Making a positive difference...

...through keeping our promises and delivering a consistent, high quality service.

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

Every day we carry out more than **4,000 repairs** to people's homes. We also deliver over **8 million hours of care and support every year** to vulnerable people, helping them to live in their own homes for longer.

How do we do this?

By operating a successful and sustainable business model that delivers an effective integrated service to the people and communities with whom we partner.

By continuing to see significant growth opportunities flowing from our differentiated quality focused market position.

By developing a focused strategy based on our core values by working towards growing our business, expanding our geographic coverage and innovating through existing partnerships.

Read more...

page 02

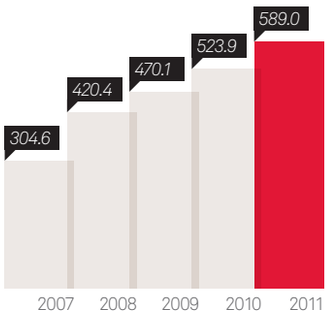
page 06

page 10

Review of the year / Highlights

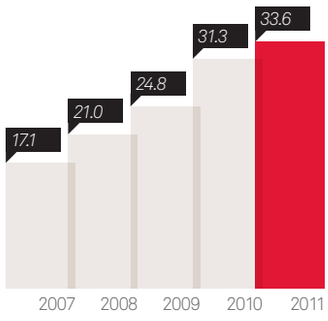
Group revenue (£m)

£589.0m



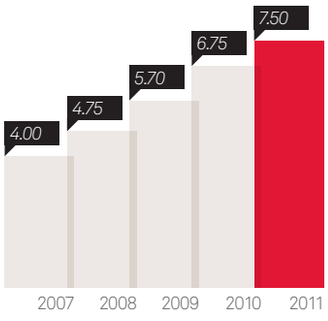
*Group operating profit (£m)**

£33.6m



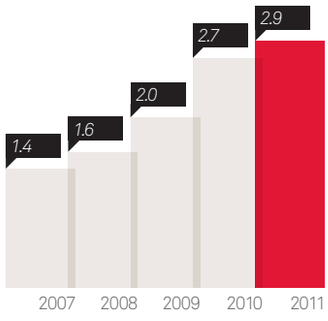
Dividend per share (p)

7.50p



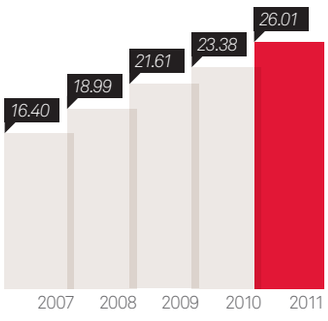
Order book (£bn)

£2.9bn



*Diluted earnings per share (p)***

26.01p



Read our Finance review in full on **page 22**

* Before exceptional items and before amortisation of acquisition intangibles.

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

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How we operate.

Our focus is on maintaining excellence in service delivery. This drives our increasing market share and strong financial output.

We focus on people... → *...using an ambitious approach...* → *...to deliver our expertise...*

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

We focus on long-term outcomes for people and invest in innovations that make a positive impact on their quality of life and on their communities' social, economical and environmental wellbeing.

Smile

...across key target markets...

...creating a seamless, integrated service.

Mears is uniquely place to benefit from the expected growth in both our core markets of Social Housing and Care and Support. As leaders in these sectors, we will continue to innovate both in improving service quality and in finding long-term value for money solutions.

We believe the future requires new partnerships to be built that link together housing, social care and the NHS. These partnerships will provide integrated services that improve customer outcomes as well as meet the financial challenges that exist.

Making a positive difference to the communities we serve.

Social Housing

Care and Support

*Social Housing operating profit**

£23.9m

+4%

2010: £22.9m

Care and Support operating profit

£8.7m

+15%

2010: £7.5m

Another year of solid progress.

"We continue to place great emphasis on winning good quality contracts that can provide clear and sustainable margins, whilst at the same time providing a first class service and value offering for our clients."

Bob Holt / Chairman

Social Housing

"We will grow through further contract wins, underpinned by our market-leading service delivery and, where appropriate, regional in-fill acquisitions."

Both profits and revenue have risen for the sixteenth consecutive year. Our Social Housing and Care revenues grew by 9% and 8% respectively. Profit before tax, amortisation and non-recurring items rose to £31.5m (2010: £28.9m) on revenue of £589.0m (2010: £523.9m). The normalised diluted earnings per share increased by 11% to 26.01p (2010: 23.38p). The Board is recommending a final dividend of 5.35p per share (2010: 4.85p), making 7.50p per share for the year, an increase of 11%.

Cash generated from operations as a proportion of the profit for the year (before tax and amortisation) amounted to 91% (2010: 97%), reflecting the strength of our working capital management.

We are extremely pleased with this robust set of results given both the continuing impact of the current economic situation and, critically, in the wake of the sudden decision by the UK Government to accelerate the reduction in the Feed-in Tariff subsidy for solar photovoltaic (PV) installations.

This year, three things stand out for me in particular. First and foremost, our already market-leading service delivery performance continued to be recognised by tenants and customers alike. Second, we demonstrated how we can make a real difference in challenging times, as we transformed the contracts we have inherited from failed businesses. Third, in a support services sector, where many well established businesses have struggled to deliver significant organic growth, we have managed to reap the rewards from our investment over the years in high quality customer service with strong organic growth.

The PV Tariff decision was reached without consultation and has been a disaster for the industry that had been heralded as a major boost to the economy and the environment.

The Government has been found to have acted unlawfully by the Court of Appeal; consequently, the industry is somewhat in 'limbo'. Pending clarification on the longer-term outlook, we took the prudent view to mothball our solar panel operations and to write off the costs expended to date in the 2011 financial year. Whilst PV formed only a small add-on to our core Social Housing business, the speed of the Government change resulted in a disproportionate impact.

As stakeholders begin tackling the underlying challenges in social housing and care in a sustainable fashion, I am confident that our differentiated quality-focused market position will see us reap the rewards for which we have worked hard.

Record order book

Our order book stands at £2.9 billion. The demand for our services continues to be very strong with a bid pipeline in excess of £3.0 billion with an immediate bidding opportunity for contracts due to start in the course of the next twelve months in excess of £2.0 billion. We enter the current year with visibility of 94% of the £649m consensus revenue forecast for 2012. Moreover, we have visibility over 80% of the £686m consensus revenue forecast for 2013 which demonstrates our strong position and reflects the long-term nature of our business.

We are well placed to benefit from the immediate bid pipeline and the wider contracting opportunity in both our core growth markets. Our relationship with our customers continues to be strong and our partnering ethos is recognised and appreciated widely. We are delighted that customers feel able to award, as well as renew, contracts to the Group across an array of activities.

Total dividend

7.50p

+11%

2010: 6.75p

Order book

£2.9bn

+7%

2010: £2.7bn

Strategic developments

We have been broadening our care and support offerings to our clients. The acquisition of the Supported Living division of Choices Care brings the Group capabilities in providing a supported living service to adults with learning disabilities, autism and mental health needs, in their own homes. These adults tend to require a more complex care support package than is often offered in the traditional domiciliary care area. The acquisition of a group of home improvement agencies from Anchor Housing further strengthens our capability to help keep people in their own homes for longer. Home improvement agencies contract with Local Authorities to provide primarily home adaptation and handyman services to vulnerable owner-occupiers in local communities. Together, these two acquired businesses are an excellent complement to our existing operations; both have reported growth since acquisition.

Progressive social housing customers continue to seek innovative solutions to their needs. The Group has been active in developing new propositions around 'in-sourcing' and 'new homes'. Our unique integrated care and housing offering continues to resonate with customers. Our first integrated service operation is up and running in Wigan. Irrespective of the current uncertainty over PV, we will continue to strive to provide solutions to our customers and clients to address the challenges of fuel poverty.

Committed employees

I commend our employees for their commitment and energy throughout another significant year for the Group. I continue to be impressed by the quality, professionalism and loyalty displayed by our people. We will return this faith with appropriate investment in our people. Given we work in some of the most deprived communities in the UK, we take our responsibilities regarding employment extremely seriously. We have 208 people enrolled in Apprenticeship and Job Experience programmes within Mears. We are proud of the many practical and local opportunities we are able to create in these challenging times.

Positive outlook

Both social housing and care are robust defensive sectors where spend is largely non-discretionary. We continue to place great emphasis on winning good quality contracts that can provide clear and sustainable margins, whilst at the same time providing a first class service and value offering for our clients. We will continue to differentiate ourselves through financial robustness, tenant-centric customer service and proposition innovation developed in partnership with our customers.

We expect our Social Housing business will grow through further contract wins, underpinned by market-leading service delivery and, where appropriate, regional in-fill acquisitions. In our Care business we will seek acquisitions that increase our ability to respond to growing opportunities from health and social care outsourcing and implementation of new localised commissioning models. We will look to enhance and broaden our offering through partnerships and acquisitions.

I look forward to bringing you news of further success during the coming year.

Bob Holt
bob.holt@mearsgroup.co.uk
Chairman
27 March 2012

Care and Support

"We will seek acquisitions that increase our ability to respond to growing opportunities from health and social care outsourcing and implementation of new localised commissioning models. We will look to enhance further and broaden our offering through partnerships and acquisitions."

A unique market position.

We will continue to differentiate ourselves through financial robustness, tenant-centric customer service and proposition innovation developed in partnership with our clients.

Growth drivers and opportunities

How we partner with these markets

Social Housing

Within Social Housing, opportunities for greater local investment in stock have been created by the reform of the Housing Revenue Account. The Government has also increased the incentives to build new stock to help address the huge backlog in demand for Social Homes. We have seen weakness in our direct competitors, which has helped improve our already good bid win rates, with an increasing demand from Social Landlords for innovative solutions given their financial pressures.

We will continue to lead this sector through:

- // Innovating our services around the customer building on the already 80% of tenants who rate our service as excellent
- // Making a positive contribution to local communities in terms of employment and training, tackling fuel poverty and building social inclusion
- // Addressing new opportunities in the environmental space and with Social Landlords looking for new ways to meet the financial challenges facing them

Care and Support

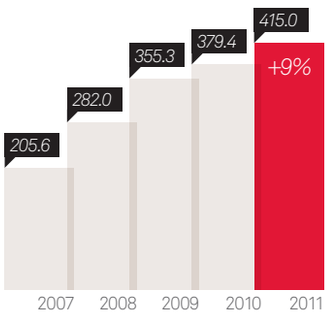
Within Care and Support, we see opportunities in the planned reform of the health and social care system, in improved commissioning approaches and in the general consolidation of the market towards larger, more efficient suppliers. We believe the move towards personalisation plays to our service quality strength, as does the opportunity created by this for more integrated housing and care services.

We will continue to lead this sector through:

- // Integrating our care and housing services to give a unique and excellent service to vulnerable people
- // Engaging with political stakeholders to ensure that policy creates opportunity to improve the service to the vulnerable
- // Rolling out our new Care IT platform, which will improve the efficiency of our service delivery
- // Maintaining our investment in the training and development of staff at all levels

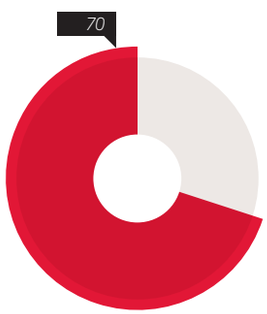
Social Housing revenue (£m)

£415.0m



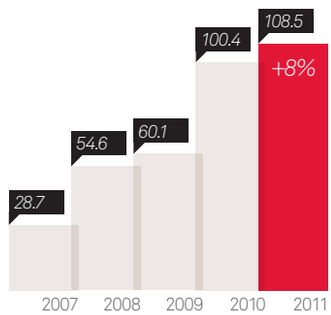
Social Housing revenue (%)

70%



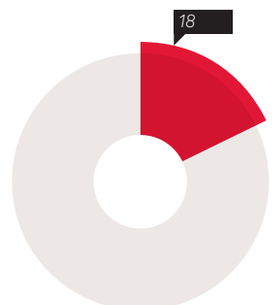
Care and Support revenue (£m)

£108.5m



Care and Support revenue (%)

18%



Significant growth opportunities.

"We have focused on further enhancing our market-leading bidding and service delivery capabilities through both senior management recruitment and training and process improvement."

David Miles / Chief Executive Officer

In summary

Social Housing
The Social Housing business has performed well, reporting growth of 9%. The Social Housing operating margin reported a small reduction to 5.8% (2010: 6.0%).

Care and Support
The Care division reported growth of 8%. The operating margin has increased to 8.0% (2010: 7.5%). The growth in margin has been achieved through identifying further synergies together with a change in sales mix as the division commenced delivering more acute and higher margin services.

Other Services
Other Services predominantly comprises the M&E operation. This division has experienced a significant upturn in activity over the year with revenues increasing 48%. Whilst the trading environment remains competitive and is expected to continue to be so in the short term, the division has full visibility of forecast revenues for the 2012 year and is already focused at developing the order book for 2013.

Group performance

I am pleased to report a year of significant progress across the Group in what has been a challenging year. We have seen the Group further consolidate its market-leading positions in both the Social Housing and Care sectors. The continued focus on providing first class value for money customer service through our partnership ethos has once again been rewarded with considerable new contract bidding success.

Group revenues increased by 12% to £589.0m. The Group's overall operating margin reduced from 6.0% to 5.7% predominantly driven by a shift in the sales mix with our lower margin Other Services division having a larger share of the whole. This is reviewed in greater detail below.

Social Housing – performance

I am delighted that our Social Housing division continues to report improving service delivery notwithstanding the high standards already being achieved. The proportion of customers rating our service as excellent stands at 80% (2010: 79%). Typically others in the sector measure only customer satisfaction whereas our drive has always been for excellence. We also had the lowest ever level of complaints as a percentage of work carried out at 0.30% (2010: 0.32%). Service quality remains our key differentiator. Whilst I am delighted at the strong performance delivered in terms of both new contract bidding and ultimately the financial outputs, it is important to remember that it is service quality that has always underpinned our success.

The Social Housing business has performed well, reporting revenue growth of 9%. As expected, we have seen a reduction of £31.5m in our capital projects revenues as the Decent Homes programme moves towards its natural conclusion. This masks the continued strong growth within our core maintenance activities which registered an increase of 14%. We would anticipate a final reduction of around £30m from Decent Homes revenue in 2012. We remain optimistic that we can continue to deliver solid double-digit organic growth in both the short and medium term.

The Social Housing bid pipeline remains robust, which further supports our confidence that we will continue to deliver strong growth in our core Maintenance business. The impact of the acquisitions of Jackson Lloyd and the home improvement agencies added £20.3m to our Maintenance revenues. The contribution to Group revenues through the relationships acquired with the Bristol Social Housing division of Rok contributed £5.3m to our Projects revenue.

At a divisional level, operating profit is reported before amortisation, exceptional items and share option costs. The Government's announcement in October 2011 to significantly reduce both the level and the timing of the PV feed-in tariff was extremely disappointing. The Board considered that the prudent course of action was to cease these activities immediately. This resulted in the write off of costs relating to the site set-up, system design and installation amounting to £2.0m. This cost has been excluded from the Group's headline financial performance indicators and is categorised as exceptional.

£m	Social Housing total	Core maintenance	Capital projects
2010 revenue	379.4	289.0	90.4
Impact of 2011 acquisitions	25.6	20.3	5.3
Decent Homes expiry	(31.5)	—	(31.5)
Organic growth in core maintenance	41.5	41.5	—
2011 revenue	**415.0**	**350.8**	**64.2**
Organic growth		14%	

Group revenue

£m

+12%

2010: £523.9m

The Social Housing operating profit increased to £23.9m (2010: £22.9m), with the operating margin reporting a small reduction to 5.8% (2010: 6.0%). The continuing reduction in works relating to Decent Homes does inevitably add a challenge to margin in both 2011 and 2012, given that these contracts generated a solid margin and are being replaced by revenues that, through their early stages, will generate a reduced margin. Typically the Group anticipates a low margin from a new contract during its mobilisation phase, a time when it is critical to ensure that the necessary processes are put in place while at the same time focusing on excellent customer service. It is important to note that Mears does not capitalise any of these start-up costs and the losses associated with new mobilisations are fully expensed in the period.

Whilst there have always been competitors with a greater appetite for revenue growth at the expense of margin, we remain highly selective and there is no shortage of opportunities where potential clients are willing to focus on quality and not simply the price paid to Mears. The high number of recent contract successes will provide the foundations for delivering robust growth in 2012. The first quarter of 2012 will see the most intense period of new contract mobilisation in our history with five significant new contracts due to start on or around 1 April 2012 with an annual value of £50m. We continue to invest heavily in our infrastructure to ensure that we can deliver on these new contracts whilst maintaining the high quality of our overall service delivery.

Social Housing – new contract bidding

In the last twelve months we have been awarded new social housing contracts valued at £590m (including extensions) representing 43% by value of all contracts bid in the last twelve months. The key contract awards, which are all due to commence in 2012, are detailed below:

Barnet

A ten-year contract with Barnet Homes. The contract is valued at £69m over the ten-year period to provide responsive repairs, void maintenance and cleaning services to approximately 11,100 properties.

Waverley

A seven-year contract valued at £52m over the initial seven-year period to provide responsive repairs, voids, capital works, aids and adaptations services. There is an option to extend the contract for a further seven years, taking the total opportunity to £104m. Waverley owns and manages in excess of 5,000 properties in Surrey.

Home Group

A seven-year contract with Home Group to cover properties in their South West region. The contract is worth £35m for the initial seven-year term and there is an option to extend for a further two years. We will be providing responsive repairs, voids, gas servicing and planned maintenance services. Home Group owns and manages circa 3,200 properties in their South West region.

Tenon

A five-year contract to provide responsive repairs and void maintenance, together with a range of reinvestment works. The contract is valued at £40m over the initial five-year period and includes an option to extend for a further two years, giving a total contract value of £56m including extensions. We have been appointed as sole partner to deliver these services to 4,500 properties.

Gentoo

A three-year partnership contract to provide responsive repairs, void services, gas servicing, cyclical maintenance and adaptations services. The contract is valued at £60m for the initial three-year period, with an option to extend for a further two years, giving a total contract value of £100m including extensions. We have been appointed as sole partner to deliver these services to 21,000 properties.

Our new contract successes have increased our Social Housing order book to £2.4 billion. Our bid pipeline remains robust and in excess of £3.0 billion, with the immediate bidding opportunity for contracts due to start over the course of the next twelve months in excess of £2.0 billion.

Our strategic goals.

We have a clear and effective strategy to strengthen and leverage our two existing growth platforms of Social Housing and Care and Support.

Making a positive difference through our differentiated, tenant-centric service delivery.

Our mission is to be the market leader in transforming the social housing and care and support services environment, improving homes, improving neighbourhoods and improving people's lives.

What this means

Quality service yields competitive advantage

The success of Mears is intrinsically linked to maintaining quality leadership in both our markets. For us, quality is a factor not only of direct customer satisfaction but also of the broader contributions we make to the communities in which we work

Putting our residents first

All our services will be designed around the direct input of tenants and service users. Whether it's the services we offer or the training we give to staff, our first thought will be the needs of our customers

Integrated in-house IT and financial management for optimum performance

Mears robust and sustainable performance is built on a bedrock of first-rate, in-house developed IT management systems, robust financial controls and an experienced management team

How we're doing it	Our goals moving forward	Key measures

// Gaining external and internal recognition
// Creating trusted partnerships for the long term
// Being willing to share value
// Focusing on quality with sustainable margins
// Benchmarking ourselves versus other sectors as well as our own
	// To achieve stretch customer satisfaction target that 80% of tenants regard our service as excellent
	// To exceed regulatory expectations within Care and Support as defined by Care Quality Commission (CQC)
	// To have market-leading contract retention levels
		Percentage of people rating service as excellent
		Customer complaints
		New contract bidding success rate
		Contract retention levels

// Continuing to deliver a Serving Communities plan in every locality in which we work
// Integrating our care and repair services
// Creating apprenticeships and work opportunities
// Putting residents at the front end of our service design
	// To further develop our leading approach to Serving Communities
	// To demonstrate and deliver the benefits of integrating Repairs and Care services
	// To build networks of residents across the country to ensure best practice is transferred to the benefit of all
		Customer satisfaction levels where our services are integrated
		Number of community projects carried out
		Number of apprenticeships and job experience opportunities
		Levels of waste recycled

// Ensuring timely and focused KPI management and reporting
// Providing strong in-house IT development team giving market-leading IT capability
// Managing supply chain through key partnerships
// Focusing on fast and efficient contact mobilisation capability
	// To continue to establish our market-leading position
	// To maintain our longstanding delivery on margin and cash
	// To successfully roll out Mears Care IT system
	// To continue excellent compliance with regulatory frameworks
		Revenue growth
		Operating margins
		Profit to cash conversion
		Normalised diluted earnings per share

Care and Support – new contract bidding

In Care, our new contract bidding success rate (by value) is 70% of all contracts bid for in the last twelve-month period amounting to a total value of £70m.

