration on acquisitions.

Notes to the financial statements – Group

continued

20. Financial instruments

The Group uses a limited number of financial instruments comprising cash and liquid resources, borrowings and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group seeks to finance its operations through a combination of retained earnings and borrowings and investing surplus cash on deposit. The Group has no interests in the trade of financial instruments.

Categories of financial instruments

	2010 £'000	2009 £'000
Financial assets		
Loans and receivables		
Trade receivables	55,472	48,167
Amounts recoverable on contracts	51,925	33,719
Cash at bank and in hand	21,757	23,511
	129,154	105,397
Financial liabilities		
Fair value through the Income Statement (level 2)		
Interest rate swaps	(1,030)	(209)
Amortised cost		
Short-term borrowings and overdrafts	(34,000)	(17,000)
Deferred consideration in respect of acquisitions	(2,820)	(3,031)
Trade payables	(56,103)	(42,941)
Accruals	(19,612)	(11,528)
Other creditors	(5,375)	(4,440)
	(118,940)	(79,149)
	10,214	26,248

The interest rate swaps entered into by the Group are not traded in active markets. The fair values of these contracts are estimated using a valuation technique that maximises the use of observable market inputs (level 2).

Fair value information

The fair value of the Group's financial assets and liabilities is as disclosed above and equals the book value with the exception of the deferred consideration in respect of acquisitions where the book value is £2.7m.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk); credit risk; and liquidity risk. The main risks faced by the Group relate to the availability of funds to meet business needs and the risk of credit default by customers. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies and guidelines approved by the Board of Directors.

Interest rate risk management

The Group finances its operations through a mixture of retained profits and bank borrowings. The fair value of interest rate exposure on financial liabilities of the Group as at 31 December 2010 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities – 2010	26,064	8,060	2,820	36,944
Financial liabilities – 2009	15,451	2,000	3,031	20,482

The floating rate borrowings bear interest at rates based on LIBOR. The fixed rate borrowings relate to loans, where the interest rate has been fixed by an interest rate hedging arrangement, and finance leases.

20. Financial instruments continued

Interest rate risk management continued

At 31 December 2010 the Group had minimal exposure to movement in interest rates as the interest rate risk was offset by the Group's cash and short-term deposits.

In addition, the Group has entered into interest rate hedging arrangements with Barclays Bank PLC and HSBC Bank plc. The HSBC Bank plc and Barclays Bank PLC arrangement consists of two £7.5m vanilla swaps, which have been in place for the full year. The Group acquired an additional vanilla swap of £12.6m with Barclays Bank PLC upon the acquisition of Supporta plc. This reduced to £12.2m in July 2010 and will reduce to £10.9m in January 2011. The Directors consider that these arrangements will limit the Group's interest rate exposure on the Group's medium-term core debt. The hedges expire in December 2011, January 2013 and April 2013 respectively.

The losses relating to these hedges are recognised immediately in the Income Statement.

If the interest rates had been 0.5% higher or lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2010 and reserves would decrease or increase by £0.1m.

Borrowing facilities

The Group's borrowing facilities are drawn on as required to manage its cash needs. Banking facilities are reviewed regularly and extended and replaced in advance of their expiry.

The Group had total borrowing facilities of £85m with Barclays Bank plc and HSBC plc, of which £34m was utilised at 31 December 2010.

The facilities comprise a committed five-year £75.0m revolving credit facility and an unsecured overdraft facility of £10.0m. The undrawn amounts at 31 December 2010 were a £41.0m revolving credit facility and overdraft facility of £10.0m.

The Group's borrowings are secured by a fixed and floating charge over all of the Group's assets.

Liquidity risk management

The main financial risks of the Group relate to the availability of funds to meet business needs.

The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location and take into account the liquidity and nature of the market in which the entity operates.

The quantum of committed borrowing facilities of the Group is regularly reviewed and is designed to exceed forecasted peak gross debt levels. For short-term working capital purposes, the Group utilises bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

The table below shows the maturity profile of the Group's financial liabilities:

	2010 £'000	2009 £'000
Repayable within one year		
Short-term borrowings	34,000	17,000
Finance lease payable	124	451
Interest rate swaps	1,030	209
Deferred contingent consideration in respect of acquisitions	1,861	1,801
	37,015	19,461
Repayable between one and two years		
Deferred contingent consideration in respect of acquisitions	959	1,230
	959	1,230
	37,974	20,691

Notes to the financial statements – Group

continued

20. Financial instruments continued

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables, amounts recoverable on contracts and work in progress. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

Trade receivables are normally due within 30 to 60 days. Trade and other receivables included in the Balance Sheet are stated net of a bad debt provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

Social Housing customers are typically Local Authorities and Housing Associations. Domiciliary Care customers are typically County Councils. Any credit risk within the M&E division is insured. Other trade receivables contain no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

The Group continuously monitors the position of major customers and incorporates this information into its credit risk controls. External credit ratings are obtained where appropriate.

