Helping clients in new ways

Mears Group PLC
Annual report and accounts 2015

We are uniquely placed to address the major challenges in housing, health and social care.

Mears is the leading social housing repairs and maintenance provider in the UK and a major presence in the homecare and support market.

Strategic report

01 Our year in brief
02 Our business
08 Chairman's statement
10 Chief Executive's statement
12 Business model
14 Our markets
16 Our strategic priorities
18 How have we performed?
22 Review of operations
32 Financial review
36 Viability statement
38 Risk management and principal risks
44 Sustainability

Corporate governance

48 Introduction to corporate governance
49 Your Board
50 Corporate governance report
56 Report of the Nomination Committee
58 Report of the Audit Committee
63 Report of the Remuneration Committee
64 Remuneration report
77 Report of the Directors
79 Statement of Directors' responsibilities
80 Independent auditor's report

Financial statements

Financial statements – Group

86 Principal accounting policies
98 Consolidated income statement
99 Consolidated statement of comprehensive income
100 Consolidated balance sheet
101 Consolidated cash flow statement
102 Consolidated statement of changes in equity
103 Notes to the financial statements

Financial statements – Company

138 Principal accounting policies
141 Parent Company balance sheet
142 Parent Company cash flow statement
143 Parent Company statement of changes in equity
144 Notes to the financial statements

Shareholder information

152 Five-year record (unaudited)
153 Shareholder and corporate information

mearsgroup.co.uk

Our year in brief

Operational highlights

- Our focus is on two growth markets and will remain that way. There are significant opportunities for the Group in both these sectors.
- Service quality remains our key differentiator in both our core markets.
- We have made excellent progress in extending our housing activities from our traditional blue collar social housing maintenance to a broader housing management offering.
- The Housing Management business has performed particularly strongly in 2015.
- The acquisition of the Care at Home division of Care UK (CAH) increased the scale of Mears within the domiciliary care market, making Mears the second largest provider in the UK.
- Mears has increased its carer pay rates significantly over the last two years, reducing margins but giving us greater protection against the introduction of the National Living Wage.
- Visibility of 96% of consensus forecast revenue for 2016 and in excess of 82% visibility for 2017 which leaves us well positioned for the coming year and beyond.

Financial highlights

- Housing – revenues of £735.1m (2014: £714.7m), an increase of 3% with excellent visibility of growth for the coming year.
- Housing – operating margin increased to 5.8% (2014: 4.9%) driven by improving contract margins on the previously acquired Morrison business together with a changing sales mix.
- Care – revenues of £146.0m (2014: £124.0m), including circa £38m in respect of CAH. The underlying organic revenues reflect a 9% decline.
- Care – operating margin reduced to a negative 1.1% (2014: positive 7.8%) as a result of the loss-making acquired CAH business.
- Normalised diluted earnings per share decreased by 13% to 27.94p (2014: 32.20p), as a result of the loss-making acquired CAH business.
- New contract awards of £1 billion (2014: £300m) representing our most successful period of new contract bidding.
- The order book at £3.5 billion (2014: £3.2 billion) has improved in terms of quality, longevity and quantum.
- Strong balance sheet with cash generated from continuing operations as a proportion of EBITDA at 99% (2014: 96%). Net cash reported at the year end.
- Progressive dividend policy; dividend increased to 11.00p (2014: 10.00p), a 10% increase, reflecting the Board's confidence in future prospects.

Read more about our social housing markets on **page 14**

Group revenue

£881.1m +5%

Year	Group revenue
2015	£881.1m
2014	£838.7m
2013	£865.6m

Group operating profit*

£38.7m -11%

Year	Group operating profit
2015	£38.7m
2014	£43.3m
2013	£41.1m

Dividend per share

11.00p +10%

Year	Dividend per share
2015	11.00p
2014	10.00p
2013	8.80p

Normalised diluted earnings per share**

27.94p -13%

Year	Normalised diluted EPS
2015	27.94p
2014	32.20p
2013	28.06p

* Operating profit before exceptional costs and amortisation of acquisition intangibles (see note 1 to financial statements).

** See note 9 to financial statements.

Our business

We focus on long-term outcomes and positive social, economic and environmental impact.

Differentiated service delivery

In order for customers to recommend us, we must deliver excellent service. We randomly conduct around 80,000 Housing customer surveys each year.

Customer excellence rating

91%

(2014: 91%)

Strategic relationships

We are delighted with our bidding success in 2015, with £1 billion of new orders secured. This is a record for Mears. This success has resulted in a high level of revenue visibility for 2016.

New contract wins

£1bn

(2014: £300m)

Housing

We repair and maintain over 700,000 of the 5 million Social Homes in the UK.

Our clients are increasingly looking for partners who can operate strategically as well as operationally across a range of housing services. Mears has extended its core reactive and planned maintenance offering to include housing management which supports clients by delivering more integrated solutions, aligned to their strategic challenges.

Read more about our social housing markets on **page 14**

Read more online at **mearsgroup.co.uk/social-housing**

Our customers

- Local Authorities
- Registered Social Landlords
- Private landlords
- Tenants and service users
- Community groups

Revenue	Employee numbers	Office locations
£735m	c.6,000	178

Read about our business model on **page 12**

Read about our strategic priorities on **page 16**

Carer retention and recruitment churn

The main limitation to growth in Care remains the sourcing of sufficient care workers of good quality. There is no shortage of care work. We are increasing our focus on improving the reward and recognition of our carers.

Care staff turnover

58%

(2014: 54%)

Future prospects

Our revenue visibility measures what proportion of revenue is secured for the following year. We target to have around 95% of the following year revenue secured at the start of a year.

Consensus forecast revenue secured for 2016 at the start of the year

94%

(this has since increased to 96%)

Care

We provide personal care to over 30,000 elderly and disabled people.

We have a comprehensive range of domiciliary care and complex care services enhanced by the ability to deliver a range of housing adaptations and assistive technology such as telecare. We deliver broad solutions to the independent living challenges faced by so many elderly people, as well as younger people with physical or mental disabilities.

Read more about our care markets on **page 15**

Read more online at **mearsgroup.co.uk/care**

Our customers

- Local Authorities
- NHS
- Charities
- Community groups
- Elderly people
- People with learning and physical disabilities

Revenue	Employee numbers	Office locations
£146m	c.12,000	130

Housing

Our broader service offering, incorporating our new homes capability, alongside housing management and maintenance, supports our involvement in new partnering models as they emerge alongside traditional outsourcing contracts.

The Housing division made excellent progress in 2015

We have broadened the services we offer across the sphere of social housing. In particular, our acquisition of Omega in 2014 has unlocked a large number of new housing management opportunities. We will look to make further acquisitions to reinforce our market-leading position.

Revenue

£735.1m +3%

Year	Revenue
2015	£735.1m
2014	£714.7m
2013	£742.5m

Operating profit

£42.4m +22%

Year	Operating profit
2015	£42.4m
2014	£34.4m
2013	£33.5m

Operating margin*

5.8% +18%

Year	Operating margin
2015	5.8%
2014	4.8%
2013	4.5%

* See note 1 to financial statements.

Our breadth of services:

- Repairs
- Estate management
- Planned and cyclical maintenance
- Fuel poverty initiatives
- Grounds maintenance
- Capital projects

In focus

Milton Keynes regeneration **page 25**

Apprentice success **page 26**

Care

We are continuing to see the emergence of new commissioning models that are long-term partnering orientated, focused on improving quality and cost over time and combining services into an integrated approach to achieve better outcomes for users at less overall cost to the public purse.

The Care division made excellent progress in 2015

Whilst there has been no shortage of demand for care work, our barrier has been recruiting sufficient numbers of good quality carers. However, we believe the current funding pressure will be the catalyst for change as will the introduction of the National Living Wage.

