MEARS

MEARS GROUP PLC INTERIM REPORT 2010

Making People *Smile*

Mears is a leading social housing repairs and maintenance provider in the UK and a growing presence in the domiciliary care market. Our business is focused on the social housing and community sector where we bring the highest standards of care to people, their homes and their communities.

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ir10.mearsgroup.co.uk

REVIEW OF THE INTERIM PERIOD

FINANCIAL STATEMENTS

2010

Highlights

REVENUE_

up 9%

OPERATING PROFIT*_

up 48%

NORMALISED DILUTED EARNINGS PER SHARE_

up 15%

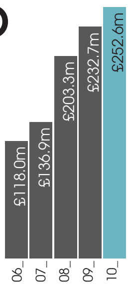
DIVIDEND PER SHARE_

up 19%

REVENUE_

+9%

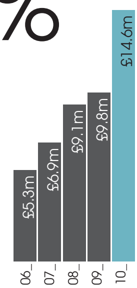
£252.6m



OPERATING PROFIT*_

+48%

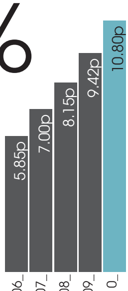
£14.6m



NORMALISED DILUTED EARNINGS PER SHARE_

+15%

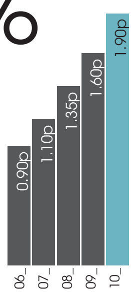
10.80p



DIVIDEND PER SHARE_

+19%

1.90p



* Pre amortisation of acquisition intangibles and before the costs relating to the acquisition and integration of Supporta.

Our business

Mears Group PLC is a unique organisation.

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

As a leading social housing repairs and maintenance provider in the UK, Mears provides rapid response and planned maintenance services to Local Authorities and registered Social Landlords. We deliver in excess of **3,000 repairs every day** and to a **portfolio of over 500,000 houses nationwide**. As the UK's fastest growing national domiciliary care provider, Mears Care delivers over **8 million hours of care per annum** from a network of branches working with over **75 Local Authorities** and Primary Care Trusts.

SOCIAL HOUSING

REVENUES_

up by 5%

The Social Housing business continues its strong growth in the repair and maintenance sector. **The interim period has been a particularly busy period with six significant new maintenance contracts successfully mobilised_**

DOMICILIARY CARE

REVENUES_

up by 64%

The quality of the management team acquired with Supporta has exceeded our expectations and the **subsequent integration has gone well with in excess of 70 offices re-branded as Mears Care_**

Chairman's statement

We have produced another set of robust results against the backdrop of market sentiment where the outlook for Mears' markets is perceived as being uncertain. Once again I can confirm that Mears Group is not experiencing, nor do we anticipate, any downward pressure on either our Social Housing or Domiciliary Care revenues.

BELOW **BOB HOLT** CHAIRMAN

VIEW THIS REPORT ONLINE, VISIT IR10.MEARSGROUP.CO.UK/CHAIRMAN

RESULTS OF THE INTERIM PERIOD

REVENUE
Group operating margin up at 5.8% (2009: 4.2%). Operating margins increased across all divisions.

CASH CONVERSION
Strong cash generation with the operating cash conversion at 94% of the profits generated over a rolling 12-month period.

ORDER BOOK
Order book stands at £2.6 billion with a sales pipeline of £3.0 billion.

Record contract wins in excess of £500m.

92% visibility of consensus forecast revenue for 2010 and 81% for 2011.

DIVIDEND
Interim dividend is increased by 19% to 1.90p per share.

OVERVIEW

It is with the greatest pleasure that I announce another set of record results for the six months ended 30 June 2010. Revenue was up 9% to £252.6m. Adjusted operating profit before amortisation and the costs associated with the acquisition and integration of Supporta was up 48% to £14.6m with the underlying diluted earnings per share up 15% to 10.80p. We have 92% visibility of consensus forecast revenue for the current year and 81% for 2011.

To reflect the Board's confidence in the future opportunities in our growth markets the dividend is increased by 19% to 1.90p per share.

Once again, I am delighted with our strong cash generation with the operating cash conversion at 94% of the profits generated over a rolling twelve-month period. At a time that has been particularly active in terms of new contract mobilisations and where one might anticipate a higher requirement for working capital, it is a credit to the strength of our working capital management that we can consistently deliver cash.