Details of the ageing of trade receivables are shown in note 17.

Deferred contingent consideration

The table below shows the movements in deferred contingent consideration:

	Total £'000
At 1 January 2009	2,625
Increase due to new acquisitions in the year	2,130
Paid in respect of acquisitions	(971)
Adjustments to estimated contingent consideration payable	(793)
Unwinding of discounting	40
At 1 January 2010	3,031
Increase due to new acquisitions in the year	1,000
Adjustments to estimated contingent consideration payable	46
Paid in respect of acquisitions	(1,297)
Unwinding of discounting	40
At 31 December 2010	2,820

Deferred contingent consideration represents an estimate of future consideration likely to be payable in respect of acquisitions. Deferred contingent consideration is discounted for the likelihood of payment and for the time value of money. Deferred contingent consideration becomes payable based upon the profitability of acquired businesses or in the case of one specific acquisition the utilisation of certain timing differences in respect of Corporation Tax. Further details of the current year movements are given in note 24 to the accounts.

Information as to the likely timing of payments in respect of these provisions is provided earlier within this note.

Capital maintenance

The Group's objectives when managing capital are:

- * to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- * to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- * to maintain an optimal capital structure to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of net funds as disclosed below and equity as disclosed in the Consolidated Statement of Changes in Equity.

	2010 £'000	2009 £'000
Cash and cash equivalents is comprised as follows:		
– cash at bank and in hand	21,757	23,511
– short-term borrowings and overdrafts	(34,000)	(17,000)
Cash and cash equivalents	(12,243)	6,511

21. Deferred taxation

Deferred tax is calculated on temporary differences under the liability method.

Deferred tax asset

The Group asset for deferred tax as at 31 December 2010 is £8.1m (2009: £6.1m).

	Pension scheme £'000	Share-based payments £'000	Total £'000
At 1 January 2009	135	3,350	3,485
(Debit)/credit to Income Statement	(157)	227	70
Credit to Consolidated Statement of Changes in Equity	—	1,624	1,624
Credit to Consolidated Statement of Comprehensive Income	919	—	919
At 1 January 2010	897	5,201	6,098
Acquisition of Supporta plc	1,385	—	1,385
(Debit)/credit to Income Statement	(1,150)	418	(732)
Credit to Consolidated Statement of Changes in Equity	—	283	283
Credit to Consolidated Statement of Comprehensive Income	1,022	—	1,022
At 31 December 2010	2,154	5,902	8,056

In accordance with IFRS 2 'Share-based Payments', the Group has recognised an expense for the consumption of employee services received as consideration for share options granted. A tax deduction will not arise until the options are exercised. The tax deduction in future periods is dependent upon the Company's share price at the date of exercise. The estimated future tax deduction is based on the options' intrinsic value at the balance sheet date.

The cumulative amount credited to the Income Statement is limited to the tax effect of the associated cumulative share-based payment expense. The excess has been credited directly to equity. This is presented in the Consolidated Statement of Comprehensive Income.

The deferred tax asset that arises on pre 7 November 2002 grants, even though the grants themselves are not accounted for within the Income Statement, is credited directly to equity.

Unused tax losses totalling £17.3m (2009: £17.3m) have not been recognised as the Directors do not consider that it is probable that they will be recovered.

Deferred tax liabilities

	Acquisition intangibles £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2009	2,859	300	3,159
On acquisition intangibles acquired	2,877	—	2,877
Released in respect of amortisation	(1,390)	—	(1,390)
Provided in respect of accelerated capital allowances	—	—	—
At 1 January 2010	4,346	300	4,646
On acquisition intangibles acquired	5,170	69	5,239
Released in respect of amortisation	(2,833)	—	(2,833)
Provided in respect of accelerated capital allowances	—	(69)	(69)
At 31 December 2010	6,683	300	6,983

Intangible assets acquired as part of a business combination are capitalised at fair value at the date of the acquisition and amortised over their useful economic lives. The UK tax regime calculates tax using the individual financial statements of the members of the Group and not the consolidated accounts. Hence, the tax base of acquisition intangible assets is nil. The estimated tax effect of this nil tax base is accounted for as a deferred tax liability which is released over the period of amortisation of the associated acquisition intangible asset.