Revenue

£146.0m +18%

Year	Revenue
2015	£146.0m
2014	£124.0m
2013	£123.1m

Operating loss

£(1.6)m

Year	Operating loss
2015	£(1.6)m
2014	£9.6m
2013	£9.6m

Operating margin*

(1.1)%

Year	Operating margin
2015	(1.1)%
2014	7.8%
2013	7.8%

* See note 1 to financial statements.

Our breadth of services:

- Independent living service
- Aids and adaptations
- Complex care
- Assistive technology (telecare)
- Live-in care
- Extra care

In focus

Torbay Living Well@Home **page 30**

Lambeth **page 29**

Chairman's statement

Summary

- Housing opportunities remain strong, as our clients seek broader solutions to their increasingly complex housing challenges; consequently, we will continue to invest in the depth and breadth of our differentiated offering in our Housing division.
- Short-term challenges in Care should not disguise the medium-term opportunity, driven by an undeniable trend in demographics and the economic logic of caring for the vulnerable in their homes rather than in residential environments; consequently, we will continue to work with stakeholders for more sensible and sustainable solutions.
- The increase in dividend ahead of earnings reflects the Board's confidence in our two growth markets and our differentiated approach.

Bob Holt
Chairman

I am delighted to report a year of excellent progress, particularly in broadening our Housing service offering. The recent changes to social housing finance, combined with the increasing disparity between the supply and demand of housing, has constrained the number of new bidding opportunities over the previous two years. We used this hiatus wisely to strengthen our competitive positioning and our recent success at Milton Keynes is an early reward. Importantly, I do not believe that any competitor can offer such a broad-based, one-stop, solution in affordable housing.

Our market-leading Housing maintenance business continues to perform well. Since Mears extended its services to housing management, accelerated by the acquisition of Omega in 2014, the Group has successfully grown the business from around 2,000 homes under management to a figure fast approaching 10,000. We are working with Local Authorities, Housing Associations and institutional investors who are seeking to provide good quality homes. This is an exciting opportunity given the urgency for our clients to find solutions to address the homelessness issue and the pipeline remains buoyant. We are delighted to have been awarded a long-term joint venture partnership with Milton Keynes Council. This joint venture partnership represents one of the single largest contracts ever awarded to Mears.

The acquisition of the Care at Home division of Care UK (CAH) in May 2015 significantly increased the scale of Mears within the domiciliary care market and strengthened our position with several strategically important clients, who are more likely to adopt outcome-based contracts on retender. As the second largest provider in the market with a differentiated approach, we are well placed to benefit from both the emergence of new style partnerships in domiciliary care and the wider integration of local health and social care.

I am pleased to report a solid financial performance for the year to 31 December 2015. Group revenue amounted to £881.1m (2014: £838.7m), as a result of the full year impact of Omega, acquired in October 2014, and the acquisition of CAH, acquired in May 2015. Whilst our Housing division delivered only a small amount of organic growth, we have enjoyed our most successful period of new contract bidding, securing circa £1 billion of new work. The order book has increased to £3.5 billion (2014: £3.3 billion) providing 96% visibility of consensus forecast revenue for 2016 and in excess of 83% visibility for 2017 (2014: 92% and 82% respectively). Our Care division has endured a challenging market, reporting a like-for-like revenue reduction in the year. This is discussed in greater detail in the Operations Review.

Following the acquisition of the loss-making CAH, Group operating margins decreased to 4.6% (2014: 5.3%) with operating profit before acquired intangible amortisation decreasing by 10% to £38.7m (2014: £43.0m). We continue to drive margin improvements within our Housing division, which accounts for 83% of Group revenues, with margins increasing to 5.8% (2014: 4.8%). To see our Housing margins return to pre-Morrison acquisition levels, a year ahead of our original expectations, is a tremendous achievement.

> "We have made excellent progress in strengthening our relative competitive position in our two growth markets."

Our headline normalised diluted earnings per share decreased by 13% to 27.94p (2014: 32.20p), due to the initial trading losses and integration costs associated with the acquisition of CAH which were anticipated at the time. The impact of the residual losses from the Group's Mechanical and Electrical (M&E) business, which was subject to a disposal in 2013, are included within discontinued activities. We have continued to deliver solid cash flows with cash generated from continuing operations as a proportion of EBITDA at 99% (2014: 96%) with net cash reported at the year end demonstrating our continued strong cash management. Average daily net debt for the year increased to £68.0m (2014: £59.0m), which reflects the outflow of cash to fund acquisitions.

Dividend

The Board remains confident in the future opportunities in our growth markets and consequently it expects to continue following a progressive dividend policy. The Board has recommended a final dividend of 7.90p per share which, when combined with the interim dividend, gives a total dividend for the year of 11.00p (2014: 10.00p), a 10% increase, reflecting the Board's confidence in the underlying performance of the Group. The dividend is payable, subject to shareholder approval at the Company's Annual General Meeting on 1 June 2016, on 7 July 2016 to shareholders on the register on 17 June 2016. The Board regularly reviews the Group's distribution policy to maximise returns to shareholders whilst maintaining a prudent capital structure and the ability to invest for growth.

Corporate governance and risk management

The Board continues to set itself high standards of corporate governance. Our Corporate Governance Report issued within our Annual Report will detail how we approach governance and the areas of focus for the Board in 2016 and into the future.

We have reviewed and updated the Group's risk register. The senior management teams play a central role in reviewing and challenging the Group's risks. The Group risk team presented risk management training modules to all levels of management via the Group development programme, to further increase our strong risk management ethos.

Over recent months, I was delighted to welcome two new Non-Executives to the Board. In October 2015, the Group appointed Geraint Davies who has a substantial breadth of commercial experience and has already made a significant contribution since his arrival. Geraint has also been appointed Audit Committee Chairman. In January 2016 we appointed Julia Unwin, who has significant experience within the housing sector and further improves the balance of the Board.

Board evaluation and effectiveness

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis. The Directors were asked for their views on a broad range of areas including Group strategy, independence, experience, effectiveness and the interaction between Board members. I am pleased with the structure of the Board and that it is working in an effective and efficient manner.

European referendum

I note with interest the impending European referendum. While uncertainty is never positive for business, Mears does not envisage any significant negative impact from an EU exit, especially given that any exit is likely to take place over a number of years. Notably, Mears has a very low level of reliance upon Eastern European migrant workers. What is perhaps more relevant in the short term is that the domestic policy agenda is likely to take a back seat and legislative plans may slow down.

Our people

I commend our employees for their commitment and energy throughout another significant year for the Group. I continue to be impressed by their quality, professionalism and loyalty.

Mears has a diverse workforce of over 18,000 staff including 400 apprentices; the vast majority of our employees live in the areas in which they work. Diversity and respect for all is core to our induction, recruitment and customer care programmes.

We continue to invest in the future generation. During the year, Mears opened its new National Training Academy in Rotherham which will oversee the delivery of the Group's Learning and Development programme. The capability of Mears' existing in-house training function has been further enhanced through developing external partnerships with training providers. The Group is committed to providing the best technical training for our people, as well as creating training and career development opportunities, particularly for young people and the unemployed, in the communities in which we serve.

Our corporate strategy includes the establishment of an internal talent scheme which recognises the potential of our existing workforce and maximises the likelihood of retaining our most talented people. We have broadened this management development programme to cover senior leadership, branch manager and supervisory levels. These bespoke programmes call on internal experts and external specialists in order to create an effective scheme, combining the best of Mears with the latest in leadership thinking and wider-industry best practice. We focus on enhancing and strengthening skills in order to improve performance, as well as stretching those delegates who have the potential to take on more senior roles in the future.

I look forward to reporting news of our further success during the coming year.

R Holt
Chairman
bob.holt@mearsgroup.co.uk
18 March 2016

Chief Executive's statement

Summary

- Our strategy remains unchanged; we will continue to focus on two growth markets, where our differentiated service delivery quality will prevail.
- Over the short to medium term, we expect our increasingly broad-based housing business to make a disproportionate contribution to our growth ambitions.
- Despite short-term challenges in the care market, we remain confident that our Care business is well positioned and will prosper over the medium term.