This once again reflects the ongoing trends in awarding consolidating contracts to providers with an excellent quality reputation and a capability to deliver against the emerging personalisation agenda. The most significant new contract awards include the following:

Wirral Council
The most significant single award has been with Wirral Council. The contract has an expected value of £14m with a term of five years. Wirral Council is an existing Mears Care client and, having retained our existing business, we added further specialist services, which is representative of our strategy to increase work in the higher-end care areas.

Sefton Council
The five-year contract with Sefton Council has an estimated value of £7m with an estimated volume of 2,300 hours per week with Mears being named one of four providers.

Liverpool City Council
The three-year contract with Liverpool City Council has an estimated value of £3.5m. Of the eight existing main providers for Liverpool, Mears is one of only three that have been retained. The estimated volume is 1,900 hours per week, which represents an increase on existing work levels.

Rotherham Metropolitan Borough Council
The three-year contract with Rotherham Metropolitan Borough Council has an estimated value of £5.8m. This contract award represents a key existing contract retention.

South Gloucestershire Council
A contract with South Gloucestershire Council for the provision of extra care and support services at a newly built extra care scheme which will be home to older people and those with learning disabilities, physical disabilities, mental health, sensory impairment, dementia, alcohol/substance misuse issues and those with HIV. The five-year contract is valued at £3m.

Care and Support – performance
The Care division reported growth of 8% with revenues increasing to £108.5m (2010: £100.4m). This growth in Care revenues includes the full-year impact of the acquisition of Supporta plc, which was acquired in January 2010, and the revenues acquired from Choices Community Care (in administration) which came online in August 2011. The underlying organic growth was 2%. Whilst the level of organic growth is well below our stated target of double-digit growth, the continuing improvement in operating margin is particularly pleasing in a sector which continues to see such an important service procured predominantly on price. The operating margin has increased to 8.0% (2010: 7.5%). The growth in margin has been achieved through identifying further synergies together with a change in sales mix as the division has commenced delivering more acute and higher-margin services. I am delighted at the performance of our Care division in terms of the quality of service delivery together with its strong financial performance.

Care remains an environment where services continue to be purchased predominantly on price. We remain optimistic that this will change over the medium term. It is a fine balance between growing our top line whilst at all times protecting our operating margin. I do believe at times we have been a little too risk averse when bidding for new Care contract opportunities and this is an area that is under constant review. Certainly as we start to offer more acute services, this will provide more flexibility in terms of a growth and margin trade-off. I continue to believe that double-digit organic growth in Care is a very achievable target.

*Group operating profit**

£33.6m

+7%

2010: £31.3m

* Before exceptional items and pre amortisation of acquisition intangibles.

"Whilst I am delighted at the strong performance delivered in terms of both new contract bidding and ultimately the financial outputs, it is service quality that has always underpinned our success."

Our current focus is to complete the roll-out of our new Care IT platform. The IT development was completed during 2011 using the skills and experience learnt from the Social Housing division to generate opportunities for efficiencies for both ourselves and our clients and provide significant competitive advantage. We remain determined to reinvest those savings into our care workforce who provides quality care services for a relatively low wage and remain undervalued when considering the responsibility and social contribution of their roles.

Equally important is Mears new partnership with Tunstall for the implementation of telecare and telehealth systems within the home environment. Telecare and telehealth, when combined with effective personal care and support, can both improve service and reduce costs. The results of the Department of Health study into the use of telecare and telehealth were extremely positive. Through the Mears partnership with Tunstall, we are already implementing the largest telecare project in the UK in Birmingham, across an anticipated 24,000 homes, and we see an acceleration of these opportunities through 2012 and 2013.

Other Services – performance

Mears' Other Services predominantly comprises its Mechanical & Electrical (M&E) operation. This division has experienced a significant upturn in activity over the year with revenues increasing 48% to £65.4m. Whilst the trading environment remains competitive and is expected to continue to be so in the short term, the division does have full visibility of forecast revenues for the 2012 year and is already focused on developing the order book for 2013. Whilst it is pleasing to report this significant increase in new works, the M&E environment is currently highly competitive and pricing is keen. I am delighted at the performance of the M&E operation and it is a credit to the quality of the team that it has continued to generate profits and meet budget expectations in what has been a challenging period.

Management team

Since my appointment as Chief Executive, I have focused on further enhancing our market-leading operational capabilities through both senior management recruitment and training and process improvement. We have the right management team in place to take our business forward and capitalise on the many opportunities in our growth markets.

Safety, health and environment (SHE)

Another great year for Mears: accidents rates down, recycling rates increased, waste costs reduced and quality standards introduced across the group to improve standards further. This has been complemented with improved training and committed management teams. This has been further affirmed by RoSPA with 2012 being the tenth consecutive year in which Mears have been awarded the Gold Award and also achieved the 18001 accreditation.

Our environmental performance continues to improve. In 2011 we teamed up with our waste partner Network Waste and in the last 10 months we reduced our overall cost for disposing of waste by 10% and improved our recycling from 76% to 88%. I hope to be able to report further improvements in a year from now.

Our environmental performance continues to improve. In 2011 we teamed up with our waste partner Network Waste and in the last ten months we reduced our overall cost for disposing of waste by 10% and improved our recycling from 76% to 88%. I hope to be able to report further improvements in a year from now.

Our training commitments continued in 2011 including further refresher training for all operatives and carers. Specific on-the-job training included scaffold, lifting and working at height training and these are all contributing to our improved safety performance.

Training and development

We are delighted that through periods of employee growth we have retained our accreditation with Investors in People. We have opted for annual assessment and our 2011 report provided very positive feedback. In addition to this we now carry out annual employee satisfaction surveys which provide valuable information.

In 2011 our apprentice and trainee numbers increased by 95, 13 of which transferred from other companies as a result of contract wins and the remaining were newly created opportunities. At the end of 2011 we launched our apprentice programme in Care. During the same year we retained 85% of apprentices and trainees that had completed their training programme.

In January 2011 we launched a new leadership training programme, which 76 senior managers completed. The results have been positive with all managers stating that they felt more confident, particularly in respect of people management and presentations. On average every employee receives five days of training per year in areas of people management, health and safety, customer services and trade skills.

Our communities

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

David Miles
david.miles@mearsgroup.co.uk
Chief Executive Officer
27 March 2012

Responding to the needs of our markets.

"Changes in both our core growth sectors of Social Housing and Care continue to be driven by Government legislation, demographics and austerity measures. We see these changes as extremely positive and believe they will provide further growth opportunities."

Changes in both our core growth sectors of Social Housing and Care continue to be driven by Government legislation, demographics and austerity measures. We see these changes as extremely positive and believe they will provide further growth opportunities.

Social Housing

Social Housing has several key growth drivers including the continued consolidation both in terms of the number of contractors and in the number of Registered Social Landlords. This trend is observed within Housing Associations and Councils and in turn leads to increasing opportunities for organisations such as Mears who operate at a local level but who bring the economies of a national player.

The public services white paper, published by the Cabinet Office in July last year, re-affirmed the Government's guiding principles for public services as being choice for public service users, decentralised decision making, diversity of supply, fair access to services and that public services should be accountable to users and taxpayers. We support fully this development as it plays to our strengths of working with clients and service users alike to maximise the positive impact of what we do whilst managing our costs very tightly. For Local Authorities 2012 will see the management and finance of council house operations being brought onto a similar footing as housing associations. This decentralised decision making, which applies from April 2012, will put Local Authorities be in the driving seat for determining the future of the local housing offer they will make to their community. For housing associations we see 2012 as a year of consolidation in respect of the application of the new affordable rent regime which allows uplift in rents on new tenancies to 80% of market rents to assist in the finance of new, much-needed social housing. Most landlords appear to be implementing rental increases of around 8% for this year. For all social landlords and for the majority of tenants the changes to the housing benefit arrangements, still being finalised, will require careful consideration as they come on stream. As in previous years we will be very careful which opportunities we pursue to ensure that we maintain our commitment to high quality, reliable services to both existing and new clients and residents alike.

The ongoing mortgage lending constraints and the broader pressures on the economy are reinforcing the demand for affordable rented accommodation whether in the social or the private sector. Everywhere we work, demand for social housing outstrips supply especially where the costs of buying, or sometimes renting privately, are well beyond local wage levels.

This year will see the first of the new affordable rent homes become available as the Government's new scheme for the production of new social housing comes into being. It will also see, we believe, more social housing landlords looking to add to the supply of affordable homes through new and innovative approaches being adopted by Local Authorities and Housing Associations alike. The review commissioned by the Government into the prospects of increased institutional investment in the private rented sector, chaired by Sir Adrian Montague, will also be worth following.

The service provision connections between housing supply, housing management and maintenance, personal social care and the provision of health services at a local level will all be examined in greater detail as everyone strives to minimise waste and maximise effectiveness within and between each of these service streams. We at Mears will ensure that our service complements, wherever possible, this new and necessary approach that we are beginning to see develop at a local level.

In line with the Government's approach to public services as set out in its white paper in July we expect more diversity in how service packages are put together. The financial pressures on public service bodies at an individual service, organisation or locality level will mean that not only will there be traditional opportunities for service provision but an increasingly wide range of bespoke arrangements.

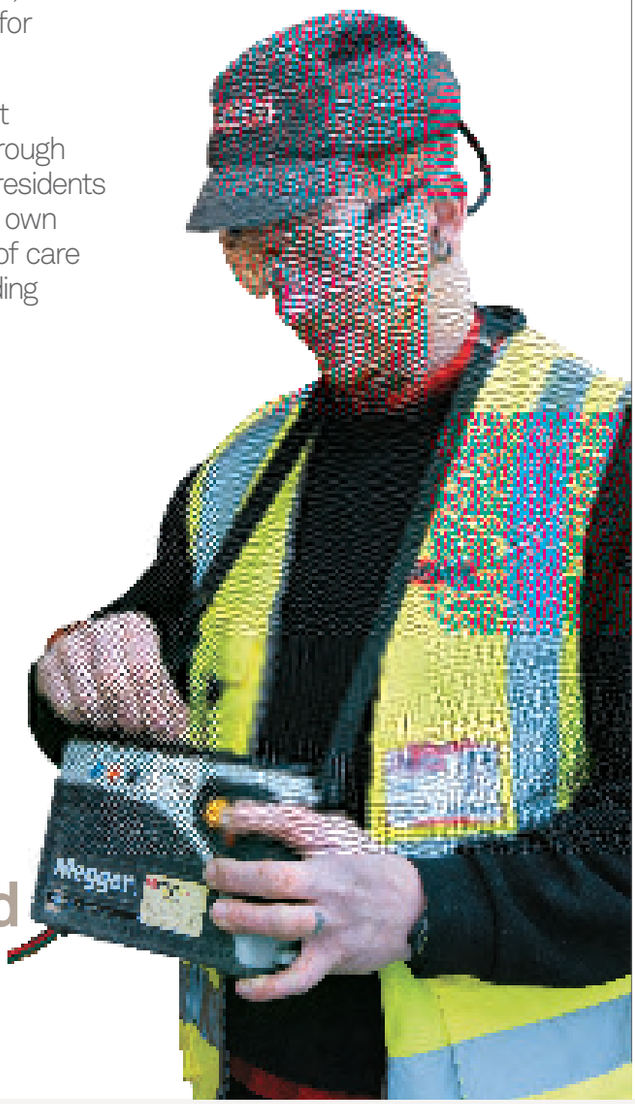
The Government will finalise its approach to tackling fuel poverty and carbon reduction challenges in housing in the first quarter of 2012. The flagship policy for this is the Green Deal, which will include a new Energy Company Obligation (ECO), to replace the existing CESP and CERT schemes. ECO for social housing will largely focus on hard-to-treat properties,

Our community approach: Greenwich ECHS Care and Repair

Colebrooke House, which is situated in the grounds of the Royal Military Academy in Greenwich, is a groundbreaking Extra Care Housing Scheme (ECHS) with its care and repair services both delivered by Mears. Mears provides the on-site care with the building maintenance being undertaken by our London and Quadrant operation based in Greenwich.

Each of the scheme's 56 residents has their own tenancy with light and airy rooms that are purpose-designed with, for example, wheelchair-friendly doorways and wet rooms. Communal facilities include a hairdresser, a restaurant and social areas for clubs and events.

Colebrooke House is the first scheme of its kind in the borough and is designed to allow its residents to live independently in their own homes with different levels of care support from Mears depending on each individual's needs.



Making a positive difference through the provision of an integrated service.

Care and Support

The long-term opportunities for Mears within Care and Support continue to be excellent. The ageing population and the fundamental desire of people to stay in their own home remain the foundations for this sector. Economic necessity is of course the third driver, which has led to never-seen-before levels of political activity in 2011, which will continue into 2012 with the anticipated publishing of the Government's white paper on the future of social care in the spring of 2012.

The reform of social care is also being set during a period of continuing political turmoil around the future of the NHS. There is all-round agreement that there needs to be shift from primary care to care in the community, but the pathway for the implementation of this policy remains disputed. We are now seeing greater joint working and commissioning between NHS Authorities and social care at a local level but the pace of this has been slower than hoped. Through acquisitions such as Choices in 2011, Mears is increasing its capability to handle more complex cases as a means to be well positioned for emerging opportunities in this area.

The Dillnot Review commissioned by the Department of Health last year to look at the future funding of adult care reported in the autumn. If accepted in full, this would lead to an additional initial spend on Care and Support of £1.3 billion, rising to as much as £3 billion in future years. Realistically, the Government may well scale back on this ambition within the Spring white paper but the direction of travel should be positive. The Government faces significant lobbying from numerous organisations concerning the state of care, most recently from the Equality and Human Rights Commission report of November 2011.

"The care and support system, as well as the whole healthcare system, is going through a period of change, the like of which has never been seen before. This does of course present short-term challenges to Mears but we have built a capability that is unique in the market and one that is very well placed to meet the longer-term opportunities that exist."

Proposals to replace previous quality rating systems and new advice mechanisms are in development. Mears has been active in providing practical suggestions to all political parties on how to cost effectively improve the quality of care, in particular around opportunities to link together the care of the individual with the care of the home in which they live.

One of these opportunities is for utilising more technology in the support of care delivery within the home. Mears' new integrated Care management system will speed up work allocation, provide better controls and reduce the significant amount of unnecessary paperwork within the system. Equally important is Mears' new partnership with Tunstall, for the implementation of telecare and telehealth systems within the home environment. Telecare and telehealth, when combined with effective personal care and support, can both improve service and reduce costs. The results of the Department of Health study into the use of telecare and telehealth were extremely positive indicating that a 14% reduction in A&E admissions through to a startling 45% reduction in mortality rates could be achieved. Through the Mears partnership with Tunstall, we are already implementing the largest telecare project in the UK in Birmingham, across an anticipated 24,000 homes, and we see an acceleration of these opportunities through 2012 and 2013.

The connection between housing quality and speed at which care requirements develop is strong and one which we observe through all of our operations. Whether that be a care worker noticing a faulty kettle plug or a joiner being told about an older neighbour who has not been seen for a couple of days, our front line staff are at this interface every day.

We, in response, take our responsibilities seriously, using our knowledge, experience and technology to bring added value to our work with the elderly whether in a repair, care or home improvement agency setting. Mears has a unique proposition to support people remaining independent in their own homes for longer. No other care company is also able to provide advice, home adaptations, handyperson services, telecare and personal care under one roof. Integrated services have real potential to save money and help vulnerable people to make an informed and better choice as to which products and services will help them the most.

In summary, the care and support system, as well as the whole healthcare system, is going through a period of change, the like of which has never been seen before. This does of course present short-term challenges to Mears but we have built a capability that is unique in the market and one that is well placed to meet the longer-term opportunities that exist.

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

Alan Long
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Executive Director
27 March 2012

Measuring our progress.

We use the following KPIs to monitor our performance. Our strong financial performance is a result of our differentiated service delivery.

We have the best service delivery

Service delivery

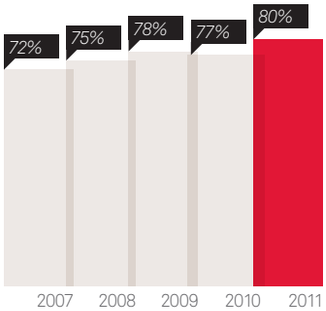
Percentage of people rating our service as excellent

Why we measure it

The sector in general collects customer satisfaction data and reports on the percentage of customers who rate the service as satisfactory. Given that we are service leaders, it is not sufficient to benchmark ourselves by these standards. Our measurement is based on the percentage of people who rate the service as excellent. We conduct around 80,000 surveys per year by phone and directly with the customer via our operatives' hand-held device (PDAs).

Outcome

80%



Our aim for 2012

>80%

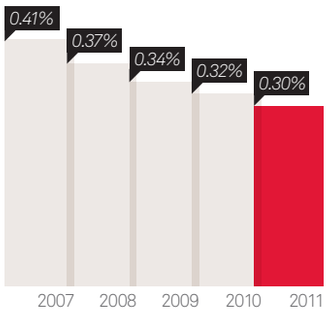
Customer complaints

Why we measure it

Whilst we achieve high levels of service excellence, it is important that we monitor carefully the number of poor service incidents, that we deal effectively with each individual complaint and that we learn from underlying trends. We measure the number of complaints as a percentage of repair jobs delivered in the period.

Outcome

0.30%



Our aim for 2012

<0.30%

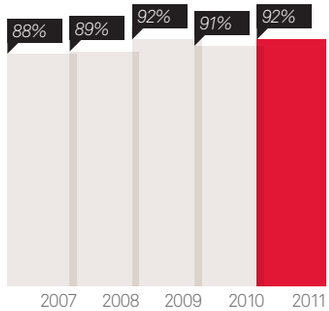
Jobs completed on time

Why we measure it

Delivering to our promises is at the heart of Mears. Each of our contracts has specific targets around job completion time based on the nature of the work. Emergency jobs are typically undertaken same day while routine work will be scheduled in into overall work plans. Having agreed the standards by type of work, it is obviously important that we stick to them.

Outcome

92%



Our aim for 2012

>92%

We are recognised as being better, which drives our contract bidding success

Contract bidding

Social Housing new contract success rate

Order book growth (£bn)

Why we measure it

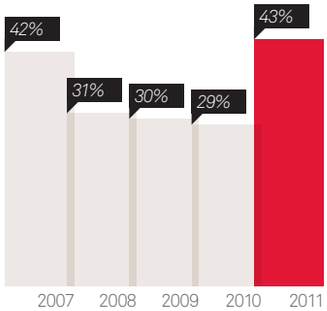
We tender between £1–2 billion of new opportunities each year. The average contract length is around six years in length. In order to achieve our organic growth forecasts, we monitor the proportion of new contracts secured as a proportion of total tendered works.

Included in this performance measure are contract retentions on re-bid whilst being awarded contracts from new customer relationships are key in order to achieve sustained growth.

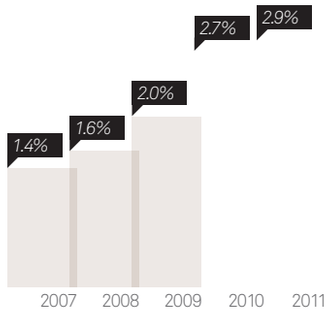
We typically secure long-term contracts with our clients. Typically our Social Housing contract average six years in duration. Our Care contracts are typically shorter at around three years. Our order book places an aggregate value of the future revenues that have been secured relating to services that will be delivered over future financial years. We only place a value against orders which are contractually secure and where the delivery of the works are highly probable. We do not include Social Housing framework arrangements within our order book as the value is considered uncertain. The order book valuation excludes indexation. The order book, which includes contract extensions, stretches to 2032.

Outcome

43%



+7%



Our aim for 2012

33%

+10%

Our strong financial performance is a result of our differentiated service delivery.

Financial outputs

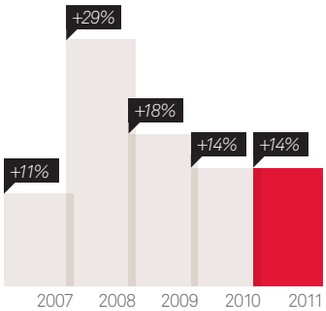
Social Housing maintenance revenue – organic revenue growth

Why we measure it

Revenue represents the amounts due for services provided during the year. In order to measure organic growth, we deduct revenue derived from assets that have been acquired. Whilst acquisitions form part of our growth aspirations in Social Housing, we believe that organic growth gives a better indication of business performance, as it is a purer aggregation of market growth, success in new contract bidding and contract retention. We also exclude the impact of revenues from the Decent Homes initiative as this area of the business is short term in nature. Our key focus continues to be our long-term, non-discretionary, maintenance revenues.

Outcome

+14%



Our aim for 2012

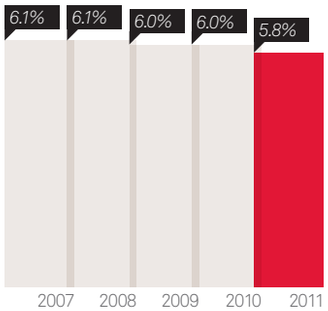
+10%

Social Housing – operating margin

Social Housing operating margin gives a strong indication of profitability. We continually monitor our operating margin and manage our costs base to ensure that our services are delivered efficiently. Operating margin is struck before amortisation, share-based payment charges and exceptional items. We have consistently delivered a higher margin than our competitors. This has been due in part to being selective as to which new contract opportunities we tender. Our desire is to work with clients who focus on quality and value for money, and not simply the base price. The margin is also an indication as to the quality of our people and the quality of our systems.