We have produced another set of robust results against the backdrop of market sentiment where the outlook for Mears' markets is perceived as being uncertain. Once again I can confirm that Mears Group is not experiencing, nor do we anticipate, any downward pressure on either our Social Housing or Domiciliary Care revenues.

Throughout our history we have sought to build a long-term platform for profitable growth based on the fundamentals of our business model and the key drivers which protect both our revenue flow and our ability to continually build for the long term. Short-term negativity is misplaced in an environment where the opportunities for a well managed and operationally geared business are immense. 15 years of uninterrupted growth in revenue, profits and cash generation speak for themselves. The Mears management team has worked together for many years with an attitude toward providing first class value-for-money customer service through our

Chairman's statement _continued

The Mears management team has worked together for many years with an attitude toward providing first class value-for-money customer service through our partnership ethos, and this has been rewarded in the tremendous success we have achieved in new contract bidding and the number of exciting new opportunities that are within our sales pipeline.

OVERVIEW_CONTINUED

partnership ethos, and this has been rewarded in the tremendous success we have achieved in new contract bidding and the number of exciting new opportunities that are within our sales pipeline. During times of belt tightening or inward reflection, it is that relationship with one's partners which will continue to bring long-term benefit to all stakeholders.

The opportunity for our business has never been better. The significant majority of our Social Housing revenues are non-discretionary spend for services which our clients have a legal obligation to provide. The proposed 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 will provide Local Authorities opportunities to invest further in their housing stock which can only be positive for a leading provider like Mears. In addition, a significant proportion of our Social Housing revenue is derived from Housing Associations who are less affected by any reduction in public sector spending. Our order book is solid and stands at £2.6 billion with a sales pipeline of £3.0 billion. The well publicised problems in the sector provide a great opportunity for Mears as market leader. We continue to be highly selective on our bidding approach looking to only work on long-term partnership situations.

We continue the roll out of our Care and Repair offering which integrates 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. We continue to see a convergence between our Social Housing and Care divisions and believe there are increasing opportunities to combine our Care and Repair offerings, thereby adding further value to our customers.

OPERATING REVIEW

SOCIAL HOUSING

The Social Housing business continues its strong growth in the repair and maintenance sector. Organic growth at 5% masks the success in bidding new contract opportunities and a half year that has been a particularly busy period with six significant new maintenance contracts successfully mobilised. There is little or no benefit in these results for new contract starts, since a contract commencing in April contributes little in terms of revenue or profit whilst generating a cash outflow during its mobilisation phase.

In the last twelve months we have been awarded three of the largest partnership contracts which have ever been outsourced in England, further cementing our position as market leader. A ten-year partnership commenced with Brighton and Hove City Council to provide housing stock upgrades, responsive repairs and comprehensive maintenance services. The contract is valued at £200m and at the time represented the largest contract ever awarded to Mears.

Subsequent to the period being reported herewith, August 2010 saw the mobilisation of a 22-year partnership first announced in April 2010, to provide a single 24-hour call centre service for all tenants of Family Mosaic and be responsible for responsive and void repairs, gas maintenance, property surveying and estate management. The value of the award is £300m for the initial ten-year period. The contract relates to more than 20,000 homes in London and the Home Counties. Family Mosaic was an existing client of Mears and is one of the largest Registered Social Landlords in the UK.

The second half of the year will also see a further significant new contract start-up with the London Borough of Lambeth to provide responsive repairs, void refurbishment, estate management, Decent Homes and planned maintenance. The ten-year contract (7-year contract with an extension of up to a further three years dependant on performance) is valued at £170m and includes 8,000 of the 20,100 tenanted homes within Lambeth. This contract will take the total order value of contracts mobilised in 2010 to in excess of £1 billion.

In the period the Social Housing division has reached an advanced stage of developing a joint venture model with a key existing client where the benefit of cost savings can be passed directly onto the client to reduce their annual costs. This type of joint venture model is becoming much more prevalent, especially where the sector is looking to offset the increased costs of indirect taxation, and where the full outsourcing model may not be appropriate. In addition, this client also procures a significant amount of domiciliary care and it is anticipated that this will also be included within this joint venture.

'Our order book is solid and stands at £2.6 billion with a sales pipeline of £3.0 billion.'

Environmental opportunities within Social Housing are also beginning to materialise, given demands upon Landlords to cut Social Housing carbon emissions by one third by 2020. We believe that Mears is the only provider that understands the unique challenges that are specific to Social Housing in the context of the Green Agenda. We are at an advanced stage of delivering a solution to address this.