David Miles
Chief Executive Officer

Positive progress

I am delighted with the progress made by the Group, particularly within our Housing division, where we have successfully extended our services from our traditional maintenance base to a broader affordable housing offering. The Housing Management businesses acquired in 2014 will have increased four-fold by the end of 2016, which is a remarkable achievement.

Our strategy to broaden our service offering in Housing has created a significant and sustainable competitive advantage for Mears. A highlight in 2015 was our success in being selected by Milton Keynes Council to form a long-term joint venture partnership. The joint venture will provide total asset management to the Council's social housing portfolio and deliver regeneration opportunities across its priority estates. This joint venture represents one of the largest single contracts ever awarded to Mears. Our ability to provide a one-stop, affordable housing solution was fundamental to our success in securing this important opportunity.

Our Care division has experienced a challenging market environment this year. The sector has been under severe funding pressure. Whilst there has been no shortage of demand for care work, a significant barrier to growth has been the sourcing of sufficient good quality care workers. We have focused on those strategically important clients, which we believe have potential to develop into partnerships where we are able to deliver a high quality service at sustainable margins. Our acquisition of the loss-making Care at Home business of Care UK (CAH) has now been integrated and will begin to deliver value.

Positive outlook

We operate in robust and defensive markets where spend is largely non-discretionary. We continue to place great emphasis on winning high quality contracts that provide clear and sustainable margins with good cash flow dynamics. Our dedication to providing our clients with first class service and value remains undiminished.

We expect our Housing business to continue to grow through further contract wins. Whilst we are the market leader, we deliver services to only 15% of the UK's social housing market, which provides us with significant headroom for growth. Furthermore, our housing management capabilities offer material growth opportunities, as the demand for affordable housing requires that housing providers work harder and smarter to increase the supply of suitable housing through innovation and partnership. We believe the Housing division is well positioned to deliver strong organic growth. Where appropriate, we will make acquisitions to develop the breadth and depth of our services.

Continued funding issues in the care market will create a catalyst for change, as will the consequences of implementing the National Living Wage. Whilst I do not see a strong prospect of immediate fundamental change, I am clear in my view that, increasingly, commissioners will look to re-balance their contract estate, focusing on working with fewer better-run service delivery partners. Moreover, further opportunities will result from localised health related outsourcing. Our market-leading approach to service quality and innovation puts us in a strong position, and, as the care market evolves, we will benefit disproportionately.

D J Miles
Chief Executive Officer
david.miles@mearsgroup.co.uk

18 March 2016

Q&A
David J Miles
Chief Executive

How have you performed against your strategic priorities?

We have had a solid performance against all of our strategic priorities and are better placed than ever to meet growing client opportunities. Our key differentiator continues to be that we offer high quality services and are able to work in partnership across a wide variety of services. Our skilled workforce, advanced staff development and training mean that we not only attract and retain our people but that we also offer leadership and guidance to our partners. We are particularly pleased that 2016 was a record year for contract wins, with key strategic successes in Milton Keynes for Housing and the mobilisation of our Torbay contract in Care.

How has Mears evolved over the last year?

We never stand still and the business has grown organically due to our reputation for service excellence. We now have around 18,000 people working across the Group and I firmly believe that every single one of them helps to make a real and tangible difference to the lives of the people we serve. While we have expanded, we retain a local approach to our services and ensure that we are using local people in local communities who are answerable to locally based managers. Our customers always come first and our approach to a consistent set of values means that Mears has become a watchword for quality and getting the job done. The increased use of technology along with acquisitions of other businesses have helped us become the class leader in housing and social care.

The development of our Housing Management business into one of the largest in the UK has been a particular success.

What do you see as the Group opportunities for 2016?

Our work and expertise in housing management are opening up many opportunities for us in the next twelve months. We are now able to offer clients a complete asset management service and we believe our new Milton Keynes model will create other opportunities for us. Our extensive experience in the repairs and maintenance sector gives us a unique perspective from which to ensure that where we build homes, they are high quality, low maintenance homes fit for a low carbon, low energy future. We see increasing opportunities for solutions that address homelessness, as the shortage of suitable social housing will continue for the foreseeable future.

From a Care perspective we have a real chance to influence outcome-based care commissioning. We take a responsible and ethical approach to paying our carers and have the opportunity to influence clients in this area, many of whom are being tempted into unworkable contracts with unrealistic, and in some cases legally questionable, tenders. Mears now has the ability to influence national thinking in these areas.

"In the medium term, we continue to see significant opportunity in the care sector and we remain confident that we have the right strategy."

What do you see as the Group's key challenges and risks in 2016?

We are fully supportive of the new National Living Wage legislation, which we believe is really important in attracting a workforce capable of delivering to growing demands of the care market. In the short term, we do see the risk that a number of Local Authorities will not be prepared to adequately reflect this cost pressure in the rates they are prepared to pay providers. Given our focus on quality, we will only bid for opportunities where we can pay our workforce at a level that will not only meet legal minimum requirements but will ensure we have the workforce to deliver the high quality service that is at the heart of our strategy.

Our second key challenge will be to meet the growing demands for our housing management services and to ensure that we enhance our operational structure to meet this significant opportunity. The Mears leadership structure is now stronger than ever and we are confident that we will not only secure new work but also mobilise and deliver it to our usual standards.

How do you believe Mears has delivered against its Sustainability Strategy?

Our Sustainability Strategy has five guiding principles: long-term customer relationships, excellent employee experience, awareness of the environment, responsible leaders and diversity in our business. Our customer service indicators remain consistently above target and our contract retention is excellent. Over 7,000 staff responded to our employee survey, with very positive comments about what it is to be a Mears employee. Our investment in development and training for staff has never been greater and can be seen in the increasing quality of our management. Our carbon footprint is becoming smaller as we increase our use of technology but more can be always be done. Likewise, we continue to send less waste to landfill year on year as we become smarter about using materials. We have some excellent strategies in place around diversity and notable work has taken place around the issue of encouraging and supporting more women into trade roles such as plumbers and carpenters. However, there is a lot more to do here. Most important of all, our health and safety record remains a source of pride for Mears, as measured by the low levels of accidents experienced versus the average in our sector.

Read about our strategic priorities on **page 16**

Business model

Key resources and relationships

Outstanding partnerships
We work with Local Authority Housing Association and Care Commissioner clients. Our end service users are the recipients of housing services and care in the home.

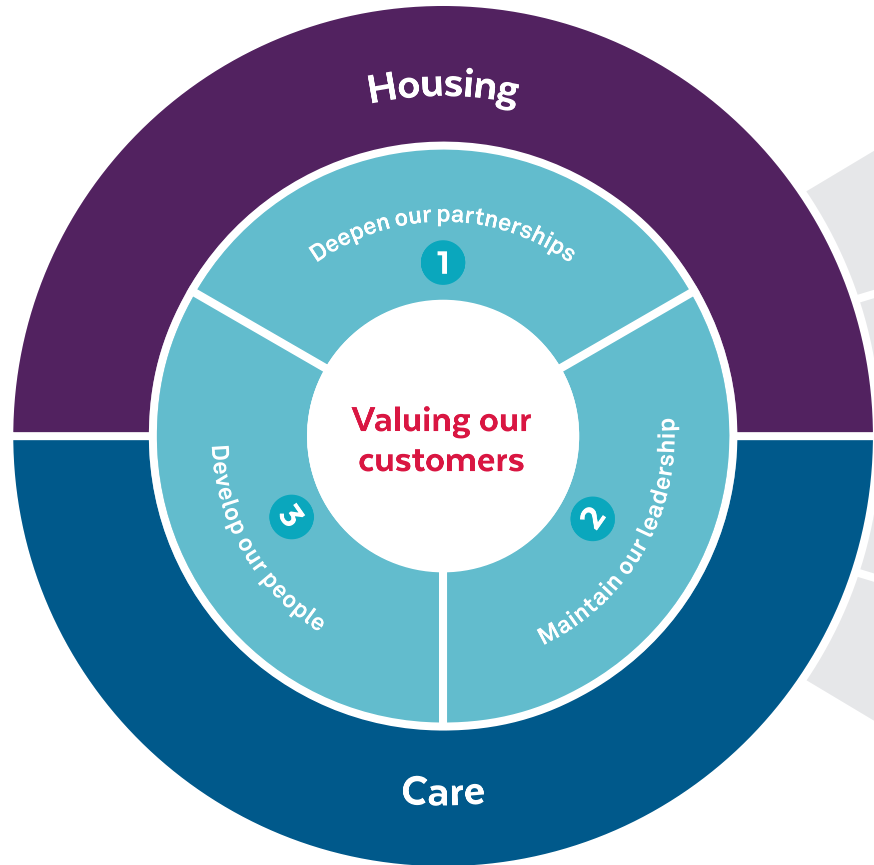
Exceptional people
We recognise our staff as our greatest asset. Mears employees are skilled in delivering an excellent service whilst showing a strong customer service ethos and an empathy for our service users.