Outcome

5.8%



Our aim for 2012

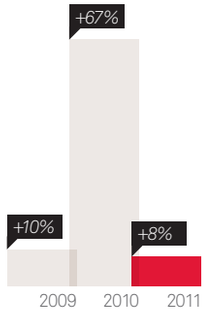
5.8%

Care and Support – revenue growth

Revenue represents the amounts due for goods and services provided during the year. Our strategy in Care is to grow our existing business organically whilst making further strategic acquisitions to increase the services that we can offer to our clients. Our ambition is to be in a position to provide a complete solution for our service users. Typically, we look to acquire a small, regional operation that possesses a required specialism. We then look to use that acquisition as a platform to tender more contracts of this nature across the rest of the UK. We believe that the revenue growth and operating margin performance indicators cannot be considered singularly. It is a fine balance between growing the top line whilst maintaining our operating margin. Whilst revenue growth is a key performance measure, the quality of our service delivery and our operating margin will always take precedence.

Outcome

+8%



Our aim for 2012

+10%

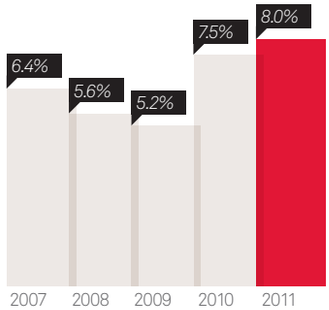
Care and Support – operating margin

Why we measure it

The Care operating margin gives a strong indication of profitability. We continually monitor our operating margin and manage our costs base to ensure that our services are delivered efficiently. Operating margin is struck before amortisation, share-based payment charges and exceptional items. Care remains an environment where services continue to be purchased predominantly on price. We believe therefore that the revenue growth and operating margin performance indicators cannot be considered singularly. It is a fine balance between growing the top line whilst at all times protecting our operating margin. The acquisition of the Supported Living division of Choices Care provides the Group the capabilities to deliver more acute services that typically command a higher margin.

Outcome

8.0%



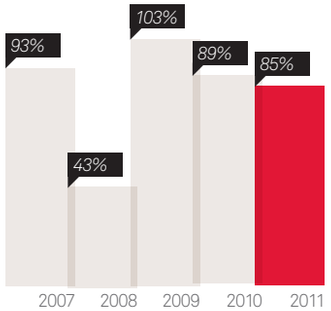
Our aim for 2012

8.5%

Profit to cash conversion

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group closely monitors the conversion of profit into cash. The key measure is cash inflow from operating activities as a proportion of EBITA.

85%

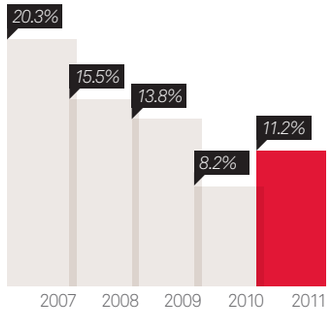


80%

Normalised diluted EPS

Normalised earnings are stated before exceptional costs and exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge. We believe that a normalised diluted EPS measure gives a true assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance. The number of shares in issue allows for the potentially diluting impact of outstanding share options.

+11%



+8%

Robust financial control and risk management.

"The Group has completed a refinancing of its banking facilities. This provides significant additional funding capacity, lower debt pricing and higher operational flexibility. Our ability to achieve such a refinancing in the current economic environment is a testament to the continued strong performance of the business and the strength of the longstanding banking relationship."

Andrew Smith / Finance Director

Dividend

"The Board remains confident in the future opportunities in its growth markets and consequently expects to be able to continue to follow a progressive dividend policy."

Financial performance

This Financial Review provides further key information in respect of the financial performance and financial position of the Group, to the extent that this is not already covered within the Chief Executive's Review. See table opposite.

Exceptional items

Costs of £3.1m (2010: £2.5m) were considered to be non-recurring and exceptional in nature. Notably:

// The Government announced a significant reduction to both the level and timing of the PV Feed-in Tariff. The Board took the swift decision to terminate those activities resulting in the write off of costs relating to the site set-up, system design and installation amounting to £2.0m. This cost has been identified as a non-recurring item and as such has been adjusted for within the Group's headline financial performance indicators.

// During the year, the Group completed a refinancing of its bank facilities. The costs attributed to the arrangement of the new facility of around £1.6m were capitalised and are to be amortised over the life of the facility. The exceptional cost of £1.1m relating to the carrying value of the transaction costs of the previous facility together with the costs relating to its termination will be treated as a non-recurring item and expensed in the current year.

Amortisation of acquisition intangibles

A charge for amortisation of acquisition intangibles of £7.8m (2010: £10.1m) arose in the period. The majority of this charge is in respect of the Group's Care division and represents the amortisation of the identified intangible assets acquired in respect of a number of Care acquisitions. In addition, the Social Housing division has completed a number of small acquisitions, typically of distressed businesses, over recent years. The decrease in the charge in the year reflects the Group's prudent approach in respect of identifying intangibles and their subsequent release. In 2010, the intangibles identified in respect of the acquisition of certain trade and assets of Connaught Partnership Limited and Rok Building Limited were written off entirely in the period resulting in a particularly high charge in that year.

Net finance costs

The finance cost in respect of bank borrowings was £2.4m (2010: £2.0m). The increase in interest cost reflects an increase in the average core debt following the acquisitions of Supporta plc, Jackson Lloyd Limited and Choice Care. The net interest credit in respect of the defined benefit pension scheme was £0.3m (2010: £0.3m charge).

Tax expense

A tax charge of £3.7m has been provided (2010: £1.6m). The effective current corporation tax rate recognised in the income statement before adjustments for deferred tax is 22.1% (2010: 14.3%). The effective current corporation tax rate was unusually low in the prior year due to a deferred tax credit in respect of the amortisation of acquisition intangibles of £2.8m and a non-taxable pension benefit of £3.7m. Historically the Group's effective tax rate is lower than the headline rate of corporation tax, which for 2011 is 26.5%, given the Group receives a corporation tax deduction in respect of the exercise of share options. It is anticipated that this trend will continue.

Earnings per share (EPS)

Normalised basic EPS increased by 8.8% to 27.16p (2010: 24.96p). The normalised diluted EPS, which allows for the potential diluting impact of outstanding share options, was up 11.3% to 26.01p (2010: 23.38p). Normalised earnings are stated before exceptional costs and exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge of 26.5% (2010: 28.0%). 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. See table opposite.

Group revenue

£589.0m

*Group operating profit**

£33.6m

* Before exceptional items and pre amortisation of acquisition intangibles.

Dividend policy

The Board remains confident in the future opportunities in its growth markets and consequently expects to be able to continue to follow a progressive dividend policy. The Board has recommended a final dividend of 5.35p per share which, combined with the interim dividend, gives a total dividend for the year of 7.50p (2010: 6.75p), an 11.1% increase. The dividend is payable on 3 July 2012 to shareholders on the register on 15 June 2012. The dividend is covered 3.5 times by underlying earnings per share.

Cash performance

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group's conversion of profit for the year before tax and pre amortisation to cash in the period was 91.1% (2010: 96.7%). The Group has consistently set high standards of working capital management and high levels of conversion of profit before tax into cash with an average conversion rate during the last five years of 84.3% against its stated target of 80%. Over the same period, the business has more than doubled through organic growth.

Our net debt position at 31 December 2011 was £13.4m (2010: £12.2m). Whilst the year end cash position was pleasing, typically the accounting period end reports a low debt balance when compared to the rest of the year. A far more important metric is the Group's daily net debt balances which provide a better indication of working capital management. The average net debt over the year amounted to £58.5m (2010: £48.5m). This increase is predominantly due to the acquisitions completed during 2010 and 2011 which increased net debt by in excess of £35m over the last two years. Given the timing of the non-trading outflows, the true underlying core debt at the year end is in the region of £60m (2010: £59m). We have always been and remain conservative in respect of our appetite for debt and, whilst the Group has ambitions for making acquisitions through 2012, our expectation would be to work to a net debt to EBITDA ratio of no greater than two times. See table opposite.

Financial performance

	2011 £m	2010 £m	Change %
Group revenue	**589.0**	523.9	+12%
Operating profit before exceptional items*	**33.6**	31.3	+7%
Profit before tax and before exceptional items*	**31.5**	28.9	+9%
Profit before tax*	**28.4**	26.5	+7%

* Pre amortisation of acquisition intangibles.

Earnings per share (EPS)

	2011 p	2010 p	Change %
Normalised diluted earnings per share*	**26.01**	23.38	+11%
Dividend per share	**7.50****	6.75	+11%

* Before exceptional items and pre amortisation of acquisition intangibles and based on a normalised tax charge of 26.5%.
** Including a proposed final dividend of 5.35p per share.

Cash performance

	2011	2010
Cash conversion (PBT)*	**91.1%**	96.7%
Cash conversion (EBITA)*	**84.7%**	88.9%
Net debt at balance sheet date	**£13.4m**	£12.2m
Average daily net debt	**£58.5m**	£48.5m

* Cash inflow from operating activities before taxation and before the effect of acquired contracts.

Balance sheet

	2011 £m	2010 £m	Change %
Goodwill and intangible assets	**127.5**	124.5	
Property, plant and equipment	**12.7**	12.1	+5%
Inventories	**12.5**	12.1	+3%
Trade receivables	**127.5**	111.6	+14%
Trade payables	**(104.0)**	(95.8)	+8%
Net debt	**(13.4)**	(12.2)	
Deferred consideration	**(2.9)**	(2.8)	
Cash flow hedge	**(1.7)**	—	
Pension	**(5.8)**	(7.7)	
Taxation	**(0.6)**	(0.2)	
Total assets	**151.8**	141.6	

"The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group has consistently set high standards of working capital management and high levels of conversion of profit into cash."

Acquisitions and intangible assets

The value of goodwill and other identified intangibles carried within the balance sheet is £127.5m, of which over three quarters relates to the Group's Care division. A balance of £7.8m of amortisation was charged to the Income Statement during the period. Two acquisitions were completed during the year adding a further £6.3m to intangibles and are detailed below:

Acquisition

Acquisition of certain business assets of Anchor Housing relating to its Home Improvement Agencies division

During the period January to April 2011, Mears completed the acquisition of a group of home improvement agencies from Anchor Housing for a nominal fee. Home improvement agencies are currently contracted by Local Authorities to provide primarily home adaptation and handyman services to vulnerable owner-occupiers in local communities. We consider this purchase to be an excellent complement to our existing operations and one which extends our geographic footprint into a number of Local Authorities where we previously had no presence.

Acquisition

Acquisition of the Supported Living division of Choices Care Community Services Limited ('Choices'), a leading provider of social care services in Scotland and the North of England

The main business of Choices is the provision of a supported living service to adults with learning disabilities, autism and mental health needs, in their own homes. Service recipients tend to have a more complex care support package than can be seen in the more traditional domiciliary care area, due to the higher acuity needs of the individual.

The Board's strategy is to broaden the diversity of Mears' care offering and to begin supplying services to individuals with higher acuity needs in their own homes. The acquisition of Choices fits well with these criteria and is consistent with our strategy of targeting growth in higher need care areas.

Mears acquired the trade and certain assets of the Supported Living division for an initial cash consideration of £7.40m, which included a significant refundable deposit dependent upon the successful novation of the acquired contracts. Since completion, the Group has been repaid a sum of £2.1m in respect of two contracts that were not novated, leaving a net consideration paid of £5.3m.

Treasury facilities

The Group has completed a refinancing of its banking facilities with a new £120m unsecured revolving credit facility and an additional accordion mechanism allowing the facility to be increased to a maximum of £160m. This provides significant additional funding capacity for the Group. The new facility will mature in July 2016 and its terms include lower debt pricing and higher operational flexibility than under the previous facility. This new arrangement replaces the Group's previous £85m secured bank facility. Our ability to achieve such a refinancing in the current economic environment is a testament to the continued strong performance of the business and the strength of the longstanding relationship we have with both Barclays and HSBC.

Other trading balances

The Group capital expenditure of £4.0m (2010: £2.9m) 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 are subject to operating leases and hence are not included within capital expenditure or recognised as an asset within the balance sheet.

A balance of £2.4m (2010: £1.9m) is included within non-current trade and other receivables. This relates to sales retentions in relation to our M&E activities within our Other Services division. This is normal practice within that sector, where a small percentage of the contract sum is withheld for a short period. This is typically settled twelve months after the completion of works.

*Diluted earnings per share**

26.01p

* Before exceptional items and pre amortisation of acquisition intangibles and based on a normalised tax charge of 26.5%.

*Dividend per share**

7.50p

* Including a proposed final dividend of 5.35p per share.

*Cash conversion (EBITA)**

84.7%

* Cash inflow from operating activities before taxation and before the effect of acquired contracts.

Pensions

	2011 £m	2010 £m
Income statement – pension costs		
Current service cost	**2.7**	2.4
Past service cost	**—**	(3.7)
Interest on obligation	**(0.3)**	0.3
Total defined benefit pension cost charged to the result for year	**2.4**	(1.0)
Balance sheet – pension liability	**5.8**	7.7

Trade receivables have increased by 14% to £127.5m (2010: £111.6m), slightly ahead of our top-line growth of 12%. Whilst cash inflows within our two core sectors are consistent with historical sales cycle, cash conversion has been slower within our M&E division, in particular in relation to the Athletes' Village project in support of London 2012 which is now at a practically complete stage.

Trade payables have increased by 10% to £104.0m (2010: £95.8m), which is slightly behind the growth in top-line growth. This is in line with our expectations given the entire provision of Care services is self-delivered, which inevitably means that whilst revenue growth is mirrored with an increase in trade receivables, it is not supported by a similar increase in its outstanding creditor balances.

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.

Total shareholders' equity rose by £10.2m to £151.8m at 31 December 2011. The increase in net assets is primarily due to retained profits.

Pensions

The Group participates in a principal Mears Group pension scheme together with a further 14 individual defined benefit schemes where the Group has received Admitted Body Status in a Local Government pension scheme. At the point of tendering for new contract opportunities, the Group seeks to minimise its exposure to future changes in the required pension contribution rates and to future liabilities resulting from scheme deficits.

Net pension charges amounting to £2.4m have been made to the income statement (2010: £1.0m credit). The current service cost has increased due to an increase in membership on the back of new contract awards. In the previous year, past service cost included a credit relating to the change in the measurement of future pension increases being linked to CPI rather than RPI. The reduced interest charge on the obligation reflects the higher expected return on scheme assets.

The latest actuarial valuations for the schemes as at 31 December 2011 reported a reduction of the pension deficit by £1.9m reducing the carrying value of the liability from £7.7m to £5.8m. This reduction is caused by a reduction in the anticipated future pension payments. The Group has also agreed a repayment plan with the trustees of the Mears Group scheme at £0.9m per annum for a period of seven years with a view to the scheme being fully funded by 2020. See table above.

Mears has reported strong growth over its sixteen years as a listed company. Fundamental to this success has been our ability to identify and manage both risks and opportunities in a constantly changing environment. Over the course of 2011, significant resource has been directed towards corporate governance, with particular focus being given to significantly enhancing the Group risk management process that will ensure a uniform approach across all our businesses to identify and mitigate risk. This is covered in greater detail in pages 26 and 27.

Andrew Smith
andrew.smith@mearsgroup.co.uk
Finance Director
27 March 2012

How we manage risk.

The effective management of risks is a key feature in the continuing success of the Mears Group. Our approach is to identify principal risks and robustly mitigate the impact of these risks through a Group risk management process.

Risk and description	*Mitigation*

Macroeconomy
Mears' primary markets are subject to Government legislation and are dependent on the political environment, local or national, including public sector policy and funding.
Any changes in policy or legislation that reduce expenditure during the life of contracts could have a detrimental affect on the Company's business. Also other market factors could damage business, e.g. economic failures, stock levels.
	// Awareness of and responsiveness to market developments, e.g. developing managed in-sourcing and JV products to give choice to clients
	// Business strategy – diversity of markets expanding from the original social housing sector business
	// Innovation around Government policy, e.g. proactive on tenants' cash back scheme
	// Pensions policy including client risk share

People
The Mears Group is dependent on the management team and a skilled and motivated workforce, otherwise the delivery of business objectives will be jeopardised.
Mears Group sees sound commercial management of contracts and the business as a whole as essential to our objectives.
Management expertise is retained to maintain the right balance between our customer-centric culture and our commercial requirements. We always want to provide value for money as well as legitimately bill our clients and at the same time achieve operating efficiency drawing from best practice.
	// Recruitment and selection criteria for all appointments
	// High quality people to be secured and retained in key positions
	// Training programmes supplied and we have Investor in People certification
	// Formal assessment/capability testing for key management appointments
	// Succession planning for key positions
	// Appointment of additional Executive Directors to increase the capacity of the Group's senior management team to cope with existing and new business
	// Business unit budgets and regular monitoring of profit and loss performance and cash conversion
	// Group and divisional risk mitigation plans showing branch and region lines of defence

Reputation
The ultimate success of the Mears Group relies upon maintaining a positive reputation in the public and amongst all stakeholders.
Negative actions, behaviour, service and results will damage the business reputation and will affect the future of the Mears Group. This includes risk of negative publicity from actions of employees and suppliers.
This could arise, amongst other reasons from inappropriate communications, inaccurate client reporting or poor care and poor attention to vulnerable customers.
	// Strong corporate governance
	// Clear communications policy and strategy including cascading team brief and Mears Matters
	// Internal auditing of KPI reporting
	// Care risk plan for dealing with vulnerable customers
	// Comprehensive health and safety policy and safe systems of working
	// Compliance management of bribery and corruption legislation, whistleblowing policy, internal audit resources

Liquidity
There is a noticeable increase in client and market focus in the financial strength of the companies trading within the Group's core business sectors due to a number of main peer contractors going into liquidation.
Various stakeholders require reassurance that the Company has strong liquidity risk management including a long-term funding facility and the generation of sufficient cash from trading. Risks arise from short-term cash flow movements and renewal risk on maturity of facilities.
	// New funding facility secured in 2011 to service the Group's needs until 2016, target refinance one year before maturity
	// Business unit budgets and regular monitoring of financial performance
	// Long-term liquidity – annual cash flow forecasts for visibility of funding and compliance with banking covenants
	// Short-term liquidity – weekly three-month rolling cash flow forecast and detailed variance analysis
	// Robust management of work in progress and debt
	// Proactive identification of potential bad debt and management plans put in place between operations and finance teams

The Board is committed to a strong process of risk identification and management process.

Learn about our risk identification and management process in our governance section on **pages 42 to 43**

Risk and description	*Mitigation*

Health and safety
Mears' services and operations involve a series of high risk activities ranging from dealing with vulnerable customers in need of care to our building related services, e.g. working at heights, working with gas and electricity and dealing with asbestos. Failure to have robust and safe systems of work could lead to serious personal injury or fatality.
	// Strong Group and regional safety, health and environmental teams
	// Comprehensive safe systems of work and risk mitigation plans
	// Internal SHE auditing and third party external validation
	// Regular SHE communication and a national conference
	// Training of operations staff and the involvement of subcontractors
	// Annual Group SHE strategy and plan
	// Close involvement with regional and branch management

Business retention and new business
A strong bid pipeline and order book are both essential to the success of the business.
Risk management planning is needed to ensure new tenders are won and existing contracts are retained. Successful re-tendering requires a combination of competitive pricing and client confidence in quality proposals based on evidence of historical delivery.
	// Strong Group Business Development team
	// Bid project management process with assigned bid leader
	// Expanding bid governance process under consolidated scheme of delegated authority including audits
	// Risk plan to respond to sub-optimal market pricing
	// Commercial review of efficiency of delivery model for re-tendering and a plan to achieve best efficiency rates
	// Regional Managing Directors' performance review and client/management relationships
	// Contract development/improvement plans

Business continuity
Mears Group recognises that there are considerable risks of business continuity in certain locations within our markets which could be caused by rioting, terrorism and natural catastrophe. In addition there are geographical risks that could threaten our business infrastructure, e.g. telecommunications failures.
Vulnerable people depend upon our services; hence we must have disaster recovery and business continuity plans.
	// IT disaster recovery plan and back-up systems facility remote to business units
	// Business continuity plans for each regional/business unit in progress
	// Disaster scenario management training
	// Data back-up facility and protocol
	// Disaster recovery and business continuity plans to be tested annually

Legal and regulatory
The Group is subject to numerous tax, legal and regulatory requirements.
A breach of any of these could result in legal proceedings, imposition of financial and other penalties or investigations, taking management focus away from core business and therefore disrupting the business.
	// Provision of information across the business about new laws and regulations
	// Head of legal services remit with an expanded team and external support
	// Induction of staff
	// Training of key staff on developments including the Bribery Act 2010
	// Policies and procedures issued and controls to comply with laws and regulations
	// Risk assessments
	// Internal governance control and audits

Integrity, ethics, anti-bribery and corruption
There are inherent risks of bribery, fraud and corruption in some of the sectors we work in. It is important that we have an internal control framework and means of communication to be proactive where any risks materialise.
	// Group internal audit team
	// Confidential whistleblowing policy
	// Regular communication about policy in Company – monthly journal (Mears Matters) and team briefings and use of intranet
	// Comprehensive investigations and robust action on any negative findings
	// Business ethics code of conduct
	// Auditing of legitimate work valuation/billing from subcontractors and to our clients
	// Risk plan to implement controls for the anti-bribery and anti-corruption legislation

Committed to improving lives.