Notes to the financial statements – Group

continued

22. Share capital and reserves

Classes of reserves

Called up share capital represents the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Share-based payment reserve represents employee remuneration which is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The merger reserve relates to the difference between the nominal value and total consideration in respect of acquisitions, where the Company was entitled to the merger relief offered by the Companies Act.

Share capital

	2010 £'000	2009 £'000
Allotted, called up and fully paid		
74,391,610 (2009: 74,001,851) ordinary shares of 1p each	744	740
Issue of 9,942,323 (2009: nil) shares on acquisition of Supporta plc	99	—
Issue of 481,537 (2009: 389,759) shares on exercise of share options	5	4
84,815,470 (2009: 74,391,610) ordinary shares of 1p each	848	744

9,942,323 ordinary 1p shares were issued in respect of the acquisition of Supporta plc, with the difference between the nominal value of £0.9m and the total consideration of £26.7m has been credited to the merger reserve.

481,537 ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.01m and the total consideration of £0.74m has been credited to the share premium account.

23. Notes to the consolidated cash flow statement

The following non-operating cash flow adjustments have been made to the pre tax result for the year:

	2010 £'000	2009 £'000
Depreciation	3,182	2,146
Cost of acquisitions	748	—
Loss on disposal of property, plant and equipment	94	114
Loss on disposal of investments	115	—
Amortisation	10,511	5,214
Share-based payments	750	500
Finance income	(63)	(190)
Finance cost	2,462	1,584
Total	17,799	9,368

24. Acquisitions

The Group acquired 100 % of the issued share capital of Supporta plc, a number of social housing contracts from the administrators of Connaught Partnerships Limited, 100 % of the issued share capital of Jackson Lloyd Limited and the social housing business assets of the Bristol social housing business of Rok Building Limited. The effect of the acquisitions on the Group's assets was as follows:

	Supporta plc			Other			
	Book value £'000	Adjustments £'000	Fair value £'000	Book value £'000	Adjustments £'000	Provisional fair value £'000	Total £'000
Assets							
Non-current							
Property, plant and equipment	723	(32)	691	317	—	317	1,008
Intangible assets	2,273	(2,273)	—	—	—	—	—
Current							
Inventories	—	—	—	386	—	386	386
Trade receivables	5,097	(138)	4,959	5,292	(234)	5,058	10,017
Other receivables	3,628	113	3,741	626	—	626	4,367
Cash at bank and in hand	1,616	—	1,616	1	—	1	1,617
Total assets	13,337	(2,330)	11,007	6,622	(234)	6,388	17,395
Liabilities							
Current							
Short-term borrowings and overdrafts	(20,013)	—	(20,013)	(2,934)	—	(2,934)	(22,947)
Trade payables	(1,120)	—	(1,120)	(3,171)	—	(3,171)	(4,291)
Other payables	(1,728)	(103)	(1,831)	(2,392)	—	(2,392)	(4,223)
Accruals	(3,320)	(898)	(4,218)	(1,747)	(382)	(2,129)	(6,347)
Non-current							
Pension liability	(4,493)	(434)	(4,927)	—	—	—	(4,927)
Other non-current payables	(844)	(402)	(1,246)	—	—	—	(1,246)
Total liabilities	(31,518)	(1,837)	(33,355)	(10,244)	(382)	(10,626)	(43,981)
Net assets acquired	(18,181)	(4,167)	(22,348)	(3,622)	(616)	(4,238)	(26,586)
Intangibles capitalised			10,070			9,848	19,918
Deferred tax liability recognised in respect of intangibles capitalised			(2,820)			(2,350)	(5,170)
Goodwill capitalised			42,028			2,350	44,378
			26,930			5,610	32,540
Satisfied by:							
– cash			—			4,610	4,610
– deferred contingent consideration			—			1,000	1,000
– shares issued			26,930			—	26,930
			26,930			5,610	32,540

The fair value adjustments above relate to costs not accrued at the time of the acquisition and the alignment of the acquired company accounting policies with those of the Group.

In respect of acquired receivables, the gross contractual amounts receivable equate to the fair values shown above.