Market-leading technology
Our performance is built on a bedrock of first class, in-house IT platforms giving market-leading capability and driving innovation.

Supply chain partners
We choose suppliers who share our values and meet our standards. We work closely with suppliers to develop innovative services and integrate them with our core systems.

Financial stability
We receive funding through shareholder capital, retained profits, debt and cash generation to run our business and fund its activities.

What we do



How we generate revenue

Mears' revenue is generated from payments from its Local Authority, Housing Association and NHS Trust clients in respect of its Housing Maintenance, Housing Management and Care services. Whilst the end service users are at the centre of our business model, they do not pay for the service directly.

Read about our revenue breakdown in more detail in the Review of operations on **page 23**

How we are becoming a market leader

How we measure ourselves
We measure ourselves with a suite of KPIs focused upon financial and non-financial measures. Our KPIs are focused across multiple stakeholders.

pages 18 to 21

How we reward for our value creation
Our remuneration policy creates an alignment between the creation of value and the remuneration of our Executive Directors and employees.

pages 63 to 76

Link to strategy
Our strategic goals sit at the heart of our business model and dictate how we respond to changes taking place in the markets we serve.

pages 12 to 13

Why our clients and service users choose us

Service delivery
Our service delivery is our key differentiator. We invest heavily in training our people and we are committed to providing them with the skills and equipment to deliver great service. We measure our performance to drive further improvements.

Innovation
The challenge of delivering service improvements at lower cost requires innovative thinking. We create, discuss, lead and roll out best practice in our markets.

Responsibility, transparency and accountability
Operating our business safely, responsibly and in compliance with regulations is paramount. We have a number of open book arrangements and our clients rightly require a high level of financial visibility.

Sustainability
We work in some of the most socially deprived areas and we have a strong sense of responsibility towards finding ways to improve the long-term prospects of the people who live in these communities.

How we create value

Shareholders
We generated a normalised EPS of 27.94p per share and the proposed dividend for the year increased by 10% to 11.0p per share.

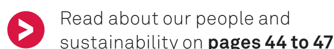
Employees
We employ 18,000 people, resulting in a total payroll cost of £320m.

Customers
We have completed over 2 million repairs and delivered almost 20 million Care visits.

Government
In 2015, we paid £5.9m in corporation tax, circa £55m in payroll taxes and circa £45m in indirect taxes.

How we develop our people

Mears is committed to training. We employ over 400 apprentices and provide a number of alternative training solutions for upskilling employees and the professional development of Mears' managers. We are proud to have been appointed as one of only twelve Government Social Mobility Champions working in some of the most marginalised communities in the UK.


Read about our people and sustainability on **pages 44 to 47**

How we manage ourselves

Corporate governance

pages 50 to 55

We are committed to the highest standards of corporate governance, ensuring the safeguard of stakeholders' interests and the long-term success and sustainability of our business.

Risk management

pages 38 to 41

Effective risk management is central to the continuing success of Mears. The Board of Directors has ultimate responsibility for ensuring that risk is effectively managed across the Group.

Values

page 16

Our organisational values shape the way we do business with all stakeholders.

Our markets

The affordable housing market

The housing market continues to develop strongly with demographic, supply-side and economic change drivers for growth.

Funding sources

Market size

>£20 billion

5 million

social units

Read more in our review of operations on **pages 22 to 27**

Change drivers

Demographic and supply-side factors

- There are in excess of 1.5 million households on housing lists and last year 100,000 households were found homeless across the UK.
- Owner occupation has dropped from 69.3% to 63.3% over the past ten years.
- A growing population – projected to increase at a rate of 450,000 per annum over the next decade.
- The demand for housing continues to exceed supply.
- Private rents have risen by 2.5% (4.1% in London) in the past twelve months.
- House prices across the UK have risen by 6.7% over the same period.
- The Government affirms that England needs to build in excess of 240,000 new homes a year.

Economic

- The financial strength of Housing Associations provides for a secure sector, which is well placed to cope with the policy and welfare reform requirements of Government.
- The changes to welfare arrangements, although in train to some degree, are still only partially implemented.
- Maintaining and enhancing property asset values is central to all providers' business plans and supports the need for continuing maintenance and improvement programmes.
- Securing value for money is a strong business driver.

Our future growth

The pipeline of repairs, maintenance, improvement and refurbishment opportunities will continue to remain strong given the financial strength of almost all Social Landlords. Our broad service offering presents additional opportunities for our clients, from both the public and private sectors, to work with Mears in new and imaginative ways to respond to the housing demands that they are faced with.

Housing management is a £4.3 billion service marketplace that is almost entirely insourced. Through the acquisitions of Plexus and Omega and the continued development of our Mears 24/7 call centre we have made real progress in this market.

Addressing homelessness

Keeping families together and in suitable accommodation costs the public finances £1.0 billion. This includes the cost of bed and breakfast of hostel accommodation. Our solutions for Local Authorities include:

- bringing unoccupied Council homes back into short-term or long-term use without public investment;
- taking on the management of privately rented accommodation and making it available to Local Authority nominees; and
- providing "pop up" accommodation for fixed-term use as emergency self-contained and modern accommodation.

Community-based care

Continued funding issues in Care will create a catalyst for change. We continue to see the trend towards joint commissioning of NHS and Local Authority services; financial pressures are accelerating this process.

Funding sources

Market size

£9.1 billion

Additional funding from Better Care Fund

circa £5.3 billion

326 million hours*

of public sector funded care delivered each year

Source: UKHCA Report June 2015.

* Excludes private individuals, who purchase their care direct without recourse to public funds, an annual spend of a further £1 billion.

Read more in our review of operations on **pages 28 to 31**

Change drivers

Demographic and supply-side factors

- The number of people over pensionable age is expected to grow by over 4m by 2037.
- Over the same period the number of people:
  - aged 80 and above is projected to more than double; and
  - aged 90 and above is projected to more than triple.
- This increase in the number of older people means that by mid-2037 one in twelve of the population is projected to be aged 80 and over.
- The NHS and Local Authorities will spend £5.3 billion for service integration in 2015/16.
- Shift in commissioning practices to secure outcomes for users, which supports providers who can drive long-term quality improvements.

Economic

- The drive to reduce pressures on public spending demands Local Authorities to work with the NHS to integrate care related services.
- Flexibility for Local Authorities to introduce a supplementary Council tax to specifically spend on social care.
- Greater involvement and funding from the NHS, with plans for far greater joint working.

Our future growth

We are continuing to see the emergence of new commissioning models that are long-term partnering orientated, focused on improving quality and cost over time and combining services, including health, care and even housing, into an integrated approach while seeking to achieve better outcomes for users at less overall cost to the public purse.

