MEARS

MEARS GROUP PLC ANNUAL REPORT AND ACCOUNTS 2009

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Making People *Smile*

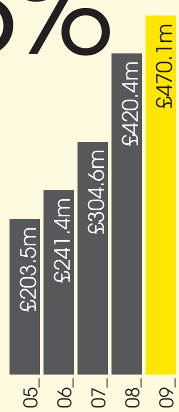
Mears is a **leading social housing repairs** and **maintenance provider** in the UK and a **growing presence in the domiciliary care market.** Our business is focused on the social housing and community sector where we bring the highest standards of care to people, their homes and their communities.

RESULTS OF THE YEAR

GROUP REVENUE_

+11.8%

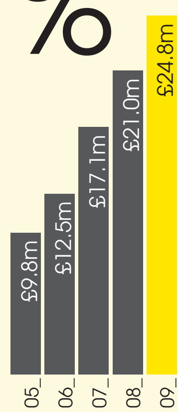
£470.1m



OPERATING PROFIT PRE AMORTISATION_

+17.7%

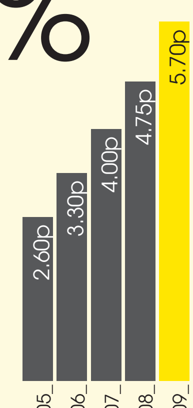
£24.8m



DIVIDENDS PER SHARE_

+20%

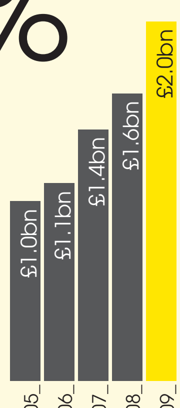
5.70p



ORDER BOOK GROWTH_

+25%

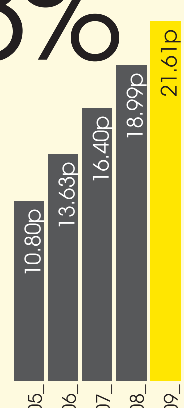
£2.0bn



DILUTED EARNINGS PER SHARE_

+13.8%

21.61p



2009

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FIND US ONLINE

ar09.mearsgroup.co.uk

MRS NORBURY
MEARS TENANT, WAKEFIELD

'I was worried sick about my bungalow but my mind is at ease because the staff have got on with their work. I have really enjoyed the company of the girls in the comfort home. They have aided me to make new friends.'

At a glance

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 **7,800,000 hours of care per annum** from a network of branches working with over **75 Local Authorities** and Primary Care Trusts.

SOCIAL HOUSING

REVENUE_

+26%

£355.3m

Full, directly-employed repairs and maintenance service_ Gas servicing and installation_ **Extensive planned capital maintenance experience including Decent Homes_** Community and environmental improvement work_

A small selection of the clients we work for are listed:

Birmingham City Council

Cross Keys Homes

Metropolitan Housing Partnership

Essex County Council

Family Mosaic

Hertfordshire County Council

IN NUMBERS

REPAIRS EVERY DAY_	NUMBER OF HOUSES IN PORTFOLIO_	NUMBER OF HOURS OF CARE PER ANNUM_
3,000	500,000	7,800,000

CARE

REVENUE_

+10%

£60.1m

Flexible hourly-care service providing daily visits from a minimum of half an hour, up to four or five visits a day, 365 days of the year_ Live-in care_ **Fully trained and carefully selected live-in carer as a flexible choice for people who need round-the-clock care or support but who do not want to go into a nursing or residential home_**

Lancashire County Council

London Borough of Greenwich

Northamptonshire County Council

Neath Port Talbot County Borough Council

Welwyn Hatfield District Council

Sedgefield Borough Homes

Wakefield District Housing

Your Homes Newcastle

Chairman's statement

The quality of our operational delivery underpins our strategy and continues to give us clear competitive advantage.

BELOW **BOB HOLT** CHAIRMAN

VIEW THIS REPORT ONLINE, VISIT
AR09.MEARSGROUP.CO.UK/CHAIRMAN

RESULTS OF THE YEAR

REVENUE

We are seeing unprecedented levels of opportunity within the public sector. Budgetary pressures are more likely to encourage our Local Authority clients to consider more innovative and higher scale partnerships.

ORDER BOOK

Our order book stands at £2.0 billion and the demand for our services continues to be very strong. The bid pipeline currently stands at its highest ever level of £3.9 billion.

DIVIDEND

To reflect the Board's confidence in the future opportunities in our growth markets, the dividend is increased by 20% to 5.70p per share.

ORGANIC GROWTH

Our organic growth combined with the Supporta acquisition means that we have continued to expand our workforce.

It gives me great pleasure to announce our 14th consecutive year of double digit growth in both revenue and record profits. These results were achieved during a period of deep recession and represent a brilliant performance from our two growth markets and a fantastic effort from the Mears team who continues to build a profitable platform for the future. I commend all our employees.

In the year ended 31 December 2009, revenue increased by 11.8% to £470.1m and operating profit before amortisation was up 17.7% to £24.8m. Revenues in Social Housing grew by 26.0% and normalised diluted earnings per share (EPS) were up 13.8% to 21.61p.

To reflect the Board's confidence in the future opportunities in our growth markets the dividend is increased by 20% to 5.70p per share.

Our organic growth, combined with the Supporta acquisition, means that we have continued to expand our workforce and are now a significant employer in the private sector with over 11,000 employees in the Group.

Of particular note is our strong cash generation. Cash generated from operations as a proportion of operating profit pre amortisation amounted to 108.7%, with a net funds position at the year end of £6.5m.

In line with our normal accounting and operational practice, earnings have been presented after expensing the total costs of the set up of new contract awards and the full cost of the turnaround, integration and trading losses of 3C Asset Management since acquisition.

In February 2010 we completed the acquisition of Supporta plc, which we believe is transformational for our Care business and will make the Group one of the clear market leaders in the provision of domiciliary care services to the public sector. Supporta Care has long been seen as the provider of the highest standards of care in the sector, as well as attaining the highest level of profitability. Supporta brings to the Group a strong management team and we are already well advanced with rebranding our two Care operations as Mears Care under the management of Bernadette Walsh, the former Managing Director of Supporta Care. I am delighted to welcome all the Supporta employees to the Group. I have total confidence that shareholders will benefit significantly from our continuing investment into Care, which consolidates a second growth engine into the Group. The acquisition of Supporta accelerates the ability of the Group to provide a Care and Repair service to its public sector customers, in line with Government initiatives.

Our order book stands at £2.0 billion and the demand for our services continues to be very strong. The bid pipeline currently stands at its highest ever level of £3.9 billion and there are a number of particularly exciting opportunities where we are at an advanced stage of bidding. Importantly, our two growth markets, Social Housing and Domiciliary Care, which account for close to 90% of Group revenues are defensive sectors where spend is largely non-discretionary and it is therefore unlikely to be affected by any public sector cutbacks. It should also be noted that a significant proportion of the Social Housing revenue is derived from Housing Associations who would be less affected by a reduction in public sector spending.

We are seeing unprecedented levels of opportunity within the public sector. Budgetary pressures are more likely to encourage our Local Authority clients to consider more innovative and higher scale partnerships. We are well placed to benefit from this. We believe that the demand and opportunity for our two growth markets will continue to be strong regardless of the outcome of the forthcoming election. In addition we have not experienced any work delays from our public sector customers. We enter the current year with visibility of 88% of 2010 consensus forecast revenue and we have visibility over 69% of consensus forecast revenue for 2011.

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

'In February 2010 we completed the acquisition of Supporta, which we believe is transformational for our care business and will make the Group one of the clear market leaders in the provision of domiciliary care services to the public sector.'

We have led the Social Housing sector for a number of years. It is a tremendous accolade to the strength of our Mears brand that the best senior managers in the sector continue to have a desire to join the best service provider. The quality of our operational delivery underpins our strategy and continues to give us clear competitive advantage. It is a testament to our excellent operational team, headed by David Miles, that in 2009 we were able to start a number of significant contracts and still maintain operational excellence. Again the team is to be congratulated.

I am pleased that our Domiciliary Care division had a successful year in what is seen as a difficult trading environment. Despite tightening public sector budgetary constraints, the business still grew in excess of 10% as a result of our professional approach to long-term partnership contract bidding. Operational margins improved before we absorbed the cost of a number of new contract set ups. The increasing trend of Local Authorities to procure services from fewer and larger care providers is entirely in line with our strategy to work in partnership with our clients with the longer-term aim towards improved outcome-based solutions.

The Government remains committed to prioritising the agenda of housing in an ageing society to ensure that as people grow older they stay comfortable and secure in their own homes. 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. The integration of services around the home aims to contribute to a high quality of life by meeting diverse needs and providing choice to the relevant users of the service. With this in mind we are progressing with developing pilot projects which we believe can demonstrate the benefits of a combined Care and Repair solution which delivers an improved outcome for tenants.

Our Mechanical and Electrical division had an excellent year. In spite of the economic downturn, the division performed well, with significant success in winning new orders which takes the business into 2010 and beyond with increased optimism.

We have a stated intention to have the best trained and equipped workforce in the sectors in which we operate and continue to provide enhanced career opportunities for all staff. The Board understands that it must provide the best possible opportunities for all existing employees to prosper, whilst continuing to attract the best possible talent available.

Once again these results demonstrate the quality of our employees. I commend our workforce at all levels for its commitment and endeavour.

Our community affairs programme continues to excel and ensures that every Mears employee has the opportunity to give something back into the community either on a local, national or international basis.

'Our two growth markets, Social Housing and Domiciliary Care account for close to 90% of Group revenues.'

CORPORATE GOVERNANCE

Your Board has been mindful as to position the business for its next stage of growth and alongside this reinforce the Group's corporate governance to better reflect our Main List status. I am therefore pleased to announce the following changes to the Group's Board:

* As previously highlighted, it is my intention to relinquish the role of Chief Executive and appoint an internal candidate into this role before the end of 2010. I will remain as Chairman to concentrate on strategic development and investor and employee relations.
* Davida Marston will be appointed to the Board and the Audit Committee at the Annual General Meeting (AGM) in June 2010. She has an excellent background in finance, banking and the public sector. Davida will be appointed Chair of the Audit Committee on the retirement of Michael Macario.
* Rory Macnamara will be appointed to the Board and the Remuneration Committee at the AGM in June 2010. He has an excellent background in finance and public company management. It is envisaged that he will be appointed Chairman of the Nominations Committee.
* Reg Pomphrett, who joined the Board in 1998, will not be seeking re-election at the AGM to be held in June 2010 but will remain as Group Company Secretary. Reg is currently Chair of the Remuneration Committee and it is envisaged that Peter Dicks will assume this role from June 2010.
* Michael Macario, who joined the Board in 1996, will not seek re-election at the AGM to be held in June 2011. He currently Chairs the Audit Committee and is the Senior Independent Director.

We have always been mindful of the need to build long-term relationships with all stakeholders whilst providing them an opportunity to better understand our business. Throughout the year we 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.

OUTLOOK

The demand for our services continues to be very strong. Our two growth markets, Social Housing and Domiciliary Care, are 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.

The sales pipeline remains buoyant and there are a number of significant opportunities well advanced in the bidding process. In addition we have a number of opportunities with existing customers to unlock significant additional revenue. The Group has a clear strategy of building and maintaining market leading positions in each of its core businesses where we can clearly be recognised as the provider of quality services.

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 is 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 provided. My view on life has always been the same: to strive to be the best in whatever we do.

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

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

Business review

The visibility of our earnings continues to improve with over £650m of new work secured in the period.

LEFT **DAVID MILES** CHIEF OPERATING OFFICER
RIGHT **ANDREW SMITH** FINANCE DIRECTOR

VIEW OUR ONLINE REPORT AT AR09.MEARSGROUP.CO.UK/BUSINESSREVIEW

RESULTS OF THE YEAR

SOCIAL HOUSING

The Social Housing division contributed revenue of £355.3m, a growth of 26.0%. 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 the Group lowered its margin expectation to generate turnover.

DOMICILIARY CARE

The Domiciliary Care division contributed revenue of £60.1m and has been successful in converting a high proportion of tenders into new contract awards which have contributed to the organic growth.

CASH GENERATION

The Group's conversion of operating profit pre amortisation to cash in the period was 108.7%. Our net cash position at 31 December 2009 was £6.5m.

REVENUE

In the year to 31 December 2009 we grew revenue to £470.1m (2008: £420.4m), an increase of 11.8%.

The Social Housing division contributed revenue of £355.3m (2008: £282.0m), growth of 26.0% including organic growth of 18.0%. 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 the Group lowered its margin expectation to generate turnover.

The Domiciliary Care division contributed revenue of £60.1m (2008: £54.6m). The Domiciliary Care division has been successful in converting a high proportion of tenders into new contract awards which have contributed to the organic growth in 2009 of 9.2%. There were two further small bolt-on acquisitions in 2009 which accounted for 0.8% of turnover growth.

The Mechanical & Electrical (M&E) division reported a 29.7% reduction in revenue to £54.8m compared to last year (2008: £78.0m). This was significantly ahead of our initial forecasts and, in a year of economic instability, represents a tremendous achievement for this division.

OPERATING PROFIT

At a Group level, operating profit before amortisation of acquisition intangibles increased by 17.7% to £24.8m (2008: £21.0m) resulting in the operating margin rising from 5.0% to 5.3%. This increase is due to a change in the sales mix, with our higher margin Social Housing division contributing 76% of Group revenues (2008: 67%).

At a divisional level, operating margin is struck before amortisation and share option costs.

Supporting families living with dementia

We have an Active Day Centre which is integrated within our homecare branch, providing programmes of support aimed at promoting self-esteem for the person living with dementia and to give friends and family members a break, knowing that their loved one is happy, occupied and safe. We have a philosophy that you are never too old to learn new things or revisit old interests. There are no easy chairs in the Active Day Centre, as each day we are open, everybody is so busy, they haven't the time to sit around for too long! By integrating the Centre into our homecare business, we are able to provide tailored packages of support to the family, which includes regular respite breaks in their own home, ensuring familiarity whilst the family carers take a break, and emergency support when required. We also provide regular support group evenings for family carers where they have established their own support networks.

CASE STUDY

Active Day Centre – Whitby

Recent reports and research have highlighted the shortcomings in the current provision of dementia services in the UK. Dementia presents a huge challenge to society, both now and increasingly in the future. There are currently 700,000 people in the UK with dementia, of whom approximately 570,000 live in England. Dementia costs the UK economy £17 billion a year and, in the next 30 years, the number of people with dementia in the UK will double to 1.4 million, with the costs trebling to over £50 billion a year.

NATIONAL DEMENTIA STRATEGY
WWW.DH.GOV.UK

The Social Housing division maintained its operating margin above 6.0% which continues to be at the higher end for the sector. This is a tremendous achievement at a time when it has mobilised a 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, so it is particularly encouraging to see this dilution counterbalanced by robust margins generated by our more mature contracts. In addition, in January 2009, the Group acquired 3C Asset Management Limited (3C). This company had been through a period of significant financial upheaval and was loss making at the time of acquisition. 3C underwent a major restructure and is now fully integrated within the Social Housing division. 3C reported a loss in the eleven months since acquisition of £0.5m, which has been expensed within our headline numbers.