The fair value of the assets and liabilities acquired in respect of Jackson Lloyd Limited and the social housing business assets of the Bristol social housing business of Rok Building Limited are currently considered to be provisional awaiting further information in respect of certain liabilities. The fair value included above is the Directors' best estimate of assets and liabilities acquired.

On 27 January 2010 the Group acquired 100 % of the issued share capital of Supporta plc for £27.0m which was satisfied by the issue of 9,942,323 ordinary 1p shares. The fair value of shares issued was determined using the closing share price immediately prior to the offer of 269.5p. The purchase has been accounted for by the acquisition method of accounting. Supporta plc's principal activities were domiciliary care and professional services including provision of planning, project management, land management, business process outsourcing, system support, managed services, consultancy, data archiving and scanning services.

On 10 September 2010 the Group acquired a number of social housing contracts from the administrators of Connaught Partnerships Limited for a total consideration of £0.5m.

Notes to the financial statements – Group

continued

24. Acquisitions continued

On 30 September 2010 the Group acquired 100% of the share capital of Jackson Lloyd Limited for an initial consideration of £2.1m and deferred contingent consideration estimated to be £1.0m. The maximum deferred contingent consideration payable is £1.0m. Deferred consideration recognised is based upon contract retention and the use of tax losses. The Directors have considered the likelihood of the consideration being payable and consider that £1.0m is the appropriate carrying value for the liability.

On 18 November 2010 the Group acquired the social housing business assets of the Bristol social housing division of Rok Building Limited for a total consideration of £2m.

The Supporta plc intangible asset is recognised and valued at £10.1m. The values represent the expected value to be derived from the acquired order book, existing customer relationships and software rights:

- * the order books represent block contracts (Care) or general order books (Professional Services). The value placed on these order books is based upon the cash flow projections over the contract terms. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have taken a measure of prudence and value contracts over the contract term only. The cash flows were discounted at the weighted average cost of capital of 12.5%, which the Directors consider is commensurate with the risks associated with capturing returns from the order book. The order book has been valued over the estimated useful life of three years;
- * the customer relationships represent spot contract (Care) or general customer relationships (Professional Services). The value placed on these customer relationships is based on the expected cash inflows. The cash flows are discounted at the segment's weighted average cost of capital of 12.5% which the Directors consider is commensurate with the risks associated with capturing returns from the customer relationships. The cash flow projections assumed a customer attrition rate of 5% having considered three-year historic trends on a branch-by-branch basis. The assumptions result in a life, for active customers, of five years; and
- * the software rights represent in-house developed software utilised in the Professional Services operation. The value placed on this software is based on the depreciated replacement cost method. The software is expected to be used on existing and future projects for a further five years. On that basis the software is assumed to have a remaining life of five years.

The Directors consider that the value assigned to goodwill represents the workforce acquired, the cost synergies available, the new geographical coverage as a result of this acquisition and the resultant critical mass.

The Connaught Partnership Limited, Jackson Lloyd Limited and Rok Building Limited intangible assets are recognised and valued at £0.5m, £8.4m and £0.9m respectively. The values represent the expected value to be derived from the acquired order book and existing customer relationships:

- * the value placed on these order books is based upon the cash flow projections over the contract term. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have taken a measure of prudence and value contracts over the contract term only. The cash flows were discounted at the Social Housing segment's weighted average cost of capital of 9.3%, which the Directors consider is commensurate with the risks associated with capturing returns from the order book. The order book has been valued over the estimated useful life of three years; and
- * the value placed on these customer relationships is based on the expected cash inflows. The cash flows are discounted at the Social Housing segment's weighted average cost of capital of 9.3% which the Directors consider is commensurate with the risks associated with capturing returns from the customer relationships. The cash flow projections assumed a customer attrition rate of 5% having considered three-year historic trends on a branch-by-branch basis. The assumptions result in a life, for active customers, of five years.

In the period ended 31 December 2010, the Supporta plc acquisition contributed revenue of £40.2m and £2.4m operating profit before amortisation of intangibles.

In the period ended 31 December 2010, the Jackson Lloyd Limited acquisition contributed turnover of £5.8m and £0.2m operating loss before amortisation of intangibles.

For the year ended 31 December 2010, had the acquisitions taken place on 1 January 2010, the combined Group full year revenue for the year is estimated at £559.7m and the combined Group result for the year before taxation is estimated at £15.3m.