In many ways these are reflective of the way many of our Social Housing contracts are commissioned in that they are bringing a more strategic approach which at the same time puts the service user as the focal point. In Care this is facilitating the delivery of outcome-focused care.

As we anticipated the Government is seeking the implementation of a policy supporting more thoughtful, joined-up health, care and housing services.

Our strategic priorities

Our strategy is to be the market leader in transforming social housing and care environments.

Our vision

Mears' vision is to make a positive difference to the communities we serve. We do this by improving homes, improving communities and improving lives. Our approach is based on the development of outstanding partnerships with employees, clients, tenants, customers, their families and the wider community.

Our values

We value our customers and communities, putting the needs of our customers at the heart of everything we do.

We value personal responsibility, setting and achieving consistently high standards in our work and conduct, and not adopting a negative attitude.

We value teamwork, supporting each other, sharing ideas and never excluding others.

We value innovation, being inventive in our approach and not allowing conventional thinking or bureaucracy to get in the way.

Read more about our key performance indicators on **pages 18 to 21**

Read about our risk management and principal risks on **pages 38 to 41**

Deepen our client partnerships in both core markets

We believe there remains significant opportunity to continue to deliver strong growth in both our core markets of Social Housing and Care in the Home. As our clients' needs have changed, they have increasingly encouraged and supported us to develop a broader service offering around these two areas.

We have fundamentally developed the depth of our client partnerships, through the expansion of our housing management services, and winning more care work that has been commissioned in a partnering style and is more akin to how we deliver our Social Housing contracts.

Performance in 2015

- Significant growth delivered in Housing Management; Mears is now market leader in provision of temporary accommodation and homelessness prevention schemes
- Record year for contract wins
- Awarded the first single provider partnering contract for Care in Torbay. Further progress in driving change in the way care is commissioned
- High number of community projects completed by our staff and with our supply partners
- Mears is leading the way in changing the way care is commissioned to ensure front line staff are properly rewarded for their hard work, keeping us ahead of the curve on the introduction of the National Living Wage in 2016
- We undertook hundreds of local community projects, with our staff and our supply partners often volunteering their time and resources for the benefit of local communities

Focus for 2016

- Successful mobilisation of our Milton Keynes partnership creating improved housing and opportunities for the community
- Successful mobilisation of the Key Worker Housing contract
- Maximise growing opportunities for our Housing Management business
- Focus on those Local Authorities adopting partnership-based and outcome-based commissioning in Care
- Raise client awareness of Mears' wide range of services across Housing and Care

KPIs

- Social Housing new contract success
- Order book growth
- Secured revenue
- Revenue growth

Risks

- Health and safety
- Business continuity
- People
- Repetition

2 Maintaining quality leadership

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 contribution we make to the markets we serve. Service quality remains our key differentiator and yields our competitive advantage. All our services are designed around the direct input of tenants and service users.

Performance in 2015

- The professionalisation of our customer service, utilising our value-based philosophy, has improved the way we serve our customers and drive service improvement
- Re-accreditation with the Customer Service Excellence (CSE) standard
- Contractor accreditation for the fourth time in a row for TPAS (the Tenant Participation Advisory Service)
- Increased commitment by Mears to deliver social value to clients
- We have maintained very high levels of Care Quality Commission (CQC) regulatory compliance

Focus for 2016

- Increase use of technology to improve the way that services are delivered for our customers
- Focus on care quality through better care worker recruitment and retention
- Technological advances, particularly around mobile solutions, will continue to improve the way we deliver our services
- The building of the Mears National Training Academy in Rotherham will create a first class facility for our tradespeople and the leaders of the future
- Continue to drive social value, addressing community issues around social mobility, social isolation and fuel poverty

KPIs

- "Excellent" service rating
- Customer complaints
- Job completion

Risks

- Health and safety
- Business continuity
- People
- Reputation

3 Developing our people

For us this essentially means three things. First, to have the right structure and leadership team to achieve our ambitions. Second, to deliver on our responsibilities to recruit and develop local people from the communities in which we work. Third, to continue to invest in care worker pay, ensuring we set our pay levels above minimum wage – this is vital to having the high quality and sustainable workforce that is needed to cope with the rapidly increasing demand for services.

Performance in 2015

- Establishment of Mears Learning in July 2015 as the Group Learning and Development vehicle
- A total of 400 apprentices now employed across the whole Group
- Development of the new Pre-Employment Assessment Workshop and merger of the Care UK and Mears Care training structures to ensure a robust future
- Successful development and delivery of management workshops for the Level 5 Leadership and Management qualification
- As one of only twelve Government Social Mobility Champions we have worked alongside our partners in both the social housing and social care sectors with some of the most marginalised communities in the UK

Focus for 2016

- The development of the new Mears National Training Academy in Rotherham
- The expansion of our apprenticeship programme on housing and care
- The introduction of the National Living Wage
- Investment in people within our growing Housing Management business

KPIs

- Carer retention and recruitment
- Number of apprenticeships and job experience opportunities
- Output from employee surveys

Risks

- Health and safety
- People

How have we performed?

Our KPIs are our most important measures to monitor our business to ensure that we are on target to deliver our strategic priorities. Service delivery remains our key differentiator. Our strong contract bidding and financial performance is a direct output for delivering great service.

Great service delivery

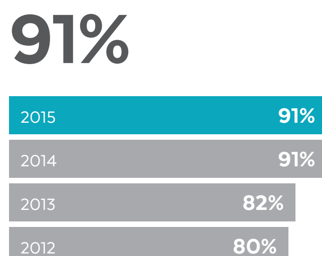
"Excellent" service rating (Housing)

Definition

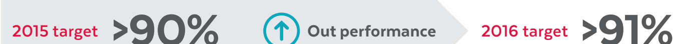
In order for customers to recommend us, we must deliver excellent service. We randomly conduct around 80,000 customer surveys per year.

Results from the year

91%



How we performed



We are delighted that our service delivery has remained at the high levels reached in 2014. Strong performance will ensure competitiveness as we continue to be ranked above our peers.

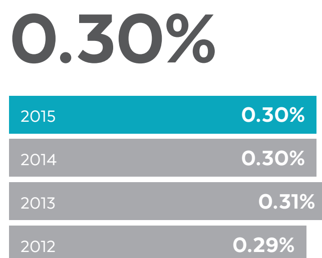
Customer complaints (Housing)

Definition

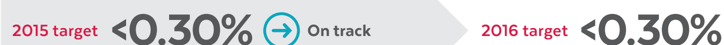
Incidents resulting from poor service result in a complaint. We are committed to dealing with all complaints on an individual basis.

Results from the year

0.30%



How we performed



We are committed to providing our colleagues with the skills and equipment to deliver great service. We seek to identify trends in order to improve our overall service quality.

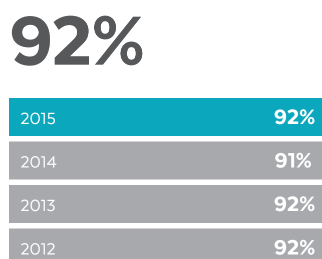
Job completion (Housing)

Definition

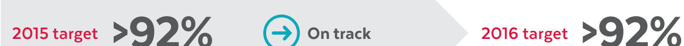
Each of our contracts has specific targets around job completion time based on the nature of the work and all work is monitored. Emergency jobs are typically undertaken same day while routine work is scheduled.

Results from the year

92%



How we performed



Delivering on our promises is at the heart of Mears, which includes timeliness of job completion. We are pleased we have met our target for 2015 and seek opportunity to improve performance in order to improve competitiveness.

Strong contract bidding

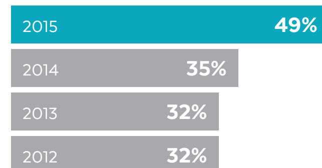
New contract success (Housing)

Definition

Contract success is measured by results of tender by contract value. We typically tender £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.