The Domiciliary Care division reported an operating margin at 5.2%, down from the 5.6% reported in 2008. This reduction in margin was due to the costs of mobilising a number of new block contract awards. In particular a new contract award with Norfolk County Council proved particularly challenging in terms of operational service delivery with the inevitable impact on margin. Were it not for this, the underlying margin would show an enhancement in the period. The acquisition of Supporta plc provides significant opportunity for margin enhancement through operating and system improvements, synergies and further economies of scale. Our focus remains on improving service quality and contract profitability whilst gaining further scale in our Care offering.

> 'The acquisition of Supporta provides significant opportunity for margin enhancement through operating and system improvements.'

FIND MORE INFORMATION

WWW.MEARSGROUP.CO.UK

The M&E operating margin of 1.6% (2008: 2.7%) is pleasing in a business that has shown strong management through difficult trading conditions. The 2009 margin has been reduced by the commencement of a major new contract in relation to the London 2012 Athletes' Village, as no profit is recognised in these early stages of contracts. The M&E division is well placed and enters 2010 with increased optimism.

AMORTISATION OF ACQUISITION INTANGIBLES

A charge of £4.98m (2008: £3.60m) arose in the period. This represents the amortisation of the identified intangible assets acquired predominantly in relation to the acquisition of the Domiciliary Care division in 2007 and a number of subsequent bolt-on acquisitions. The increase in 2009 compared to the comparative period is due to the acquisition of 3C in January 2009. The excess of purchase price over the fair value of identified net assets is capitalised as goodwill and is not amortised but is subject to an annual impairment review.

Business review _continued

Our order book now stands at £2.0 billion. This excellent order book, coupled with our robust bid pipeline, reflects our confidence in the demand drivers for repair and maintenance spending of our public sector partners and was a major factor in the Board's decision to increase the dividend payment.

RESULTS OF THE YEAR

GROUP REVENUE_

+11.8%

£470.1m

DILUTED EARNINGS PER SHARE_

+13.8%

21.61p

OPERATING PROFIT PRE AMORTISATION_

+17.7%

£24.8m

RECORD ORDER BOOK_

+25%

£2.0bn

"IN DECEMBER 2009, AT THE TIME OF THE SUPPORTA ACQUISITION, THE GROUP ENTERED INTO A REVISED BANK FACILITY AGREEMENT WITH ITS PRINCIPAL BANKS TO REFINANCE THE DEBT IN SUPPORTA, TO PROVIDE ADDITIONAL FUNDING AND TO TAKE THE OPPORTUNITY TO ENSURE THAT THE FACILITY BETTER ADDRESSED THE FUTURE REQUIREMENTS OF THE GROUP."

TAX EXPENSE

A tax charge of £4.4m has been provided (2008: £3.8m). The effective current Corporation Tax rate recognised in the income statement before adjustments for deferred tax and before amortisation of acquisition intangibles is 25.7% (2008: 26.3%). The Group benefited from a reduction in the rate of Corporation Tax in March 2008 from 30% to 28% with the current period having benefited from the full-year impact of this. The Group also benefited from a Corporation Tax deduction in respect of the exercise of 0.4m (2008: 0.8m) share options and a deferred tax credit of £1.4m (2008: £1.0m) in respect of the amortisation of acquisition intangibles.

EARNINGS PER SHARE

Normalised basic EPS increased by 15.7% to 22.67p (2008: 19.60p). The normalised diluted EPS, which allows for the potential diluting impact of outstanding share options, was up 13.8% to 21.61p (2008: 18.99p). Normalised earnings exclude 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 ahead of earnings. A final dividend of 4.10p per share is proposed which, combined with the interim dividend, gives a total dividend in the year of 5.70p (2008: 4.75p), a 20% increase. The dividend is payable on 2 July 2010 to shareholders on the register on 11 June 2010.

CASH

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group's conversion of operating profit pre amortisation to cash in the period was 108.7% (2008: 44.3%). 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 87% over a period where the size of the business has more than doubled through organic growth. Our net cash position at 31 December 2009 was £6.5m (2008: £6.6m).

FINANCING

In December 2009, at the time of the Supporta plc acquisition, the Group entered into a revised bank facility agreement with its principal banks to refinance the debt in Supporta, 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 has been extended to June 2013.

In January 2009, the Group took advantage of the continued reduction in the Bank of England base rate by entering into a hedging arrangement to fix interest rates on £15m of core debt for a four-year term.

The net interest cost in the period increased to £1.4m (2008: £0.8m). The interest charge includes a hedging loss of £0.4m (2008: £nil).

ACQUISITIONS DURING THE YEAR

Early in 2009, the Group announced the acquisition of 3C Asset Management Limited (3C). The company had previously suffered significant financial upheaval. The initial consideration for 3C was £1.0m for the goodwill plus a payment in respect of net assets. An additional contingent deferred consideration was to be paid over the 24-month period to 31 December 2010 linked to contract retention and profitability. The deferred contingent consideration has subsequently been renegotiated and is to be settled early. The level of contract retention since the acquisition has exceeded our expectation, which is a credit to our operational teams. The 3C business generated a loss pre amortisation of £0.5m in 2009 and is now trading profitably.

The Group has completed a further two small Care acquisitions for a combined initial sum of £1.0m, with up to £0.1m deferred subject to future profitability.

BALANCE SHEET

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.

A balance of £2.1m (2008: £2.0m) is included within non-current trade and other receivables. This relates to sales retentions in relation to our M&E 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 £3.7m is in line with the prior year. The majority relates to IT hardware, other office equipment and the refurbishment of new office premises. 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.

The IT system is central to both the quality of our service delivery and our robust financial management. During the year the Group spent £0.8m further developing our Social Housing and Domiciliary Care contract management system.

Total shareholders' equity rose by £10.2m to £105.9m at 31 December 2009. The increase in net assets is primarily due to retained profits.

ORDER BOOK AND SALES PIPELINE

The visibility of our earnings continues to improve with over £650m of new work secured in the period. Our order book now stands at £2.0 billion (comparative: £1.6 billion), an all time high. Market forecast consensus revenue visibility for 2010 now stands at 88% (comparative: 92%) and 69% (comparative: 71%) of the 2011 projection. There are a number of exciting opportunities within the sales pipeline at an advanced stage of the bidding process. There are also tremendous opportunities with existing customers to unlock significant additional revenue which are not included within our order book or in our visibility statistics. This excellent order book, coupled with our robust bid pipeline, reflects our confidence in the demand drivers for repair and maintenance spending of our public sector partners, and was a major factor in the Board's decision to increase the dividend payment.

SOCIAL HOUSING

Mears has been awarded a number of new Social Housing contract awards including the following:

BRIGHTON AND HOVE CITY COUNCIL

A ten-year partnership to provide housing stock upgrades, responsive repairs and comprehensive maintenance services. The contract is valued at £200m for the ten-year period commencing in April 2010. Brighton and Hove manages 12,500 homes. The new contract builds on Mears' existing contract with Brighton and Hove which provides responsive and void repairs together with gas servicing and also adds programmed, cyclical and further maintenance works to Brighton and Hove's extensive portfolio of council houses.

SHORELINE HOUSING PARTNERSHIP

A six-year partnership to provide responsive repairs and maintenance services. The contract is valued at £50m for the six-year period and has a potential worth in excess of £80m subject to an opportunity for a further four-year extension. Shoreline is a registered Social Landlord which manages 8,200 homes centred in Grimsby which were previously the subject of a stock transfer from North East Lincolnshire Council. This award widens the range of services we provide to Shoreline, adding to the partnering arrangements we hold with them for Decent Homes and gas servicing and maintenance. The contract has the potential to develop into an all encompassing solution to cover all parts of Shoreline's housing maintenance provision post 2010.

Always there – supporting clients and helping tenants

Business review _continued

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.

"MEARS HAS BEEN AWARDED A NUMBER OF NEW SOCIAL HOUSING CONTRACT AWARDS."

SOCIAL HOUSING_CONTINUED

SEDGEFIELD BOROUGH HOMES

A five-year partnership with Sedgefield Borough Homes carrying out Decent Homes services. The contract value to Mears is estimated to be £32m. Sedgefield Borough Homes is an existing client of the Group and we are delighted to be able to extend the range of services currently provided.

CRAWLEY BOROUGH COUNCIL

A ten-year partnership with Crawley Borough Council in West Sussex to provide responsive repairs and voids services. Crawley Borough Council has been a client of Mears since 2004. The contract sum is valued at £30m for the ten-year period.

CANTERBURY CITY COUNCIL AND THANET DISTRICT COUNCIL

A five-year partnership to provide responsive repairs and voids services to Canterbury City Council. The contract includes external decoration programmes and disabled aids and adaptation improvements. The contract is valued at £28m for the initial five-year period with a performance option to extend to 15 years, increasing the value to in excess of £82m. We are the sole provider appointed to provide services to the Council's 5,298 homes.

This contract was jointly procured with Thanet District Council where we have been awarded a five-year partnership to provide responsive repairs and voids services. The contract includes external decoration programmes and disabled aids and adaptation improvements. The contract is valued at £13m for the initial five-year period and also includes a performance option to extend to 15 years giving a value of in excess of £40m. We are the sole provider appointed to provide services to the Council's 3,116 homes. We first worked for Thanet District Council in 1995.

Our success continues on the back of outstanding service levels. The Social Housing sector continues to be key to all three political parties, as evidenced by their commitment to sign up to the House Proud Campaign to make housing a key part of their manifestos.

While pressures on finances are clear, there remain significant opportunities for innovation amongst leading providers. An example of this would be our newly created Mears Direct service, which provides a wide range of management support to Direct Labour organisations, looking to improve efficiency of service but where a full outsource is deemed not to be appropriate. We are also seeing more strategic partnerships where Landlords are bundling together a range of services into one contract. This again plays to the strength of Mears.

The review of the Housing Revenue Account is likely to see additional opportunities amongst some Local Authorities for investment in maintenance services, where they split housing from the Council's general funds.

The consolidation of Social Landlords continues, as does the commitment to build new Social Homes. An extra £1.5 billion has been allocated to this, including a large proportion to some Councils whose scope has been expanded to include the ability to build new Social Homes again.

Environmental opportunities within Social Housing are beginning to materialise, given demands upon Landlords to cut Social Housing carbon emissions by one third by 2020. Mears is developing strong credentials for this emerging opportunity. Work on a housing refurbishment project in Hyde, led to three key awards being given for delivery excellence. We have also undertaken work on combined heating and power pilots and have extensive experience of implementing and maintaining a wide range of carbon reducing fixtures.

DOMICILIARY CARE

Mears Care continues to build a presence across a growing geographical area 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 revenue increase of 10% is predominantly generated organically. The business has been successful in converting a high proportion of 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 services from fewer and larger care 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 Care division continues to build a presence across a growing geographical area 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.

In February 2010, the Group completed the acquisition of Supporta plc for consideration of £27.2m satisfied by the issue of 10.1m ordinary shares. Supporta plc is a leading provider of support services with over 75% of revenues derived from the provision of domiciliary care services. Supporta Care is one of the largest providers of care at home in the UK, currently providing in excess of 60,000 hours of care per week through 23 offices.

Supporta Care's services include the following:

- Live-in Care and Respite Services – this provides an alternative to nursing or residential care and gives patients the opportunity to remain in their own home;
- Palliative Care – a bespoke service is provided to offer flexible and sympathetic care to the terminally ill and their families;
- Rapid Response – this service is provided at short notice to enable speedy hospital discharges or prevent admissions which can be a significant problem for health and social care services; and
- Extra Care Schemes – a number of support services are managed and provided to five care schemes nationally. These services incorporate a range of needs from that of supported living to complex dual sensory impairment.

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

CASE STUDY

Integrating Care and Housing Falls Prevention Pilot Project

Care and Repair week

Poor housing will impact on the wellbeing of people of any age...

...but the elderly and infirm are most at risk from accidents in the home and long term health conditions, such as respiratory, heart disease, diabetes and asthma which may be exacerbated by poor living conditions. They are also more likely to suffer the physical and mental impact of poor housing because they spend much more time at home.

Inevitably these health risks are also most likely to occur in those least able to undertake their own repairs or alterations.

In June 2009 the Group instigated its first Care and Repair Week, timed to coincide with National Falls Prevention Day. Care teams around the country identified vulnerable people potentially at risk of falling because repairs were needed in their home and they were offered a free handyman service by Mears.

Falls are the commonest cause of serious injury and loss of independence in older people and the commonest reason for hospital attendance. There is reliable research evidence that between a quarter and one third of falls can be prevented in older people.

The initiative focused on those repairs that could cause a fall, for example, loose banisters, uneven or worn flooring and carpets, slippery rugs, poor lighting and overgrown or slippery paths. The handymen also undertook other simple repairs that were potentially dangerous, such as making safe loose wiring.

Alan Rimmington from Nottingham hadn't been able to get into his garden for four years. He had a ramp and wheelchair-friendly door fitted but the garden was overgrown and the path was blocked. A team from Mears cleared the path and cut back all the weeds and grass. They also repaired broken floor tiles in the house which were unsafe for Alan to cross in the wheelchair.

As the garden gradually reappeared, Alan was able to get out and down the path to the end of the garden for the first time in many years.

Housing has an important role to play in health, wellbeing and the delivery of health and adult social care services. The role of housing becomes pivotal where services to an individual with complex long-term needs are involved. Such service delivery is often dependent on the accessibility and/or adaptability of the individual's home. Issues such as dampness or cold rooms, uneven floors or loose flooring, a lack of support rails or floors that are slippery when wet, can all make it difficult for the occupant to maintain good health and wellbeing. Decent housing can help to prevent illness, injury or the deterioration of existing conditions and is especially important for older people.

(www.dh.gov.uk)

the NHS is taking in joint commissioning across both health and care. A recent Care Quality Commission (CQC) report showed that if all parts of the country were performing at the levels of the best performing areas, in terms of reducing emergency admissions, some £2 billion would be saved. Domiciliary Care is best placed to unlock this saving.

We continue to see consolidation of providers and budgetary constraints are leading to an increasing amount of work being outsourced by Commissioners. Personalisation brings new opportunities to extend our service offering and even more importantly to integrate our care and housing services to deliver a full service provision to budget holders. New partnerships are emerging including the commencement of a partnership between ourselves and Peverel Homes, which is the largest provider of private residential accommodation in the country. Subject to a successful trial, this will role out in 2010.

The acquisition of Supporta provides the Group with the scale required to enable it to deliver on its stated strategy and allow the Group to pursue further, larger and more comprehensive contracts. Moreover, operational benefits can be achieved. The integration of some branches and services and the ability to more easily reach different geographic areas will reduce mobilisation cost and risk. Fundamentally we are uniquely placed to deliver clear and visible leadership with our larger Domiciliary Care business.

SAFETY, HEALTH AND ENVIRONMENT (SHE)

For the fourth consecutive year, Mears has seen a reduction in all accident rates. This 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 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. With the introduction of new systems, procedures, management and operative training for 2010, we are optimistic of reporting further improvements in this next year.

ENVIRONMENTAL

During 2009 we maintained and built on our strong environmental performance of 2008. During the year we saved 176 tonnes of CO_2 through our commitment to recycle all our paper and cardboard. This equates to taking approximately 220 cars off the road per year.

Business review _continued

During 2009 we maintained and built on our strong environmental performance of 2008. During the year we saved 176 tonnes of CO_2 through our commitment to recycle all our paper and cardboard. This equates to taking approximately 220 cars off the road per year.