Analysis of net outflow in respect of the purchase of the subsidiary undertakings:

	Supporta plc £'000	Other £'000	Total £'000
Cash at bank and in hand acquired	1,616	1	1,617
Short-term borrowings and overdrafts	(20,013)	(2,934)	(22,947)
Cash consideration	—	(4,610)	(4,610)
Costs paid	(882)	(14)	(896)
Cash paid in respect of prior year acquisitions	—	(1,286)	(1,286)
	(19,279)	(8,843)	(28,122)

During the year the Group paid £1.3m in respect of contingent consideration relating to acquisitions in prior periods.

Subsequent to the balance sheet date, the Group acquired a network of Home Improvement Agencies from Anchor Trust. No book assets or liabilities were acquired in regards to the transaction.

25. Disposals

Datacare was acquired earlier in the year as part of the Supporta plc acquisition and was not considered core to the Group's strategy. The Group disposed of Datacare Business Systems Limited in September 2010 for £1.0m. The effect of the disposals on the Group's assets was as follows:

	£'000
Assets	
Non-current	
Property, plant and equipment	453
Intangible assets	265
Goodwill	362
Current	
Trade receivables	241
Other receivables	75
Cash at bank and in hand	22
Total assets	1,418
Liabilities	
Current	
Trade payables	(105)
Other payables	(190)
Total liabilities	(295)
Net assets disposed of	1,123
Loss on disposal	(115)
	1,008
Satisfied by:	
– cash	1,008
	1,008

Analysis of net inflow in respect of the disposal of the subsidiary undertaking:

	£'000
Cash at bank and in hand	(22)
Cash consideration	1,008
	986

26. Pensions

Defined contribution schemes

The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £1.4m (2009: £0.6m) to these schemes.

Defined benefit schemes

The Group contributes to 13 (2009: 8) principal defined benefit schemes on behalf of a number of employees which require contributions to be made to separately administered funds.

These pension schemes are operated on behalf of Mears Limited, Scion Group Limited, Supporta Services Limited, Mears Care Limited and their subsidiary undertakings. The assets of the scheme are administered by trustees in a fund independent from the assets of the Group.

Following the transfer of a number of employees in respect of new contracts in the year, the Group has gained Admitted Body status for three defined benefit schemes. At the time of admission these schemes had a net deficit of £142m. The initial plan assets and liabilities recognised as a result of these admissions are shown as 'Contract transfers' on page 87.

In certain cases, the Group will participate under Admitted Body status in the Local Government Pension Scheme. The Group will contribute for a finite period up until the end of the particular contract. The Group is required to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Pension Scheme has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised within the Group's share of the scheme assets and disclosed on page 86. Certain judgements around the value of this asset have been made and are discussed in the judgements and estimates disclosure within the accounting policies.

Notes to the financial statements – Group

continued

26. Pensions continued

Defined benefit schemes continued

Following the announcement in the June 2010 budget, the United Kingdom Government has announced it will use the CPI measure of inflation rather than RPI to determine statutory pension increases for public sector schemes. The move to CPI has been treated as a change in benefits and has been recognised as a negative past service cost in the Income Statement. As a result of this change, £3.7m has been recognised in the Income Statement.

The disclosures in respect of the 13 (2009: 8) defined benefit schemes in this note have been aggregated.

IAS 19 ‘Employee Benefits’

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2010 by qualified independent actuaries using the projected unit method.

The principal actuarial assumptions at the balance sheet date are as follows:

	2010	2009
Rate of increase of salaries	4.2%	4.4 %
Rate of increase for pensions in payment	3.2%	3.4 %
Discount rate	5.2%	5.7 %
Inflation	3.2%	3.4 %
Life expectancy for a 65 year old male	21.6 years	20.7 years
Life expectancy for a 65 year old female	23.7 years	22.6 years

Expected rates of return on investments are:

	2010 %	2009 %
Equities	7.0	7.0
Bonds	4.7	4.8
Property	6.8	6.1
Cash	3.2	3.0

The amounts recognised in the Balance Sheet and major categories of plan assets as a percentage of total plan assets are:

	2010		2009	
	%	£'000	%	£'000
Equities	62	51,682	62	39,684
Bonds	19	16,251	21	13,267
Guarantee	6	4,728	8	5,092
Property	10	8,798	6	4,115
Cash	3	2,230	3	2,067
Group's estimated asset share		83,689		64,225
Present value of funded scheme liabilities		(90,837)		(67,006)
Funded status		(7,148)		(2,781)
Asset value not recognised as surplus		(545)		(424)
Pension liability		(7,693)		(3,205)