Results from the year

49%



How we performed

The strategy established two years ago was to provide a broader service offering which includes housing management. We are delighted with our bidding success in 2015, with over £900m of new orders secured. The contract opportunities in 2015, notably our Milton Keynes and Key Worker Housing awards, mirrored our broader service offering, being more complex contracts with bundled services. The two awards alone are valued at circa £500m and skew our bid conversion measure. Our target for 2016 of 33% success remains our long-term target.

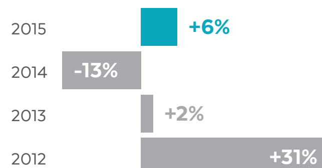
Order book growth (Group)

Definition

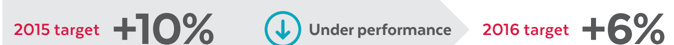
Contracts with our clients are long term. Social Housing contracts average six years and Care contracts average around three years. We only account for contractually secured orders where delivery of the works is highly probable.

Results from the year

+6%



How we performed



Following our excellent period of new contract success, our order book has increased by 10% to £3.5 billion. We seek to maintain this level of order book growth going forward.

Secured revenue (Group)

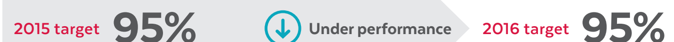
Definition

Secured revenue measures how much revenue is secured in respect of our revenue forecast for the following year. Government procurement policy means tenders takes around twelve months from advertisement to contract award. In addition, the average contract takes 13 weeks from contract award to commencement.

Results from the year

94%

How we performed



We have fallen narrowly short at 94% visibility of 2016 revenues; however, this represents significant improvement on recent years. The time lag in securing and mobilising new works means that it is important that the Group secures the remaining 6% early in 2016. We are in a strong position to achieve forecast revenue.

At the time of writing this annual report, our visibility has increased to 96%.

How have we performed? continued

Financial Financial KPIs are critical to measuring and understanding our financial health

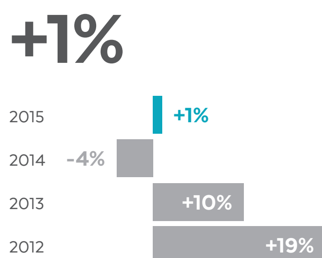
Revenue growth (Housing)

Definition

Revenue represents the amounts due for services provided during the year. In order to measure organic growth, we deduct incremental revenue arising from acquisitions. 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.

Results from the year

+1%



How we performed

2015 target **+6%** Under performance 2016 target **+6%**

We are pleased with the progress made in 2015. The remaining 1% growth is organic. This is below the 6% target; however, the results of the strategic KPIs lay a good foundation for 2016. We continue to invest in our people and systems to provide capacity to achieve our target.

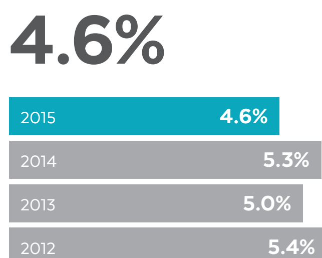
Operating margin (Group)

Definition

Operating margin is the KPI used to measure and understand the profitability of our activities. This KPI is used to continuously monitor our costs to ensure services are being delivered efficiently.

Results from the year

4.6%



How we performed

2015 target **>5.2%** Under performance 2016 target **>5.1%**

The Group's operating margin has reduced from 5.3% to 4.6%. The constituent parts saw an increase in Housing margin to 5.8% (4.8%) but a reduction in Care margin to a negative 1.1% (2014: positive 7.8%).

We are pleased with the excellent margin progression in our Housing division, which makes up 83% of Group revenues. Our margin was previously diluted following our 2012 acquisition of Morrison and we set a five-year target to see margins return to their historic level. We are delighted to have reached this target early. In addition, the increasing sales mix towards Housing Management provides opportunity to raise operating margin further.

The margin performance in Care, however, has been significantly more challenging. At the time of acquisition of the Care at Home division of Care UK, it was anticipated that the Care at Home business would deliver trading losses, including costs of restructure and rebranding. In addition, our existing Care business has found trading conditions challenging; poor recruitment and retention has seen a leakage of revenues with the resulting negative impact to margin. The carer terms and conditions were increased to address the carer churn which brings short-term margin pressure. National Living Wage will provide a short-term challenge to the Care division; however, within the Housing division, a shift in the sales mix towards Housing Management provides opportunity to raise operating margin further.

Profit to cash conversion (Group)

Definition

This is a working capital management KPI, which remains the cornerstone of our business. The key measure is cash inflow from operating activities as a proportion of EBITDA. Whilst we internally target 100%, our external target allows some leniency reflecting an increased working capital requirement to fund organic growth.

Results from the year

98%

How we performed

This is an excellent outcome. We have developed a cash culture within the Group where the importance of managing our working capital is well understood. Our business systems are developed to support this area. Whilst, in a year of low organic growth, one might expect cash generation to be easier, it requires constant focus to deliver solid cash conversion in a high volume, low value environment.

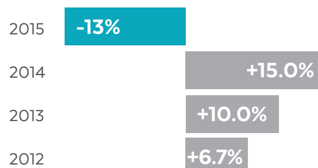
Normalised diluted EPS (Group)

Definition

Normalised earnings are stated before exceptional costs and exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge.

Results from the year

-13%



How we performed

Our headline EPS for the year has reduced 13% to 27.90p per share. At the time of acquisition of the Care at Home division of Care UK, it was anticipated that the Care at Home business would deliver trading losses, including costs of restructure and rebranding, with a loss of £8.0m anticipated in 2015 and a further £2.5m loss in 2016. 2015 losses are within trading results and 2016 estimates have not changed. Costs of the Care at Home business are included within operating profit due to the nature of spend, for example integration costs, being classified as operating costs.

Carer churn (Care)

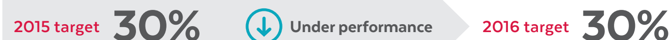
Definition

The carer churn figure is calculated as the total number of leavers during the year as a proportion of the average carer headcount. Carer churn data is only available from 2014.

Results from the year

58%

How we performed



This is a new KPI which is a key measure in determining whether we are likely to meet our Care financial targets. This important metric replaces our organic growth measure given that we consider it is the retention of our well trained, good quality carers which is the main driver for growth. The overall carer numbers have been decreasing, which is as a result of the disappointing carer churn rates recorded. This reflects the mismatch between the challenging nature of the role compared to the terms and conditions.

We will continue to develop a culture where carers feel properly valued and recognised. We will continue to explore innovative strategies to improve carer retention which, when coupled with more sophisticated recruitment practices, will increase overall carer headcount.

Review of operations

Summary

Housing

- The Social Housing division made excellent progress in 2015. We have broadened our services across the sphere of affordable housing, reflecting increasing client demands from us. Our major contract win in Milton Keynes demonstrates this extended offering, in that it incorporates Housing Management, regeneration and our core maintenance services.

Care

- The care sector will, in the short term, continue to be financially challenging, but we believe that our market-leading approach to service quality puts the Group in a strong position. We are focusing on those partnership opportunities that enable us to meet the key challenge of having sufficient numbers of good quality care workers, who can deliver a high quality service and deliver sustainable margins over the long term.

David Miles
Chief Executive Officer

	Social Housing		Care		Total	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Revenue	**735.1**	714.7	**146.0**	124.0	**881.4**	838.7
Operating profit*	**42.4**	34.4	**(1.6)**	9.6	**40.8**	44.0
Operating margin*	**5.8%**	4.8%	**(1.1%)**	7.8%	**4.6%**	5.3%

* Before amortisation of acquisition intangibles and long-term incentives.

Housing

The Housing business has delivered a solid performance with revenues of £735.1m (2014: £714.7m). Whilst the performance at an aggregate level appears relatively flat, the movements within the individual components are important and detailed opposite.