ENVIRONMENTAL_CONTINUED

With the change in legislation announced in April 2009 we also managed to divert 175 tonnes of plasterboard from going directly into landfill. Materials are segregated at source and taken to recycling facilities for reprocessing. Through working closely with our waste partner, we have set a target of recycling 80% of our waste during 2010.

To achieve this figure 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.

TRAINING AND DEVELOPMENT

In 2009, we retained our accreditation to 'Investors in People' with extremely positive feedback.

We continue to be proud of our equality and diversity agenda and have established a work group which will review our policy and update our diversity plan. The work group has been made up of clients, tenants, employee representatives and management.

Our Customer Services Level 3 training programme has successfully continued with a further eight Customer Services staff completing in 2009. We are continuing to support young people with increasing numbers of work placements which provide valuable skills in office and operational roles and in 2009 we made a commitment to support the charity Preset, which works with inner city minority groups to support training and work placements.

Management training has been a key focus throughout 2009 with 15 managers completing the Institute of Leadership and Management Level 2 and 5 additional completing Level 3. We already have 50 managers signed up for the programme for 2010. This management training is supported by internal training in Human Resource Management, Finance, Customer Care, Health and Safety and IT.

'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.'

'Helping a community to thrive increases the quality of life for residents and supports community cohesion and development, all of which makes our job that little bit easier.'

PEOPLE

We have a stated intention to have the best-trained and equipped workforce in the sector 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 and endeavour.

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. Helping a community to thrive increases the quality of life for residents and supports community cohesion and development, all of which makes our job that little bit easier.

In 2009 Mears employees delivered over 18,000 hours of community work and supported over 575 community projects. These range from large-scale environmental improvements involving many employees, to smaller acts of help and support given by just a couple of staff. What makes them all special is the impact they have on the people and communities involved. Our people are to be commended for their efforts, all of which are on a voluntary basis.

DAVID MILES
DAVID.MILES@MEARSGROUP.CO.UK
Chief Operating Officer

ANDREW SMITH
ANDREW.SMITH@MEARSGROUP.CO.UK
Finance Director

"IN 2009 MEARS EMPLOYEES DELIVERED OVER 18,500 HOURS OF COMMUNITY WORK AND SUPPORTED OVER 575 COMMUNITY PROJECTS. THESE RANGE FROM LARGE-SCALE ENVIRONMENTAL IMPROVEMENTS INVOLVING MANY EMPLOYEES, TO SMALLER ACTS OF HELP AND SUPPORT GIVEN BY JUST A COUPLE OF STAFF. WHAT MAKES THEM ALL SPECIAL IS THE IMPACT THEY HAVE ON THE PEOPLE AND COMMUNITIES INVOLVED. OUR PEOPLE ARE TO BE COMMENDED FOR THEIR EFFORTS, ALL OF WHICH ARE ON A VOLUNTARY BASIS."

CASE STUDY

Brighton and Hove City Council

Growing through strategic partnerships

Mears began working with Brighton and Hove City Council in 2005 when it was awarded the Gas Servicing/Maintenance and Boiler Installation contract...

Excellent service delivery and exemplary KPIs contributed to a strong partnership which formed the foundations on which Mears could build in subsequent tenders.

In 2007 Mears won the Responsive Repairs, Empty Homes (Voids) and Cyclical Contract and, in partnership with Brighton and Hove, Mears continued to demonstrate efficiencies throughout its service provision. The collaborative partnership and service model means that Mears has been able to cap the repairs budget and give Brighton and Hove cost certainty on responsive repairs. Savings made from this cost commitment are being allocated for Mears to carry out Planned, Decent Homes and Sustainability Works.

Brighton and Hove City Council has a number of long-term objectives, including the delivery of Decent Homes and Sustainability. During 2009 they went to tender on a massive improvement programme, including responsive repairs and voids works.

The re-tender process, which included the Mears service model being put under scrutiny against its major competitors, resulted in Mears being awarded the Repairs and Refurbishment Contract from April 2010, which runs for ten years and is valued at around £200m.

Mears continues to work in partnership with its client to develop service innovations, such as co-location in a new shared office. A large number of the client's team have transferred to Mears to deliver a one-stop, enhanced and seamless service that is reducing administration and keeping overheads to a minimum to avoid unnecessary cost duplications.

Working closely with residents and clients, Mears is adding value to the contract, by providing excellent service to individuals and enhancing the community. Enhanced services include:

* longer opening hours for repairs;
* 24-hour reporting for all repairs;
* one-stop shop – problems are dealt with at the first point of contact; and
* improved security for Brighton and Hove City Council and Mears staff in shared neighbourhood offices.

Mears has also introduced a number of initiatives that help facilitate service improvement and efficiencies. One example is the electrical team's digital pens to complete the NICEIC certificates allowing them to transmit the completed forms immediately, via Bluetooth, for office approval. This is not only a more environmentally friendly way of working but there are no paperwork delays and the client is able to re-let its properties quickly.

Brighton and Hove is a tenant focused council and encourages their involvement in all matters. Mears actively takes part in the Response Maintenance Monitoring Group driven by the tenants and the tenants' Asset Management Panel has set the Key Performance Indicators for measuring our service delivery.

Mears is adding value to the community as a whole by employing local people and through its commitment to community projects. Over the next ten years Mears has committed to training a further 200 local apprentices.

In partnership with Brighton and Hove City Council and its residents, Mears has set up a pilot scheme on the Whitehawk Estate. The key feature of this scheme is the refurbishment of a disused caretaker's office in a high rise block to accommodate an estate-based repair team, a Police office, a housing office and a local community office. Five apprentices were recruited from this estate. Although the scheme is still in its early stages, it has been well received and it supports Sussex Police's Broken Windows Campaign to reduce vandalism on the estate.

Brighton will launch further initiatives in the future. Plans are underway for a SuperCentre depot to run on alternative energy and offer a white goods recycling facility. A Training Academy will give new skills to local people and the Brighton and Hove Construction Skills Centre will be based in the same location helping to support the City's objectives for local community employment and training.

The propsed establishment of a kitchen manufacturing workshop will create more local jobs and opportunities and reinforce our commitment to social enterprise and supporting local suppliers and services.

Corporate social responsibility

We undertake projects that are within our strategic goals. We believe that these goals are aligned closely to our business and to our clients' motivations and aspirations.

GOALS

- To improve the lives of people within the communities where we work.
- To reduce prejudice and improve understanding of differences within our diverse communities.
- To provide career and skills development opportunities to those who need them the most.
- To be a positive contributor to the environment.

FOR MORE INFORMATION VISIT AR09.MEARSGROUP.CO.UK/CSR

OUR COMMUNITY

In 2009 we completed 578 Community and Environment projects, with over 1,300 employees participating and spending over 18,000 hours of their time on their local communities. All of our projects fall within our Community and Environment goals which focus on our community, diversity, skills and training and the environment.

We have the power to build enduring relationships and strengthened communities by choosing the right projects to support. We are increasing engagement levels with our stakeholders through customer events and our Employee Focus Group. We continue to encourage branches to support local and national charities of their choice rather than imposing a national partner but our focus is on sharing our time and skills as opposed to making financial donations.

DIVERSITY

Towards the end of 2009, an Equality and Diversity Group was established with representatives from across the Group. The key tasks for this Group included a review of the current equal opportunities policy, collecting evidence for all the work currently undertaken and establishing an action plan for future improvements with reference to staff, our customers and our clients. We have worked to improve staff awareness of the six diversity strands – age, disability, ethnicity, faith, gender and sexuality, helping them to find local projects which help to build community cohesion.

CARE AND REPAIR WEEK

This was established in order to benefit service users who live in areas where both Careforce and Mears branches are working. Mears carers identified service users who live in their own homes and do not have the support they need with repairs which could cause trips, slips and falls. Care and Repair Week was organised to coincide with National Falls Awareness Week, organised by Age Concern. Mears branches were given a list of likely minor repairs that could be undertaken but many jobs were more involved and had a greater impact for the resident.

DIGNITY AND RESPECT CAMPAIGN

Mears launched its Dignity and Respect Campaign for all staff across the country. The aim is for all Care staff to become a Dignity Champion within the next two years. As part of the Dignity and Respect challenge, carers will be expected to include a CSR component whether that be one to one with service users or as part of a branch project.

SKILLS AND TRAINING

We want to increase the number of branches offering work experience to young people because this is one of the most valuable ways to promote vocational careers whilst helping local young people to develop employability skills. Branches are offering office based and operational work experience opportunities.

TRAINING ACADEMIES AND SKILL CENTRES

We support vocational training for school students, young people not in employment, education or training and unemployed people within our training academies and skill centres. At Ealing Diploma and Enterprise Centre we are providing vocational training to 14–16 year olds who complete a BTEC alongside their GCSEs. In Wigan, we have given support to set up and maintain the premises of the Western Skills Centre as well as providing work placements for students.

In addition, we continue to provide DIY training sessions for residents. These are organised in partnership with clients and often take place within community centres which are easy for residents to access. Courses include painting, wallpapering, tiling and carpentry.

SKILLS PLEDGE

We rolled out a Skills Pledge training pilot for five branches in order to up skill our staff to NVQ Level 2. Wakefield, Sedgefield, Welwyn, Newcastle and Grimsby were identified to participate and NVQ programmes were bespoke for each participating individual.

CASE STUDY

Peterborough Training Academy

Training centre for residents and community groups

Our Peterborough branch has worked closely with Cross Keys Homes to provide a new training academy in 2009...

...which is available for use by the local community. The training facility is open to residents and community groups to enable them to learn a wide range of DIY skills, including painting and decorating, tiling, wallpapering, joinery and woodwork. IT facilities are also provided. In addition to DIY training, the academy is used to deliver training to work placement students and branch apprentices and five local charity partners use the academy to teach young offenders practical, employment related skills.

The Mears Peterborough training academy, like other Mears training centres and skills academies, now provides a valuable source of learning for people interested in vocational careers. It also increases the employability of residents and young people and creates opportunities for those who may have struggled in traditional forms of education or with finding employment.

Corporate social responsibility_continued

We continue to promote sustainability and raise awareness of everyone's role in taking action on climate change and carbon reduction.

HEADLINE FIGURES

578
Mears Group projects completed

1,383
Mears Group employees involved

18,497
Mears Group employee hours contributed

"WE UNDERTOOK OUR SECOND CARBON FOOTPRINT VERIFICATION IN 2009, THE SCOPE INCLUDED OWNED TRANSPORT, FUEL COMBUSTION, CONSUMPTION OF PURCHASED ENERGY AND TRANSPORT ACTIVITY."

SKILLS AND TRAINING_CONTINUED

BARNARDO'S WORKS

Barnardo's has work-based training centres across the UK and we have offered to support its work by releasing staff to support young people and by offering work placements in our branches. We are currently exploring our first joint project in Cornwall.

NATIONAL LITERACY TRUST

We are committed to supporting the pilot project, 'Words For Work', which works with students at Rosedale College in Hayes. The project seeks to help young people improve their listening and speaking skills with specific relevance to gaining employment after secondary education. We have also promoted their book donation scheme to our branches.

ENVIRONMENT

We continue to promote sustainability and raise awareness of everyone's role in taking action on climate change and carbon reduction. We have encouraged branches to think about and take action to reduce their environmental impacts.

GETTING GREENER CAMPAIGN

When the Getting Greener Campaign was launched, a commitment was made to identify an Eco Champion at each branch. The first Eco Champion workshops were delivered and attendees were given information about what we do as a Company to reduce environmental impact, plans for the future and actions they could take away and implement.

FURNITURE RECYCLING

Eco Champions have received contact details for their local furniture reuse charity so that they can identify whether it is practicable to establish a partnership. Branches currently donating furniture include Birmingham, Welwyn Hatfield, Midland Heart and Tonbridge. There is a network of well established reuse charities in the UK who sell furniture at affordable prices to low income families and they are experts in deciding which items are safe to pass on.

BIG TIDY-UPS

These local clean ups continue to be popular. They are an excellent way to bring together residents, clients and Mears staff to improve local environmental quality in problem areas. These projects are particularly good for new branches as an introduction to Community and Environment projects as they are easy to organise, involve the local community and support Keep Britain Tidy in its national campaign.

CASE STUDY

Project Sri Lanka 2009

Hopes and Dreams Village Sri Lanka

For the second year running we successfully organised and delivered our own international project.

We sent a team of twelve volunteers to the Hopes and Dreams Village in Sri Lanka, to support the project which is funded and managed by Manacare. Team members raised £2,000 each which funded the building works, materials, travel, accommodation and subsistence for the seven day trip. Extensive works were carried out including roofing, redecoration and improving the facilities for local people.

CARBON FOOTPRINT

We undertook our second Carbon Footprint verification in 2009, the scope included owned transport, fuel combustion, consumption of purchased energy and transport activity. The footprint exercise has provided the Group the opportunity to analyse and prioritise at branches which have the highest levels of emissions and to improve staff awareness of their behaviours and their environmental impact.

WASTE

We receive an accurate analysis of our recycled waste from our Waste partner. Each branch receives a breakdown of tonnes of waste created, including their recycling levels which vary by location depending on the quality of the local transfer facility. Our challenge remains to continually increase our percentage of waste recycled versus landfill through our work with WRAP and reuse initiatives, such as waste to fertiliser, as piloted in Wakefield.

FLEET

Over the course of the year we have continued to replace vehicles at the end of their lease with the most fuel efficient and lowest CO_2 producing models available. Handheld technology continues to be rolled out and reduces the number of miles driven by saving on those return to base journeys.

FIND MORE INFORMATION

AR09.MEARSGROUP.CO.UK/CSR

> ‘Our challenge remains to continually increase our percentage of waste recycled versus landfill through our work with WRAP and reuse initiatives, such as waste to fertiliser.’

SUPPORTING GOOD CAUSES

FUTURE CHAMPIONS

We supported 23 Future Champions in 2009. These young athletes are training and competing hard to secure places at the London Olympics and Paralympics in 2012 and the Winter Olympics in 2014. Our Future Champions are each linked with a branch mentor in order to provide local support, with mentors attending training and competitions. We promote our Future Champions internally to ensure ongoing support. Many of our Future Champions are already competing at national level and their successes are promoted internally via the Future Champion Blog on our Intranet. We update the Future Champions webpage to reflect the progress of our athletes and reports are publicly available to download.

Board of directors

BOB HOLT (55)
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.

ANDREW C M SMITH (37)
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.

DAVID J MILES (44)
CHIEF OPERATING OFFICER
David joined Mears in May 1996 and, prior to his appointment to the Board in January 2007, was Managing Director of Mears Southern Social Housing division. Prior to joining Mears, David held a senior position with MITIE Maintenance (South East) Limited. His background is in electrical engineering.

ALAN LONG (47)
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.

REGINALD B POMPHRETT (66)
NON-EXECUTIVE DIRECTOR
AND 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 and is Chairman of the Group's Remuneration Committee.

MICHAEL A MACARIO (72)
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 (68)
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.

PETER F DICKS (67)
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 Nomination Committee.

DAVID L HOSEIN (46)
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 (56)
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.

RORY MACNAMARA (55)
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 currently is 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.

Shareholder and corporate information

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.

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Financial calendar

Annual General Meeting	9 June 2010
Record date for final dividend	13 June 2010
Dividend warrants posted to shareholders	2 July 2010
Interim results announced	17 August 2010

Report of the directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2009.

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 and the Business Review.

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

DIVIDEND

The final dividend in respect of 2008 of 3.40p per share was paid in July 2009. An interim dividend in respect of 2009 of 1.60p was paid to shareholders in November 2009. The Directors recommend a final dividend of 4.10p per share. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2009.