DOMICILIARY CARE

I am delighted to report that the integration of our care business has gone well with in excess of 70 offices rebranded as Mears Care. At the time of acquiring Supporta we set out four main reasons for why we thought the acquisition would be beneficial:

- the addition of Supporta would add scale and allow for larger and more Comprehensive contracts to be pursued;
- the Supporta Care and existing Mears Care businesses were geographically complementary;
- the enlarged Care business would be able to share best practice; and
- certain duplicated costs could be removed.

We are seeing the benefits that we expected and we are optimistic that we can realise further synergies.

The quality of the management team acquired with Supporta has exceeded our expectations and we now have the structure in place to continue to build this business model. The division reported organic growth of 7% in the period which is pleasing at a time where the management has been focused upon integrating two of the leading providers. The operating margin has increased to 7.5% which represents a blend of the higher margin Supporta business and the lower margin of our Careforce business. We believe there are further opportunities for margin improvements through system enhancements, operating efficiency and economies of scale. However we are equally focused on reinvesting savings within our workforce of carers who provide quality care services for a relatively low wage and remain undervalued for the socially responsible role that they play.

Chairman's statement _continued

The Group has a clear strategy of building market leader positions in each of its core businesses. We consider it to be of paramount importance to be recognised as the leading provider of quality services.

OPERATING REVIEW_CONTINUED

DOMICILIARY CARE_CONTINUED

We have announced previously our award of significant contracts during the last six months, estimated to be worth in the region of £30m, reflecting ongoing 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 success has been with a new client relationship at Enfield Council. Enfield has reduced the number of providers from 20 to four, with the contract length being for an initial three-year period with a two-year extension. It is worth an estimated £12m over this five-year period. This further strengthens our operations across London where we have a presence in 25 of the 32 London Boroughs. In addition we have been awarded a further three contracts in Scotland with East Dunbartonshire, Glasgow and North Lanarkshire Councils and we are optimistic as to further success in this geographical area where we have an increasingly strong presence and where there is an increasing trend to outsource. In Wales, we have added Newport to our existing presence in Port Talbot. In England we have had wins in Harrow, Newcastle, South Tyneside, Redcar and Cleveland, Cumbria, Greenwich and Lincolnshire, further enhancing our geographical coverage.

'We are continuing to see more opportunities to provide the care and repair service to our customers. The Government drive towards service integration has been given new impetus through the white paper defining the future for the NHS.'

Our bid pipeline remains extremely healthy in this sector and we would expect to be able to make further positive announcements in the near future.

We are continuing to see more opportunities to provide the Care and Repair service to our customers. The Government drive towards service integration has been given new impetus through the white paper defining the future for the NHS. The white paper sets out a clear strategy for delivering cost savings by ensuring that homes are adapted, enabling hospital beds to be freed up as well as to avoid expensive residential care. This will result in an investment in adaptations, telecare and joined up Domiciliary Care. A recent report demonstrated potential savings of up to £3 billion per annum if services were to be truly integrated around the home and the individual in it. Given pressures on Local Authorities to achieve cost savings, this is one of the few approaches where the service for the individual improves while costs are minimised.

'Mears is in a unique situation where our joined up services are becoming increasingly required to drive forward professional value-for-money services which have an immediate impact to the economy.'

Mears is driving care integration at a number of levels. We are combining our care and housing branches wherever possible, most recently in Welwyn, where three Care branches were combined together and co-located within our housing operational branch. In Peterborough, we have contracted with Cross Keys Homes to manage their out-of-hours care service alongside our existing housing operation. This contract is an important first step in outsourcing where we are not the provider of the care service to residents. Opportunities to tender have started to appear for the joint provision of care and housing support services. Mears is clearly well placed as the only private sector provider of such services.

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'.

Mears is in a unique situation where our joined up services are becoming increasingly required to drive forward professional value-for-money services which have an immediate impact to the economy.

OTHER SERVICES

The Group's Other Services comprise the Mears Mechanical and Electrical business along with the two businesses acquired with the acquisition of Supporta, TerraQuest and Datacare. These 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 division has, for a number of years, built a relationship with Rollalong to develop 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.

The two professional services businesses acquired as part of the Supporta acquisition performed in line with management expectations.