424 projects were undertaken by volunteering Mears staff in 2011 to help improve the communities in which we work.

Making a positive difference by:

1. *Improving the lives of the people living within our communities.*
2. *Reducing prejudice and improving the understanding of differences within our diverse communities.*
3. *Providing career and skills development to those needing them the most.*
4. *Being a positive contributor to our environment.*

Minimising our environmental impact

In 2011, Mears can again reported continued improvements in its environmental performance. A successful partnership with Network Waste has helped Mears to achieve 88% recycling rates and more than a 10% reduction in waste costs. In order to achieve this we have invested in new compactors to reduce the cost of waste transportation, re-negotiated costs with suppliers and implemented better waste management processes.

We continue to be active in supporting a range of activities to help address fuel poverty and reduce carbon emissions within the communities in which we work and this will remain a priority for us in 2012.

Investing in people

Mears has once again retained its Investors in People accreditation (IIP). We have held this accreditation since 1994. Our annual employee survey highlighted the pride our staff have in the business with staff morale being significantly ahead of that within the majority of UK businesses.

During 2011 our apprentice and trainee numbers increased by 95. Importantly the Group has been able to retain 85% of apprentices and trainees who completed their training programme. This is a statistic which is well ahead of the industry norm. We currently have 213 apprentices and trainees in our repair and maintenance business, of which 20 are female. A similar programme has been launched in our care business.

In 2011 we launched a leadership training programme, which 76 of our senior managers completed. The feedback from this was highly positive with all managers stating that the course gave them more confidence in their people management and presentations skills. On average each employee receives five days of training per year covering areas such as people management, health and safety, customer services and trade skills.

The Mears Foundation

The Mears Foundation was established in 2010 to help improve the lives of vulnerable or disadvantaged people in the UK and abroad by offering practical support and intervention. The Foundation works with groups and individuals who share Mears' values and aims to empower and assist them to develop skills and maximise their potential.

During 2011 The Mears Foundation supported projects and charities both in the UK and abroad, including:

- The Rainbow Centre for Children, Bristol by providing funding and hands-on assistance with repairs and refurbishment in the art room and garden.
- Sithabile Child and Youth Care Centre, Johannesburg, South Africa, where a team of Mears volunteers carried out extensive improvement works to the centre including the creation of an IT suite. We also funded a visit to the UK by a student from Sithabile, equipping him with invaluable practical work and life experiences.
- Supporting the Disaster Emergency Committee (DEC) following the East Africa Crisis Appeal to help provide food and supplements.
- Supporting The Salfordian Hotel, a social enterprise hotel in Salford, by providing respite and mini-breaks for deserving Mears' residents.

Serving our communities

In 2011 staff volunteered 18,087 hours and delivered 424 projects in their communities around the UK.

CO Poisoning Awareness Week – a national project delivered locally by our operations

This national campaign, endorsed and supported by the Carbon Monoxide Awareness charity, both raised awareness and gave people practical advice on what to do should they suspect they are at risk from CO poisoning. During the week staff from Mears, supported by clients, British Gas and people in its

communities, took the message out to the public with a series of events held in public places across the UK. Staff distributed 27,000 leaflets to the public and door-to-door to tenants and care service users and the campaign was widely publicised using social networks such as Twitter and local media.

The initiative was widely applauded and throughout the week our events were visited by people who had personal experience and had suffered bereavements as a result of CO poisoning.

Teaming up to deliver Christmas cheer
Staff from Mears care in Brighton raised money throughout 2011 to put on a Christmas party for the residents of an extra care housing scheme where they provide care services. The local Brighton maintenance team also supported this initiative.

The money raised covered the cost of a three-course Christmas lunch and prizes for a raffle. Teams from both care and repair and maintenance served lunch, entertained the residents and also arranged for other care service users living in the community to join them for the day.

Passing on practical skills to young people in Peterborough
Operatives Mo Danji and Kevin Larrington, who are employed on the Cross Keys contract in Peterborough, are teaching bricklaying to a group of 15 local students who had been at risk of being excluded from school. With the support of Mears the school set up a construction skills course for children who were not engaging in the classroom. Mo and Kevin spend three hours at the school every week working with the youngsters and passing on valuable skills.

Teacher Stuart Lawrence from Thomas Deacon Academy says, 'It soon became evident that the students were not only learning some valuable skills and a trade, but also learning essential life skills and qualities that have helped them to get them back on track in their school work. Mo and Kevin have made a real impact in these students' lives'.

Serving communities in practice

Garden regeneration bridges generation gap

Bowmont House, an extra care housing scheme in Newcastle where Mears provides care for the residents, had its garden transformed by Mears in a local volunteering initiative by the care and home improvement teams. The scheme has links with a local school, Brunton First. Mears invited a team of Year One students to help residents plant hanging baskets and raised beds with flowers and vegetables. For many of the children this was their first experience of gardening and this gave the older residents the opportunity to pass on their knowledge and experience to the interested children.

As well as work done on the garden, including putting up trellis, building raised beds and installing seating, bird tables and boxes, Mears donated a Wii Fit to Bowmont House which the children are showing the residents how to use.

Measuring our progress: CSR key performance indicators

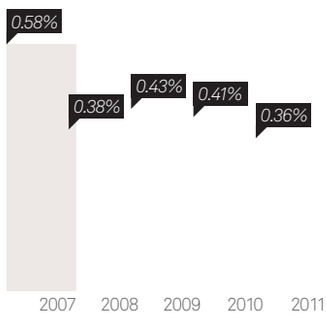
Accident Frequency Rate (AFR)

Why we measure it

Providing our employees with a safe working environment is paramount. In 2008, Mears introduced its own in-house training course that was accredited by the British Safety Council and has been a major factor in achieving the impressive reduction in accidents. Our AFR is calculated as the number of fatalities or reportable incidents divided by the number of hours works multiplied by 100,000. Over the last five years, Mears has seen year-on-year improvement.

Target – Year-on-year improvement.

0.36%



An experienced Board.

Bob Holt / 57

Chairman

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

David J Miles / 46

Chief Executive Officer

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

Andrew C M Smith / 39

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.

Peter F Dicks / 69

Non-Executive Deputy Chairman

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

David L Hosein / 48

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 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 / 58

Non-Executive Director

Davida 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.

Alan Long / 49

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.

Michael G Rogers / 70

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.

Rory Macnamara / 57

Non-Executive Director

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

Reginald B Pomphrett / 68

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.

Corporate governance / 30–54

Financial calendar

Annual General Meeting
6 June 2012

Record date for final dividend
15 June 2012

Dividend warrants posted to shareholders
3 July 2012

Interim results announced
14 August 2012

Registered office

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Tel: 01452 634600
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Company registration number

3232863

Company secretary

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Registrar

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Investor relations

Gable Communications
34 Lime Street
London ECM 7AT

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.

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2011.

Principal activities

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

Business review

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

Dividend

The final dividend in respect of 2010 of 4.85p per share was paid in July 2011. An interim dividend in respect of 2011 of 2.15p was paid to shareholders in November 2011. The Directors recommend a final dividend of 5.35p per share for payment on 3 July 2012 to shareholders on the Register of Members on 15 June 2012. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2011.

Corporate governance

A statement on the Group's Corporate Governance is set out on pages 37 to 43.

Key performance indicators (KPIs)

We focus on a range of key indicators to assess our performance. Our performance indicators are both financial and non-financial and ensure that the Group targets its resources around its customers, employees, operations and finance. Collectively they form an integral part of the way that we manage the business to deliver our strategic goals. Our primary performance indicators are detailed on pages 18 to 21.

Directors

The present membership of the Board is set out with the biographical detail on pages 30 and 31.

D J Miles, A C M Smith and M G Rogers retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting (AGM) in June 2012.

The beneficial interests of the Directors in the shares of the Company at 31 December 2011 and 31 December 2010 are detailed within the Remuneration Report on pages 50, 52 and 53.

The process governing the appointment and replacement of Directors is detailed within the Corporate Governance Report on pages 40 and 41.

Going concern

A review of the Group's activities during the year and its outlook are set out in the Chairman's Statement and Chief Executive Officer's Review on pages 4 to 21. The financial position of the Group is described on pages 22 to 25. Our two growth markets, Social Housing and Care, are defensive sectors where spend is largely non-discretionary and our contracts tend to be long-term partnerships.

The Group had net debt of £13.4m at 31 December 2011 and total funding headroom at that date of £106.6m which it considers sufficient to fund current trading plans. The Group has completed a refinancing of its banking facilities with a new £120m unsecured revolving credit facility with an additional accordion mechanism allowing the facility to be increased to a maximum of £160m. This provides significant additional funding capacity for the Group and will mature in July 2016. Our ability to achieve such a refinancing in the current economic environment is a testament to the continued strong performance of the business and the strength of the longstanding relationship we share with both Barclays and HSBC.

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.

Amendment to Articles of Association

The Company's Articles of Association can be amended only by a special resolution of the members, requiring a majority of not less than 75% of such members voting in person or by proxy.

Share capital authorisations

The 2010 AGM held in June 2011 authorised:

// 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 is limited to one third of the issued share capital, a total of £283,125 plus an additional one third of issued share capital £283,125 that can only be used for a rights issue or similar fund raising; and

// the Directors to issue shares for cash on a non pre-emptive basis. This authority is limited to 5% of the issued share capital £42,469 and is required to

Capital structure

The Group is financed through both equity share capital and debt. Details of changes to the Company's share capital are given in note 23 to the financial statements. The Company has a single class of shares – ordinary 1p shares – with no right to any fixed income and with each share carrying the right to one vote at the general meetings of the Company. Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the AGM. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board.

Substantial shareholdings

As at 2 March 2012 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:

	Holding (millions)	%
Majedie Asset Management	8.29	9.7%
Artemis Investment Management	7.91	9.2%
Legal & General Investment Management	5.42	6.3%
Invesco Perpetual	4.59	5.3%
Schroder Investment Management	4.47	5.2%
Heronbridge Investment Management	3.79	4.4%
Four Capital Partners	2.79	3.3%
Highclere International Investors	2.61	3.0%

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 offerhs are k(d)-19(e147 Ø(h(o)-20(l i)-8(n)-9(f)4(o)-2l)4(o)-2(p4-12(h8)-596(l)6(e)-19(s s)-6(h(r)30 11 48.189 265.119(s a)-10()-10(rh)-23(a)-1A)3(o(n)-

Corporate governance / Statement of Directors' responsibilities / *in respect of the Directors' Report and financial statements*

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and the Company 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 are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

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

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

To the best of my knowledge:

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

By order of the Board

A C M Smith
Finance Director
27 March 2012

Introduction

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

The Board continues to be committed to maintaining the Group's operations in accordance with the highest standards of corporate governance as set out in The UK Corporate Governance Code issued in June 2010 and has complied with it throughout the year.

The Board of Directors

As at 31 December 2011, the Board had nine members, comprising the Chairman, Chief Executive, Group Finance Director, Executive Director, and five independent Non-Executive Directors. P F Dicks is the Senior Independent Non-Executive Director. The Directors' biographical details are set out on pages 30 and 31. 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.

The Board's prime objective is to ensure ongoing commercial and financial success of the Group. The Board provides entrepreneurial leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board sets the Group's values and standards and ensures that the Group's obligations to its shareholders and others are understood and met.

The Board considers that each of the Non-Executive Directors who served during the year are independent in terms of judgement and character and free from any relationship which might materially interfere with the exercise of independent judgement. Notwithstanding this opinion and for the sake of completeness, below is a summary of relationships which may appear to affect their judgement:

- D L Hosein is a Director of OC&C Strategy which in the past (not in the last three years) has received fees for work carried out for the Group;
- M G Rogers became a Director of the Group in April 2007, on the acquisition of Careforce, where he continued as CEO until 2008 when he became a Non-Executive Director; and
- P F Dicks and R P Macnamara are Non-Executive Directors of Sportingbet PLC.

The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy, constructively challenging and helping develop proposals on strategy. A summary of the terms and conditions of appointment of the Non-Executive Directors is available on request from the Company Secretary.

All Directors act in what they consider to be the best interests of the Company, consistent with their statutory duties.

Board responsibility

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

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

Whilst the Board has specific responsibility for those matters reserved for its consideration, in certain areas, specific responsibility is delegated to committees of the Board within defined terms of reference. The activities of these committees are discussed in more detail later in this report.

Leadership

The Chairman, R Holt, is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors, in particular ensuring constructive relationships between Executive and Non-Executive Directors. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information.

The division of responsibilities between the Chairman and the Chief Executive is clearly established and agreed by the Board. The Chief Executive, D J Miles, manages the day-to-day business operations of the Group as Chief Executive. A central part of his role includes recommending and implementing key strategies as agreed with the Board, communicating to shareholders and allocating decision making and responsibilities accordingly. He takes a leading role, with the Chairman, in the relationship with all external agencies and in promoting Mears Group PLC.

As part of their role, the Non-Executive Directors constructively challenge and develop proposals on strategy. The Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They determine appropriate levels of remuneration of Executive Directors and have a prime role in appointing and, where necessary, removing Executive Directors, and in succession planning.

Board meetings

The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs. The Board receives detailed financial information and regular presentations from Executives on Mears' business performance. Directors are supplied with an agenda and supporting papers for all Board meetings on a timely basis along with minutes of previous Board and 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-Executive Directors also independently meet each of the Executive Directors formally once a year.

The Directors delegate responsibilities for the day-to-day operational and financial management of the Group to the Senior Management Team, which comprises Senior Executives across each of the Group's operational divisions and support functions and is the principal forum for directing the operational and financial business of the Group and for delivering the strategy set by the Board.

Board membership and Board and committee meeting attendance:

	Board		Audit Committee		Nomination Committee		Remuneration Committee	
Number of meetings	Potential	Actual	Potential	Actual	Potential	Actual	Potential	Actual
R Holt	6	6	—	—	—	—	—	—
D J Miles	6	6	—	—	—	—	—	—
A C M Smith	6	6	—	—	—	—	—	—
A Long	6	6	—	—	—	—	—	—
M G Rogers	6	6	—	—	—	—	—	—
M A Macario	2	2	2	2	—	—	2	2
P F Dicks	6	6	4	4	2	2	3	3
D L Hosein	6	6	—	—	—	—	—	—
D Marston	6	6	4	4	—	—	—	—
R Macnamara	6	5	4	3	2	2	3	3

All Directors are expected to allocate sufficient time to the Company to discharge their responsibilities effectively and, where possible, attend all Board meetings. Any time commitment matters would be addressed by the Chairman and the Director concerned.

Evaluation of Board performance

Performance evaluation of the Board, its committees and individual Directors takes place on an annual basis with the support of the Company Secretary. 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 performance evaluation process included: a review of the areas of Board responsibility; the structure and composition of the Board and its committees and the performance of the committees; the quantity, quality and scope of information provided to the Board; the content of Board meetings and presentations to meetings; and the openness of communications between the Board members and Executive management. The Board members concluded that appropriate actions had been identified to address areas that could be improved and that, overall, the Board and its committees continued to operate effectively.

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

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

Senior Management Team

The Senior Management Team, which comprises Senior Executives across each of the Group's operational divisions and support functions, is the principal forum for directing the operational and financial business of the Group and for delivering the strategy set by the Board.

Director development

Any Director, on appointment and throughout their service, receives an induction and is entitled to receive any training which is considered necessary to fulfil their responsibilities effectively. The Chairman regularly meets with each Director to review and agree any training and development needs.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed.

Board committees

The Board delegates certain responsibilities to its principal committees. The Audit Committee ensures 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 Directors and conducts a review of succession planning at Board and Operating Board levels. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements.

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

The Chairperson of each Committee is present at the AGM to answer questions from shareholders.

Board committees continued

Audit Committee

Chair	D Marston from 8 June 2011 following retirement by M A Macario.
Membership	P F Dicks and R Macnamara. The Audit Committee is comprised of financially literate members having the necessary ability and experience to understand financial statements. The committee has access to the financial expertise of the Group and its auditor and can seek further professional advice at the expense of the Group, if required.

Role	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;
	// 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 its 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 fees and objectivity of the Group's auditor are considered by the Committee;
	// the appointment and review of the Group Risk Officer; and
	// the preservation of good financial practices throughout the Group.

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

The Audit Committee is committed to ensuring the independence and objectivity of the external auditor. During the year the Committee assessed the qualifications, expertise, resources and independence of the external auditor, as well as its 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. This is particularly important in light of the tax compliance and advice being performed by the same firm. This is safeguarded through a review of the level of non-audit work which is given to the audit firm. The Committee also reviews the term of office of the external auditor. The Audit Committee is satisfied with the performance of the external auditor and, after due consideration, has recommended the re-appointment of Grant Thornton UK LLP.

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

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

Nomination Committee

There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of Diversity on the Board, including gender. All Directors are able to allocate sufficient time to the Company to discharge their responsibilities. The Board has plans in place for orderly succession for appointments to the Board and to Senior Management. These plans aim to maintain an appropriate balance of skills and experience within the Company and on the Board and ensure progressive refreshing of the Board.

Board committees continued

Nomination Committee continued

Chair	R Macnamara.
Membership	P F Dicks, M A Macario (until his retirement in June 2011) and D L Hosein (appointed December 2011).

Role	The Nomination Committee's responsibilities include:
	// keeping under review the composition of the Board and succession to it and succession planning for senior management positions within the Group;
	// making recommendations to the Board concerning appointments to the Board, whether of Executive or Non-Executive Directors, having regard to the balance of skills, knowledge, experience and diversity of the Board;
	// making recommendations to the Board concerning the re-appointment of any Non-Executive Director at the conclusion of his/her specified term and the re-election of any Director by shareholders under the retirement provisions of the Company's Articles of Association;
	// managing a formal, rigorous and transparent procedure for any appointments of new Directors to the Board;
	// prior to the appointment of a Director, requires that the proposed appointee discloses any other business interests that may result in a conflict of interest and report and future business interests that could result in a conflict of interest; and
	// ensures that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside of Board meetings.

The committee met twice during the year and all members of the committee were present at each meeting. During the year, the committee considered the membership of each sub-committee of the Board, updated its succession planning and confirmed its previous recommendations to the Board in respect of memberships of sub-committees following the retirement of M A Macario.

Remuneration Committee

There is a formal and transparent procedure for developing policy on Executive remuneration and for determining the remuneration of individual Directors.

Chair	P F Dicks
Membership	R Macnamara, M A Macario (until his retirement in June 2011) and M G Rogers (appointed in December 2011)

Role	The Remuneration Committee 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; and
	// approving the service agreements of each Executive Director, including termination arrangements.
	No Director is involved in determining his/her own remuneration.

Full details of the remuneration committee's activities during the year are given in the Remuneration Report on pages 44 to 54.

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

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

The Board confirms that the Group has in place an 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;
- 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.

Internal control and risk management continued

During 2011, the Audit Committee commissioned a review of risk governance to ensure that it met the FRC guidance on best practice. The Mears Senior Management Team members, together with the assistance of external advisers, all played an integral part in this review. The key outcomes included:

- identification of the principal risks, weighting their impact on the business and likelihood of each risk occurring;
- determination of Group risk owners together with preparation of risk mitigation plans;
- appointment of a Chief Risk Officer (CRO);
- risk ratings and mitigation plans will be updated and challenged periodically. Risk owners are required to produce evidence of current mitigation and plans to increase mitigation;
- each key risk will have key 'lines of defence' to build in practical tiers of detection and protection to either avoid a risk occurring or prevent the escalation of a risk exposure;
- a consolidated scheme of delegated authority is being produced to ensure greater consistency and uniformity of corporate governance for implementation in early 2012;
- formal monthly risk review is held between the Chief Executive Officer and CRO; and
- external validation will take place periodically.

The principal risks and uncertainties are detailed further on pages 26 and 27.

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

Financial reporting risk management

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of consolidated accounts. The consolidated financial statements are produced by the Group finance function which is responsible for the review and compilation of reports and financial results from each of the operating subsidiaries in accordance with the Group reporting procedures. The consolidated financial statements are supported by detailed workings papers. The Audit Committee is responsible for overseeing and monitoring these processes, which are designed to ensure that the Company complies with relevant regulatory reporting and filing provisions. As at the end of the period covered by this report, the Audit Committee, with the participation of the Chief Executive and Finance Director, evaluated the effectiveness of the design and operation of disclosure controls and procedures designed to ensure that information required to be disclosed in financial reports is recorded, processed, summarised and reported within specified time periods.