We are delighted to report an increase in the operating margin to 5.8% (2014: 4.8%) driven by the improving contract margins generated from the Morrison business together with a changing sales mix towards higher margin housing management services. The turnaround of the Morrison business, which was heavily loss making when acquired in 2012, is now complete with contracts aligned with the rest of Mears in terms of both financials and service delivery. The margins in both 2015 and 2014 were also assisted by a reduced number of new contract mobilisations, which are typically loss making in the first six months.

Service quality remains our key differentiator. We are pleased that our Housing division continues to achieve high standards of service delivery. The proportion of customers rating our service as excellent was maintained at the record level of 91% (2014: 91%). Typically, competitors in the sector measure only satisfaction, whereas our drive has been for excellence.

Housing – business development

The Housing division has secured new contracts of £900m, with a new contract win rate on competitively tendered works at its highest reported level of 49% (by value) (2014: £170m and 35%). Whilst I am delighted to report such a 'purple patch' in new bidding success, the conversion rate has been skewed given our success in being awarded two particularly large contract opportunities with Milton Keynes and Key Worker Housing. We will endeavour to maintain this high win rate but I believe that a success rate of one in three (by value) is a better indication of our future bidding success and more aligned with our historical trend.

Our clients are looking to consolidate and transform an array of housing management activities, such as planning and asset management, income optimisation, lettings and the operation of related call centre infrastructure.

Maintenance

Revenue stream	Commentary
Day-to-day, Housing Revenue Account (HRA) funded, non-discretionary maintenance spend **2015 revenue £589m (2014: £587m)**	The changes to Housing finance in 2012 had a positive impact on the level of funding within the ring-fenced Housing Revenue Accounts of Registered Social Landlords (RSLs), providing additional opportunities to generate income. A large proportion of RSLs were reporting large surpluses. Whilst the recent announcement to reduce social rents by 1% per annum for the next four years will have an impact on the income of RSLs, this change should be considered together with earlier changes that provide opportunities to increase income. Overall the changes to Housing finance over the last three years have been positive for RSLs. The recent change will inevitably require RSLs to review their business plans; however, we do not anticipate any overall negative impact to our revenues. As previously reported, these changes to Housing finance resulted in a short-term delay in bidding opportunities with activity at a low level in both 2014 and the first half of 2015. This resulted in a reduced number of new contract mobilisations during this time. However, as predicted, opportunities began increasing in the second half of 2015 and we enjoyed a particularly successful period of new contract bidding. We expect the bidding opportunities over the long term to remain at historic levels and our organic growth aspiration is 5% per annum.
Capital works, predominantly HRA funded **2015 revenue £98m (2014: £113m)**	Whilst our main focus remains maintenance, we look to augment this with selective capital works opportunities. Given there is a higher proportion of discretionary spend from within this category, this spend can be susceptible to budgetary pressures. Our organic growth aspiration in this area is 5% per annum.

Housing Management

Housing and property management **2015 revenue £39m (2014: £8m)**	Mears Housing Management Services is a logical extension of the services provided within our Housing division. It aims to add value to the existing client base and to enhance our service offering. These new services have been established to work with housing providers to improve the delivery of housing and property management services and to increase the supply and management of housing. There are currently over 64,000 households, the vast majority housing families, who are legally homeless and being supported by Local Authorities. It is predicted that these numbers will increase over the next few years as more people become homeless and the supply of suitable accommodation reduces. The shortage of safe and secure housing is a significant challenge faced by Mears' clients today. We anticipate Local Authorities having increased responsibility to provide more social homes and remove the reliance upon those private landlords who provide properties which are not of a uniformly high standard. Mears provides a range of solutions for Local Authorities. The Group has further extended its services in Housing Management with over 4,000 homes now under management across the country, the ongoing shortage of social housing being the prime driver for this growth. Our key offering focuses on work with Registered Providers, private landlords, investors and developers to create frameworks in which to provide and manage housing. Mears is not an asset holder and it focuses on managing assets for the benefit of owners, client public sector bodies and residents. Following the acquisition of Omega in 2014, our conservative growth target in this area was to double this part of the business over the following three years. This has already been achieved, having entered the market in 2014 with around 2,000 homes under management and now with good visibility for 10,000 homes under management by the end of 2016. This area of the business is also extending its activities to cover student accommodation.
Mears' in-sourcing solutions **2015 revenue £8m (2014: £7m)**	Our in-sourcing offering was developed in anticipation of an increase in the level of outsourced work being taken back in house by Housing Associations following the VAT rate being increased to 20% and given the restriction they suffer upon the recovery of input VAT. Whilst the sector has seen a number of such transfers, they have typically been contracts of a smaller size. We see any further increase in the number of in sourced solutions as an opportunity to deliver higher margins with a low revenue and working capital requirement. In addition we provide a stand-alone 24/7 call centre service to a number of RSLs and we have recently extended this white collar offering to income management and planning application administration.

Review of operations continued

Housing – business development continued

The market for these types of white collar activities is significant at circa £4 billion per year and is largely untouched by the private sector. An evolving social housing market, following recent changes in the welfare system and tenancy arrangements, over and above the ongoing pressure on budgets generally, has increased the pressure on our clients to rethink how best to meet the needs of not only existing tenants but also the 3 million potential tenants on long social housing waiting lists. Recognising how Mears has worked in partnership with Local Authorities in the past to address more broad-based blue collar challenges, we have been encouraged to collaborate to tackle the sector's housing management issues.

Since the Group extended its services to housing management, accelerated by the acquisition of Omega in 2014, Mears has successfully grown the business with some 4,000 homes now under management across the country. With a number of new opportunities secured, including the mobilisation of our new Key Worker Housing contract, we have good visibility of managing 10,000 properties by the end of 2016 which significantly exceeds our original expectations. Our key Housing Management offering is to work with RSLs, private landlords, investors and developers to create structures to provide and manage housing. Our not-for-profit Registered Provider enables us to offer our partners a regulated body which provides security and good governance.

Working with Local Authorities, Housing Associations and institutional investors, we are seeking to develop portfolios of good quality homes. In May 2015, working with a Local Government Pension Scheme, Mears coordinated the acquisition of 305 rented homes in the East Midlands. Rents will be kept below the full market level with any increases protecting this affordability gap.

The proportion of customers rating our service as excellent

91% (2014: 91%)

Mears is engaged to provide marketing, lettings and housing management services over a period of 20 years. This is typical of a large number of opportunities that we have secured or are in the process of negotiating. We anticipate strong organic growth in our portfolio over the next twelve months. This is an exciting, immature market, with a significant disparity between supply and demand. Given the urgency for our clients to find solutions to ease the homelessness issue, the current opportunity pipeline is particularly buoyant. In the short term our bid pipeline comprises a small number of strategically important bids.

Mears has been engaged by a London Borough to arrange the purchase and refurbishment of 400 homes, currently under private ownership. The key aim is to provide the Borough with an alternative, affordable housing supply to replace the significant bed and breakfast accommodation costs incurred by the Borough. Mears has engaged funding partners to finance the purchase of properties on behalf of the client, carry out refurbishment works and act as managing agent for the portfolio. The contract will be operated by the Borough and Mears for 40 years and is valued at circa £50m. The operation mobilised in February 2016 and the purchase and refurbishment phase will continue over a period of 24 months. This is, once again, typical of a number of opportunities within the pipeline.

Our strategy

We have maintained a consistent strategy over the last 20 years, which is summarised below:

1 Differentiate on customer service leadership as the prime driver of sustainable growth

Maintained our record level of customer satisfaction achieved in 2015.

2 Support our clients to obtain maximum benefit from the opportunities presented by Government and funding

Provision of a full asset management capability to ensure appropriate investment in housing stock refurbishment and regeneration. The development of a number of innovative models to unlock the supply of homes from private ownership.