BALANCE SHEET

Strong working capital management has always been and remains a cornerstone of our business. The internally developed IT systems have a strong financial focus and this is a driving force behind efficient cash management. Operating profit to cash conversion maintained our excellent record with a rolling twelve-month conversion of 94%. The in-house IT system is also central to the valuation of work in progress and amounts recoverable on contracts and ensures that valuations are robust and are not reliant upon significant estimates or judgments. We maintain a conservative balance sheet. 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.

With average borrowings during the period of £45m against a facility of £85m, we have significant headroom within our existing borrowing facilities. Whilst the Supporta acquisition brought with it a net debt of £18.4m, we have always been and remain conservative in respect of our appetite for debt. The net debt at 30 June 2010 was £13.5m having converted 94% of profit into cash over the preceding twelve months.

Total shareholders' equity rose from £105.9m to £135.2m at 30 June 2010. The increase in net assets is primarily due to share capital issued in respect of the acquisition of Supporta together with retained profits.

PEOPLE

We have a stated intention to have the best-trained and equipped workforce and are committed to a policy of providing enhanced career opportunities for all of our staff. We commend our workforce at all levels for their commitment, endeavour and resilience.

Chairman's statement _continued

The demand for our services continues to be strong. Our two growth markets, Social Housing and Domiciliary Care, are defensive sectors where spend is largely non-discretionary. We have a number of opportunities with existing and prospective customers to unlock significant additional revenue.

PEOPLE_CONTINUED

The management team, which has been further strengthened in the period, continues to win many awards and we are particularly proud to have won the National Award for our Health and Safety training against every other company in the UK. We continue to place the highest emphasis on the induction and training of our teams. This award is just one of the measures upon which customers continue to award the Group new opportunities and also extend and retain existing contracts. Our customer service levels reached new heights of excellence in the period.

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 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.

BOARD CHANGES

Your Board has been mindful of the desire to improve our Corporate Governance and I am pleased to welcome to the Board Davida Marston and Rory Macnamara, who bring to the team a wealth of experience from which the Group will benefit. The Board will undoubtedly benefit from a fresh and independent view and I look forward to sharing news of future developments. 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 recent Annual General Meeting. 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.

OUTLOOK

The demand for our services continues to be strong. Our two growth markets, Social Housing and Domiciliary Care, are defensive sectors where spend is largely non-discretionary. We have a number of opportunities with existing and prospective customers to unlock significant additional revenue.

I look forward to bringing you news of our successes in the future.

BOB HOLT
BOB.HOLT@MEARSGROUP.CO.UK
Chairman

17 August 2010

Half-year condensed consolidated income statement
_for the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 £'000	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Six months ended 30 June 2009 £'000
Sales revenue	3		**252,637**		232,702
Cost of sales			**(180,102)**		(169,775)
Gross profit			**72,535**		62,927
Other administration expenses		**(57,960)**		(53,085)	
Operating result before exceptional items and intangible amortisation	3	**14,575**		9,842	
Intangible amortisation		**(3,738)**		(2,000)	
Total administration expenses			**(61,698)**		(55,085)
Operating result before exceptional costs			**10,837**		7,842
Costs of the acquisition and integration of Supporta			**(2,447)**		—
Operating profit	3		**8,390**		7,842
Finance income	4		**23**		43
Finance costs	4		**(1,396)**		(588)
Profit for the period before tax			**7,017**		7,297
Tax expense	5		**(1,977)**		(2,400)
Net profit for the period			**5,040**		4,897
Attributable to:					
Equity holders of the parent			**5,040**		4,897
Earnings per share					
Basic – normalised	7		**11.57p**		9.96p
Diluted – normalised	7		**10.80p**		9.42p

Half-year condensed consolidated statement of comprehensive income_for the six months ended 30 June 2010

	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000
Net result for the period	**5,040**	4,897
Other comprehensive income/(expense)		
Actuarial losses on defined benefit pension schemes	—	—
Increase in deferred tax asset	—	100
Other comprehensive income for the period	—	100
Total comprehensive income for the period	**5,040**	4,997
Attributable to:		
Equity holders of the parent	**5,040**	4,997