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

P F Dicks
Senior Independent Non-Executive Director
27 March 2012

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 2011 UK Corporate Governance Code ('Combined Code') relating to Directors' remuneration. As required by the Regulations, an advisory resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved.

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

Part 2 of the Regulations – unaudited information

Remuneration Committee

The Directors who were members of the Remuneration Committee (the 'Committee') during the year are shown on page 41.

In 2011, the Committee continued to engage PwC and received wholly independent advice on Executive compensation.

The Committee is formally constituted with written terms of reference and its main responsibilities are detailed in the Corporate Governance Statement on page 41.

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

The Committee met three times during 2011 and discussed, amongst others, the issues set out in the table below:

Meeting	Key issues discussed	Attendees
April	– A review of Executive Directors' and senior management's base salaries and pension provision	All Committee members
	– Consideration of bonus payments for Executive Directors	
	– Approval of the 2010 Directors' Remuneration Report	
August	– Structure and performance targets of LTIP	All Committee members
	Deferral of 2011 LTIP awards pending outcome of review in conjunction with advisers	
December	– Review of Executive Directors' bonus structure for 2012	All Committee members
	– Review of pension contributions made in respect of Executive Directors	
	– Executive Directors' base salaries to be reviewed annually in April	

Annual overview

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

- improve the level of openness and transparency in remuneration reporting through a detailed annual Remuneration Report;
- provide no increase to the Chairman's salary for 2010, 2011 or 2012, which resulted in a reduced salary level for 2011 and a further proposed reduction for 2012, and to review at regular intervals the role and responsibilities of the Chairman going forward in accordance with the implementation of the succession planning strategy;
- operate a structured bonus arrangement with clear financial and individual performance targets for each year;
- undertake a regular review of the remuneration policies for Executive Directors and other Senior Executives within the Group to ensure that they remain appropriate to retain and motivate such individuals;
- take into account the changes to principles proposed by the Walker Review and other pronouncements by regulatory bodies and institutional shareholders and their representative bodies;
- consider pay policies within the Group as a whole when determining Executive Directors' remuneration packages;
- 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 external advisers, institutional shareholders and their representative bodies.

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

Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy

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

Remuneration policy	How is this achieved?
Levels of remuneration should be appropriate to retain and motivate the Executive talent required to meet the Group's objectives.	Provide threshold level of remuneration which reflects the individual's experience, role and contribution within the Group. Remuneration levels are reviewed annually with due consideration afforded to the Mears' remuneration policy and external benchmarks and market practices.
Incentive arrangements for key individuals should be capable of providing exceptional levels of total payment if outstanding performance is achieved.	The Executive Directors' remuneration package is designed to ensure that variable components of an Executive Director's remuneration package amounts to one third for target performance and half for stretching performance.
The significant component of each Executive's total compensation should be delivered through performance related pay and the provision of equity.	Around half of the Executive Directors' remuneration package is based on long-term performance. The Group operates a long-term incentive scheme in which awards vest subject to the achievement of challenging EPS and TSR growth targets.
A commitment to fostering a strong performance culture that aligns an individual's rewards with the key corporate metrics which drive shareholder value creation.	Performance targets are set which are motivating and directly aligned to the Group's strategic KPIs and underlying performance. The Committee also ensures that the remuneration package does not lead to irresponsible behaviours and that it takes appropriate account of risk.

The charts below indicate the target remuneration as a percentage of total remuneration for each Executive Director's remuneration package in line with the current policy.

R Holt

- Salary 77%
- Annual bonus
- LTIP
- Pension 23%

D J Miles

- Salary 38%
- Annual bonus 15%
- LTIP 42%
- Pension 5%

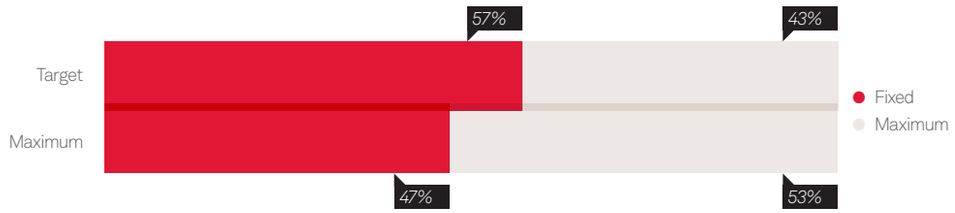
A C M Smith

- Salary 38%
- Annual bonus 15%
- LTIP 42%
- Pension 4%

A Long

- Salary 38%
- Annual bonus 15%
- LTIP 42%
- Pension 4%

The charts below demonstrate the balance between fixed and variable pay for target and maximum performance for Executive Director's remuneration in 2012 in line with the current policy:



Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy continued

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. In 2012 and future years, with the exception of the Chairman, salaries will be reviewed in April, which is in line with when salaries are reviewed throughout the Group.

The Committee will retain the discretion to increase an individual's salary (other than that of the Chairman) where there is a significant difference 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.

As communicated in last year's Remuneration Report, the Committee is committed to reducing the salary level for the Chairman, which historically reflected his combined role of Chairman and Chief Executive. Since the separation of roles in late 2010, the Committee has progressively reduced his base salary to levels which are aligned with salaries received by Executive Chairmen at similar size companies. In 2011 his base salary was reduced from £450,000 to £350,000. A further reduction to £250,000 is proposed for 2012. The Committee will continue to regularly review the Chairman's salary level and ensure that it remains appropriate based on his ongoing role and responsibilities.

As a result of David Miles' appointment to CEO, a re-assessment of the duties of Andrew Smith and Alan Long and following a consultation process with major shareholders and other bodies, the Committee adjusted the salary levels in 2011 from £230,000 to £330,000 for David Miles, £170,000 to £220,000 for Andrew Smith and £160,000 to £180,000 for Alan Long. The consultation process included a benchmarking calculation using a peer group and companies of similar size and the increases reflected the lower of these two comparator groups. The net effect when taking into account the reduction in the Chairman's salary was an increase of 7% for 2011. This should be considered in the context of the pending salary review for Executive Directors and a further reduction in the Chairman's salary for 2012, which is likely to show no increase in total Executive Directors' salaries over a two-year period.

The table below shows the Executive Directors' salaries for 2011. As indicated above, with the exception of the Chairman, salaries will be reviewed in (and changes, if any, will be effective from) April 2012:

	Base salary 2012	Base salary 2011
R Holt	**£250,000**	£350,000
D J Miles	**£330,000**	£330,000
A C M Smith	**£220,000**	£220,000
A Long	**£180,000**	£180,000

The Chairman's base salary for 2012 will be £250,000.

External appointments

R Holt is a Non-Executive Director of Green Compliance PLC and Inspired Energy PLC and receives fees totalling £61,000.

Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy continued

Annual bonus

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

The purpose of the annual bonus is to incentivise Executive Directors and senior management to achieve financial, strategic, operational and individual targets during a one-year period and reward ongoing 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 similar roles among our competitors and in the quoted support services sector.

The maximum bonus potential for the Executive Directors for 2012 and subsequent years will continue to be limited to 75% of salary (reduced from 110% in 2010). It should be noted that bonus payments are not pensionable. With effect from 2012, it is the intention that a significant portion of any bonus payments due to Executive Directors will be paid in shares rather than cash.

In 2011, the Committee 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. The performance against the Group KPIs is measured using a balanced scorecard approach which is applied to each of the Executive Directors.

Such targets included:

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

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

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

The proportion of the bonus awarded that is based on an individual's personal objectives is conditional upon the achievement of the budget performance target, at which point this part of the award will be subject to the performance targets indicated in the table above.

In respect of the 2011 financial year, as a result of the financial performance (PBTA) budget target not being achieved, no bonus payments were made to Executive Directors. The Committee recognises and appreciates the efforts and contributions of the Executive Directors and all employees of the Group in a challenging economic environment.

No changes are being proposed to the annual bonus arrangements in 2012, subject to the intention to pay a significant portion of any payments due to Executive Directors in shares going forward.

Corporate governance / 30–54

Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy continued

Benefits

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.

Pensions

Part 2 of the Regulations – unaudited information continued

Remuneration policy and philosophy continued

Share awards continued

Long-term Incentive Plan (LTIP) continued

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

		Percentage of award vesting		
Year of grant	Performance period	TSR	EPS	Total vesting
2008	October 2008–October 2011*	—	53%	27%
2009	October 2009–October 2012**	—	—	—
2010	August 2010–August 2013**	—	10%	8%

* Actual.
** Projected given performance to date.

Share options

Although the policy on equity incentives is through the provision of the LTIP Awards, Executive Directors and Senior management hold share options in the Company which were granted prior to adoption of the LTIP.

The tables on pages 52 and 53 set out the number of share awards held by the Executive Directors. There were no share option awards in 2011.

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%. In December 2011 invitations were issued to all eligible employees (other than Directors) at an option price of 178p which resulted in applications for 1,357,977 options from 664 employees, all of which were accepted in full.

Dilution

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

Other remuneration matters

Executive Directors' contracts

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

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

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

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

Part 2 of the Regulations – unaudited information continued

Other remuneration matters continued

Non-Executive Directors' fee level

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

Each Non-Executive Director was paid an annualised fee of £42,000 for 2010 and 2011. These fees are subject to review in 2012. No additional fees are paid for committee membership or other normal duties and Non-Executive Directors do no participate in any incentive, pension or bonus arrangements.

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

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

Non-Executive Directors do not have service contracts. Letters of appointment run for a rolling six-month period.

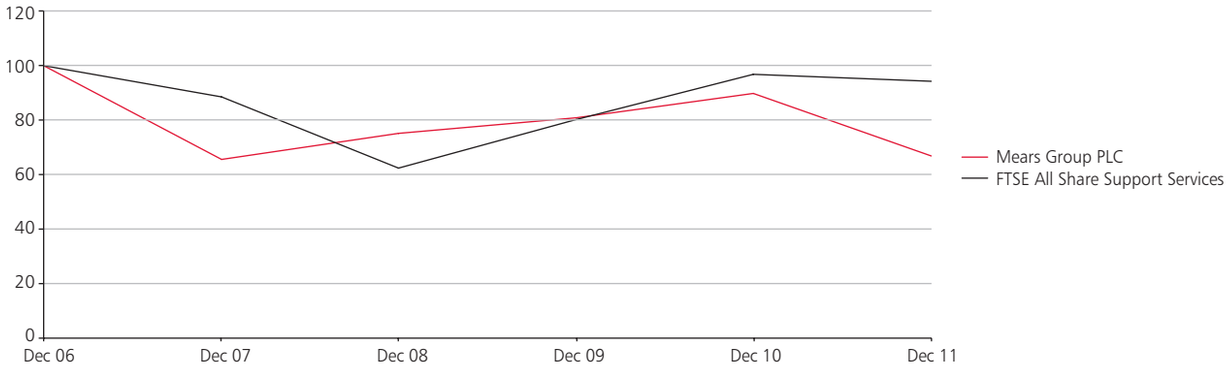
Directors' interests

The beneficial interests of the Directors in the shares of the Company at 31 December 2011 and 31 December 2010 are detailed below:

	Ordinary shares	
	31 December 2011 Number	31 December 2010 Number
R Holt	**500,000**	500,000
D J Miles	**110,000**	100,000
A C M Smith	**50,000**	50,000
A Long	**4,108**	4,108
M G Rogers	**102,420**	102,420
D L Hosein	**—**	—
P F Dicks	**23,298**	23,298
D Marston	**15,324**	10,500
R Macnamara	**—**	—

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 2011 compared with 2010 is set out in the table below:

Directors' remuneration	Fees/ basic salary £'000	Bonus £'000	Benefits -in-kind £'000	**2011 Total £'000**	2010 Total £'000
Executive					
R Holt	350	—	15	**365**	465
D J Miles	330	—	9	**339**	239
A C M Smith	220	—	6	**226**	174
A Long	180	—	10	**190**	164
	1,080	—	40	**1,120**	1,042
Non-Executive					
R B Pomphrett*	—	—	—	**—**	18
M A Macario*	21	—	—	**21**	42
D L Hosein	42	—	—	**42**	42
M G Rogers	42	—	—	**42**	42
P F Dicks	42	—	—	**42**	42
D Marston	42	—	—	**42**	23
R Macnamara	42	—	—	**42**	23
	231	—	—	**231**	232
Total remuneration	1,311	—	40	**1,351**	1,274

* M A Macario did not seek re-election at the AGM on 8 June 2011. R B Pomphrett did not seek re-election at the AGM on 9 June 2010.

Part 3 of the Regulations – audited information continued

Executive Directors' pensions (defined contribution)

	2011 £'000	2011 %	2010 £'000	2010 %
R Holt	**105**	**30**	135	30
D J Miles	**45**	**14**	31	14
A C M Smith	**22**	**10**	17	10
A Long	**18**	**10**	16	10
	190		199	

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 2011	Granted	Lapsed	LTIP Awards held at 31 December 2011	Date of release
D J Miles					
13 October 2008[1]	100,000	—	(73,450)	**26,550**	October 2011
28 October 2009[2]	100,000	—	—	**100,000**	October 2012
24 August 2010[3]	175,000	—	—	**175,000**	August 2013
A C M Smith					
13 October 2008[1]	100,000	—	(73,450)	**26,550**	October 2011
28 October 2009[2]	100,000	—	—	**100,000**	October 2012
24 August 2010[3]	130,000	—	—	**130,000**	August 2013
A Long					
13 October 2008[1]	100,000	—	(73,450)	**26,550**	October 2011
28 October 2009[2]	100,000	—	—	**100,000**	October 2012
24 August 2010[3]	100,000	—	—	**100,000**	August 2013

LTIP Awards are in the form of 1p 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.

As explained above awards in respect of the 2011 financial year were not granted during 2011, but the Remuneration Committee intends to grant these awards to the Executive Directors as soon as possible and their grant will be reported in the 2012 Annual Report and Accounts.

[1] The performance applicable to 2008 awards is subject to EPS growth (50% of the award) of 10%, 12.5% and 17.5% p.a. for 10%, 30% and 100% vesting and TSR performance against the FTSE All Share Support Services Sector (50% of the award) where 30% vest for performance equal to the Index and full vesting for outperforming the Index by 10%.

[2] The performance applicable to 2009 awards is subject to EPS growth (75% of the award) of 10%, 12.5% and 15% p.a. for 10%, 30% and 100% vesting and TSR performance against the FTSE All Share Support Services Sector (25% of the award) where 30% vest for performance equal to the Index and full vesting for outperforming the Index by 10%.

[3] The performance applicable to 2010 awards is subject to EPS growth (75% of the award) of 8%, 12.5% and 15% p.a. for 10%, 30% and 100% vesting and TSR performance against the FTSE All Share Support Services Sector (25% of the award) where 30% vest for performance equal to the Index and full vesting for outperforming the Index by 10%.

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 or Special Incentive Plan:

Date of grant	At 1 January 2011	Lapsed	Exercised	**At 31 December 2011**	Exercise price p	Exercisable dates
R Holt						
10 April 2003	129,870	—	(129,870)[1]	**—**	77	—
10 April 2003	240,642	—	(240,642)[1]	**—**	1	—
1 April 2004	30,453	—	(30,453)[1]	**—**	1	—
28 September 2009	2,500,000	—	—	**2,500,000**	1	2010–2019
D J Miles						
1 April 2004[2]	30,453	—	—	**30,453**	1	2007–2014
8 April 2005[2]	7,220	—	—	**7,220**	1	2008–2015
21 April 2006	10,000	—	—	**10,000**	300	2009–2016
21 April 2006[2]	6,087	—	—	**6,087**	1	2009–2016
28 September 2007[2]	50,045	—	—	**50,045**	1	2010–2017
20 March 2008[2]	151,149	—	—	**151,149**	1	2011–2018
A C M Smith						
10 April 2003	50,000	—	—	**50,000**	77	2006–2013
1 April 2004[2]	24,363	—	—	**24,363**	1	2007–2014
8 April 2005[2]	7,220	—	—	**7,220**	1	2008–2015
21 April 2006	10,000	—	—	**10,000**	300	2009–2016
21 April 2006[2]	6,087	—	—	**6,087**	1	2009–2016
28 September 2007[2]	50,045	—	—	**50,045**	1	2010–2017
20 March 2008[2]	100,766	—	—	**100,766**	1	2011–2018
A Long						
21 April 2006	10,000	—	—	**10,000**	300	2009–2016
21 April 2006[2]	6,087	—	—	**6,087**	1	2009–2016
28 September 2007[2]	20,018	—	—	**20,018**	1	2010–2017
20 March 2008[2]	75,575	—	—	**75,575**	1	2011–2018

[1] On the 17 August 2011 R Holt, Chairman of Mears, exercised share options (granted in 2003 and 2004 with a condition of continued employment) over 400,965 ordinary shares in the Company. The resulting shares were sold on the same day at an average price of 271.77p per share.

[2] 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 1p options with the same expected value and terms and conditions. These 1p options can only be exercised if the share price is greater than the original exercise price of the market-priced options.

Part 3 of the Regulations – audited information continued

Details of Directors' interests in shares held under option continued

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

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

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

P F Dicks
Chairman of the Remuneration Committee
27 March 2012

Financial statements / Group accounts

Financial statements

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Financial statements / 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 2011 which comprise the Group principal accounting policies, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, related Group notes, Company principal accounting policies, Parent Company Balance Sheet and related Company notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 36 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 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 37 to 43 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;

// the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns;

// certain disclosures of Directors' remuneration specified by law are not made;

// we have not received all the information and explanations we require for our audit; or

// a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules, we are required to review:

// the Directors' Statement, set out on page 33, in relation to going concern;

// the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and

// certain elements of the report to the shareholders by the Board on Directors' remuneration.

J Geraint Davies
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
27 March 2012

Basis of preparation

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

The accounting policies remain unchanged from the previous year except for the adoption of IAS 24 (Revised) 'Related Party Disclosures' and the adoption of

Property, plant and equipment continued

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

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

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

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

Intangible assets

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

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

// completion of the software module is technically feasible so that it will be available for use;

// the Group intends to complete the development of the module and use it;

// the software will be used in generating probable future economic benefits;

// there are adequate technical, financial and other resources to complete the development and to use the software; and

// the expenditure attributable to the software during its development can be measured reliably.

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

// completion of the data set is technically feasible so that it will be available for use;

// the Group intends to complete the preparation of the data and use it;

// the data will be used in generating probable future economic benefits;

// there are adequate technical, financial and other resources to complete the data set and to use it; and

// the expenditure attributable to the intellectual property during its development can be measured reliably.

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

Intangible assets continued

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: cash-generating units (CGUs). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or CGUs that include goodwill 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 actual purchase price of materials.

Work in progress

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

Amounts recoverable on contracts

Amounts recoverable on contracts are included in trade and other receivables and represent revenue 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.

Accounting for taxes continued

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 either the Income Statement, the Consolidated Statement of Comprehensive Income or equity to the extent that it relates to items charged or credited.

Revenue

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

Social Housing

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

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

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

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

Schedule of Rates (SOR) contracts

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

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

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

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

Open book contracts

Typically the open book element of contracts relates to the local site overhead. A priced overhead model is usually provided to a client at tender stage and the client pays the Group a fixed sum for maintaining this local site. This is typically an agreed fixed price. Revenue is recognised in line with cost incurred and similarly the attributable profit recognised against that cost.

Revenue continued

Social Housing continued

Open book contracts continued

Any over or underspends are typically at the risk of the Group. The actual overhead spend is often subject to an open book review which is then used as the basis for agreeing future pricing.

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

Lump sum contracts

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

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

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

Care

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

Mears Care utilises rostering systems to manage Care. These systems allow for planning a rota for each staff member, together with the corresponding pay and bill rates for the particular service type, length of service and time of delivery. These results are very accurate in the calculation of billable time, income and corresponding employee pay for a particular contract, branch or region.

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

Construction contracts

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

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

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

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

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

Segment reporting

Segment information is presented in respect of the Group's operating segments based upon the format that the Group reports to its chief operating decision makers.

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

Exceptional items

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

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

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

Employee benefits

Retirement benefit obligations

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

i) Defined contribution pensions

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

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

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

ii) Defined benefit pensions

The Group contributes to 15 principal defined benefit schemes which require contributions to be made to separately administered funds.

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

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

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

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

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

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

Employee benefits continued

Share-based employee remuneration

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

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

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

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

Modifications to share-based payment arrangements are accounted for in accordance with IFRS 2. The modifications made by the Group in previous years did not increased the fair value of the equity instruments granted and, therefore, there was 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, net of transaction costs other than for financial assets carried at fair value through the Income Statement.

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

Loans and receivables

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

Financial instruments continued

Financial assets continued

Loans and receivables continued

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

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

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

Financial liabilities

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

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

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

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

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

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

Derivative financial statements

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational and financing activities.

Derivative financial instruments are recognised initially and subsequently at fair value, with mark-to-market movements recognised in the Income Statement except where cash flow hedge accounting is applied (see below).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Mark-to-market movements on these derivatives are shown in the Income Statement.