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:

	2009	2008
Social Housing sales growth	**26.0%**	37.2%
Social Housing operating margin*	**6.0%**	6.1%
Profit cash conversion**	**108.7%**	44.3%
Normalised diluted earnings per share***	**21.61p**	18.99p
Community projects completed	**578**	411
Community hours contributed	**18,497**	20,594

* Before amortisation of acquisition intangibles and share-based payment.
** Cash flow from operating activities before taxation divided by operating profit before amortisation of acquisition intangibles.
*** Before amortisation of acquisition intangibles.

The Group has revised certain financial KPIs in line with the current market analysis, principally to consider operating profit before the amortisation of acquisition intangibles rather than operating profit before both amortisation of acquisition intangibles and share-based payment costs.

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.

DIRECTORS

The present membership of the Board is set out on pages 18 and 19. A C M Smith and M G Rogers retire by rotation and, being eligible, offer themselves for re-election. In addition A Long, who was appointed since the last AGM, will offer himself for election and two new appointments, D Marston and R Macnamara will also be offered for election. M A Macario is required to seek re-election each year having served more than nine years as a Director. R B Pomphrett retires and is not seeking re-election at the AGM in June 2010.

The beneficial interests of the Directors in the shares of the Company at 31 December 2009 and 31 December 2008 are detailed below. The Directors' emoluments are detailed within the Remuneration Report.

	Ordinary shares	
	31 December 2009 Number	31 December 2008 Number
R Holt	**500,000**	500,000
A C M Smith	**50,000**	50,000
D J Miles	**100,000**	100,000
A Long	**4,108**	—
M A Macario	**—**	—
R B Pomphrett	**25,000**	25,000
M G Rogers	**102,420**	102,420
D L Hosein	**—**	—
P F Dicks	**23,298**	23,298

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.

Report of the directors_continued

GOING CONCERN

A review of the Group's activities during the year and its outlook are set out in the Chairman's Statement and Business Review on pages 4 to 13. The financial position of the Group is described on pages 6 to 13. 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 has positive cash balances and has recently renewed and increased its banking facility to £85.0m providing considerable financial resources. During this renewal process the Directors were pleased by the willingness of a number of banks to offer facilities. At 31 December 2009 the Group had total funding headroom of over £71.5m, including £23.5m of cash held, which it considers more than sufficient to fund current trading plans.

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.

ANNUAL GENERAL MEETING

The AGM will be held at the offices of Investec Investment Banking, 2 Gresham Street, London EC2V 7QP on Wednesday 9 June 2010 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 election of A Long, D Marston and R Macnamara, and the re-appointment of M A Macario who, having served as a Director for more than nine years, is required to be re-appointed each year.

The special business will comprise the following resolutions:

- an amendment to the Articles of Association to remove the restriction on the maximum number of Directors in line with current practice;
- 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 £280,495 plus an additional one third of issued share capital (£280,495) 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 (£42,074) 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.

GENERAL ECONOMIC ENVIRONMENT

A downturn in the general economic climate within the UK and any consequent effect upon Government policy and spending, private sector investment or interest rates may have an adverse effect on the Group's financial condition and results of operations.

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 the Group's services. There are risks that budgetary changes could result in less funds being allocated to the services that the Group provides.

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 Operating Officer. The Chief Operating 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.

PRINCIPAL RISKS AND UNCERTAINTIES_CONTINUED

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 our 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.

PERFORMANCE RISK

The major part of the Group's activities involves providing services to residents which are funded by Local Authority 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 KPIs to be met. Failure to meet quality thresholds in contracts or complete contracts may affect future profitability and 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, or 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.

INFRASTRUCTURE AND SYSTEMS

The Group is dependent on the proper operation and performance of its financial, accounting, management, and other information and support IT systems. Our branches use sophisticated computer systems to manage their day-to-day activities. A system failure would limit our ability to meet operational and regulatory commitments. Infrastructure requirements are regularly reviewed to ensure that they are appropriate for the needs of the Group.

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

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.

CREDIT RISK

The Group reviews the credit quality of customers and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers. The credit risk on trade receivables within the M&E division is insured. The credit risk on trade receivables in other divisions is not insured due to the secure nature of the customer base.

Report of the directors_continued

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 49 days (2008: 49 days) of average supplies for the year.

SUBSTANTIAL SHAREHOLDINGS

On 22 March 2010 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 Millions	Percentage of issued ordinary shares %
Schroder Investment Management	6.10	7.26
Majedie Asset Management	6.05	7.20
Artemis Investment Management	5.93	7.06
Invesco Perpetual	4.66	5.55
Legal & General Investment Management	4.27	5.09
BlackRock	3.88	4.62
Fortis Private Investment Management	2.94	3.50

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
DIRECTOR AND SECRETARY
31 March 2010

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 have elected 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.

On behalf of the Board

A C M SMITH
FINANCE DIRECTOR
31 March 2010

Corporate governance statement

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 committed to maintaining and achieving good standards of corporate governance, integrity and business ethics for all activities.

The Board recognises the importance of high standards of corporate conduct and is committed to maintaining the Group's operations in accordance with the best principles of corporate governance as contained within Section One of the Combined Code on Corporate Governance issued in June 2008 and has complied with it throughout the year except for the following. Explanations as to the Board's reasons for non-compliance are provided below:

- Paragraph A.2.1. The role of Chairman and Chief Executive are exercised by B Holt; and
- Paragraph A.3.1. Two out of five Non-Executive Directors, M A Macario and R B Pomphrett, have served as Non-Executive Directors for more than nine years.

THE BOARD OF DIRECTORS

The Board of Directors currently comprises nine members consisting of four Executive Directors and five Non-Executive Directors.

The Board's prime objective is to ensure on-going commercial and financial success of the Group. B Holt fulfils the role of both Chairman and Chief Executive and has held this combined position since 2006. The Board considers that the experience and contribution brought to the strategic direction of the Group is invaluable and currently the Group is best served by this joint role. However the Group has put in place balancing controls to mitigate the governance concerns through the appointment of P F Dicks as Deputy Chairman.

Each of the five 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 and R B Pomphrett to impinge on their independence. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy. A summary of the terms and conditions of appointment of the Non-Executive Directors is available on the Group's website or on request from the Company Secretary. M A Macario is the Senior Independent Non-Executive Director.

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 will take place:

- it is the intention of B Holt to relinquish the role of Chief Executive and appoint an internal candidate into this role before the end of 2010. He will remain as Chairman to concentrate on strategic development and investor and employee relations;
- D Marston will be 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. Ms Marston will be appointed Chair of the Audit Committee on the retirement of M A Macario;
- R Macnamara will be appointed to the Board and the Remuneration Committee at the AGM in June 2010. He has an excellent background in finance and public company management. It is envisaged that he will be appointed Chairman of the Nomination Committee;
- R B Pomphrett, who joined the Board in 1998, will not be seeking re-election at the AGM to be held in June 2010, but will remain as Group Company Secretary. He is currently Chair of the Remuneration Committee and it is envisaged that P Dicks will assume this role from June 2010; and
- M A Macario, who joined the Board in 1996, will not seek re-election at the AGM to be held in June 2011. He currently Chairs the Audit Committee and is the Senior Independent Director.

In addition, certain changes to the operational management, including the appointment to the Board of D J Miles as Chief Operating Officer and A Long as Executive Director, will allow B Holt to focus more on Group strategy, merger and acquisition activity and investor relations.

The biographical details of the Directors are shown on pages 18 and 19. 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.

EXTERNAL APPOINTMENTS AND COMMITMENTS

The Chairman, R Holt, is also Chairman of Green Compliance plc. R B Pomphrett is also a Non-Executive Director 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;
- business development, including major investments and disposals;
- 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, tenders and new business start-ups;
- CSR, ethics and the environment; 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 2009 by holding individual meetings with each Director to discuss their view 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 Non-Executive 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 review annually 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. They also meet on a regular basis with Directors of the subsidiary companies. This forum provides the principal format for directing the business of the Group. 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.

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-Executives 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, is entitled to receive any training they consider necessary to fulfil their responsibilities effectively.

Corporate governance statement_continued

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 the Non-Executive Directors, as required by the Combined Code.

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.

Further details are set out below.

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 2009 is shown on the table on page 29.

AUDIT COMMITTEE

The Audit Committee comprises R B Pomphrett, P F Dicks and M A Macario, its Chairman. 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 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.

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 qualification, expertise, resources and independence of the external auditor, as well as its ongoing 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. The Committee also reviews the term of office of the external auditor.

BOARD COMMITTEES_CONTINUED

NOMINATION COMMITTEE

The Nomination Committee comprises B Holt, R B Pomphrett, M A Macario and P F Dicks, its Chairman.

The Committee meets twice 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 specified term and the re-election of any Director by shareholders under the retirement provisions of the Company's Articles of Association.

Potential candidates for the two new Non-Executive Directors were identified over a nine-month period. They were introduced to the Group through sources such as our brokers and other advisors and through personal contacts. D Marston and R Macnamara were selected following a rigorous consideration of the skills, knowledge and experience that each of the candidates could bring to the Board.

REMUNERATION COMMITTEE

The Remuneration Committee comprises M A Macario, P F Dicks and R B Pomphrett, its Chairman.

The Committee meets once 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.

Directors' attendance at Board meetings and Committee meetings during 2009 is shown in the following table:

	Board		Audit Committee		Nomination Committee		Remuneration Committee	
Number of meetings	Potential	Actual	Potential	Actual	Potential	Actual	Potential	Actual
R Holt	6	6	—	—	—	—	—	—
A C M Smith	6	6	—	—	—	—	—	—
D J Miles	6	6	—	—	—	—	—	—
A Long*	2	2	—	—	—	—	—	—
M G Rogers	6	6	—	—	—	—	—	—
M A Macario	6	5	2	2	2	2	7	7
R B Pomphrett	6	6	2	2	2	2	7	7
P F Dicks	6	6	2	2	2	2	7	7
D L Hosein	6	6	—	—	—	—	—	—

* Appointed 18 August 2009.

Corporate governance statement_continued

SHARE CAPITAL

At 31 December 2009 the structure of the Company's capital is as follows:

	Issued No.	Nominal value per share p	Total £'000	Percentage of issued ordinary shared %
Ordinary shares	74,391,610	1p	744	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 2009 9,642,000 options over 1p ordinary shares were in place. 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.

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 the acquisition of Careforce Group plc, where the Company was entitled to the merger relief offered by the Companies Act.

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 ongoing 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 Combined 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 acknowledges that it is ultimately 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.

INTERNAL CONTROL AND RISK MANAGEMENT_CONTINUED

The Board confirms that the Group has in place an ongoing 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 ongoing, 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.

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.

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

M A MACARIO
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
31 March 2010

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 2006 Combined Code (‘Combined Code’) on Corporate Governance 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 (as amended by the Regulations). 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 29.

In 2009, the Committee continued to engage PricewaterhouseCoopers 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 Statement of Corporate Governance on page 29.

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 to recommend 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 seven times during 2009 and discussed, amongst others, the issues set out in the table below:

Meeting	Key issues discussed	Attendees
January	– 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 2008 Directors’ Remuneration Report	All Committee members
March	– Strategic review of the overall retention and incentive structure for the Executive Directors and senior management	All Committee members
April	– Discussions on amendments to the Special Incentive Plan (SIP)	All Committee members
May	– Consideration of shareholder reaction to SIP changes	All Committee members
June	– Approval of changes to SIP	All Committee members
October	– Approval of the performance targets for the Long-term Incentive Plan (LTIP) Awards granted to Executive Directors and associated awards	All Committee members
November	– Structure of 2010 bonus	All Committee members

ANNUAL OVERVIEW

In November 2007 shareholders approved a special equity incentive arrangement, the Mears Group PLC SIP, to ensure that the Chairman of the Group was:

* retained to continue to shape and grow the business; and
* properly incentivised to achieve significant and sustained improvements in the underlying financial performance of the Group.

Despite the Group delivering exceptional earnings per share (EPS) growth of an average of over 20% per annum since 2006 and significantly out-performing its Index, the Remuneration Committee was of the opinion that the structure of the share award under the SIP was not achieving its objective of appropriately incentivising the key value driver of the Group.

As such the Group sought shareholder approval to change some of the key existing terms and conditions of the SIP share award. These changes primarily related to the delivery mechanism of the share award moving it from a premium priced option to a nil-cost option but retaining the stretching underlying corporate performance conditions.

The amendment was approved by shareholders at a General Meeting on 3 July 2009.

The Committee felt unable to accept the views of all shareholders with regard to this amendment but believe that it was a business critical decision that had to be made to retain the services of an exceptional individual who remains critical to the continued success of the Group.

PART 2 OF THE REGULATIONS – UNAUDITED INFORMATION_CONTINUED

ANNUAL OVERVIEW_CONTINUED

The Committee is aware of the sensitivities surrounding this decision with some of its shareholders and as such has made the following determinations in order to build investor confidence with regard to its Executive remuneration policies:

- a commitment to improve the level of openness and transparency in remuneration reporting through a much more detailed annual Remuneration Report;
- no increase in the Chairman's salary for 2010, 2011 and 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 2010;
- 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.

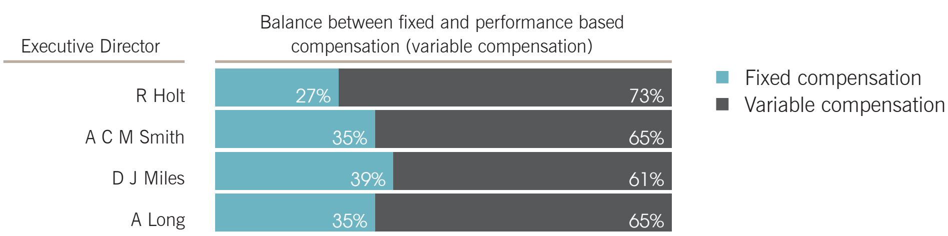
Notwithstanding the above, the Committee recognises that the success of Mears is down to the efforts of key individuals and that they should be fairly rewarded for their efforts and contributions in making Mears the success it is. The following section details how remuneration is structured.

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 variable pay for each Executive Director for the year ended 31 December 2009:



Remuneration report_continued

PART 2 OF THE REGULATIONS – UNAUDITED INFORMATION_CONTINUED

REMUNERATION POLICY AND PHILOSOPHY_CONTINUED

The main elements of these packages and the performance conditions are described below:

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.

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 2009 and subsequent years is 110% of salary.

Bonus payments for 2009 range from 0% to 110% of salary.

The Committee recognises and appreciates the efforts and contributions of the Executive Directors and all employees of the Company in a challenging economic environment. The Committee determined to pay a bonus to the current Chairman/Chief Executive based on exceeding the following key achievement targets:

- record contract wins;
- delivery of a succession planning strategy;
- achieving critical mass in Domiciliary Care through the acquisition of Supporta;
- stewardship of the Group;
- strategic oversight and vision;
- financial management; and
- a much strengthened operational management team geared for growth.

Considering the above, the Committee has assessed that the performance of the Chairman was exceptional and that the maximum bonus payment was appropriate. All bonus payments have been made in cash.

PART 2 OF THE REGULATIONS – UNAUDITED INFORMATION_CONTINUED

REMUNERATION POLICY AND PHILOSOPHY_CONTINUED

ANNUAL BONUS_CONTINUED

For 2010, 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 2010 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.