Half-year condensed consolidated balance sheet
_as at 30 June 2010

	As at 30 June 2010 £'000	As at 31 December 2009 £'000	As at 30 June 2009 £'000
Assets			
Non-current			
Goodwill	**94,291**	52,393	51,877
Intangible assets	**24,141**	17,072	15,657
Property, plant and equipment	**12,909**	12,142	11,501
Deferred tax asset	**7,483**	6,098	3,585
Trade and other receivables	**2,036**	2,119	1,325
	140,860	89,824	83,945
Current			
Inventories	**23,094**	17,349	17,035
Trade and other receivables	**92,975**	82,933	95,262
Cash at bank and in hand	**31,485**	23,511	13,461
	147,554	123,793	125,758
Total assets	**288,414**	213,617	209,703
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	**846**	744	742
Share premium account	**33,032**	32,505	32,143
Share-based payment reserve	**2,989**	2,649	3,985
Merger reserve	**38,243**	11,548	11,548
Retained earnings	**60,053**	58,482	50,716
Total equity	**135,163**	105,928	99,134
Liabilities			
Non-current			
Pension and other employee benefits	**8,149**	3,205	488
Deferred tax liabilities	**6,590**	4,646	4,774
Other liabilities	**1,230**	1,230	—
	15,969	9,081	5,262
Current			
Short-term borrowings and overdrafts	**45,000**	17,000	15,000
Trade and other payables	**83,521**	75,806	83,226
Current tax liabilities	**4,431**	4,001	2,890
Other liabilities	**861**	1,801	1,669
Dividend payable	**3,469**	—	2,522
	137,282	98,608	105,307
Total liabilities	**153,251**	107,689	110,569
Total equity and liabilities	**288,414**	213,617	209,703

Half-year condensed consolidated cash flow statement
_for the six months ended 30 June 2010

	Note	**Six months ended 30 June 2010 £'000**	Year ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000
Operating activities				
Result for the period before tax		**7,017**	18,099	7,297
Adjustments	8	**7,785**	12,669	4,484
Change in inventories		**(5,745)**	(1,687)	(7,382)
Change in operating receivables		**(2,332)**	5,204	(2,853)
Change in operating payables		**(698)**	(10,250)	5,840
Cash inflow from operating activities before taxes paid		**6,027**	24,035	7,386
Taxes paid		**(2,803)**	(5,216)	(2,401)
Net cash inflow from operating activities		**3,224**	18,819	4,985
Investing activities				
Additions to property, plant and equipment		**(1,593)**	(3,523)	(1,802)
Additions to other intangible assets		**(325)**	(793)	(328)
Proceeds from disposals of property, plant and equipment		**65**	116	31
Acquisition of subsidiary undertaking, net of cash		**(20,223)**	(21,120)	(10,159)
Interest received		**23**	151	62
Net cash outflow from investing activities		**(22,053)**	(25,169)	(12,196)
Financing activities				
Proceeds from share issue		**530**	894	205
Discharge of finance lease liability		**(508)**	(963)	(365)
Interest paid		**(1,219)**	(1,847)	(762)
Dividends paid		**—**	(3,710)	—
Net cash outflow from financing activities		**(1,197)**	(5,626)	(922)
Cash and cash equivalents at beginning of period		**6,511**	(1,539)	6,594
Net decrease in cash and cash equivalents		**(20,026)**	(11,976)	(8,133)
Cash and cash equivalents at end of period		**(13,515)**	(13,515)	(1,539)

Cash and cash equivalents is comprised as follows:			
Cash at bank and in hand	**31,485**	31,485	13,461
Short-term borrowings and overdrafts	**(45,000)**	(45,000)	(15,000)
Cash and cash equivalents	**(13,515)**	(13,515)	(1,539)

Half-year condensed consolidated statement of changes in equity_for the six months ended 30 June 2010

	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 result for the period	—	—	—	—	4,897	4,897
Increase in deferred tax asset	—	—	—	—	100	100
Total comprehensive income for the period	—	—	—	—	4,997	4,997
Issue of shares	2	203	—	—	—	205
Share option charges	—	—	750	—	—	750
Equity dividends declared	—	—	—	—	(2,522)	(2,522)
Transactions with owners	2	203	750	—	(2,522)	(1,567)
At 30 June 2009	742	32,143	3,985	11,548	50,716	99,134
At 1 January 2010	744	32,505	2,649	11,548	58,482	105,928
Net result for the period	—	—	—	—	5,040	5,040
Increase in deferred tax asset	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	5,040	5,040
Issue of shares	102	527	—	26,695	—	27,324
Share option charges	—	—	340	—	—	340
Equity dividends declared	—	—	—	—	(3,469)	(3,469)
Transactions with owners	102	527	340	26,695	(3,469)	24,195
At 30 June 2010	**846**	**33,032**	**2,989**	**38,243**	**60,053**	**135,163**

Notes to the half-year condensed consolidated financial statements_for the six months ended 30 June 2010

1. CORPORATE INFORMATION

Mears Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded. The half-year condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2010 were authorised for issue in accordance with a resolution of the Directors on 16 August 2010.