Hedge accounting for interest rate swaps

Where an interest rate swap is designated as a hedge of the variability in cash flows of an existing or highly probably forecast loan interest payment, the effective part of any valuation gain or loss on the swap instrument is recognised in other comprehensive income in the hedging reserve. The cumulative gain or loss is removed from equity and recognised in the Income Statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Income Statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

Nature and purpose of each reserve in equity

Use of judgements and estimates continued

Key sources of estimation uncertainty continued

Defined benefit liabilities

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

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

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

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

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

New standards and interpretations not yet applied

Amendments to IFRS 7 'Financial Instruments: Disclosures' – transfers of financial assets (effective 1 July 2011). The Group will apply this amendment from 1 January 2012.

IAS 19 (revised) 'Employee Benefits' (effective 1 January 2012). The Group will apply this revised standard for the Group's 31 December 2012 financial statements. The revised standard combines interest on obligation and expected return on plan assets and requires the disclosure of the net interest on liability; it also requires the separate disclosure of expenses for running the plan. As a result asset returns will be based on the discount rate instead of the expected rate of return on assets. This is expected to result in a lower expected return in the Income Statement and a higher gain in the Statement of Comprehensive Income. The revised standard will require the restatement of the prior year comparative.

IAS 27 (revised) 'Separate Financial Statements' (effective 1 January 2013). The Group will apply this revised standard for the Group's 31 December 2013 financial statements.

IAS 28 (revised) 'Investments in Associates and Joint Ventures' (effective 1 January 2013). The Group will apply this revised standard for the Group's 31 December 2013 financial statements.

IFRS 9 'Financial Instruments' (effective 1 January 2015) 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 this standard for the Group's 31 December 2015 financial statements.

IFRS 10 'Consolidated Financial Statements' (effective 1 January 2013) establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The Group will apply this standard for the Group's 31 December 2013 financial statements.

IFRS 11 'Joint Arrangements' (effective 1 January 2013) establishes principles for financial reporting by parties to a joint arrangement. The Group will apply this standard for the Group's 31 December 2013 financial statements.

IFRS 12 'Disclosures of Interests in Other Entities' (effective 1 January 2013) requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The Group will apply this standard for the Group's 31 December 2013 financial statements.

IFRS 13 'Fair Value Measurement' (effective 1 January 2013) explains how to measure fair value for financial reporting. The Group will apply this standard for the Group's 31 December 2013 financial statements.

The Directors do not expect that the adoption of these standards and amendments will have a material impact on the financial statements of the Group in future periods.

Financial statements / Consolidated income statement / *for the year ended 31 December 2011*

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Sales revenue	1		**588,971**		523,935
Cost of sales			**(414,207)**		(373,402)
Gross profit			**174,764**		150,533
Other administrative expenses		**(141,156)**		(119,213)	
Operating result before amortisation of acquisition intangibles and exceptional items		**33,608**		31,320	
Exceptional items	7	**(3,094)**		(2,450)	
Amortisation of acquisition intangibles	12	**(7,783)**		(10,119)	
Total administrative costs			**(152,033)**		(131,782)
Operating profit			**22,731**		18,751
Finance income	4		**484**		63
Finance costs	4		**(2,633)**		(2,462)
Profit for the year before tax	2		**20,582**		16,352
Tax expense	8		**(3,668)**		(1,588)
Net profit for the year			**16,914**		14,764
Earnings per share					
Basic	10		**19.87p**		17.70p
Diluted	10		**19.03p**		16.57p

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

Financial statements / Consolidated statement of comprehensive income / *for the year ended 31 December 2011*

	Note	2011 £'000	2010 £'000
Net result for the year		**16,914**	14,764
Other comprehensive income/(expense):			
Cash flow hedges:			
– losses arising in the year		**(1,463)**	—
– reclassification to Income Statement		**204**	—
Actuarial gain/(loss) on defined benefit pension scheme	26	**846**	(3,651)
(Decrease)/increase in deferred tax asset in respect of defined benefit pension schemes	22	**(479)**	1,022
Other comprehensive expense for the year		**(892)**	(2,629)
Total comprehensive income for the year		**16,022**	12,135
Attributable to:			
– equity holders of the parent		**16,022**	12,135

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

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Financial statements / Consolidated balance sheet / *as at 31 December 2011* / *Company number: 3232863*

	Note	2011 £'000	2010 £'000
Assets			
Non-current			
Goodwill	11	**101,030**	97,405
Intangible assets	12	**26,449**	27,136
Property, plant and equipment	13	**12,681**	12,113
Deferred tax asset	22	**7,379**	8,056
Trade and other receivables	17	**2,384**	1,929
		149,923	146,639
Current			
Inventories	15	**12,541**	12,147
Trade and other receivables	17	**125,095**	109,765
Cash at bank and in hand		**46,571**	21,757
		184,207	143,669
Total assets		**334,130**	290,308
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	23	**857**	848
Share premium account		**33,554**	33,243
Share-based payment reserve		**2,965**	2,905
Hedging reserve		**(1,259)**	—
Merger reserve		**38,243**	38,243
Retained earnings		**77,425**	66,315
Total equity		**151,785**	141,554
Liabilities			
Non-current			
Pension and other employee benefits	26	**5,840**	7,693
Deferred tax liabilities	22	**5,297**	6,983
Financing liabilities	19	**1,325**	—
Other liabilities	20	**879**	959
		13,341	15,635
Current			
Short-term borrowings and overdrafts		**60,000**	34,000
Trade and other payables	18	**105,916**	97,879
Financing liabilities	19	**403**	—
Current tax liabilities		**2,685**	1,240
Current liabilities		**169,004**	133,119
Total liabilities		**182,345**	148,754
Total equity and liabilities		**334,130**	290,308

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 27 March 2012.

R Holt *Director*

A C M Smith *Director*

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

Financial statements / Consolidated cash flow statement / *for the year ended 31 December 2011*

	Note	2011 £'000	2010 £'000
Operating activities			
Result for the year before tax		**20,582**	16,352
Adjustments	24	**14,046**	17,799
Change in inventories		**(394)**	5,588
Change in trade and other receivables		**(13,340)**	(13,835)
Change in trade and other payables		**5,026**	431
Cash flow from operating activities before taxation before effect of acquired contracts		**25,920**	26,335
Change in working capital from acquired contracts		**(2,820)**	—
Cash flow from operating activities before taxation		**23,100**	26,335
Taxes paid		**(4,615)**	(6,599)
Net cash inflow from operating activities		**18,485**	19,736
Investing activities			
Additions to property, plant and equipment		**(3,991)**	(2,935)
Additions to other intangible assets		**(1,419)**	(920)
Proceeds from disposals of property, plant and equipment		**208**	243
Acquisition of subsidiary undertaking, net of cash		**(5,771)**	(28,122)
Disposal of business activities, net of cash		**—**	986
Interest received		**—**	2
Net cash outflow from investing activities		**(10,973)**	(30,746)
Financing activities			
Proceeds from share issue		**320**	743
Discharge of finance lease liability		**(86)**	(557)
Interest paid		**(2,970)**	(2,851)
Dividends paid		**(5,962)**	(5,079)
Net cash outflow from financing activities		**(8,698)**	(7,744)
Cash and cash equivalents, beginning of year		**(12,243)**	6,511
Net decrease in cash and cash equivalents		**(1,186)**	(18,754)
Cash and cash equivalents, end of year		**(13,429)**	(12,243)
Cash and cash equivalents is comprised as follows:			
– cash at bank and in hand		**46,571**	21,757
– short-term borrowings and overdrafts		**(60,000)**	(34,000)
Cash and cash equivalents		**(13,429)**	(12,243)

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

Financial statements / Consolidated statement of changes in equity / *for the year ended 31 December 2011*

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010	744	32,505	2,649	—	11,548	58,482	105,928
Net profit for the year	—	—	—	—	—	14,764	14,764
Other comprehensive income/(expense):							
– deferred tax on pension obligation	—	—	—	—	—	1,022	1,022
– actuarial loss on pension and other employee benefits	—	—	—	—	—	(3,651)	(3,651)
Total comprehensive income for the year	—	—	—	—	—	12,135	12,135
Deferred tax on share-based payments	—	—	—	—	—	283	283
Issue of shares	104	738	—	—	26,695	—	27,537
Share option charges	—	—	750	—	—	—	750
Exercise of share options	—	—	(494)	—	—	494	—
Dividends	—	—	—	—	—	(5,079)	(5,079)
At 1 January 2011	848	33,243	2,905	—	38,243	66,315	141,554
Net profit for the year	—	—	—	—	—	16,914	16,914
Other comprehensive income/(expense):							
– cash flow hedge	—	—	—	(1,259)	—	—	(1,259)
– deferred tax on pension obligation	—	—	—	—	—	(479)	(479)
– actuarial gain on pension and other employee benefits	—	—	—	—	—	846	846
Total comprehensive income for the year	—	—	—	(1,259)	—	17,281	16,022
Deferred tax on share-based payments	—	—	—	—	—	(349)	(349)
Issue of shares	9	311	—	—	—	—	320
Share option charges	—	—	200	—	—	—	200
Exercise of share options	—	—	(140)	—	—	140	—
Dividends	—	—	—	—	—	(5,962)	(5,962)
At 31 December 2011	**857**	**33,554**	**2,965**	**(1,259)**	**38,243**	**77,425**	**151,785**

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

1. Segment reporting

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

The Group operated three operating segments during the year:

// Social Housing – services within this sector comprise a full repairs and maintenance service to Local Authorities and other Registered Social Landlords;

// Care – services within this sector comprise personal care services to people in their own homes; and

// Other – services within this sector comprise provision of design and build M&E services.

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

The principal financial measures used by the chief operating decision maker and the Board to review the performance of the operating segments is that of revenue growth and operating margins in both the core divisions of Social Housing and Care. The operating result utilised within the key performance measures is stated before amortisation of acquisition intangibles, exceptional items and share-based payments.

	2011				2010			
Business segments	**Social Housing £'000**	**Care £'000**	**Other £'000**	**Total £'000**	Social Housing £'000	Care £'000	Other £'000	Total £'000
Revenue	**415,000**	**108,518**	**65,453**	**588,971**	379,400	100,358	44,177	523,935
Operating result pre amortisation of acquisition intangibles, exceptional items and share-based payment	**23,866**	**8,674**	**1,268**	**33,808**	22,896	7,532	1,642	32,070
Operating margin pre amortisation of acquisition intangibles, exceptional items and share-based payment	**5.8%**	**8.0%**	**1.9%**	**5.7%**	6.0%	7.5%	3.7%	6.1%
Share-based payment	**(150)**	**(25)**	**(25)**	**(200)**	(600)	(50)	(100)	(750)
Operating result pre amortisation of acquisition intangibles and exceptional items	**23,716**	**8,649**	**1,243**	**33,608**	22,296	7,482	1,542	31,320

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

	2011 £'000	2010 £'000
Operating result pre amortisation of acquisition intangibles and exceptional items	**33,608**	31,320
Exceptional items	**(3,094)**	(2,450)
Amortisation of acquisition intangibles	**(7,783)**	(10,119)
Finance costs, net	**(2,149)**	(2,399)
Tax expense	**(3,668)**	(1,588)
Net profit for the year	**16,914**	14,764

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1. Segment reporting continued

Reconciliation to the Consolidated Income Statement continued

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

	2011				2010			
Business segments	**Social Housing £'000**	**Care £'000**	**Other £'000**	**Total £'000**	Social Housing £'000	Care £'000	Other £'000	Total £'000
Segment assets	**199,416**	**109,248**	**25,466**	**334,130**	209,126	60,178	21,004	290,308
Segment liabilities	**(120,289)**	**(46,383)**	**(15,673)**	**(182,345)**	(100,979)	(38,029)	(9,746)	(148,754)
Property, plant and equipment acquired	**3,308**	**270**	**413**	**3,991**	2,314	510	111	2,935
Depreciation	**2,217**	**806**	**215**	**3,238**	1,963	1,013	206	3,182

2. Profit for the year before tax

Profit for the year before tax is stated after:

	2011 £'000	2010 £'000
Share-based payments	**200**	750
Depreciation	**3,238**	3,182
Amortisation	**8,404**	10,511
Hire of plant and machinery	**3,339**	2,514
Other operating lease rentals	**19,586**	14,503

3. Auditor's remuneration

	2011 £'000	2010 £'000
Fees payable to the auditor for the audit of the Group's financial statements	**62**	61
Other fees payable to the auditor in respect of:		
– auditing of accounts of subsidiary undertakings pursuant to legislation	**167**	161
– taxation compliance fees	**59**	38
– taxation advice fees	**1**	30
Total auditor's remuneration	**289**	290

4. Finance income and finance costs

	2011 £'000	2010 £'000
Interest charge on overdrafts and short-term loans	**(1,994)**	(920)
Interest charge on interest rate swap	**(205)**	—
Changes in mark to market of interest rate swaps (ineffective hedges)	**(103)**	(913)
Other interest	**(86)**	(216)
Finance costs on bank loans, overdrafts and finance leases	**(2,388)**	(2,049)
Interest charge on defined benefit obligation	**(205)**	(373)
Unwinding of discounting on deferred consideration	**(40)**	(40)
Total finance costs	**(2,633)**	(2,462)
Interest income resulting from short-term bank deposits	**—**	2
Interest income resulting from defined benefit obligation	**484**	61
Finance income	**484**	63
Net finance charge	**(2,149)**	(2,399)
Interest recognised in other comprehensive income		
Changes in mark to market of interest rate swaps (effective hedges)	**(1,679)**	—

5. Employees

Staff costs during the year were as follows:

	2011 £'000	2010 £'000
Wages and salaries	**205,462**	189,362
Social security costs	**17,758**	15,721
Other pension costs	**3,818**	63
	227,038	205,146

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

	2011 Number	2010 Number
Site workers	**2,926**	2,508
Carers	**5,983**	6,090
Office and management	**2,408**	2,203
	11,317	10,801

Remuneration in respect of Directors was as follows:

	2011 £'000	2010 £'000
Emoluments	**1,351**	1,300
Gains made on the exercise of share options	**987**	—
Pension contributions to personal pension schemes	**190**	199
	2,528	1,499

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

	2011 £'000	2010 £'000
Emoluments and gains made on the exercise of share options	**1,468**	465
Pension contributions to personal pension schemes	**105**	135

During the year contributions were paid to personal pension schemes for four Directors (2010: four).

During the year one Director (2010: none) exercised share options.

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6. Share-based employee remuneration continued

The Mears Group PLC Long-term Incentive Plan 2010 (LTIP)
The LTIP was introduced in October 2008 following shareholder approval. The award of options is offered to a small number of key senior management. The principal terms of the LTIP are detailed below:

Principal terms of LTIP

Number of options	Maximum award limit under the plan will be 200% of salary per annum.
Exercise price	1p
Performance period	3 years
Performance conditions	There are two performance targets attaching to the LTIP Award.
	75% of the LTIP Award will relate to an EPS growth target. The other 25% of the LTIP Award relates to the Company's TSR against the return of the FTSE All Share Support Services Sector.
Expiry conditions	Options are forfeited if the employee leaves the Group before the options have vested.

Performance conditions of LTIP

EPS growth target		TSR target	
Performance levels	Level of vesting	Performance levels	Level of vesting
8.0%	10%	Below index return	0%
10.0%	30%	Equal to index	30%
12.5%	100%	10% outperformance of the index per annum	100%

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

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

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

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 impacts on the number of options expected to vest. If an employee stops saving but continues in employment, this is treated as a cancellation which results in an acceleration of the share-based payment charge.

6. Share-based employee remuneration continued

Special Incentive Plan 2007 (SIP)

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

Principal terms of SIP	
Number of options	2,500,000
Exercise price	1p
Performance conditions	Average real EPS growth attained over three financial years with the base period for calculating EPS being 31 December 2006. EPS was calculated before amortisation and IFRS 2 costs. The performance was measured at the end of the three-year period. The performance conditions relating to this award were satisfied in full.
Vesting conditions	The award vested in full in November 2010, 60% became exercisable in November 2010, 20% became exercisable in November 2011 and the remaining 20% will become exercisable in November 2012.

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

7. Exceptional items

Exceptional items are costs incurred in the period which are considered non-trading or non-recurring in nature.

	2011 £'000	2010 £'000
Costs of acquisitions	**224**	1,289
Costs of refinancing	**890**	—
Costs relating to PV	**1,980**	—
Costs of integration	**—**	1,161
Exceptional items	**3,094**	2,450

The costs of acquisition in the period relate to the acquisition of the Supported Living division of Choices Care Community Services Limited and the acquisition of the trade of the Home Improvement Agency division of Anchor Trust Limited in the period. The costs of acquisition in the previous period relate to the acquisitions of Supporta plc and Jackson Lloyd Limited.

The costs of refinancing relate to the write off of costs relating to the Group's previous facility.

As a direct result of the Government's decision to substantially reduce the Photovoltaic (PV) Feed-in Tariff (FIT) subsidy, the Board took the decision to cease these activities immediately, as the commercial attractions that led us to explore the PV space, in the short term, no longer exist. The Board has written off costs relating to the site set-up, system design and installation amounting to £1.98m which are now considered irrecoverable.

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

8. Tax expense

Tax recognised in the Income Statement:

	2011 £'000	2010 £'000
United Kingdom Corporation Tax effective rate 22.1% (2010: 14.3%)	**6,266**	3,779
Adjustment in respect of previous periods	**(206)**	(159)
Total current tax recognised in Income Statement	**6,060**	3,620
Deferred taxation charge:		
– on defined benefit pension obligations	**215**	1,150
– on share-based payments	**54**	(418)
– on accelerated capital allowances	**—**	69
– on amortisation of acquisition intangibles	**(2,661)**	(2,833)
Total deferred taxation recognised in Income Statement	**(2,392)**	(2,032)
Total tax expense recognised in Income Statement	**3,668**	1,588
Results for the year before tax	**20,582**	16,352
Result for the year multiplied by standard rate of Corporation Tax in the United Kingdom for the period of 26.5% (2010: 28%)	**5,454**	4,579
Effect of:		
– expenses not deductible for tax purposes	**162**	350
– income not subject to tax	**(679)**	(1,050)
– capital allowances in excess of depreciation	**168**	155
– tax relief on exercise of share options	**(423)**	(362)
– statutory tax rate changes	**(749)**	—
– tax rate difference	**(7)**	(9)
– utilisation of tax losses	**—**	(23)
– tax relief on purchased goodwill amortisation	**(52)**	(1,893)
– adjustment in respect of prior periods	**(206)**	(159)
Actual tax expense, net	**3,668**	1,588
Deferred tax recognised directly in equity		
Deferred taxation charge:		
– on defined benefit pension obligations	**479**	(1,022)
– on share-based payments	**349**	(283)
– on cash flow hedges	**(420)**	—
Total deferred taxation recognised in equity	**408**	(1,305)
Total tax		
Total current tax	**6,060**	3,620
Total deferred tax	**(1,984)**	(3,337)

9. Dividends

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

	2011 £'000	2010 £'000
Final 2010 dividend of 4.85p (2010: final 2009 dividend of 4.10p) per share	**4,123**	3,469
Interim 2011 dividend of 2.15p (2010: interim 2010 dividend of 1.90p) per share	**1,839**	1,610
	5,962	5,079

The proposed final 2011 dividend of 5.35p per share has not been included within the consolidated financial statements as no obligation existed at 31 December 2011.

10. Earnings per share

	Basic		Diluted	
	2011 p	2010 p	2011 p	2010 p
Earnings per share	**19.87**	17.70	**19.03**	16.57
Effect of amortisation of acquisition intangibles	**9.14**	12.13	**8.75**	11.36
Effect of full tax adjustment	**(4.52)**	(6.98)	**(4.33)**	(6.54)
Effect of exceptional items (including tax impact)	**2.67**	2.11	**2.56**	1.99
Normalised earnings per share	**27.16**	24.96	**26.01**	23.38

A normalised EPS is disclosed in order to show performance undistorted by amortisation of intangibles. The Group defines normalised earnings as excluding the amortisation of acquisition intangibles, exceptional items and adjusted to reflect a full tax charge of 26.5%. The profit attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	2011 £'000	2010 £'000
Profit attributable to shareholders:	**16,914**	14,764
– amortisation of acquisition intangibles	**7,783**	10,119
– full tax adjustment	**(3,848)**	(5,824)
– exceptional items (including tax impact)	**2,274**	1,764
Normalised earnings	**23,123**	20,823

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.

	2011 Millions	2010 Millions
Weighted average number of shares in issue:	**85.14**	83.42
– dilutive effect of share options	**3.75**	5.66
Weighted average number of shares for calculating diluted earnings per share	**88.89**	89.08

11. Goodwill

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2010	51,987	406	52,393
Additions	44,378	—	44,378
Revision	996	—	996
Disposals	(362)	—	(362)
At 1 January 2011	96,999	406	97,405
Additions	3,593	—	3,593
Revision	32	—	32
At 31 December 2011	**100,624**	**406**	**101,030**
Accumulated impairment losses			
At 1 January 2010, at 1 January 2011 and at 31 December 2011	—	—	—
Carrying amount			
At 31 December 2011	**100,624**	**406**	**101,030**
At 31 December 2010	96,999	406	97,405

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 by the Company.