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 39.

SHARE AWARDS

Chairman SIP

The Chairman participates in the SIP.

Term	Terms and conditions	Commentary
Number of shares under option	2,500,000	Prior to the amendment to the plan, the number of shares under option was 7,945,559 at an exercise price of £3.20. The revised new award is structured as a nil-cost option.
Exercise price	Nil-cost	The use of nil-cost options is the standard delivery mechanism for equity incentives in the fully quoted environment. The nil-cost options will also ensure that an appropriate level of reward is provided to the Chairman if the stretching performance targets are met.
Dividend equivalent entitlement	No entitlement to dividend	Previously the SIP Award featured an entitlement to the equivalent of dividends on all vesting shares. This entitlement would have been a significant cost to the Group of circa. £1.5m in both profit and cash terms.
Performance conditions		The level of vesting of these shares is dependent upon the achievement of stretching annual EPS growth conditions. However, no shares will vest unless the Group's Total Shareholder Return (TSR) is at least equal to the return of the FTSE All Share Support Services Index over the three-year performance period from the date of grant. The following table sets out the level of vesting.

Performance levels	Level of vesting
5% + RPI p.a.	10%
10% + RPI p.a.	50%
15% + RPI p.a.	100%

Based on the current indicative performance of the Group, the SIP Award will vest in full.

Remuneration report_continued

PART 2 OF THE REGULATIONS – UNAUDITED INFORMATION_CONTINUED

REMUNERATION POLICY AND PHILOSOPHY_CONTINUED

SHARE AWARDS_CONTINUED

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. For 2009, all Executive Directors, other than the Chairman, have been granted 100,000 LTIP Awards which is an average award of around 150% of salary for each Director. Awards made annually in the form of nil-cost options.
Performance conditions	For LTIP Awards made in 2009, 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.

Performance level p.a.	Level of vesting
10%	10%
12.5%	30%
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.

SHARE OPTIONS

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

The tables on pages 39 and 40 sets 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.

PART 2 OF THE REGULATIONS – UNAUDITED INFORMATION_CONTINUED

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
A C M Smith	12 months	4 June 2008
D J Miles	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, and 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.

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	**2009 £'000**	2008 £'000
R B Pomphrett	**42**	40
M A Macario	**42**	40
D L Hosein	**42**	40
M G Rogers	**42**	40
P F Dicks	**42**	40

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
R B Pomphrett	4 June 2008
M A Macario	4 June 2008
D L Hosein	4 June 2008
M G Rogers	4 June 2008
P F Dicks	4 June 2008

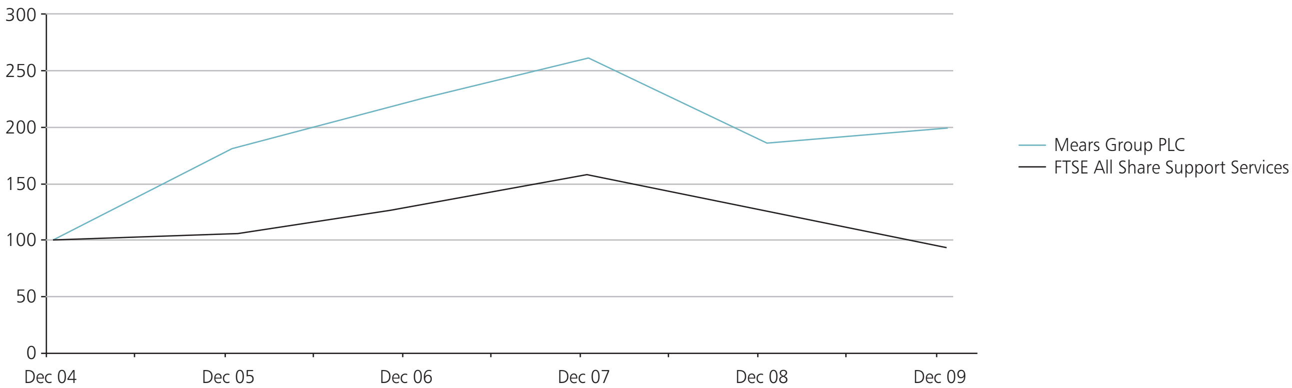
Non-Executive Directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions. The Non-Executive Directors do not have service contracts. Letters of appointment run for a rolling six-month period.

Remuneration report_continued

PART 2 OF THE REGULATIONS – UNAUDITED INFORMATION_CONTINUED

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.



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 2009 compared with 2008 is set out in the table below:

Directors' remuneration	Fees/ basic salary £'000	Bonus £'000	Benefits in kind £'000	**2009 Total £'000**	2008 Total £'000
Executive					
R Holt	450	495	15	**960**	610
A C M Smith	150	—	4	**154**	176
D J Miles	210	—	9	**219**	262
A Long	150	—	3	**153**	—
	960	495	31	**1,486**	1,048
Non-Executive					
R B Pomphrett	42	—	—	**42**	40
M A Macario	42	—	—	**42**	40
D L Hosein	42	—	—	**42**	40
M G Rogers	42	—	—	**42**	44
P F Dicks	42	—	—	**42**	40
	210	—	—	**210**	204
Total remuneration	1,170	495	31	**1,696**	1,252

PART 3 OF THE REGULATIONS – AUDITED INFORMATION_CONTINUED

EXECUTIVE DIRECTORS' PENSIONS

	2009 Total £'000	2008 Total £'000
R Holt	**135**	120
A C M Smith	**15**	13
D J Miles	**28**	26
A Long	**15**	—
	193	159

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 2009	Replaced	Surrendered on replacement	**SIP Awards held at 31 December 2009**	Date of release
R Holt					
16 November 2007	7,956,559	—	(7,956,559)*	**—**	Nov 2010 – 60%
					Nov 2011 – 20%
					Nov 2012 – 20%
28 September 2009	—	2,500,000*	—	**2,500,000**	Nov 2010 – 60%
					Nov 2011 – 20%
					Nov 2012 – 20%

* These options were converted from a premium priced option over 7,956,559 with an exercise price of £3.20 to 2,500,000 nil-cost options.

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 2009 '000	Granted '000	Lapsed '000	**LTIP Awards held at 31 December 2009 '000**	Date of release
A C M Smith					
13 October 2008	100,000	—	—	**100,000**	Oct 2011
28 October 2009	—	100,000	—	**100,000**	Oct 2012
D J Miles					
13 October 2008	100,000	—	—	**100,000**	Oct 2011
28 October 2009	—	100,000	—	**100,000**	Oct 2012
A Long					
13 October 2008	100,000	—	—	**100,000**	Oct 2011
28 October 2009	—	100,000	—	**100,000**	Oct 2012

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 2009	Lapsed	Exercised	**At 31 December 2009**	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
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
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 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 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:

R B POMPHRETT
CHAIRMAN OF THE REMUNERATION COMMITTEE
31 March 2010

Report of the independent auditor_to the members of Mears Group PLC

We have audited the financial statements of Mears Group PLC for the year ended 31 December 2009 which comprise the 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, 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 25, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK 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/UKP.

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 2009 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 26 to 31 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.

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; or
- 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; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- 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 22, in relation to going concern; and
- 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.

J GERAINT DAVIES
SENIOR STATUTORY AUDITOR
FOR AND ON BEHALF OF GRANT THORNTON UK LLP
Statutory Auditor, Chartered Accountants
Bristol
31 March 2010

Group accounts

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 and also in accordance with IFRS as issued by the International Accounting Standards Board. 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 1 (Revised) 'Presentation of Financial Statements' and the adoption of IFRS 8 'Operating Segments'.

The adoption of IAS 1 (Revised) has resulted in a change to the presentation of the primary statements. The adoption of IFRS 8 has required the disclosure of segmental information in line with the way the business is managed. The Group has previously reported in this way and therefore the segments disclosed have not changed as a result of adoption of IFRS 8.

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.

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 2009. 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 131 of the Companies Act 1985 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.

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.

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 and updated, if appropriate, annually. 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 '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.

Principal accounting policies – group_continued

INTANGIBLE ASSETS_CONTINUED

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 is 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.

IMPAIRMENT

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (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 have 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.

Revenue is recognised as follows:

SOCIAL HOUSING – 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 stage of completion of the job or contract at the balance sheet date is assessed by comparing the value of work completed to date with the total value of work to be completed. 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.

Where a contract for work involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements delivered to the fair value of the overall contract.

Principal accounting policies – group_continued

REVENUE_CONTINUED

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 accrued income. 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.

VEHICLE DISTRIBUTION SERVICES – revenue is recognised when the actual vehicle has been delivered. Revenue relating to vehicles delivered and not invoiced is accrued and disclosed under trade and other receivables as accrued income.

CONSTRUCTION CONTRACTS – revenue from the 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 business segments based upon the format that the Group reports to its chief operating decision maker.

The Group considers that the chief operating decision maker are the Directors and Senior Executives of the business.

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 eight 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, which was adopted by the Group in the 2008 financial statements, 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.

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 'Share-based Payments'.

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.

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 'Share-based Payments'. The modifications made by the Group have not changed 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' and 'Cash at bank and in hand' in the Balance Sheet.

LOANS AND RECEIVABLES

Trade receivables 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 are initially recorded at invoiced value and subsequently remeasured at invoiced value, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is 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.

Principal accounting policies – group_continued

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. 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 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 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 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, 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 ongoing 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.

Management has made the following estimates that have the most significant effect on the amounts recognised in the financial statements:

REVENUE RECOGNITION – in all cases management has considered it appropriate to recognise revenue for construction contracts in the M&E sector based on the stage of completion of the contract activity. Further details are given in the 'Revenue' section of these accounting policies.

IMPAIRMENT OF GOODWILL – determining whether goodwill is impaired requires an estimate of the value in use of the cash-generating units (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.

USE OF JUDGEMENTS AND ESTIMATES_CONTINUED

INTANGIBLE ASSETS – intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for appropriateness. Changes in the estimates could result in significant variations in the carrying value.

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 judgements 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 judgements 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.

NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

A number of new European Union adopted standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009 and have not been applied in preparing these financial statements.

IAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (Revised) 'Business Combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

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.

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

Consolidated income statement_for the year ended 31 December 2009

		2009		2008	
	Note	£'000	£'000	£'000	£'000
Sales revenue	1		**470,146**		420,376
Cost of sales			**(336,848)**		(309,721)
Gross profit			**133,298**		110,655
Other administrative expenses		**(108,545)**		(89,626)	
Operating result before amortisation of acquisition intangibles		**24,753**		21,029	
Amortisation of acquisition intangibles	12	**(4,980)**		(3,600)	
Total administrative costs			**(113,525)**		(93,226)
Operating profit			**19,773**		17,429
Finance income	4		**190**		263
Finance costs	4		**(1,584)**		(1,110)
Profit for the year before tax	2		**18,379**		16,582
Tax expense	8		**(4,423)**		(3,800)
Net profit for the year			**13,956**		12,782
Earnings per share					
Basic	10		**18.81p**		17.36p
Diluted	10		**17.94p**		16.82p

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 2009

	Note	2009 £'000	2008 £'000
Net result for the year		**13,956**	12,782
Other comprehensive income/(expense)			
Actuarial loss on defined benefit pension scheme	25	**(3,634)**	(967)
Increase in deferred tax asset in respect of defined benefit pension schemes	21	**919**	135
Other comprehensive expense for the year		**(2,715)**	(832)
Total comprehensive income for the year		**11,241**	11,950
Attributable to:			
Equity holders of the parent		**11,241**	11,950

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

Consolidated balance sheet_as at 31 December 2009

Company number 3232863

	Note	2009 £'000	2008 £'000	2007 £'000
Assets				
Non-current				
Goodwill	11	**52,393**	50,258	46,781
Intangible assets	12	**17,072**	11,214	12,608
Property, plant and equipment	13	**12,142**	9,517	8,199
Deferred tax asset	21	**6,098**	3,485	1,116
Trade and other receivables	17	**2,119**	2,031	1,710
		89,824	76,505	70,414
Current				
Inventories	15	**17,349**	8,392	9,277
Trade and other receivables	17	**82,933**	85,654	49,929
Cash at bank and in hand		**23,511**	16,094	15,250
		123,793	110,140	74,456
Total assets		**213,617**	186,645	144,870
Equity				
Equity attributable to the shareholders of Mears Group PLC				
Called up share capital	22	**744**	740	732
Share premium account		**32,505**	31,940	31,007
Share-based payment reserve		**2,649**	3,235	2,035
Merger reserve		**11,548**	11,548	11,548
Retained earnings		**58,482**	48,241	37,373
Total equity		**105,928**	95,704	82,695
Liabilities				
Non-current				
Pension and other employee benefits	25	**3,205**	488	55
Deferred tax liabilities	21	**4,646**	3,159	3,721
Other liabilities	19	**1,230**	—	3,191
		9,081	3,647	6,967
Current				
Short-term borrowings and overdrafts		**17,000**	9,500	—
Trade and other payables	18	**77,607**	74,903	52,410
Current tax liabilities		**4,001**	2,891	2,798
Current liabilities		**98,608**	87,294	55,208
Total liabilities		**107,689**	90,941	62,175
Total equity and liabilities		**213,617**	186,645	144,870

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 31 March 2010.

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 2009

	Note	2009 £'000	2008 £'000
Operating activities			
Result for the year before tax		**18,379**	16,582
Adjustments	23	**9,368**	7,459
Change in inventories		**(6,738)**	598
Change in operating receivables		**8,097**	(35,884)
Change in operating payables		**(3,712)**	20,194
Cash flow from operating activities before taxation		**25,394**	8,949
Taxes paid		**(4,814)**	(4,980)
Net cash inflow from operating activities		**20,580**	3,969
Investing activities			
Additions to property, plant and equipment		**(3,732)**	(3,705)
Additions to other intangible assets		**(796)**	(725)
Proceeds from disposals of property, plant and equipment		**82**	8
Acquisition of subsidiary undertaking, net of cash		**(11,056)**	(7,778)
Disposal of business activities		**—**	2,454
Interest received		**190**	263
Net cash outflow from investing activities		**(15,312)**	(9,483)
Financing activities			
Proceeds from share issue		**569**	941
Discharge of finance lease liability		**(820)**	(23)
Interest paid		**(1,390)**	(928)
Dividends paid		**(3,710)**	(3,132)
Net cash outflow from financing activities		**(5,351)**	(3,142)
Cash and cash equivalents, beginning of year		**6,594**	15,250
Net decrease in cash and cash equivalents		**(83)**	(8,656)
Cash and cash equivalents, end of year		**6,511**	6,594
Cash and cash equivalents is comprised as follows:			
Cash at bank and in hand		**23,511**	16,094
Short-term borrowings and overdrafts		**(17,000)**	(9,500)
Cash and cash equivalents		**6,511**	6,594

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 2009

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2007	615	5,547	1,485	—	30,363	38,010
Net result for the year	—	—	—	—	10,934	10,934
Deferred tax on pension obligation	—	—	—	—	25	25
Pension obligation	—	—	—	—	295	295
Total comprehensive income for the year	—	—	—	—	11,254	11,254
Deferred tax on share-based payments	—	—	—	—	(1,700)	(1,700)
Issue of shares	117	25,460	—	11,548	—	37,125
Share option charges	—	—	550	—	—	550
Dividends	—	—	—	—	(2,544)	(2,544)
At 1 January 2008	732	31,007	2,035	11,548	37,373	82,695
Net result for the year	—	—	—	—	12,782	12,782
Deferred tax on pension obligation	—	—	—	—	135	135
Pension obligation	—	—	—	—	(967)	(967)
Total comprehensive income for the year	—	—	—	—	11,950	11,950
Deferred tax on share-based payments	—	—	—	—	2,050	2,050
Issue of shares	8	933	—	—	—	941
Share option charges	—	—	1,200	—	—	1,200
Dividends	—	—	—	—	(3,132)	(3,132)
At 1 January 2009	740	31,940	3,235	11,548	48,241	95,704
Net result for the year	—	—	—	—	13,956	13,956
Deferred tax on pension obligation	—	—	—	—	919	919
Pension obligation	—	—	—	—	(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 31 December 2009	**744**	**32,505**	**2,649**	**11,548**	**58,482**	**105,928**

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

During 2008 the Group disposed of the Vehicle Distribution segment.