2. BASIS OF PREPARATION AND ACCOUNTING PRINCIPLES

(A) BASIS OF PREPARATION

The half-year condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and with IAS 34 'Interim Financial Reporting'. The half-year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2009, which have been prepared in accordance with IFRS as adopted by the European Union.

This condensed consolidated half-year financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2009 were approved by the Board of Directors on 31 March 2010. These accounts, which contained an unqualified audit report under Section 495 of the Companies Act 2006 and which did not make any statements under Section 498 of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

The half-year condensed consolidated financial statements for the six months ended 30 June 2010 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

There have been no significant changes to estimates of amounts reported in prior financial years.

Share capital and share premium have increased following the issue of shares to satisfy the exercise of share options and, in the case of share capital, the issue of shares on the acquisition of Supporta. The Company is entitled to the merger relief offered by Section 612 of Companies Act 2006 in respect of the consideration paid in excess of the nominal value of the equity shares issued in connection with the acquisition of Supporta.

(B) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the half-year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of the new standards and interpretations as of 1 January 2010, noted below. Also noted below is the Group's accounting policy for exceptional items.

IFRS 3 (Revised 2008) 'Business Combinations'. The revised standard (IFRS 3R) introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS 3R that had an impact on the Group's acquisitions in 2010 are as follows:

- acquisition-related costs of the combination are recorded as an expense in the income statement. Previously, these costs would have been capitalised as part of the cost of the acquisition;
- the assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless IFRS 3R provides an exception and provides specific measurement rules; and
- any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

IFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. For the six months ended 30 June 2010, the adoption of IFRS 3R has affected the accounting for the Group's acquisition of Supporta (see note 9) by increasing the Group's expenses related to acquisition-related costs by £0.75m. Current tax expense has decreased by £0.2m. The impact on basic and diluted earnings per share for the current period is detailed within note 7. Business combinations for which the acquisition date is before 1 January 2010 have not been restated.

IAS 27 (Revised 2008) 'Consolidated and Separate Financial Statements'. The adoption of IFRS 3R required that the revised IAS 27 (IAS 27R) is adopted at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called 'minority') interests and the loss of control of a subsidiary. Similar to IFRS 3R, the adoption of IAS 27R is applied prospectively. The Group did not have any non-controlling interests in the current period and did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of IAS 27R did not have an impact in the current period financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING PRINCIPLES_CONTINUED

(B) SIGNIFICANT ACCOUNTING POLICIES_CONTINUED

Improvements to IFRS 2009 (issued April 2009). The Improvements to IFRS 2009 ('2009 Improvements') made several minor amendments to IFRS. The only amendment relevant to the Group relates to IAS 17 'Leases'. The amendment requires that leases of land are classified as finance or operating applying the general principles of IAS 17. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective from 1 July 2009) and IFRIC 18 'Transfers of Assets from Customers' did not have any material impact on the Group.

In addition, exceptional items are disclosed 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 balance sheet. Where redundancy costs relate to a restructure following an acquisition, they are included in exceptional items.

3. SEGMENT REPORTING

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

The Group operated three business segments during the year:

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

All of the Group's activities are carried out within the UK and the Group's principal reporting to its chief operation decision maker is not segmented by geography. The principal measures utilised by the chief operating decision mater to review the performance of the business are operating result pre amortisation of acquisition intangibles and share-based payment. Segments do not trade with each other and there is therefore no intra-segment revenue. There is a small element of cyclicality to the Group's activities, which combined with organic growth results in the second half of the year traditionally show increased margins over and above the first half of the year.