Additions to goodwill arising on consolidation are detailed within note 25.

Revisions totalling £0.03m relate to reductions to the estimated fair value of assets acquired. The reduction in fair value of assets acquired relates to costs not accrued at the time of the acquisition. The revisions are not considered sufficiently material to warrant the restatement of the prior year provisional balances.

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

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

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Social Housing	22,840	406	23,246
Care	77,784	—	77,784
Other Services	—	—	—
	100,624	406	**101,030**

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value-in-use. At 31 December 2011 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.

11. Goodwill continued

The rates used were as follows:

	Post tax discount rate	Pre tax discount rate	Growth rates (years 1–5)	Growth rates (years 6–10)	Terminal growth rate
Social Housing	10.5%	13.2%	5.0%	2.5%	2.5%
Care	10.7%	13.4%	5.0%	2.5%	2.5%

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

Social Housing

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

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

The Directors consider that reasonably possible changes in these key assumptions would not cause a unit's carrying amount to exceed its recoverable amount.

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

	Terminal growth rate				
Discount rate	1.50%	2.00%	2.50%	3.00%	3.50%
8.5%	170,075	183,242	198,602	216,753	238,533
9.0%	153,649	164,770	177,601	192,569	210,257
9.5%	139,284	148,769	159,607	172,112	186,699
10.0%	126,618	134,776	144,020	154,583	166,771
10.5%	115,367	122,436	**130,387**	139,397	149,693
11.0%	105,308	111,473	118,363	126,114	134,897
11.5%	96,261	101,671	107,681	114,398	121,954
12.0%	88,081	92,854	98,128	103,988	110,536
12.5%	80,651	84,882	89,535	94,678	100,391

The table below shows sensitivity to simultaneous changes in the explicit growth rate (2012–2016) and the long-term growth rate.

	Terminal growth rate				
2012–2016 annual growth rate	1.50%	2.00%	2.50%	3.00%	3.50%
1.0%	95,768	101,819	108,626	116,340	125,155
2.0%	100,469	106,763	113,844	121,868	131,037
3.0%	105,301	111,846	119,208	127,551	137,085
4.0%	110,266	117,069	124,721	133,393	143,303
5.0%	115,367	122,436	**130,387**	139,397	149,693
6.0%	120,607	127,949	136,207	145,565	156,260
7.0%	125,988	133,611	142,185	151,902	163,005
8.0%	131,513	139,425	148,324	158,409	169,934
9.0%	137,185	145,393	154,627	165,090	177,048

Care

The 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 care. The Directors believe that future growth is underpinned by a number of factors including the increasingly ageing population in the United Kingdom and the increased desire of the elderly to lead independent lives. Local Authorities' expenditure on homecare for the elderly has grown rapidly over recent years, averaging 10% per year since 2003. The amount outsourced to independent providers has also risen sharply from 59% in 2001 to in excess of 81% today. It is the Directors' belief that this trend will continue.

11. Goodwill continued

Care continued

The market is highly fragmented with an estimated 4,900 independent providers of homecare services. The increasing regulation in this sector is also expected by the Directors to continue, leading to increased consolidation. Furthermore, the Directors believe that the 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 developments in Government thinking which are likely to improve the prospects for the Care sector. Most notably, the Dillnot Review commissioned by the Department of Health last year to look at the future funding of adult care reported in the autumn of 2011. If accepted in full, this would lead to an additional initial spend on Care and Support of £1.3 billion, rising to as much as £3 billion in future years. Realistically, the Government may well scale back on this ambition within the Spring White Paper but the direction of travel should be positive. The Government faces significant lobbying from numerous organisations, concerning the state of care, most recently from the Equality and Human Rights Commission report of November 2011.

The impairment reviews have incorporated a growth assumption of 5.0% which the Directors believe to be realistic given the tremendous growth opportunities within 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 Care value-in-use is most sensitive to changes in the terminal growth rate. The sensitivity of the calculated value-in-use to changes in explicit growth rate, terminal growth rate and discount rate is shown in the table below. The shaded values indicate situations which would result in impairment.

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

	Terminal growth rate				
Discount rate	1.50%	2.00%	2.50%	3.00%	3.50%
8.7%	30,346	37,269	45,310	54,760	66,028
9.2%	22,145	28,045	34,826	42,700	51,955
9.7%	14,948	20,022	25,801	32,442	40,153
10.2%	8,581	12,980	17,951	23,611	30,115
10.7%	2,909	6,750	**11,060**	15,928	21,473
11.2%	(2,175)	1,200	4,963	9,184	13,954
11.7%	(6,759)	(3,776)	(470)	3,217	7,353
12.2%	(10,913)	(8,263)	(5,340)	(2,100)	1,513
12.7%	(14,693)	(12,328)	(9,732)	(6,868)	(3,692)

It is only when a simultaneous unfavourable change of greater than 0.5% occurs in both the terminal growth rate and the discount rate that the headroom falls below zero.

The table below shows sensitivity to simultaneous changes in the explicit growth rate (2012–2016) and the long-term growth rate.

	Terminal growth rate				
2012–2016 annual growth rate	1.50%	2.00%	2.50%	3.00%	3.50%
1.0%	(8,824)	(5,575)	(1,931)	2,187	6,877
2.0%	(6,014)	(2,624)	1,180	5,477	10,370
3.0%	(3,122)	414	4,380	8,862	13,966
4.0%	(149)	3,538	7,673	12,345	17,666
5.0%	2,909	6,750	**11,060**	15,928	21,473
6.0%	6,053	10,054	14,542	19,612	25,387
7.0%	9,284	13,449	18,121	23,400	29,412
8.0%	12,604	16,938	21,800	27,293	33,549
9.0%	16,015	20,522	25,579	31,293	37,800

It is only when a simultaneous unfavourable change of greater than approximately 1.0% occurs in both the terminal growth rate and the explicit forecast period growth rate that the headroom falls below zero.

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 2010	18,671	7,177	25,848	1,736	224	1,960	27,808
Acquired on acquisition	13,466	6,453	19,919	—	—	—	19,919
Additions	—	—	—	920	—	920	920
Disposals	(405)	(81)	(486)	—	—	—	(486)
At 1 January 2011	31,732	13,549	45,281	2,656	224	2,880	48,161
Acquired on acquisition	4,214	—	4,214	—	—	—	4,214
Revision	2,084	—	2,084	—	—	—	2,084
Additions	—	—	—	1,419	—	1,419	1,419
At 31 December 2011	**38,030**	**13,549**	**51,579**	**4,075**	**224**	**4,299**	**55,878**
Accumulated amortisation							
At 1 January 2010	6,773	3,562	10,335	356	45	401	10,736
Amortisation charge for period	6,891	3,228	10,119	347	45	392	10,511
Disposals	(184)	(38)	(222)	—	—	—	(222)
At 1 January 2011	13,480	6,752	20,232	703	90	793	21,025
Amortisation charge for period	5,535	2,248	7,783	577	44	621	8,404
At 31 December 2011	**19,015**	**9,000**	**28,015**	**1,280**	**134**	**1,414**	**29,429**
Carrying amount							
At 31 December 2011	**19,015**	**4,549**	**23,564**	**2,795**	**90**	**2,885**	**26,449**
At 31 December 2010	18,252	6,797	25,049	1,953	134	2,087	27,136

Development expenditure relates to the development of the Group's Social Housing job management system and the Group's Care management system. This is amortised over its useful economic life of 5.0 years. The weighted average remaining economic life of the asset is 4.1 years (2010: 4.1 years).

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

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

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

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

Additions to intangible assets arising on consolidation are detailed within note 25.

Revisions totalling £2.1m relate to reductions to the estimated fair value of assets acquired in the previous year. A reduction in fair value of assets acquired in respect of the acquisition of Jackson Lloyd Limited of £1.8m relates to provisions and costs not accrued at the time of the acquisition. A reduction of fair value of assets acquired in respect of the acquisition of the social housing business assets of the Bristol social housing division of Rok Building Limited of £0.3m 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.

14. Investments

The principal undertakings within the Group at 31 December 2011 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 Technical Services Limited	100%	Provision of M&E services
Scion Estates Limited	100%	Provision of grounds maintenance
Jackson Lloyd Limited	100%	Provision of maintenance services
Mears Home Improvements Limited	100%	Provision of maintenance services
Mears Care Limited	100%	Provision of care and support
Mears Care (Northern Ireland) Limited	100%	Provision of care and support
Mears Care (Scotland) Limited	100%	Provision of care and support
Terraquest Solutions Limited	100%	Provision of professional services
Mears Insurance Captive Limited	99.99%	Provision of insurance services

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

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

15. Inventories

	2011 £'000	2010 £'000
Materials and consumables	**2,411**	1,778
Work in progress	**10,130**	10,369
	12,541	12,147

The Group consumed inventories totalling £414.2m during the year (2010: £303.3m). No items are being carried at fair value less costs to sell (2010: £nil).

16. Construction contracts

Revenue of £74.2m (2010: £51.4m) relating to construction contracts has been included in the Consolidated Income Statement.

	2011 £'000	2010 £'000
Contract costs incurred	**59,368**	38,091
Recognised gross profits	**14,829**	13,344
Recognised gross losses	**—**	—
	74,197	51,435
Balances outstanding comprise:		
– retentions	**4,965**	3,976
– due from customers for construction contract work	**5,799**	1,690
– due to customers for construction contract work	**(750)**	(72)

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

17. Trade and other receivables

	2011 £'000	2010 £'000
Current assets:		
– trade receivables	**56,940**	53,543
– amounts recoverable on construction contracts	**5,799**	1,690
– amounts recoverable on non-construction contracts	**57,880**	50,235
– prepayments and accrued income	**4,476**	4,297
	125,095	109,765
Non-current assets:		
– trade receivables	**2,384**	1,929
Total trade and other receivables	**127,479**	111,694

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. Care customers are typically County Councils where credit risk is minimal. Included in trade receivables is an amount of £2.4m (2010: £1.9m) which is due after more than one year and represents retention balances.

The ageing analysis of trade receivables is as follows:

	2011 £'000	2010 £'000
Neither impaired nor past due	**49,831**	45,708
Less than three months past due but not impaired	**6,246**	6,354
More than three months but not impaired	**3,247**	3,410
Total trade and other receivables	**59,324**	55,472

18. Trade and other payables

	2011 £'000	2010 £'000
Trade payables	**67,898**	56,103
Accruals and deferred income	**14,502**	19,612
Social security and other taxes	**17,464**	15,986
Due to customers for construction contract work	**750**	72
Due to customers for non-construction contract work	**684**	607
Other creditors	**4,580**	5,375
Amounts due under finance lease contracts	**38**	124
	105,916	97,879

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 £1.98m (2010: £1.86m) relating to deferred consideration on acquisitions.

19. Financing liabilities

	2011 £'000	2010 £'000
Current liabilities:		
– cash flow hedge	**403**	—
	403	—
Non-current liabilities:		
– cash flow hedge	**1,325**	—
Total financing liabilities	**1,728**	—

20. Long-term other liabilities

	2011 £'000	2010 £'000
Other creditors	**879**	959

Included in other creditors is £0.88m (2010: £0.96m) relating to deferred consideration on acquisitions.

21. 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 uses financial instruments to manage the interest rate risks arising from its operations and sources of finance but has no interests in the trade of financial instruments.

Categories of financial instruments

	2011 £'000	2010 £'000
Financial assets		
Loans and receivables		
Trade receivables	**59,324**	55,472
Amounts recoverable on contracts	**63,679**	51,925
Cash at bank and in hand	**46,571**	21,757
	169,574	129,154
Financial liabilities		
Fair value (level 2)		
Interest rate swaps – ineffective	**—**	(1,030)
Interest rate swaps – effective	**(1,728)**	—
Amortised cost		
Short-term borrowings and overdrafts	**(60,000)**	(34,000)
Deferred consideration in respect of acquisitions	**(2,861)**	(2,820)
Trade payables	**(67,898)**	(56,103)
Accruals	**(14,502)**	(19,612)
Other creditors	**(2,598)**	(3,514)
	(149,587)	(117,079)
	19,987	12,075

The IFRS 7 level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1, where instruments are quoted on an active market, through to level 3, where the assumptions used to arrive at fair value do not have comparable market data. The fair values of interest rate swaps have been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates (level 2). There have been no transfers between levels during the year.

21. Financial instruments continued

Fair value information

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

Financial risk management

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

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

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 £120m with Barclays Bank plc and HSBC plc, of which £60m was utilised at 31 December 2011.

The facilities comprise a committed five-year £110.0m revolving credit facility and an unsecured overdraft facility of £10.0m. The undrawn amounts at 31 December 2011 were a £50.0m revolving credit facility and overdraft facility of £10.0m.

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

Interest rate risk management

The Group finances its operations through a mixture of retained profits and bank borrowings from major banking institutions at floating rates of interest based on LIBOR. The Group's exposure to interest rates fluctuations on borrowings is managed through the use of interest rate swaps; hence the fixed rate borrowings relate to floating rate loans where the interest rate has been fixed by a hedging arrangement. The fair value of interest rate exposure on financial liabilities of the Group as at 31 December 2011 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities – 2011	**55,038**	**5,000**	**2,860**	**62,898**
Financial liabilities – 2010	26,064	8,060	2,820	36,944

The Group's policy is to accept a degree of interest rate risk, provided the effects of the various potential changes in rates remain within certain prescribed parameters.

Accordingly, the group has hedged the first £55m of the £120m revolving credit facility by entering into interest rate swap arrangements with Barclays and HSBC. This consists of two £27.5m swap contracts expiring in August 2016 with quarterly maturity, matching the underlying facility. The Group has designated this as two separate hedges of £45m and £10m respectively of the underlying borrowing for the purpose of hedge accounting under IAS 39.

The maturity of the interest rate swap contracts is as follows:

	2011		2010	
	Nominal amount hedged £'000	**Applicable interest rates %**	Nominal amount hedged £'000	Applicable interest rates %
Within one year	**—**	**—**	12,200	5.45%
1–2 years	**—**	**—**	—	—
2–5 years	**55,000**	**1.95%**	15,000	2.95%
More than five years	**—**	**—**	—	—

21. Financial instruments continued

Effective interest rates

Interest rate swaps with fair value liabilities of £1.7m (2010: £1.0m) and remaining lives of four years eight months have been accounted for in creditors.

The Group's overall average cost of debt, including effective and ineffective interest rate swaps, is 3.6% as at 31 December 2011 (2010: 6.0%). Excluding these swaps the average is 2.8% (2010: 3.2%).

Cash flow hedging reserve

The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, are accounted for through the Statement of Comprehensive Income and are recycled through the Consolidated Income Statement when the hedged item affects the Consolidated Income Statement. The interest rate swap contract has quarterly maturity and expires in August 2016.

Movements during the year were:

	£'000
At 1 January 2010	—
Amounts transferred to the Consolidated Income Statement	—
Revaluations during the year	—
Deferred tax movement	—
At 1 January 2011	—
Amounts transferred to the Consolidated Income Statement	204
Revaluations during the year	(1,883)
Deferred tax movement	420
At 31 December 2011	**1,259**

At 31 December 2011 the Group had minimal exposure to movement in interest rates as the remaining interest rate risk was offset by the Group's cash and short-term deposits.

If the interest rates had been 0.5% higher or lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2010 and reserves would decrease or increase by £0.2m.

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.

21. Financial instruments continued

Liquidity risk management continued

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

	Within 1 year £'000	1–2 years £'000	2–5 years £'000	Over 5 years £'000	Total £'000
2011					
Non-derivative financial liabilities:					
Short-term bank borrowings	**60,000**	**—**	**—**	**—**	**60,000**
Finance leases	**38**	**—**	**—**	**—**	**38**
Deferred contingent consideration in respect of acquisitions	**1,861**	**879**	**—**	**—**	**2,740**
Derivative financial liabilities:					
Interest rate swaps – effective	**403**	**354**	**971**	**—**	**1,728**
Interest rate swaps – ineffective	**—**	**—**	**—**	**—**	**—**
2010					
Non-derivative financial liabilities:					
Short-term bank borrowings	34,000	—	—	—	34,000
Finance leases	124	—	—	—	124
Deferred contingent consideration in respect of acquisitions	1,861	959	—	—	2,820
Derivative financial liabilities:					
Interest rate swaps – effective	—	—	—	—	—
Interest rate swaps – ineffective	1,030	—	—	—	1,030

Credit risk management

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

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

Social Housing customers are typically Local Authorities and Housing Associations. 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 continually 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.

21. Financial instruments continued

Deferred contingent consideration

The table below shows the movements in deferred contingent consideration:

	Total £'000
At 1 January 2010	3,031
Increase due to new acquisitions in the year	1,000
Adjustments to estimated contingent consideration payable	(1,297)
Paid in respect of acquisitions	46
Unwinding of discounting	40
At 1 January 2011	2,820
Increase due to new acquisitions in the year	400
Paid in respect of acquisitions	(399)
Unwinding of discounting	40
At 31 December 2011	**2,861**

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.

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.

	2011 £'000	2010 £'000
Cash and cash equivalents is comprised as follows:		
– cash at bank and in hand	**46,571**	21,757
– short-term borrowings and overdrafts	**(60,000)**	(34,000)
Cash and cash equivalents	**(13,429)**	(12,243)

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22. 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 2011 is £7.4m (2010: £8.1m).

	Pension scheme £'000	Share-based payments £'000	Cash flow hedges	Total £'000
At 1 January 2010	897	5,201	—	6,098
Acquisition of Supporta plc	1,385	—	—	1,385
(Debit)/credit to Income Statement	(1,150)	418	—	(732)
Credit to Consolidated Statement of Changes in Equity	—	283	—	283
Credit to Consolidated Statement of Comprehensive Income	1,022	—	—	1,022
At 1 January 2011	2,154	5,902	—	8,056
Debit to Income Statement	(215)	(54)	—	(269)
(Debit)/credit to Consolidated Statement of Changes in Equity	—	(349)	420	71
Debit to Consolidated Statement of Comprehensive Income	(479)	—	—	(479)
At 31 December 2011	**1,460**	**5,499**	**420**	**7,379**

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 £25.3m (2010: £17.3m) have not been recognised as the Directors do not consider that it is probable that they will be recovered.

Deferred tax liabilities

	Acquisition intangibles £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2010	4,346	300	4,646
On acquisition intangibles acquired	5,170	69	5,239
Released in respect of amortisation	(2,833)	—	(2,833)
Provided in respect of accelerated capital allowances	—	(69)	(69)
At 1 January 2011	6,683	300	6,983
On change in tax rate	(717)	(32)	(749)
On acquisition intangibles acquired	978	—	978
Released in respect of amortisation	(1,947)	—	(1,947)
Provided in respect of accelerated capital allowances	—	32	32
At 31 December 2011	**4,997**	**300**	**5,297**

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.

23. Share capital and reserves

Classes of reserves

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

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

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

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

Share capital

	2011 £'000	2010 £'000
Allotted, called up and fully paid		
At 1 January 84,815,470 (2010: 74,391,610) ordinary shares of 1p each	**848**	744
Issue of nil (2010: 9,942,323) shares on acquisition of Supporta plc	**—**	99
Issue of 843,293 (2010: 481,537) shares on exercise of share options	**9**	5
At 31 December 85,658,763 (2010: 84,815,470) ordinary shares of 1p each	**857**	848

843,293 (2010: 481,537) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.01m and the total consideration of £0.32m has been credited to the share premium account.

During 2010 9,942,323 ordinary 1p shares were issued in respect of the acquisition of Supporta plc, with the difference between the nominal value of £0.9m and the total consideration of £26.7m being credited to the merger reserve.

24. 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:

	2011 £'000	2010 £'000
Depreciation	**3,238**	3,182
Cost of acquisitions	**79**	748
(Profit)/loss on disposal of property, plant and equipment	**(24)**	94
Loss on disposal of investments	**—**	115
Amortisation	**8,404**	10,511
Share-based payments	**200**	750
Finance income	**(485)**	(63)
Finance cost	**2,634**	2,462
Total	**14,046**	17,799

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25. Acquisitions

The Group acquired the trade of Home Improvement Agency division of Anchor Trust Limited and the Supported Living division of Choices Care Community Services Limited. The acquisitions are disclosed in aggregate as the effect on the Group's assets is not considered to be material. The effect of the acquisitions on the Group's assets was as follows:

	Book value £'000	Adjustments £'000	Provisional fair value £'000
Liabilities			
Current			
Accruals	—	(1,136)	(1,136)
Total liabilities	—	(1,136)	(1,136)
Net assets acquired			(1,136)
Intangibles capitalised			4,214
Deferred tax liability recognised in respect of intangibles capitalised			(978)
Goodwill capitalised			3,593
			5,693
Satisfied by:			
– cash			5,293
– deferred contingent consideration			400
			5,693

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

The fair value of the liabilities acquired in respect of the Supported Living division of Choices Care Community Services Limited are currently considered to be provisional awaiting further information in respect of certain liabilities. The fair value included above is the Directors' best estimate of liabilities acquired.

On 4 January 2011 the Group acquired the Home Improvement Agency division of Anchor Trust for a nominal fee.