The amounts recognised in the Income Statement are as follows:

	2010 £'000	2009 £'000
Current service cost	2,357	1,430
Past service cost	(3,718)	12
Total operating charge	(1,361)	1,442
Amount charged to net interest payable:		
– expected return on pension scheme assets	(4,279)	(2,950)
– expected return on pension scheme liabilities	4,591	2,977
Interest on obligation	312	27
Total charged to the result for year	(1,049)	1,469

26. Pensions continued

IAS 19 'Employee Benefits' continued

Changes in the present value of the defined benefit obligations are as follows:

	2010 £'000	2009 £'000
Present value of obligations at 1 January	67,006	42,778
Current service cost	2,357	1,430
Past service cost	(3,718)	12
Interest on obligations	4,591	2,977
Plan participants' contributions	784	678
Benefits paid	(1,280)	(719)
Contract transfer	4,011	2,981
Acquisitions	10,281	—
Actuarial loss	6,805	16,869
Present value of obligations at 31 December	90,837	67,006

Changes in the fair value of the plan assets are as follows:

	2010 £'000	2009 £'000
Fair value of plan assets at 1 January	64,225	45,575
Expected return on plan assets	4,279	2,950
Employers' contributions	3,041	2,386
Plan participants' contributions	784	679
Benefits paid	(1,280)	(719)
Contract transfer	4,251	3,607
Acquisitions	5,354	—
Actuarial gain	3,035	9,747
Fair value of plan assets at 31 December	83,689	64,225

The movements in the net pension liability and the amount recognised in the Balance Sheet are as follows:

	2010 £'000	2009 £'000
Deficit in schemes at 1 January	(3,205)	(488)
Current service cost	(2,357)	(1,430)
Past service cost	3,718	(12)
Contributions	3,041	2,386
Other finance income	(312)	(27)
Actuarial loss	(3,770)	(7,121)
Contract transfer	240	626
Acquisitions	(4,927)	—
Reduction in actuarial (gain)/loss due to non-recognition of scheme surpluses	(121)	2,861
Deficit in schemes at 31 December	(7,693)	(3,205)

Notes to the financial statements – Group

continued

26. Pensions continued

IAS 19 'Employee Benefits' continued

Cumulative actuarial gains and losses recognised in equity are as follows:

	2010 £'000	2009 £'000
At 1 January	(4,626)	(992)
Actuarial gain on TUPE transfer of employees	(5,152)	626
Actuarial loss recognised in the year	(3,305)	(7,121)
	(13,083)	(7,487)
Reduction in actuarial gain due to non-recognition of scheme surpluses	(121)	2,861
Total at 31 December	(13,204)	(4,626)

History of experience gains and losses are as follows:

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Fair value of scheme assets	83,689	64,225	45,575	1,411	1,145
Net present value of defined benefit obligations	(90,837)	(67,006)	(42,778)	(1,466)	(1,528)
Net (deficit)/surplus	(7,148)	(2,781)	2,797	(55)	(383)
Asset value not recognised as surplus	(545)	(424)	(3,285)	—	—
Net deficit	(7,693)	(3,205)	(488)	(55)	(383)
Experience adjustments arising on scheme assets					
Amount	3,501	9,747	(8,527)	(45)	27
Percentage of scheme assets	4.2%	15.2%	(18.7%)	(3.2%)	2.4%
Experience adjustments arising on scheme liabilities					
Amount	376	1,364	4	88	49
Percentage of scheme assets	0.4%	2.0%	—	6.0%	3.2%

The employers' contributions expected to be paid during the financial year ending 31 December 2010 amount to £3.0m.

27. Operating lease commitments

Non-cancellable operating lease rentals payable were as follows:

	Land and buildings		Other	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Expiry date				
Within one year	1,651	1,654	9,143	7,618
Between two and five years	5,107	4,744	9,656	7,013
After more than five years	2,895	2,555	—	86

28. Capital commitments

The Group had no capital commitments at 31 December 2010 or at 31 December 2009.

29. Contingent liabilities

The Group has guaranteed that it will complete the contracts it has commenced with 17 (2009: 15) Local Authorities. At 31 December 2010 these guarantees amounted to £5.73m (2009: £5.27m).

The Group had no other contingent liabilities at 31 December 2010 or at 31 December 2009.

30. Related party transactions

Identity of related parties

The Group has a related party relationship with its pension schemes, its subsidiaries and with its Directors.