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Revenue £'000	**Operating result £'000**	Revenue £'000	Operating result £'000
Social Housing	**184,697**	**9,994**	176,020	8,265
Domiciliary Care	**47,796**	**3,565**	29,119	1,646
Other Services	**20,144**	**1,356**	27,563	681
	252,637	**14,915**	232,702	10,592
Share option costs	**—**	**(340)**	—	(750)
Costs relating to the acquisition and integration of Supporta	**—**	**(2,447)**	—	—
Amortisation of acquisition intangible	**—**	**(3,738)**	—	(2,000)
Operating result	**252,637**	**8,390**	232,702	7,842

Notes to the half-year condensed consolidated financial statements_continued_for the six months ended 30 June 2010

3. SEGMENT REPORTING_CONTINUED

Reconciliation to the Half-year Condensed Consolidated Income Statement:

	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000
Operating result	**8,390**	7,842
Finance costs, net	**(1,373)**	(545)
Tax expense	**(1,977)**	(2,400)
Net result for the period	**5,040**	4,897

In addition as there has been a material change in the value of total assets the following segmental analysis is provided:

	As at 30 June 2010 £'000	As at 31 December 2009 £'000	As at 30 June 2009 £'000
Social Housing	**92,643**	87,005	80,438
Domiciliary Care	**27,803**	10,004	9,924
Other non-core	**14,717**	8,919	8,772
	135,163	105,928	99,134

4. FINANCE INCOME AND FINANCE COSTS

	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000
Interest charge on overdrafts and short-term loans	**(882)**	(450)
Fair value losses on interest rate swap	**(464)**	(136)
Finance charges in respect of finance leases	**(50)**	(2)
Interest charge on defined benefit obligation	**—**	—
Unwinding of discounting in deferred consideration	**—**	—
Finance costs	**(1,396)**	(588)
Interest income resulting from short-term bank deposits	**23**	43
Interest income resulting from defined benefit obligation	**—**	—
Net finance charge	**(1,373)**	(545)

5. TAX EXPENSE

The tax charge for the six months ended 30 June 2010 has been based on the estimated tax rate for the full year.

6. DIVIDENDS

The interim dividend of 1.90p (2009: 1.60p) per share (not recognised as liability at 30 June 2010) will be payable on 5 November 2010 to shareholders on the register at the close of business on 22 October 2010. The dividend disclosed within the Condensed Consolidated Statement of Changes in Equity represents the final dividend of 4.10p (2009: 3.40p) per share proposed in the 31 December 2009 financial statements and approved at the Group's Annual General Meeting (not recognised as a liability at 31 December 2009).

7. EARNINGS PER SHARE

	Basic		Diluted	
	Six months ended 30 June 2010 p	Six months ended 30 June 2009 p	**Six months ended 30 June 2010 p**	Six months ended 30 June 2009 p
Earnings per share	**6.13**	6.61	**5.73**	6.25
Effect of amortisation of acquisition intangibles	**4.55**	2.69	**4.25**	2.56
Effect of the cost of acquisition and integration of Supporta	**2.14**	—	**2.00**	—
Effect of full tax adjustment	**(1.25)**	(0.27)	**(1.18)**	(0.26)
	11.57	9.03	**10.80**	8.55
Effect of acquisition of 3C (post tax)	**—**	0.93	**—**	0.87
Normalised earnings per share	**11.57**	9.96	**10.80**	9.42

Normalised earnings exclude amortisation of acquisition intangibles and the costs relating to the acquisition and integration of Supporta. In the 2009 comparative, the normalised earnings excludes the exceptional loss generated since acquisition by 3C Asset Management Limited. A further adjustment is made to reflect a full tax charge. This normalised 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. The profit attributable to shareholders before and after adjustments for both basic and diluted earnings per share is:

	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000
Profit attributable to shareholders:	**5,040**	4,897
– amortisation of acquisition intangibles	**3,738**	2,000
– effect of the cost of acquisition and integration of Supporta (post tax)	**1,767**	—
– full tax adjustment	**(1,034)**	(203)
– acquisition of 3C (post tax)	**—**	684
Adjusted profit attributable to shareholders	**9,511**	7,378

The calculation of earnings per share is based on a weighted average number of ordinary shares in issue during the period. The diluted earnings per share is based on a weighted average number 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 earnings per share use the same weighted average number of shares as the basic and diluted earnings per share.