On 4 August 2011 the Group acquired the Supported Living division of Choices Care Community Services Limited for an initial consideration of £5.3m and deferred contingent consideration estimated to be £0.4m. The maximum deferred contingent consideration payable is £0.4m. Deferred consideration is based upon future rental payments. The Directors have considered the likelihood of the consideration being payable and consider that £0.4m is the appropriate carrying value for the liability.

The Supported Living intangible asset is recognised and valued at £3.9m. The values represent the expected value to be derived from the acquired customer relationships. The value placed on these customer relationships is based on the expected cash inflows. The cash flows are discounted using a rate of 16% which the Directors consider is commensurate with the risks associated with capturing returns from the customer relationships. The estimated life is assumed to be the average remaining period of the framework agreements over which earnings from the customer relationships are expected to be generated of three years.

The Directors consider that the value assigned to goodwill represents the workforce acquired and the access to wider geographical supported living services in the UK as a result of this acquisition.

The Home Improvement Agency intangible asset is recognised and valued at £0.3m. The value represents the expected value to be derived from the acquired order book and existing customer relationships. The estimated life is assumed to be the average remaining period of the customer contracts of two years.

25. Acquisitions continued

In the period ended 31 December 2011, the Supported Living acquisition contributed revenue of £4.2m and £0.9m operating profit before amortisation of intangibles.

In the period ended 31 December 2011, the Home Improvement Agency acquisition contributed turnover of £6.7m and £0.5m operating loss before amortisation of intangibles.

For the year ended 31 December 2011, had the acquisitions taken place on 1 January 2011, the combined Group full-year revenue for the year is estimated at £594.9m and the combined Group result for the year before taxation is estimated at £21.5m.

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

	Total £'000
Cash consideration	(5,293)
Costs paid	(79)
Cash paid in respect of prior year acquisitions	(399)
	(5,771)

During the year the Group paid £0.3m in respect of contingent consideration relating to acquisitions in prior periods.

26. Pensions

Defined contribution schemes

The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £1.7m (2010: £1.4m) to these schemes.

Defined benefit schemes

The Group contributes to 15 (2010: 13) principal defined benefit schemes on behalf of a number of employees which require contributions to be made to separately administered funds.

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

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

Following the transfer of a number of employees in respect of new contracts in the year, the Group has gained Admitted Body status for three defined benefit schemes. At the time of admission these schemes had a net deficit of £0.5m. The initial plan assets and liabilities recognised as a result of these admissions are shown as 'Contract transfers' on page 99.

On 1 July 2011 the assets and liabilities of one of the Group's defined benefit schemes, the Scion Group Pension Scheme, were transferred into one of the Group's other defined benefit schemes, the Mears Group Pension Scheme.

The disclosures in respect of the 15 (2010: 13) defined benefit schemes in this note have been aggregated.

26. 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 2011 by qualified independent actuaries using the projected unit method.

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

	2011	2010
Rate of increase of salaries	**3.0%**	4.2%
Rate of increase for pensions in payment	**2.6%**	3.2%
Discount rate	**4.9%**	5.2%
Inflation	**3.0%**	3.2%
Life expectancy for a 65 year old male	**21.4 years**	21.6 years
Life expectancy for a 65 year old female	**23.6 years**	23.7 years

Expected rates of return on investments are:

	2011 %	2010 %
Equities	**7.75**	7.00
Bonds	**4.70**	4.70
Property	**7.25**	6.80
Cash	**3.20**	3.20

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

	2011		2010	
	%	£'000	%	£'000
Equities	**65**	**53,448**	62	51,682
Bonds	**24**	**19,657**	19	16,251
Guarantee	**—**	**126**	6	4,728
Property	**8**	**7,290**	10	8,798
Cash	**3**	**2,094**	3	2,230
Group's estimated asset share		**82,615**		83,689
Present value of funded scheme liabilities		**(81,925)**		(90,837)
Funded status		**690**		(7,148)
Scheme surpluses not recognised as assets		**(6,530)**		(545)
Pension liability		**(5,840)**		(7,693)

The amounts recognised in the Income Statement are as follows:

	2011 £'000	2010 £'000
Current service cost	**2,665**	2,357
Past service cost	**—**	(3,718)
Total operating charge	**2,665**	(1,361)
Amount charged to net interest payable:		
– expected return on pension scheme assets	**(5,205)**	(4,279)
– interest on obligations	**4,926**	4,591
	(279)	312
Total charged to the result for year	**2,386**	(1,049)

26. Pensions continued

IAS 19 'Employee Benefits' continued

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

	2011 £'000	2010 £'000
Present value of obligations at 1 January	**90,837**	67,006
Current service cost	**2,665**	2,357
Past service cost	**—**	(3,718)
Interest on obligations	**4,926**	4,591
Plan participants' contributions	**865**	784
Benefits paid	**(1,474)**	(1,280)
Contract transfer	**3,948**	4,011
Acquisitions	**—**	10,281
Actuarial (gain)/loss	**(19,842)**	6,805
Present value of obligations at 31 December	**81,925**	90,837

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

	2011 £'000	2010 £'000
Fair value of plan assets at 1 January	**83,689**	64,225
Expected return on plan assets	**5,205**	4,279
Employers' contributions	**3,393**	3,041
Plan participants' contributions	**865**	784
Benefits paid	**(1,474)**	(1,280)
Contract transfer	**3,407**	4,251
Acquisitions	**—**	5,354
Actuarial (loss)/gain	**(12,470)**	3,035
Fair value of plan assets at 31 December	**82,615**	83,689

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

	2011 £'000	2010 £'000
Deficit in schemes at 1 January	**(7,693)**	(3,205)
Current service cost	**(2,665)**	(2,357)
Past service cost	**—**	3,718
Contributions	**3,393**	3,041
Other finance income	**279**	(312)
Actuarial gain/(loss)	**7,372**	(3,770)
Contract transfer	**(541)**	240
Acquisitions	**—**	(4,927)
Reduction in actuarial (gain)/loss due to non-recognition of scheme surpluses	**(5,985)**	(121)
Deficit in schemes at 31 December	**(5,840)**	(7,693)

26. Pensions continued

IAS 19 'Employee Benefits' continued

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

	2011 £'000	2010 £'000
At 1 January	**(13,204)**	(4,626)
On TUPE transfer of employees	**(541)**	(4,687)
Actuarial gain/(loss) recognised in the year	**7,372**	(3,770)
	(6,373)	(13,083)
Reduction in actuarial gain/(loss) due to non-recognition of scheme surpluses	**(5,985)**	(121)
Total at 31 December	**(12,358)**	(13,204)

History of experience gains and losses are as follows:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Fair value of scheme assets	**82,615**	83,689	64,225	45,575	1,411
Net present value of defined benefit obligations	**(81,925)**	(90,837)	(67,006)	(42,778)	(1,466)
Net surplus/(deficit)	**690**	(7,148)	(2,781)	2,797	(55)
Asset value not recognised as surplus	**(6,530)**	(545)	(424)	(3,285)	—
Net deficit	**(5,840)**	(7,693)	(3,205)	(488)	(55)
Experience adjustments arising on scheme assets					
Amount	**(12,470)**	3,501	9,747	(8,527)	(45)
Percentage of scheme assets	**(15.2%)**	4.2%	15.2%	(18.7%)	(3.2%)
Experience adjustments arising on scheme liabilities					
Amount	**8,500**	376	1,364	4	88
Percentage of scheme assets	**10.3%**	0.4%	2.0%	—	6.0%

The employers' contributions expected to be paid during the financial year ending 31 December 2012 amount to £3.1m.

27. Operating lease commitments

Non-cancellable operating lease rentals payable were as follows:

	Land and buildings		Other	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Payable				
Within one year	**2,543**	1,651	**9,842**	9,143
Between two and five years	**6,556**	5,107	**14,798**	9,656
After more than five years	**2,948**	2,895	**—**	—

Operating lease payments represent rentals payable by the Group for certain of its office properties, the hire of vehicles and the hire of other equipment. These leases have durations ranging from three to 15 years. No arrangements have been entered into in respect of contingent rental payments.

28. Capital commitments

The Group had no capital commitments at 31 December 2011 or at 31 December 2010.

29. Contingent liabilities

The Group has guaranteed that it will complete certain contracts that it has commenced. At 31 December 2011 these guarantees amounted to £8.6m (2010: £5.73m).

The Group had no other contingent liabilities at 31 December 2011 or at 31 December 2010.

30. Related party transactions

Identity of related parties

The Group has a related party relationship with its pension schemes, its subsidiaries and with its Directors.

Pension schemes

Details of contributions to pension schemes are set out in note 26 to the financial statements.

Subsidiaries

The Group has a central treasury arrangement in which all subsidiaries participate. The Directors do not consider it meaningful to set out details of transfers made in respect of this treasury arrangement between companies, nor do they consider it meaningful to set out details of interest or dividend payments made within the Group.

Transactions with key management personnel

The Group has identified key management personnel as the Directors of Mears Group PLC.

Key management personnel held the following percentage of voting shares in Mears Group PLC:

	2011 %	2010 %
Directors	**0.9**	0.9

Key management personnel's compensation is as follows:

	2011 £'000	2010 £'000
Salaries	**1,560**	1,586
Contributions to defined contribution pension schemes	**190**	199
Share-based payments	**60**	592
	1,810	2,377

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

Transactions with other related parties

During the year the Group purchased customer care related services from Asert LLP, a company in which Mears Group PLC is a 50% partner, totalling £0.01m (2010: £nil). At 31 December 2011 the Group was owed £0.02m (2010: £nil) by Asert LLP. The Group also purchased call centre related services from Mears 24/7 LLP, a company in which Mears Limited is a 50% partner, totalling £0.3m (2010: £nil). At 31 December 2011 the Group was owed £nil (2010: £nil) by Mears 24/7 LLP.

Financial statements / Company accounts

Financial statements

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Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Company are set out below. The following accounting policies have remained unchanged from the previous year.

Investments

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

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.

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.

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Financial instruments

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Balance Sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Loans and debtors

Trade debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the debtors. Trade debtors are initially recorded at invoiced value (less a provisional estimate for impairment) and subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit and loss account.

Cash and cash equivalents

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

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Company uses derivative financial instruments to hedge its exposure to interest rate risks arising from its financing activities. In accordance with its treasury policy the Company does not hold or issue derivative financial instruments for trading purposes. The Company recognises gains or losses on derivatives at fair value through the profit and loss account except where cash flow hedge accounting is applied.

Hedge accounting for interest rate swaps

Where an interest rate swap is designated as a hedge of the variability in cash flows of an existing or highly probable forecast loan interest payment, the effective part of any valuation gain or loss on the swap instrument is recognised in equity in the hedging reserve. The cumulative gain or loss is removed from equity and recognised in the profit and loss account at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the profit and loss account immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

Financial statements / Parent company balance sheet / *as at 31 December 2011* / *Company number: 3232863*

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible assets:			
Goodwill	5	**3,876**	—
Investments	6	**57,048**	53,345
		60,924	53,345
Current assets			
Debtors	7	**77,141**	44,173
Cash at bank and in hand		**—**	402
		77,141	44,575
Creditors: amounts falling due within one year	8	**(62,547)**	(35,107)
Net current assets		**14,594**	9,468
Total assets less current liabilities		**75,518**	62,813
Creditors: amounts falling due after more than one year	9	**(879)**	(880)
Provisions for liabilities			
Pension liability	14	**(3,594)**	—
		71,045	61,933
Capital and reserves			
Called up share capital	10	**857**	848
Share premium account	11	**33,554**	33,243
Share-based payment reserve	11	**2,965**	2,905
Hedging reserve	11	**(1,259)**	—
Profit and loss account	11	**34,928**	24,937
Equity shareholders' funds		**71,045**	61,933

The financial statements were approved by the Board of Directors on 27 March 2012.

R Holt
Director

A C M Smith
Director

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

Financial statements / 55–112

1. Profit for the financial year

The Parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a profit of £16.2m (2010: loss of £2.8m) which is dealt with in the financial statements of the Company. This result is stated after charging auditor's remuneration of £62,000 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:

	2011 £'000	2010 £'000
Wages and salaries	**1,351**	1,300
Social security costs	**209**	286
Other pension costs	**190**	199
	1,750	1,785

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

	2011 Number	2010 Number
Office and management	**11**	10

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 2011 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, £0.1m of employee remuneration expense has been included in the Company's profit and loss account for 2011 (2010: £0.6m), 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:

	2011 £'000	2010 £'000
Final 2010 dividend of 4.85p (2010: final 2009 dividend of 4.10p) per share	**4,123**	3,469
Interim 2011 dividend of 2.15p (2010: interim 2010 dividend of 1.90p) per share	**1,839**	1,610
	5,962	5,079

The proposed final 2011 dividend of 5.35p per share has not been included within the financial statements as no obligation existed at 31 December 2011.

5. Goodwill

	Goodwill £'000
Cost	
At 1 January 2011	—
Transfer from investments	6,196
At 31 December 2011	**6,196**
Amortisation	
At 1 January 2011	—
Charge for the year	2,320
At 31 December 2011	**2,320**
Net book value	
At 31 December 2011	**3,876**
At 31 December 2010	—

The transfers from investments into goodwill represent the cost of investments made in previous years in a number of subsidiary companies which are no longer trading following the transfer of the trade and assets into fellow subsidiary companies.

6. Fixed asset investments

	Investment in subsidiary undertakings £'000	Loans £'000	Total £'000
Cost			
At 1 January 2011	31,345	22,000	53,345
Additions	10,249	—	10,249
Disposals	(350)	—	(350)
Transfer to goodwill	(6,196)	—	(6,196)
At 31 December 2011	**35,048**	**22,000**	**57,048**

Additions to investments in subsidiary undertakings relate to the acquisition of Terraquest Solutions Limited. The entire share capital of Terraquest Solutions Limited was transferred from Supporta Limited, a subsidiary of Mears Group PLC, at book value as part of a Group reorganisation.

The transfers from investments into goodwill represent the cost of investments made in previous years in a number of subsidiary companies which are no longer trading following the transfer of the trade and assets into fellow subsidiary companies. The disposal relates to M&T Group Limited which was struck off during the year, the trade and assets having been previously transferred at net book value into a fellow subsidiary.

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

7. Debtors

	2011 £'000	2010 £'000
Amounts owed by Group undertakings	**75,574**	43,192
Prepayments and accrued income	**1,147**	981
Deferred tax asset	**420**	—
	77,141	44,173

The deferred tax asset above of £0.4m is due after more than one year. The recoverability of the deferred tax asset is dependent on future taxable profits. The Company expects to realise sufficient profits to enable the deferred tax asset to be recovered.

8. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank loan	**60,000**	34,000
Bank overdraft	**588**	—
Corporation Tax	**—**	—
Other creditors	**2**	7
Accruals	**1,957**	1,100
	62,547	35,107

Included within accruals is £2.0m (2010: £1.0m) relating to an interest rate hedge.

9. Creditors: amounts falling due in more than one year

	2011 £'000	2010 £'000
Other creditors	**879**	880

Included in other creditors is £0.9m (2010: £0.9m) relating to deferred consideration on acquisitions.

10. Share capital

	2011 £'000	2010 £'000
Allotted, called up and fully paid		
84,815,470 (2010: 74,391,610) ordinary shares of 1p each	**848**	744
Issue of nil (2010: 9,942,323) shares on acquisition of Supporta plc	**—**	99
Issue of 843,293 (2010: 481,537) shares on exercise of share options	**9**	5
85,658,763 (2010: 84,815,470) ordinary shares of 1p each	**857**	848

843,293 (2010: 481,537) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.01m and the total consideration of £0.32m has been credited to the share premium account.

During 2012 9,942,323 ordinary 1p shares were issued in respect of the acquisition of Supporta plc. The Company took advantage of merger relief in respect of the difference between the nominal value of £0.09m and the total consideration of £26.7m.

11. Share premium account and reserves

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Profit and loss account £'000
At 1 January 2011	848	33,243	2,905	—	24,937
Issue of shares	9	311	—	—	—
Share option charges	—	—	200	—	—
Exercise of share options	—	—	(140)	—	140
Cash flow hedge	—	—	—	(1,259)	—
Profit for the year	—	—	—	—	16,208
Equity dividends	—	—	—	—	(5,962)
Actuarial loss on defined benefit pension scheme net of deferred tax	—	—	—	—	(395)
At 31 December 2011	**857**	**33,554**	**2,965**	**(1,259)**	**34,928**

12. Capital commitments

The Company had no capital commitments at 31 December 2011 or at 31 December 2010.

13. Contingent liabilities

The Company had no contingent liabilities at 31 December 2011 or at 31 December 2010.

14. Pensions

Defined contribution schemes

The Company contributes to personal pension schemes of the Directors.

Defined benefit scheme

The Company operates a defined benefit pension scheme for the benefit of certain employees of its subsidiary companies. The assets of the schemes are administered by trustees in a fund independent from the assets of the Company.

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed and updated to 31 December 2011 by a qualified independent actuary using the projected unit method.

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

	2011	2010
Rate of increase of salaries	**3.0%**	—
Rate of increase for pensions in payment	**2.6%**	—
Discount rate	**4.9%**	—
Inflation	**3.0%**	—
Life expectancy for a 65 year old male	**22.4 years**	—
Life expectancy for a 65 year old female	**23.9 years**	—

Expected rates of return on investments are:

	2011 %	2010 %
Equities	**7.75**	—
Bonds	**4.7**	—
Property	**7.25**	—
Cash	**3.2**	—

14. Pensions continued

Defined benefit scheme continued

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

	2011		2010	
	%	£'000	%	£'000
Equities	76	6,279	—	—
Bonds	20	1,661	—	—
Property	—	17	—	—
Cash	4	348	—	—
Group's estimated asset share		8,305		—
Present value of funded scheme liabilities		(13,097)		—
Funded status		(4,792)		—
Related deferred tax asset		1,198		—
Pension liability		(3,594)		—

The amounts recognised in the profit and loss account are as follows:

	2011 £'000	2010 £'000
Current service cost	109	—
Past service cost	—	—
Total operating charge	109	—
Amount charged to net interest payable:		
– expected return on pension scheme assets	(454)	—
– interest on obligations	609	—
	155	—
Total charged to the result for year	264	—

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

	2011 £'000	2010 £'000
Present value of obligations at 1 January	—	—
Current service cost	109	—
Past service cost	—	—
Interest on obligations	609	—
Plan participants' contributions	35	—
Benefits paid	(315)	—
Change of principal employer	10,591	—
Transfer in	2,525	—
Actuarial loss	(457)	—
Present value of obligations at 31 December	13,097	—

14. Pensions continued

Defined benefit scheme continued

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

	2011 £'000	2010 £'000
Fair value of plan assets at 1 January	**—**	—
Expected return on plan assets	**454**	—
Employers' contributions	**884**	—
Plan participants' contributions	**35**	—
Benefits paid	**(315)**	—
Change of principal employer	**5,494**	—
Transfer in	**2,384**	—
Actuarial gain	**(631)**	—
Fair value of plan assets at 31 December	**8,305**	—

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

	2011 £'000	2010 £'000
Deficit in schemes at 1 January	**—**	—
Current service cost	**(109)**	—
Past service cost	**—**	—
Contributions	**884**	—
Other finance income	**(155)**	—
Actuarial loss	**(174)**	—
Change of principal employer	**(5,097)**	—
Transfer in	**(141)**	—
Deficit in schemes at 31 December	**(4,792)**	—

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

	2011 £'000	2010 £'000
At 1 January	**—**	—
Change of principal employer	**(5,097)**	—
Transfer in	**(141)**	—
Actuarial loss recognised in the year	**(174)**	—
Total at 31 December	**(5,412)**	—

14. Pensions continued

Defined benefit scheme continued

History of experience gains and losses are as follows:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Fair value of scheme assets	**8,305**	—	—	—
Net present value of defined benefit obligations	**(13,097)**	—	—	
Net deficit	**(4,792)**	—	—	—
Experience adjustments arising on scheme assets				
Amount	**(631)**	—	—	—
Percentage of scheme assets	**(4.8%)**	—	—	—
Experience adjustments arising on scheme liabilities				
Amount	**—**	—	—	—
Percentage of scheme assets	**—**	—	—	—

The employer's contributions expected to be paid during the financial year ending 31 December 2012 amount to £1.1m.

15. 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 one of the Company's subsidiaries, Mears Limited, purchased customer care related services from Asert LLP, a company in which Mears Group PLC is a 50% partner, totalling £0.01m (2010: £nil). At 31 December 2011 Mears Limited was owed £0.02m (2010: £nil) by Asert LLP. Mears Limited also purchased call centre related services from Mears 24/7 LLP, a company in which Mears Limited is a 50% partner, totalling £0.3m (2010: £nil). At 31 December 2011 Mears Limited was owed £nil (2010: £nil) by Mears 24/7 LLP.

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The group's commitment to environmental issues is reflected in this Annual Report which has been printed on Cocoon Silk 50, a high quality Silk coated paper and board range made from 50% de-inked post consumer waste and 50% FSC® certified virgin fibre and Cocoon Pre-Print 100 a 100% recycled paper made using FSC certified fibres.

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