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.

	2009				2008				
Business segments	Social Housing £'000	Domiciliary Care £'000	M&E £'000	Total £'000	Social Housing £'000	Domiciliary Care £'000	M&E £'000	Vehicle Distribution £'000	Total £'000
Revenue	355,260	60,050	54,836	470,146	282,046	54,611	78,008	5,711	420,376
Operating result pre amortisation of acquisition intangibles and share-based payment	21,252	3,151	850	25,253	17,091	3,065	2,071	2	22,229
Operating margin pre amortisation of acquisition intangibles and share-based payment	6.0%	5.2%	1.6%	5.4%	6.1%	5.6%	2.7%	—	5.3%
Share-based payment	(400)	(25)	(75)	(500)	(1,000)	(50)	(150)	—	(1,200)
Operating result pre amortisation of acquisition intangibles	20,852	3,126	775	24,753	16,091	3,015	1,921	2	21,029

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:

	2009 £'000	2008 £'000
Operating result pre amortisation of acquisition intangibles	24,753	21,029
Amortisation of acquisition intangibles	(4,980)	(3,600)
Finance costs, net	(1,394)	(847)
Tax expense	(4,423)	(3,800)
Net profit for the year	13,956	12,782

Notes to the financial statements – group_continued

1. SEGMENT REPORTING_CONTINUED

In addition the following disclosures are provide in respect of segmental analysis required by IFRS 8 'Operating Segments':

	2009				2008				
Business segments	**Social Housing £'000**	**Domiciliary Care £'000**	**M&E £'000**	**Total £'000**	Social Housing £'000	Domiciliary Care £'000	M&E £'000	Vehicle Distribution £'000	Total £'000
Segment assets	**148,562**	**42,561**	**22,494**	**213,617**	119,188	40,265	27,192	—	186,645
Segment liabilities	**(61,557)**	**(32,557)**	**(13,575)**	**(107,689)**	(41,271)	(30,036)	(19,634)	—	(90,941)
Property, plant and equipment acquired	**1,907**	**1,651**	**175**	**3,733**	1,761	1,645	73	75	3,554
Depreciation	**1,763**	**245**	**138**	**2,146**	1,585	224	134	46	1,989

2. PROFIT FOR THE YEAR BEFORE TAX

Profit for the year before tax is stated after:

	2009 £'000	2008 £'000
Share-based payments	**500**	1,200
Depreciation	**2,146**	1,989
Amortisation	**5,214**	3,712
Hire of plant and machinery	**3,488**	3,118
Other operating lease rentals	**13,364**	11,963

3. AUDITOR'S REMUNERATION

	2009 £'000	2008 £'000
Fees payable to the auditor for the audit of the Group's financial statements	**70**	45
Other fees payable to the auditor in respect of:		
– auditing of accounts of subsidiary undertakings pursuant to legislation	**98**	110
– reporting accountant	**—**	60
– taxation compliance fees	**35**	26
– taxation advice fees	**25**	19
Total auditor's remuneration	**228**	260

4. FINANCE INCOME AND FINANCE COSTS

	2009 £'000	2008 £'000
Interest charge on overdrafts and short-term loans	**(896)**	(1,104)
Interest charge on interest rate swap	**(368)**	—
Finance charges in respect of finance leases	**(137)**	(6)
Interest charge on defined benefit obligation	**(143)**	—
Unwinding of discounting in deferred consideration	**(40)**	—
Finance costs	**(1,584)**	(1,110)
Interest income resulting from short-term bank deposits	**74**	251
Interest income resulting from defined benefit obligation	**116**	12
Finance income	**190**	263
Net finance charge	**(1,394)**	(847)

5. EMPLOYEES

Staff costs during the year were as follows:

	2009 £'000	2008 £'000
Wages and salaries	**151,007**	129,780
Social security costs	**12,691**	10,999
Other pension costs	**2,013**	3,522
	165,711	144,301

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

	2009 Number	2008 Number
Site workers	**2,337**	1,905
Carers	**4,092**	3,300
Office and management	**1,741**	1,408
Total	**8,170**	6,613

Remuneration in respect of Directors was as follows:

	2009 £'000	2008 £'000
Emoluments	**1,700**	1,127
Gains made on the exercise of share options	**—**	—
Pension contributions to personal pension schemes	**193**	162
Compensation for loss of office	**—**	—
	1,893	1,289

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

	2009 £'000	2008 £'000
Emoluments	**960**	490
Gains made on the exercise of share options	**—**	—
Pension contributions to personal pension schemes	**135**	120

During the year contributions were paid to personal pension schemes for four Directors (2008: three).

During the year no Directors (2008: none) exercised share options.

Notes to the financial statements – group_continued

6. SHARE-BASED EMPLOYEE REMUNERATION

As at 31 December 2009 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 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%	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 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
10%	10%	Below index return	0%
12.5%	30%	Equal to index	30%
17.5%	100%	10% outperformance of the index per annum	100%

6. SHARE-BASED EMPLOYEE REMUNERATION_CONTINUED

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.

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 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 will be calculated before amortisation and IFRS 2 costs. The performance will be measured at the end of the three-year period. If the EPS condition is not achieved or partially achieved any awards not vested will lapse.
Vesting conditions	Awards will vest at the end of the three-year performance period and will be exercisable 60% on the end of year three, 20% at the end of year four and 20% at the end of year five.

Performance conditions of SIP

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

As a result of the change to the SIP during the year the original 7,945,559 options issued at 320p were surrendered and replaced with 2,500,000 nil-cost options. There was no change to the fair value of the options as a result of this replacement.

Notes to the financial statements – group_continued

6. SHARE-BASED EMPLOYEE REMUNERATION_CONTINUED

SPECIAL INCENTIVE PLAN 2007 (SIP)_CONTINUED

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

	2009		2008	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	**6,850**	**131**	5,966	181
Granted	**995**	**—**	3,679	181
Forfeited	**(313)**	**163**	(395)	247
Exercised	**(390)**	**146**	(758)	125
Surrendered on replacement	**—**	**—**	(3,673)	224
Reissued on replacement	**—**	**—**	2,031	—
Outstanding at 31 December	**7,142**	**126**	6,850	131

The weighted average share price at the date of exercise for share options exercised during the period was 271p. The options outstanding at 31 December 2009, excluding the SIP Award, were exercisable at prices between 1p and 300p and had a weighted average remaining contractual life of three years and five 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.

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:

	2009	2008
Share price (p)	**275**	195–266
Exercise price (p)	**1–300**	1–266
Expected volatility (%)	**20**	20
Expected life (years)	**3–5**	3–5
Risk-free rate (%)	**1.97**	3.00–4.50

313,000 options lapsed during the year. The market price at 31 December 2009 was 279p and the range during 2009 was 210p to 298p.

At 31 December 2009 2.0m options had vested and were still exercisable at a weighted average exercise price of 63p.

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

6. SHARE-BASED EMPLOYEE REMUNERATION_CONTINUED

SPECIAL INCENTIVE PLAN 2007 (SIP)_CONTINUED

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

	2009 £'000	2008 £'000
LTIP	**11**	60
Approved share option plan	**52**	60
Unapproved share option plan	**181**	100
SAYE	**18**	40
SIP	**238**	940
	500	1,200

In total, £0.5m of employee remuneration expense has been included in the Consolidated Income Statement for 2009 (2008: £1.2m), which gave rise to additional share-based payment reserves. No liabilities were recognised due to share-based payment transactions.

7. DISCONTINUED OPERATIONS

On 11 July 2008 the Group disposed of 100% of the share capital of United Fleet Distribution Limited whose principal activity was to carry out vehicle collection and delivery.

The results of the Vehicle Distribution segment for the prior periods, which were included in the consolidated financial statements, are as follows:

	2009 £'000	2008 £'000
Revenue	—	5,711
Operating costs	—	(5,709)
Operating result	—	2
Finance income/(costs), net	—	(2)
Profit before tax	—	—
Tax expense	—	—
Net result for the year	—	—

Notes to the financial statements – group_continued

8. TAX EXPENSE

Tax recognised in the Income Statement:

	2009 £'000	2008 £'000
United Kingdom Corporation Tax effective rate 25.7% (2008: 26.3%)	**6,001**	5,304
Adjustment in respect of previous periods	**(114)**	(312)
Total current tax recognised in Income Statement	**5,887**	4,992
Deferred taxation charge:		
– on defined benefit pension obligations	**157**	16
– on share-based payments	**(227)**	(200)
– on accelerated capital allowances	**—**	—
– on amortisation of acquisition intangibles	**(1,394)**	(1,008)
Total deferred taxation recognised in Income Statement	**(1,464)**	(1,192)
Total tax expense recognised in Income Statement	**4,423**	3,800

The charge for the year can be reconciled to the Income Statement as follows:

	2009 £'000	2008 £'000
Results for the year before tax	**18,379**	16,582
Result for the year multiplied by standard rate of Corporation Tax in the United Kingdom of 28% (2008: 30%/28%)	**5,146**	4,803
Effect of:		
– expenses not deductible for tax purposes	**73**	91
– capital allowances in excess of depreciation	**(140)**	18
– tax relief on exercise of share options	**(290)**	(512)
– tax rate difference	**(12)**	(107)
– utilisation of tax losses	**(240)**	(69)
– tax liability in respect of disposals	**—**	(112)
– adjustment in respect of prior periods	**(114)**	(312)
Actual tax expense, net	**4,423**	3,800
Deferred tax recognised directly in equity		
Deferred taxation charge:		
– on defined benefit pension obligations	**(919)**	(135)
– on share-based payments	**(1,624)**	(2,050)
Total deferred taxation recognised in equity	**(2,543)**	(2,185)
Total tax		
Total current tax	**5,887**	4,992
Total deferred tax	**(4,007)**	(3,377)

9. DIVIDENDS

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

	2009 £'000	2008 £'000
Final 2008 dividend of 3.40p (2008: final 2007 dividend of 2.90p) per share	**2,522**	2,135
Interim 2009 dividend of 1.60p (2008: interim 2008 dividend of 1.35p) per share	**1,188**	997
	3,710	3,132

The proposed final 2009 dividend of 4.10p per share has not been included within the consolidated financial statements as no obligation existed at 31 December 2009.

10. EARNINGS PER SHARE

	Basic		Diluted	
	2009 p	2008 p	2009 p	2008 p
Earnings per share	**18.81**	17.36	**17.94**	16.82
Effect of amortisation of acquisition intangibles	**6.71**	4.89	**6.40**	4.74
Effect of full tax adjustment	**(2.85)**	(2.65)	**(2.73)**	(2.57)
Normalised earnings per share	**22.67**	19.60	**21.61**	18.99

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 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:

	2009 £'000	2008 £'000
Profit attributable to shareholders:	**13,956**	12,782
– amortisation of acquisition intangibles	**4,980**	3,600
– full tax adjustment	**(2,118)**	(1,953)
Normalised earnings	**16,818**	14,429

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.

	2009 Millions	2008 Millions
Weighted average number of shares in issue:	**74.20**	73.63
– dilutive effect of share options	**3.62**	2.34
Weighted average number of share for calculating diluted earnings per share	**77.82**	75.97

Notes to the financial statements – group_continued

11. GOODWILL

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2007	13,405	406	13,811
Additions	32,728	—	32,728
Revision	242	—	242
At 1 January 2008	46,375	406	46,781
Additions	2,567	—	2,567
Revision	2,480	—	2,480
Disposals	(1,570)	—	(1,570)
At 1 January 2009	49,852	406	50,258
Additions	2,879	—	2,879
Revision	(744)	—	(744)
At 31 December 2009	**51,987**	**406**	**52,393**
Accumulated impairment losses			
At 1 January 2007, at 1 January 2008, at 1 January 2009 and at 31 December 2009	—	—	—
Carrying amount			
At 31 December 2009	**51,987**	**406**	**52,393**
At 31 December 2008	49,852	406	50,258
At 31 December 2007	46,375	406	46,781
At 31 December 2006	13,405	406	13,811

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 £0.80m relate to reductions in contingent consideration payable in respect of prior year acquisitions and revisions totalling £0.05m 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.

11. GOODWILL_CONTINUED

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

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Social Housing	15,215	406	15,621
Domiciliary Care	36,772	—	36,772
M&E	—	—	—
	51,987	406	52,393

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value in use. At 31 December 2009 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%	9.0%	2.5–5.0%	2.5%	—
Domiciliary Care	28%	10.5%	10.0%	10.0%	3.0%

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% were incorporated into the value in use calculation.

Notes to the financial statements – group_continued

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 77% today. It is the Directors' belief that this trend will continue.

The market is highly fragmented with an estimated 4,600 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 terminal growth rate and discount rate is shown in the table below. The shaded values indicate situations which would result in an impairment.

Discount rate	Terminal growth rate 2.30%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
9.00%	9,302	11,144	13,132	15,285	17,624	20,174	22,966
9.25%	7,076	8,770	10,594	12,563	14,695	17,011	19,536
9.50%	5,005	6,567	8,245	10,051	12,001	14,112	16,406
9.75%	3,072	4,517	6,065	7,726	9,514	11,445	13,536
10.00%	1,266	2,605	4,035	5,568	7,213	8,984	10,896
10.25%	(427)	817	2,142	3,559	5,077	6,706	8,460
10.50%	(2,016)	(859)	372	**1,686**	3,089	4,592	6,205
10.75%	(3,511)	(2,432)	(1,286)	(66)	1,234	2,624	4,112
11.00%	(4,919)	(3,911)	(2,843)	(1,708)	(500)	788	2,164
11.25%	(6,248)	(5,305)	(4,307)	(3,249)	(2,125)	(929)	347
11.50%	(7,504)	(6,621)	(5,687)	(4,699)	(3,651)	(2,537)	(1,352)
11.75%	(8,694)	(7,865)	(6,989)	(6,065)	(5,086)	(4,047)	(2,945)
12.00%	(9,821)	(9,042)	(8,220)	(7,354)	(6,438)	(5,468)	(4,440)

12. OTHER INTANGIBLE ASSETS

	Acquisition intangibles			Other intangibles			
	Client relationships £'000	Order book £'000	Total acquisition intangibles £'000	Development expenditure £'000	Intellectual property £'000	Total other intangibles £'000	Total intangibles £'000
Gross carrying amount							
At 1 January 2007	928	134	1,062	222	—	222	1,284
Acquired on acquisition	7,925	3,935	11,860	—	—	—	11,860
Additions	1,049	—	1,049	225	—	225	1,274
At 1 January 2008	9,902	4,069	13,971	447	—	447	14,418
Acquired on acquisition	—	1,593	1,593	—	—	—	1,593
Additions	—	—	—	501	224	725	725
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 31 December 2009	**18,671**	**7,177**	**25,848**	**1,736**	**224**	**1,960**	**27,808**
Accumulated amortisation							
At 1 January 2007	223	32	255	—	—	—	255
Amortisation charge for period	950	550	1,500	55	—	55	1,555
At 1 January 2008	1,173	582	1,755	55	—	55	1,810
Amortisation charge for period	2,280	1,320	3,600	112	—	112	3,712
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 31 December 2009	**6,773**	**3,562**	**10,335**	**356**	**45**	**401**	**10,736**
Carrying amount							
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
At 31 December 2007	8,729	3,487	12,216	392	—	392	12,608
At 31 December 2006	705	102	807	222	—	222	1,029

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 2.9 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.