Pension schemes

Details of contributions to pension schemes are set out in note 26 to the financial statements.

Subsidiaries

The Group has a central treasury arrangement in which all subsidiaries participate. The Directors do not consider it meaningful to set out details of transfers made in respect of this treasury arrangement between companies, nor do they consider it meaningful to set out details of interest or dividend payments made within the Group.

Transactions with key management personnel

The Group has identified key management personnel as the Directors of Mears Group PLC.

Key management personnel held the following percentage of voting shares in Mears Group PLC:

	2010 %	2009 %
Directors	0.9	1.1

Key management personnel's compensation is as follows:

	2010 £'000	2009 £'000
Salaries	1,586	1,700
Contributions to defined contribution pension schemes	199	193
Share-based payments	592	286
	2,377	2,179

Further details of Directors' remuneration are disclosed within the Remuneration Report.

Transactions with other related parties

No transactions with other related parties occurred in the year.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention. The principal accounting policies of the Company are set out below. The following accounting policies have remained unchanged from the previous year.

Investments

Investments are included at cost net of any provision for impairment.

The Company was entitled to the merger relief offered by Section 612 of the Companies Act 2006 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Supporta plc.

Share-based employee remuneration

All share-based payment arrangements that were granted after 7 November 2002 are recognised in the financial statements.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Binomial and Monte Carlo option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period.

Share-based remuneration in respect of employees of the Company is ultimately recognised as an expense in the Income Statement with a corresponding credit to share-based payment reserve. Share-based remuneration in respect of employees of other Group companies is recharged to that subsidiary company.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Retirement benefits

Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

Principal accounting policies – Company

continued

Financial instruments

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Balance Sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Loans and debtors

Trade debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the debtors. Trade debtors are initially recorded at invoiced value (less a provisional estimate for impairment) and subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and bank deposits available at less than 24 hours' notice. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Following initial recognition, financial assets are subsequently remeasured at amortised cost using the effective interest rate method.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Company uses derivative financial instruments to hedge its exposure to interest rate risks arising from its financing activities. In accordance with its treasury policy the Company does not hold or issue derivative financial instruments for trading purposes. The Company recognises gains or losses on derivatives at fair value through the Profit and Loss Account.

Parent Company balance sheet

as at 31 December 2010

Company number: 3232863

Review of the year

Corporate governance

Financial statements

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	5	53,345	53,110
Current assets			
Debtors: amounts due in less than one year	6	44,173	34,199
Cash at bank and in hand		402	304
		44,575	34,503
Creditors: amounts falling due within one year	7	(35,107)	(18,186)
Net current assets		9,468	16,317
Total assets less current liabilities		62,813	69,427
Creditors: amounts falling due after more than one year	8	(880)	(1,190)
		61,933	68,237
Capital and reserves			
Called up share capital	9	848	744
Share premium account	10	33,243	32,505
Shares to be issued	10	2,905	2,649
Profit and loss account	10	24,937	32,339
Equity shareholders' funds		61,933	68,237

The financial statements were approved by the Board of Directors on 15 April 2011.

R Holt
Director

A C M Smith
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements – Company

1. Profit for the financial year

The Parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own Profit and Loss Account in these financial statements. The Group profit for the year includes a loss of £2.8m (2009: £10.1m) which is dealt within the financial statements of the Company. This result is stated after charging auditor's remuneration of £60,800 relating to audit services and £5,000 relating to taxation services.

2. Directors and employees

Employee benefits expense

All staff costs relate to Directors. Staff costs during the year were as follows:

	2010 £'000	2009 £'000
Wages and salaries	1,300	1,700
Social security costs	286	275
Other pension costs	199	193
	1,785	2,168

The average number of employees of the Company during the year was:

	2010 Number	2009 Number
Office and management	10	7

Details relating to the remuneration in respect of the highest paid Director are detailed in note 5 of the consolidated financial statements.

3. Share-based employee remuneration

As at 31 December 2010 the Group maintained six share-based payment schemes for employee remuneration. The details of each scheme are included within note 6 to the consolidated financial statements.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

In total, £0.6m of employee remuneration expense has been included in the Company's Profit and Loss Account for 2010 (2009: £0.4m), which gave rise to additional paid-in capital. No liabilities were recognised due to share-based payment transactions.