	Six months ended 30 June 2010 Millions	Six months ended 30 June 2009 Millions
Weighted average number of shares in issue:	**82.23**	74.10
– dilutive effect of share options	**5.77**	4.20
Weighted average number of share for calculating diluted earnings per share	**88.00**	78.30

Notes to the half-year condensed consolidated financial statements_continued_for the six months ended 30 June 2010

8. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Six months to 30 June 2010 £'000	Year ended 30 June 2010 £'000	Six months to 30 June 2009 £'000
Depreciation	**1,345**	2,415	1,076
Loss on disposal of property, plant and equipment	**45**	150	9
Intangible amortisation	**3,935**	7,045	2,104
Share-based payment charges	**340**	90	750
Finance income	**(23)**	(151)	(43)
Finance cost	**1,396**	2,373	588
Costs associated with acquisitions recorded as expenses	**747**	747	—
Total	**7,785**	12,669	4,484

9. ACQUISITIONS

The Group acquired 100% of the share capital of Supporta on 27 January 2010. Supporta is a provider of support services to Local Authorities in the UK and operates through three divisions: Supporta Care, Supporta TerraQuest and Supporta Datacare. The majority of Supporta's revenue is derived through Supporta Care which provides domiciliary care support to patients in the UK. Supporta TerraQuest and Supporta Datacare provide business process outsourcing, land and property consultancy services and secure records management services to public and private sector organisations in the UK.

The acquisition was undertaken to provide the Group's Domiciliary Care segment with increased scale thus enabling Mears to pursue further, larger and more comprehensive contracts, particularly given Local Authorities increasingly seeking to reduce the number of providers for outsourced services.

The provisional effect of the acquisition on the Group's assets was as follows:

	Book value £'000	Provisional fair value adjustments £'000	Provisional fair value £'000
Property, plant and equipment	1,667	(998)	669
Inventories	—	—	—
Debtors	11,466	(338)	11,128
Creditors	(33,337)	(540)	(33,877)
Net liabilities acquired	(20,204)	(1,876)	(22,080)
Intangibles capitalised			10,680
Deferred tax liability recognised in respect of intangibles capitalised			(2,990)
Goodwill capitalised			41,320
			26,930
Satisfied by:			
– cash			135
– shares issued			26,795
– deferred consideration			—
			26,930

The fair value of assets acquired is considered to be provisional due to the scale and complexity of the transaction. The full exercise to determine the intangible assets acquired is still to be completed, thus these numbers are also provisional. This exercise will be finalised for the full-year financial statements.

9. ACQUISITIONS_CONTINUED

The fair value adjustment in respect of property, plant and equipment represents a difference in accounting treatment in respect of certain software development. The fair value adjustment in respect of debtors represents adjustments to the fair value of trade receivables and accrued income. The fair value adjustment in respect of creditors represents costs not accrued at the time of the acquisition.

The intangible assets recognised represent the customer order book, customer relationships and software technology acquired.

The remaining difference between the cost of acquisition and the fair value of the net liabilities acquired represents a combination of the workforce acquired and the future expected cash inflow from the expected synergistic benefits that the acquisition will bring to the Group in addition to those recognised separately as intangible assets. The value of these is not separately identifiable and therefore has been treated as goodwill.

The purchase was accounted for by the acquisition method of accounting. The shares issued of £26.8m represents 9,942,323 ordinary 1p shares being 0.115 new Mears share for each Supporta share, with each Mears share being valued at £2.695 (being the closing price on the day prior to the offer, 17 December 2009).

The amounts of sales revenue and net result for the period for Supporta since the acquisition date is not disclosed as the acquired business has been integrated into the existing business to such an extent that it is not possible to separately identify the results.

Analysis of net outflow in respect of the purchase of subsidiary undertakings is as follows:

	Six months to 30 June 2010 £'000
Cash at bank and in hand acquired	**611**
Short term borrowings and overdrafts	**(19,009)**
Cash paid in respect of current year acquisitions	**(882)**
Cash paid in respect of prior year acquisitions	**(943)**
	(20,223)

During the period the Group paid £0.9m in respect of contingent consideration relating to acquisitions made in prior periods.

10. HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Further copies of the Interim Report are available from the registered office of Mears Group PLC at 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH or www.mearsgroup.co.uk.

11. PRINCIPAL RISKS AND UNCERTAINTIES

The nature of the principal risks and uncertainties faced by the Group have not changed significantly since the 2009 Annual Report and Accounts was published.

12. FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Mears Group PLC. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

Statement of directors' responsibilities

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Interim Report includes a fair review of the information required by Rules 4.2.4, 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the UK Financial Services Authority.

The names and functions of the Directors of Mears Group PLC are as listed in the Group's Annual Report for 2009.

By order of the Board

R HOLT
CHAIRMAN AND CHIEF EXECUTIVE
17 August 2010

A C M SMITH
FINANCE DIRECTOR
17 August 2010

Shareholder and corporate information

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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 Interim Report, or other investor relations enquiries, should be addressed to the registered office.

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