Notes to the financial statements – group_continued

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Gross carrying amount						
At 1 January 2007	9	2,344	2,487	6,837	1,099	12,776
Additions	—	1,777	68	1,448	21	3,314
Acquired on acquisition	—	10	—	1,374	77	1,461
Disposals	(9)	(258)	(52)	(10)	(82)	(411)
At 1 January 2008	—	3,873	2,503	9,649	1,115	17,140
Additions	—	800	99	2,634	21	3,554
Disposals	—	(6)	(117)	(64)	(187)	(374)
Disposal of subsidiary undertaking	—	(79)	—	(342)	—	(421)
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 31 December 2009	**—**	**5,354**	**2,418**	**15,271**	**3,670**	**26,713**
Depreciation						
At 1 January 2007	7	832	1,737	3,686	798	7,060
Provided in the year	1	294	125	1,156	90	1,666
Acquired on acquisition	—	—	—	592	18	610
Eliminated on disposals	(8)	(254)	(28)	(6)	(99)	(395)
At 1 January 2008	—	872	1,834	5,428	807	8,941
Provided in the year	—	465	106	1,364	54	1,989
Eliminated on disposals	—	—	(113)	(24)	(116)	(253)
Eliminated on disposals of subsidiary undertaking	—	(79)	—	(216)	—	(295)
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 31 December 2009	**—**	**1,902**	**1,770**	**7,951**	**2,948**	**14,571**
Carrying amount						
At 31 December 2009	**—**	**3,452**	**648**	**7,320**	**722**	**12,142**
At 31 December 2008	—	3,330	658	5,325	204	9,517
At 31 December 2007	—	3,001	669	4,221	308	8,199
At 31 December 2006	2	1,512	750	3,151	301	5,716

13. PROPERTY, PLANT AND EQUIPMENT_CONTINUED

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

	Plant and machinery £'000
Net book amount	
At 31 December 2009	**1,191**
At 31 December 2008	42
At 31 December 2007	70
Depreciation provided in the year	**319**

14. INVESTMENTS

The principal undertakings within the Group at 31 December 2009 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 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 and Laidlaw Scott Limited which is registered in Scotland.

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

15. INVENTORIES

	2009 £'000	2008 £'000	2007 £'000
Materials and consumables	**1,417**	1,377	802
Work in progress	**15,932**	7,015	8,475
	17,349	8,392	9,277

The Group consumed inventories totalling £297.8m during the year (2008: £271.3m). No items are being carried at fair value less costs to sell (2008: £nil).

16. CONSTRUCTION CONTRACTS

Revenue of £54.8m (2008: £78.0m) relating to construction contracts has been included in the Consolidated Income Statement.

	2009 £'000	2008 £'000	2007 £'000
Contract costs incurred	**41,527**	66,040	47,292
Recognised gross profits	**13,309**	11,968	10,157
Recognised gross losses	**—**	—	—
	54,836	78,008	57,449
Balances outstanding comprise:			
– retentions	**4,003**	3,631	2,418
– due from customers for construction contract work	**3,015**	13,792	6,556
– due to customers for construction contract work	**(5,566)**	(5,704)	(2,703)

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'.

Notes to the financial statements – group_continued

17. TRADE AND OTHER RECEIVABLES

	2009 £'000	2008 £'000	2007 £'000
Current assets:			
– trade receivables	**46,048**	45,754	34,221
– amounts recoverable on construction contracts	**3,015**	13,792	6,556
– amounts recoverable on non-construction contracts	**30,704**	24,221	6,917
– prepayments and accrued income	**3,166**	1,887	2,235
	82,933	85,654	49,929
Non-current assets:			
– trade receivables	**2,119**	2,031	1,710
Total trade and other receivables	**85,052**	87,685	51,639

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 £2.1m (2008: £2.0m) which is due after more than one year and represents retention balances.

The ageing analysis of trade receivables is as follows:

	2009 £'000	2008 £'000	2007 £'000
Neither impaired nor past due	**40,308**	37,777	29,435
Less than three months overdue	**5,212**	7,122	4,301
More than three months overdue	**2,647**	2,886	2,195
Total trade and other receivables	**48,167**	47,785	35,931

18. TRADE AND OTHER PAYABLES

	2009 £'000	2008 £'000	2007 £'000
Trade payables	**42,941**	41,055	27,643
Accruals and deferred income	**11,648**	15,000	8,420
Social security and other taxes	**12,469**	8,127	8,955
Due to customers for construction contract work	**5,566**	5,704	2,703
Due to customers for non-construction contract work	**132**	—	—
Other creditors	**4,440**	4,989	4,651
Amounts due under finance lease contracts	**411**	28	38
	77,607	74,903	52,410

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 £1,801,000 (2008: £2,625,000) relating to deferred consideration on acquisitions.

19. LONG-TERM FINANCIAL LIABILITIES

	2009 £'000	2008 £'000	2007 £'000
Other creditors	**1,230**	—	3,178
Amounts due under finance lease contracts	**—**	—	13
	1,230	—	3,191

Included in other creditors is £1,230,000 (2008: £nil) relating to deferred consideration on acquisitions.

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

	2009 £'000	2008 £'000	2007 £'000
Financial assets			
Loans and receivables			
Trade receivables	**48,167**	47,785	35,931
Cash at bank and in hand	**23,511**	16,094	15,250
	71,678	63,879	51,181
Financial liabilities			
Fair value through the Income Statement (level 2)			
Interest rate swaps	**(209)**	—	—
Amortised cost			
Short-term borrowings and overdrafts	**(17,000)**	(9,500)	—
Deferred consideration in respect of acquisitions	**(3,031)**	(2,625)	(6,003)
Finance lease payable	**(451)**	(28)	(51)
Trade payables	**(42,941)**	(41,055)	(27,643)
Accruals	**(11,528)**	(14,867)	(8,322)
Other creditors	**(4,440)**	(4,989)	(4,651)
	(79,600)	(73,064)	(46,670)
	(7,922)	(9,185)	4,511

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 £3.1m.

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.

Notes to the financial statements – group_continued

20. FINANCIAL INSTRUMENTS_CONTINUED

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 2009 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities – 2009	**15,451**	**2,000**	**3,031**	**20,482**
Financial liabilities – 2008	28	9,815	2,310	12,153
Financial liabilities – 2007	51	—	5,998	6,049

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.

At 31 December 2009 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 entered into an interest rate hedging arrangement with Barclays Bank PLC and HSBC plc. The arrangement consists of two £7.5m vanilla swaps. The Directors consider that this arrangement will limit the Group's interest rate exposure on the Group's medium-term core debt. The hedges expire in January 2013 and April 2013.

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

If the interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after taxation for the year ended 31 December 2009 and reserves would decrease/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 £65.0m with Barclays Bank PLC and HSBC plc, of which £17.0m was utilised at 31 December 2009.

The facilities comprise a committed five-year £55.0m revolving credit facility and an unsecured overdraft facility of £10.0m. The undrawn amounts at 31 December 2009 were £38.0m revolving credit facility and overdraft facility of £10.0m.

In addition the Group had facilities of £20.0m in the form of an acquisition facility available upon the offer for Supporta plc being declared wholly unconditional. The offer for Supporta plc was declared wholly unconditional on 27 January 2010 and the facility was made available on that date.

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.

20. FINANCIAL INSTRUMENTS_CONTINUED

LIQUIDITY RISK MANAGEMENT_CONTINUED

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

	2009 £'000	2008 £'000	2007 £'000
Repayable within one year			
Short-term borrowings	**17,000**	9,500	—
Finance lease payable	**451**	28	38
Interest rate swaps	**209**	—	—
Deferred contingent consideration in respect of acquisitions	**1,801**	2,625	2,820
	19,461	12,153	2,858
Repayable between one and two years			
Finance lease payable	**—**	—	13
Deferred contingent consideration in respect of acquisitions	**1,230**	—	3,178
	1,230	—	3,191
	20,691	12,153	6,049

CREDIT RISK MANAGEMENT

The Group's credit risk is primarily attributable to its trade receivables. 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 2007	3,038
Increase due to new acquisitions in the year	3,030
Acquired on acquisitions	143
Paid in respect of acquisitions	(213)
At 1 January 2008	5,998
Increase due to new acquisitions in the year	300
Paid in respect of acquisitions	(4,523)
Adjustments to estimated contingent consideration payable	850
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 31 December 2009	**3,031**

Notes to the financial statements – group_continued

20. FINANCIAL INSTRUMENTS_CONTINUED

DEFERRED CONTINGENT CONSIDERATION_CONTINUED

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.

	2009 £'000	2008 £'000
Cash and cash equivalents is comprised as follows:		
Cash at bank and in hand	**23,511**	16,094
Short-term borrowings and overdrafts	**(17,000)**	(9,500)
Cash and cash equivalents	**6,511**	6,594

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 2009 is £6.1m (2008: £3.5m).

	Pension scheme £'000	Share-based payments £'000	Total £'000
At 1 January 2007	—	3,000	3,000
Debit to Income Statement	(9)	(200)	(209)
Credit/(debit) to Consolidated Statement of Comprehensive Income	25	(1,700)	(1,675)
At 1 January 2008	16	1,100	1,116
(Debit)/credit to Income Statement	(16)	200	184
Credit to Consolidated Statement of Comprehensive Income	135	2,050	2,185
At 1 January 2009	135	3,350	3,485
(Debit)/credit to Income Statement	(157)	227	70
Credit to Consolidated Statement of Comprehensive Income	919	1,624	2,543
At 31 December 2009	**897**	**5,201**	**6,098**

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 (2008: £0.8m) have not been recognised as the Directors do not consider that it is probable that they will be recovered.

21. DEFERRED TAXATION_CONTINUED
DEFERRED TAX LIABILITIES

	Acquisition intangibles £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2007	—	—	—
On acquisition intangibles acquired	3,912	—	3,912
Released in respect of amortisation	(491)	—	(491)
Provided in respect of accelerated capital allowances	—	300	300
At 1 January 2008	3,421	300	3,721
On acquisition intangibles acquired	446	—	446
Released in respect of amortisation	(1,008)	—	(1,008)
Provided in respect of accelerated capital allowances	—	—	—
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 31 December 2009	**4,346**	**300**	**4,646**

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.

22. SHARE CAPITAL

	2009 £'000	2008 £'000	2007 £'000
Authorised			
150,000,000 ordinary shares of 1p each	**1,500**	1,000	1,000
Allotted, called up and fully paid			
74,391,610 (2008: 74,001,851) ordinary shares of 1p each	**744**	740	732

During the year 389,759 ordinary shares of 1p each were issued in respect of share options exercised. The difference between the nominal value of £0.004m and the total consideration of £0.57m 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:

	2009 £'000	2008 £'000
Depreciation	**2,146**	1,989
Loss on disposal of property, plant and equipment	**114**	109
Profit on disposal of investments	—	(398)
Amortisation	**5,214**	3,712
Share-based payments	**500**	1,200
Finance income	**(190)**	(263)
Finance cost	**1,584**	1,110
Total	**9,368**	7,459

Notes to the financial statements – group_continued

24. ACQUISITIONS

The Group made one Social Housing and two Domiciliary Care acquisitions in 2009. The Domiciliary Care acquisitions are shown in aggregate due to them being of a similar composition and the structure of the acquisitions being identical. The provisional effect of the acquisitions on the Group's assets was as follows:

	Social Housing			Domiciliary Care			
	Book value £'000	Adjustments £'000	Fair value £'000	Book value £'000	Adjustments £'000	Fair value £'000	Total £'000
Assets							
Non-current							
Property, plant and equipment	1,234	—	1,234	—	—	—	1,234
Current							
Inventories	2,217	—	2,217	—	—	—	2,217
Trade receivables	6,494	—	6,494	152	—	152	6,646
Other debtors	793	—	793	122	—	122	915
Cash at bank and in hand	—	—	—	125	—	125	125
Total assets	10,738	—	10,738	399	—	399	11,137
Liabilities							
Current							
Short-term borrowings and overdrafts	(6,957)	—	(6,957)	—	—	—	(6,957)
Trade payables	(1,508)	—	(1,508)	(5)	—	(5)	(1,513)
Other creditors	(2,730)	(288)	(3,018)	(223)	—	(223)	(3,241)
Accruals	(3,664)	(430)	(4,094)	(152)	(40)	(192)	(4,286)
Current tax liabilities	—	—	—	(38)	—	(38)	(38)
Total liabilities	(14,859)	(718)	(15,577)	(418)	(40)	(458)	(16,035)
Net assets acquired	(4,121)	(718)	(4,839)	(19)	(40)	(59)	(4,898)
Intangibles capitalised			9,094			1,190	10,284
Deferred tax liability recognised in respect of intangibles capitalised			(2,545)			(332)	(2,877)
Goodwill capitalised			2,545			332	2,877
			4,255			1,131	5,386
Satisfied by:							
Cash			2,265			991	3,256
Deferred contingent consideration (provisional)			1,990			140	2,130
			4,255			1,131	5,386

24. ACQUISITIONS_CONTINUED

The fair value of assets acquired is considered to be provisional due to the nature of the pre acquisition accounting functions of the businesses acquired.

The fair value adjustments above relate to costs not accrued at the time of the acquisition.

On 9 July 2009 the Group acquired 100% of the share capital of Sperrin Caring Services Limited for an initial consideration of £0.4m (including costs). The purchase has been accounted for by the acquisition method of accounting.

On 12 November 2009 the Group acquired 100% of the share capital of Meadow House Services Limited for an initial consideration of £0.6m (including costs) and deferred contingent consideration estimated to be £0.1m. The maximum deferred contingent consideration payable is £0.1m. Deferred consideration recognised is based upon the profitability of the acquired business in the six-month period following acquisition. The Directors have considered the likelihood of the consideration being payable and consider that £0.1m is the appropriate carrying value for the liability.

On 22 January 2009 the Group acquired 100% of the issued share capital of 3c Asset Management Limited for £4.3m (including acquisition costs); satisfied by £2.3m cash and deferred contingent consideration of £2.0m. The purchase has been accounted for by the acquisition method of accounting. The maximum deferred contingent consideration payable in respect of the acquisition is £4.4m. Deferred contingent consideration payable is based upon the ability of the business to utilise certain timing differences in respect of Corporation Tax. The Directors have discounted the consideration payable for the likelihood of payment and the time value of money and consider that £2.0m is the appropriate carrying value.

The Domiciliary Care intangible asset recognised and valued at £1.2m represents the expected value to be derived from the acquired order book and existing customer relationships:

- the value placed on this order book is based upon the cash flow projections over the contract term for the block contracts held by the acquired businesses, whereby there is a contractual commitment to provide a guaranteed number of hours of care provision. 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 segment's weighted average cost of capital of 10.5%, 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; and
- the value placed on these customer relationships are based on the expected cash inflows in respect of spot contracts whereby the acquired businesses have preferred supplier status, but are not guaranteed work. The cash flows are discounted at the segment's weighted average cost of capital of 10.5% 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.