4. Dividends

The following dividends were paid on ordinary shares in the year:

	2010 £'000	2009 £'000
Final 2009 dividend of 4.10p (2009: final 2008 dividend of 3.40p) per share	3,469	2,522
Interim 2010 dividend of 1.90p (2009: interim 2009 dividend of 1.60p) per share	1,610	1,188
	5,079	3,710

The proposed final 2010 dividend of 4.85p per share has not been included within the financial statements as no obligation existed at 31 December 2010.

5. Fixed asset investments

	Investment in subsidiary undertakings £'000	Loans £'000	Total £'000
Cost			
At 1 January 2010	31,110	22,000	53,110
Additions	235	—	235
At 31 December 2010	31,345	22,000	53,345

Additions to investments in subsidiary undertakings relate to the acquisition of Supporta plc. Details of this acquisition are shown in note 24 to the consolidated financial statements.

Details of the principal subsidiary undertakings of the Company are shown in note 14 to the consolidated financial statements.

6. Debtors

	2010 £'000	2009 £'000
Amounts owed by Group undertakings	43,192	33,766
Prepayments and accrued income	981	433
	44,173	34,199

7. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Bank loan	34,000	17,000
Corporation Tax	—	2
Other creditors	7	826
Accruals	1,100	358
	35,107	18,186

Included in other creditors is £nil (2009: £0.8m) relating to deferred consideration on acquisitions. Included within accruals is £1.0m (2009: £0.2m) relating to an interest rate hedge.

8. Creditors: amounts falling due in more than one year

	2010 £'000	2009 £'000
Other creditors	880	1,190

Included in other creditors is £0.9m (2009: £1.2m) relating to deferred consideration on acquisitions.

9. Share capital

	2010 £'000	2009 £'000
Allotted, called up and fully paid		
74,391,610 (2009: 74,001,851) ordinary shares of 1p each	744	740
Issue of 9,942,323 (2009: nil) shares on acquisition of Supporta plc	99	—
Issue of 481,537 (2009: 389,759) shares on exercise of share options	5	4
84,815,470 (2009: 74,391,610) ordinary shares of 1p each	848	744

9,942,323 ordinary 1p shares were issued in respect of the acquisition of Supporta plc. The Company took advantage of merger relief in respect of the difference between then nominal value of £0.09m and the total consideration of £26.7m.

481,537 ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.01m and the total consideration of £0.74m has been credited to the share premium account.

Notes to the financial statements – Company

continued

10. Share premium account and reserves

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Profit and loss account £'000
At 1 January 2010	744	32,505	2,649	32,339
Issue of shares	104	738	—	—
Share option charges	—	—	750	—
Exercise of share options	—	—	(494)	494
Loss for the year	—	—	—	(7,896)
At 31 December 2010	848	33,243	2,905	24,937

11. Capital commitments

The Company had no capital commitments at 31 December 2010 or at 31 December 2009.

12. Contingent liabilities

The Company had no contingent liabilities at 31 December 2010 or at 31 December 2009.

13. Pensions

Defined contribution schemes

The Company contributes to personal pension schemes of the Directors.

14. Related party transactions

The Company has taken advantage of the exemption with FRS 8 not to disclose transactions with companies which are 100 % owned by the Group.

During the year the Company purchased insurance cover, via a UK insurance company, of £1.6m (2009: £1.6m) from Mears Insurance Captive Limited, a company registered in Guernsey which is 99.99 % owned by Mears Group PLC. At 31 December 2010 the Group owed £0.4m (2009: £0.4m) to the Group's UK insurance company, which in turn owed the balance to Mears Insurance Captive Limited.

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ar10.mearsgroup.co.uk

Corporate website:

www.mearsgroup.co.uk



We are committed to communicating with all stakeholders. Our website contains a full investor section with news, share price information and the latest reports and presentations.

Archived reports

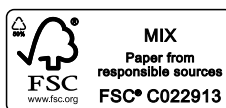
Copies of our Annual and Interim Reports for the past ten years are available in the investor relations section of our website. The 2010 Report is available as an interactive microsite or as a downloadable pdf.

Corporate information

For more on our business, our services and our stakeholders, visit our corporate website at www.mearsgroup.co.uk.

Presentations

Mears publishes full investor presentations twice a year, which are archived and available for download in the investor relations section of our website.



The group's commitment to environmental issues is reflected in this Annual Report which has been printed on Cocoon Silk 50, a high quality Silk coated paper and board range made from 50% de-inked post consumer waste and 50% FSC® certified virgin fibre and Cocoon Pre-Print 100 a 100% recycled paper made using FSC certified fibres.

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