The Social Housing intangible asset recognised and valued at £9.1m represents the expected value to be derived from the acquired order book and existing customer relationships:

- the value placed on this order book 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 segment's weighted average cost of capital of 9%, 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 are based on the expected cash inflows. The cash flows are discounted at the Care segment's weighted average cost of capital of 9% 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.

The Directors consider that the value assigned to goodwill represents the workforce acquired and the cost synergies available as a result of these bolt-on acquisitions and the resultant critical mass.

In the period to 31 December 2009, the two Domiciliary Care acquisitions contributed revenue of £0.6m and £0.1m operating profit before amortisation of intangibles.
In the period to 31 December 2009, the Social Housing acquisition contributed turnover of £26.9m and £1.1m operating loss before amortisation of intangibles.

For the year to 31 December 2009, had the three acquisitions taken place on 1 January 2009, the combined Group full year revenue for the year is estimated at £473.2m and the combined Group result for the year before taxation is estimated at £18.1m.

Notes to the financial statements – group_continued

24. ACQUISITIONS_CONTINUED

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

	Social Housing £'000	Domiciliary Care £'000	**Total £'000**
Cash at bank and in hand acquired	—	125	**125**
Short-term borrowings and overdrafts	(6,957)	—	**(6,957)**
Cash consideration	(2,265)	(991)	**(3,256)**
Cash paid in respect of prior year acquisitions	—	(968)	**(968)**
	(9,222)	(1,834)	**(11,056)**

During the year the Group paid £1.0m in respect of contingent consideration relating to acquisitions in prior periods.

Subsequent to the balance sheet date, on 27 January 2010, the Group and Company's offer to acquire the entire issued share capital of Supporta plc was declared wholly unconditional. The consideration of £27.2m was satisfied by the issue of 10.1m ordinary shares in Mears Group PLC.

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

	Book value £'000
Assets	
Non-current	34,991
Current	9,938
Total assets	44,929
Liabilities	
Non-current	(5,384)
Current	(27,586)
Total liabilities	(32,970)
Fair value of net assets acquired	11,959

25. 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 £0.6m (2008: £1.24m) to these schemes.

DEFINED BENEFIT SCHEMES

The Group contributes to eight (2008: six) 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 and Scion Group Limited and its 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 two defined benefit schemes. At the time of admission these schemes had a net asset of £0.6m. The initial plan assets and liabilities recognised as a result of these admissions are shown as 'Contract transfers' on page 80.

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 79. Certain judgements around the value of this asset have been made and are discussed in the judgements and estimates disclosure within the accounting policies.

The disclosures in respect of the eight (2008: six) defined benefit schemes in this note have been aggregated.

25. PENSIONS_CONTINUED

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 2009 by qualified independent actuaries using the projected unit method.

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

	2009	2008	2007
Rate of increase of salaries	**4.4%**	3.8%	3.7%
Rate of increase for pensions in payment	**3.4%**	3.2%	3.2%
Discount rate	**5.7%**	6.4%	5.8%
Inflation	**3.4%**	2.8%	3.2%
Life expectancy for a 65 year old male	**20.7 years**	20.1 years	19.8 years
Life expectancy for a 65 year old female	**22.6 years**	22.6 years	N/A

Expected rates of return on investments are:

	2009	2008	2007
Equities	**7.0%**	6.8%	7.6%
Bonds	**4.8%**	6.4%	5.3%
Property	**6.1%**	6.8%	—
Cash	**3.0%**	2.0%	5.7%

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

	2009		2008		2007	
	%	**£'000**	%	£'000	%	£'000
Equities	**62**	**39,684**	64	29,124	86	1,219
Bonds	**21**	**13,267**	22	10,106	7	92
Guarantee	**8**	**5,092**	—	—	—	—
Property	**6**	**4,115**	8	3,798	—	—
Cash	**3**	**2,067**	6	2,547	7	100
Group's estimated asset share		**64,225**		45,575		1,411
Present value of funded scheme liabilities		**(67,006)**		(42,778)		(1,466)
Funded status		**(2,781)**		2,797		(55)
Asset value not recognised as surplus		**(424)**		(3,285)		—
Pension liability		**(3,205)**		(488)		(55)
Deferred tax asset		**897**		135		16
Net pension liability		**(2,308)**		(353)		(39)

Notes to the financial statements – group_continued

25. PENSIONS_CONTINUED

IAS 19 'EMPLOYEE BENEFITS'_CONTINUED

The amounts recognised in the Income Statement are as follows:

	2009 £'000	2008 £'000	2007 £'000
Current service cost	1,430	1,034	158
Past service cost	12	1,246	—
Total operating charge	1,442	2,280	158
Amount charged to net interest payable:			
– expected return on pension scheme assets	(2,950)	(2,437)	(92)
– expected return on pension scheme liabilities	2,977	2,425	83
Interest on obligation	27	(12)	(9)
Total charged to the result for year	1,469	2,268	149

Changes in the present value of the defined benefit obligations are as follows:

	2009 £'000	2008 £'000	2007 £'000
Present value of obligations at 1 January	42,778	1,466	1,528
Current service cost	1,430	1,034	158
Past service cost	12	1,246	—
Interest on obligations	2,977	2,425	83
Plan participants' contributions	678	506	44
Benefits paid	(719)	(310)	(7)
Contract transfer	2,981	42,950	—
Actuarial loss/(gain)	16,869	(6,539)	(340)
Present value of obligations at 31 December	67,006	42,778	1,466

Changes in the fair value of the plan assets are as follows:

	2009 £'000	2008 £'000	2007 £'000
Fair value of plan assets at 1 January	45,575	1,411	1,145
Expected return on plan assets	2,950	2,437	92
Employers' contributions	2,386	2,802	182
Plan participants' contributions	679	506	44
Benefits paid	(719)	(310)	(7)
Actuarial gain/(loss)	9,747	(8,527)	(45)
Contract transfer	3,607	47,256	—
Fair value of plan assets at 31 December	64,225	45,575	1,411

25. PENSIONS_CONTINUED

IAS 19 'EMPLOYEE BENEFITS'_CONTINUED

The movements in the net pension liability and the amount recognised in the Balance Sheet are as follows:

	2009 £'000	2008 £'000	2007 £'000
Deficit in schemes at 1 January	**(488)**	(55)	(383)
Current service cost	**(1,430)**	(1,034)	(158)
Past service cost	**(12)**	(1,246)	—
Contributions	**2,386**	2,802	182
Other finance income	**(27)**	12	9
Actuarial loss/(gain)	**(7,121)**	(1,988)	295
Contract transfer	**626**	4,306	—
Reduction in actuarial loss/(gain) due to non-recognition of scheme surpluses	**2,861**	(3,285)	—
Deficit in schemes at 31 December	**(3,205)**	(488)	(55)

Cumulative actuarial gains and losses recognised in equity are as follows:

	2009 £'000	2008 £'000	2007 £'000
At 1 January	**(992)**	(25)	(320)
Actuarial gain on TUPE transfer of employees	**626**	4,306	—
Actuarial gain/(loss) recognised in the year	**(7,121)**	(1,988)	295
	(7,487)	2,293	(25)
Reduction in actuarial gain due to non-recognition of scheme surpluses	**2,861**	(3,285)	—
Total at 31 December	**(4,626)**	(992)	(25)

History of experience gains and losses are as follows:

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Fair value of scheme assets	**64,225**	45,575	1,411	1,145	939
Net present value of defined benefit obligations	**(67,006)**	(42,778)	(1,466)	(1,528)	(1,182)
Net (deficit)/surplus	**(2,781)**	2,797	(55)	(383)	(243)
Asset value not recognised as surplus	**(424)**	(3,285)	—	—	—
Net deficit	**(3,205)**	(488)	(55)	(383)	(243)
Experience adjustments arising on scheme assets					
Amount	**9,747**	(8,527)	(45)	27	86
Percentage of scheme assets	**7.9%**	(18.7%)	(3.2%)	2.4%	9.1%
Experience adjustments arising on scheme liabilities					
Amount	**1,364**	4	88	49	(75)
Percentage of scheme assets	**2.0%**	—	6.0%	(3.2%)	(6.4%)

The employers' contributions expected to be paid during the financial year ending 31 December 2010 amount to £2.3m.

Notes to the financial statements – group_continued

26. OPERATING LEASE COMMITMENTS

Non-cancellable operating lease rentals payable were as follows:

	Land and buildings			Other		
	2009 £'000	2008 £'000	2007 £'000	**2009 £'000**	2008 £'000	2007 £'000
Expiry date						
Within one year	**1,654**	1,446	1,627	**7,618**	5,418	3,072
Between two and five years	**4,744**	4,670	5,294	**7,013**	6,157	2,693
After more than five years	**2,555**	2,864	3,711	**86**	—	1

27. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2009 or at 31 December 2008.

28. CONTINGENT LIABILITIES

The Group has guaranteed that it will complete the contracts it has commenced with 15 (2008: 17) Local Authorities. At 31 December 2009 these guarantees amounted to £5.27m (2008: £5.65m).

The Group had no other contingent liabilities at 31 December 2009 or at 31 December 2008.

29. 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 25 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:

	2009 %	2008 %
Directors	**1.1**	1.1

Key management personnel's compensation is as follows:

	2009 £'000	2008 £'000
Salaries	**960**	490
Contributions to defined contribution pension schemes	**135**	120
Share-based payments	**286**	616
	1,381	1,226

Further details of Directors' remuneration are disclosed within the Remuneration Report.

TRANSACTIONS WITH OTHER RELATED PARTIES

During the year the Group purchased strategic advice services from OC&C Strategy Consultants Limited, a company related by common Directorship, of £nil (2008: £236,000). At 31 December 2009 the Group owed £nil (2008: £nil) to OC&C Strategy Consultants Limited.

Company accounts

Principal accounting policies – company

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 with the exception of the application of the changes to FRS 8 'Related Party Disclosures' which have resulted in the disclosure of transactions with Mears Insurance Captive Limited.

INVESTMENTS

Investments are included at cost net of any provision for impairment.

The Company was entitled to the merger relief offered by Section 131 of the Companies Act 1985 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.

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.

FINANCIAL INSTRUMENTS

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.

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 2009

Company number 3232863

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	5	**53,110**	26,855
Current assets			
Debtors: amounts due in more than one year	6	—	24,184
Debtors: amounts due in less than one year	6	**34,199**	19,804
Cash at bank and in hand		**304**	—
		34,503	43,988
Creditors: amounts falling due within one year	7	**(18,186)**	(9,595)
Net current assets		**16,317**	34,393
Total assets less current liabilities		**69,427**	61,248
Creditors: amounts falling due after more than one year	8	**(1,190)**	—
		68,237	61,248
Capital and reserves			
Called up share capital	9	**744**	740
Share premium account	10	**32,505**	31,940
Shares to be issued	10	**2,649**	3,235
Profit and loss account	10	**32,339**	25,333
Equity shareholders' funds		**68,237**	61,248

The financial statements were approved by the Board of Directors on 31 March 2010.

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 230 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 profit of £10.1m (2008: £13.6m) which is dealt with in the financial statements of the Company. This result is stated after charging auditor's remuneration of £70,000 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:

	2009 £'000	2008 £'000
Wages and salaries	**1,700**	1,087
Social security costs	**275**	109
Other pension costs	**193**	162
	2,168	1,358

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

	2009 Number	2008 Number
Office and management	**7**	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 2009 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, £0.4m of employee remuneration expense has been included in the Company's Profit and Loss Account for 2009 (2008: £0.9m), 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:

	2009 £'000	2008 £'000
Final 2008 dividend of 3.40p (2008: final 2007 dividend of 2.90p) per share	**2,522**	2,135
Interim 2009 dividend of 1.60p (2008: interim 2008 dividend of 1.35p) per share	**1,188**	997
	3,710	3,132

The proposed final 2009 dividend of 4.10p per share has not been included within the financial statements as no obligation existed at 31 December 2009.

5. FIXED ASSET INVESTMENTS

Investment in subsidiary undertakings	Investment in subsidiary undertakings £'000	Loans £'000	Total £'000
Cost			
At 1 January 2009	26,855	—	26,855
Additions	4,255	22,000	26,255
At 31 December 2009	**31,110**	**22,000**	**53,110**

Additions to investments in subsidiary undertakings relate to the acquisition of 3c Asset Management Limited. Details of this acquisition are shown in note 24 to the consolidated financial statements.

Additions to 'Loans' relate to the capitalisation of a loan to Careforce Group PLC, a wholly owned subsidiary of Mears Group PLC.

Details of the principal subsidiary undertakings of the Company are shown in note 14 to the consolidated financial statements.

6. DEBTORS

	2009 £'000	2008 £'000
Amounts owed by Group undertakings	**33,766**	43,988
Prepayments and accrued income	**433**	—
	34,199	43,988

Included in 'Amounts owed by Group undertakings' is £nil (2008: £24.2m) which is due in more than one year.

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000	2007 £'000
Bank loan	**17,000**	9,255	11,432
Corporation Tax	**2**	—	—
Social security and other taxes	**—**	83	45
Amounts owed to Group undertakings	**—**	—	4,531
Other creditors	**826**	70	2,872
Accruals	**358**	187	38
	18,186	9,595	18,918

Included in other creditors is £0.8m (2008: £nil) relating to deferred consideration on acquisitions. Included within accruals is £0.2m (2008: £nil) relating to an interest rate hedge.

Notes to the financial statements – company_continued

8. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2009 £'000	2008 £'000	2007 £'000
Other creditors	**1,190**	—	—

Included in other creditors is £1.2m (2008: £nil) relating to deferred consideration on acquisitions.

9. SHARE CAPITAL

	2009 £'000	2008 £'000	2007 £'000
Authorised			
100,000,000 ordinary shares of 1p each	**1,000**	1,000	1,000
Allotted, called up and fully paid			
74,391,610 (2008: 74,001,851) ordinary shares of 1p each	**744**	740	732

During the year 379,759 ordinary shares of 1p each were issued in respect of share options exercised. The difference between the nominal value of £0.004m and the total consideration of £0.57m has been credited to the share premium account.

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 2009	740	31,940	3,235	25,333
Issue of shares	4	565	—	—
Share option charges	—	—	500	—
Exercise of share options	—	—	(1,086)	1,086
Retained profit for the year	—	—	—	5,920
At 31 December 2009	**744**	**32,505**	**2,649**	**32,339**

11. CAPITAL COMMITMENTS
The Company had no capital commitments at 31 December 2009 or at 31 December 2008.

12. CONTINGENT LIABILITIES
The Company had no contingent liabilities at 31 December 2009 or at 31 December 2008.

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 (2008: £1.6m) from Mears Insurance Captive Limited, a company registered in Guernsey which is 99.99% owned by Mears Group PLC. At 31 December 2009 the Group owed £0.4m (2008: £0.4m) to the Group's UK insurance company, which in turn owed the balance to Mears Insurance Captive Limited.

Visit us online

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.

FOR MORE INFORMATION VISIT
AR09.MEARSGROUP.CO.UK

ARCHIVED REPORTS

Copies of our Annual and Interim Reports for the past nine years are available in the investor relations section of our website. The 2009 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.

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