3 Focus on building long-term partnerships

Retention of key client relationships in 2015, including Eastbourne and Leeds. Successful development and introduction of new partnership models such as our joint ventures with London Borough of Bromley and Milton Keynes.

In focus

Milton Keynes regeneration

Mears is creating a joint venture with Milton Keynes Council to form a new Regeneration Partnership called YourMK.

YourMK will deliver repairs and maintenance services for nearly 11,500 Council homes and regenerate key areas in Milton Keynes that are in the greatest need over a 15-year period.

The partnership is an equal ownership between the Council and Mears, and will respond to the RegenerationMK Strategy, which states that regeneration in Milton Keynes must be focused on supporting positive change for people, place and prosperity.

This community-led approach will mean the partnership will focus on delivering what matters to residents living in seven priority neighbourhoods as well as improving housing, employing locally and supporting local projects.

YourMK, joint venture

4

Drive innovation to provide better outcomes for tenants

Investment in the development of housing management services and further enhancement to our Mears Direct model, which provides solutions for clients who wish to insource their maintenance services.

5

Develop a skilled and motivated workforce

Creation of the first Mears National Training Academy in Rotherham.

6

Consider acquisitions to supplement our capabilities and support our increasing service breadth

The acquisition of Omega in 2014 significantly advanced the Group's capability. We continue to consider bolt-on acquisitions to reinforce our leadership position but given our broad capabilities our increasing focus is upon organic growth.

Review of operations continued

Housing – business development continued

In parallel with growing homelessness, there is a national need to build new homes for social, affordable rent. Mears, through its Registered Provider, is working with house builders and investors to bring forward stalled development sites where the affordable housing elements can be funded without grants to provide rented and shared ownership tenures. Mears has, over the last two years, started developing its own house building capability. Whilst we do not intend to compete with the larger construction companies, our broad capabilities give us a competitive advantage, with the recently awarded Milton Keynes contract being a perfect example of this.

We have a good track record for contract retention when existing relationships come up for re-bid. We were therefore disappointed that we failed to re-secure our contract with Birmingham City Council; our Birmingham contract delivered revenues of circa £25m per year and we have provided a good level of service since 2007.

The current contract will end in March 2016 and I would like to personally thank all our Birmingham employees who have provided loyal service over many years. Whilst we are disappointed to have lost a long-standing client relationship, I am encouraged by the overall quality of our order book, which has improved significantly over the last two years and has a better balance in terms of longevity and profitability. We have one further material re-bid in 2016 with our Sedgefield client, which currently delivers annual revenues of circa £15m, closely followed by two material re-bids in 2017 which carry combined annual revenue of circa £55m.

Mears has a strong track record of turning around, integrating and extracting substantial value from acquired businesses, along with an excellent reputation for service delivery. As we look to broaden the services we offer across the sphere of Social Housing, we will consider making further acquisitions where they reinforce our market-leading position.

In focus

Apprentice success

Michaela Walsh, gas engineer from Manchester Working, was shortlisted for the Best Female Apprentice at the Women in Housing Awards 2015.

Michaela trained as a gas apprentice for three years with Manchester Working and recently qualified as a gas engineer. She was nominated for the award for being 'a remarkable apprentice with an excellent attitude demonstrating a strong passion for the trade'.

Jane Nelson, Executive Director, Mears Group, said: "Mears is committed to increasing the number of tradeswomen across the sector and we are pleased to have seen a rise in the recruitment of female operatives and apprentices. We will continue to support more women into the industry."

Michaela Walsh, Manchester Working

Housing – new contract bidding

The Group has increased its historical Housing new contract win rate to 49% (by value) (2014: 35%) and secured new work with a total value in excess of £900m (2014: £170m). The most significant awards are detailed below.

Contract	Detail
Key Worker Housing	Throughout the UK and providing a full Housing Management service; this includes sourcing properties, managing the application and allocation process as well as the subsequent day-to-day administration. The contract, which is for an initial three-year term plus an opportunity for a two-year extension, is valued at circa £65m per annum.
Milton Keynes	Mears has been selected to form a long-term joint venture partnership with Milton Keynes Council to deliver a total asset management service to the Council's social housing portfolio, and deliver regeneration and development opportunities across the Council's priority estates. This joint venture partnership, called YourMK, will represent one of the single largest contracts awarded to Mears.
London Borough of Greenwich	Mears has been awarded two lots in respect of the Asset Management Housing Repairs framework. This is a four-year contract worth approximately £12m.

Housing revenue

£735.1m +3%

Year	Value
2015	£735.1m
2014	£714.7m

Operating profit*

£42.5m +22%

Year	Value
2015	£42.5m
2014	£34.7m

Operating margin*

5.8% +18%

Year	Value
2015	5.8%
2014	4.9%

* Before amortisation of acquisition intangibles, exceptional items and long-term incentives.

Review of operations continued

Care

The Board is pleased with the performance of the Care division in terms of quality of service delivery; however, the year has been a challenging one in terms of its financial performance. I do believe that we enter 2016 in a stronger position than we entered 2015. Whilst 2016 will have its challenges, there is an increased commercial awareness throughout the Care division.

The acquisition of the loss-making Care at Home division of Care UK (CAH) in May 2015 significantly increased the scale of Mears within the domiciliary care market, making Mears the second largest provider in the UK. The acquisition strengthens the Group's position with a number of strategically important client relationships which we believe have potential to develop into output-based contracts on retender. Whilst initial investment in CAH was required, the combination of capability and scale has made Mears a more attractive partner for the emerging, larger partnering-orientated contracts such as those already secured in Torbay and Wiltshire. Whilst the acquisition of CAH was anticipated to be financially challenging in the short term, we remain confident in our ability to turn around struggling operations as our track record is good in this respect, as the Morrison business demonstrates.

The Care division reported revenues of £146.0m (2014: £124.0m), including circa £33m in respect of CAH in its seven months of trading. The underlying organic revenues reflect a 9% reduction compared to the comparable period. The main limitation to growth in Care remains the sourcing and retention of sufficient care workers of good quality; this challenge will only increase as we move forward and we are focused on finding sustainable solutions to address this. There is no shortage of care work. With the continued focus upon carer retention and recruitment, we have started to see some improvement in churn rates during the last quarter of 2015 which is pleasing. This remains a key focus for 2016.

Following the acquisition of the loss-making CAH business, the Care operating margin reduced to a negative 1.1% (2014: positive 7.8%), delivering an operating loss of £1.6m (2014: profit £9.6m). The newly acquired CAH business contributed both a trading loss together with integration and rebranding costs. Notwithstanding the impact of the acquisition, however, which was in line with our original expectations, the underlying trading of the pre-existing Care business did fall short of our expectations. The reduction in the underlying Care operating margin reflects the negative impact of operating leverage following the reduction in revenue, a continued investment in the Care workforce and an intensive period of new contract mobilisation.

We are placing greater emphasis on maintaining a portfolio of good quality contracts that can provide clear and sustainable margins whilst at the same time delivering a first class experience to our service users and a value offering to our commissioners. We still have a long way to go to achieve this aim. We have carried out an intensive business planning process, with particular focus on carer retention and recruitment which continues to be the primary challenge. The business planning process also addressed the impact of the National Living Wage (NLW), identifying key actions on a contract-by-contract basis. The business planning process encouraged the business to be more selective and to place increased focus on those commissioners with a desire to also move towards more innovative, outcome-based solutions which better fit Mears' long-term model.

Our strategy

Our Care strategy has evolved prudently over several years, adapting to changes in the sector. The positive moves we are seeing in the structure of tendered opportunities are in line with our predictions and the momentum of change is now building and is positive. Our strategy seeks to reinforce this momentum and to benefit from it:

1

Focus on delivering high quality care through the development of outcome-based working, as opposed to the traditional care focus on task and time

Our Wiltshire contract, which commenced in 2013, and our Torbay contract, which mobilised in 2015, are two flagships for this development. All care plans are written based upon achieving specific outcomes for individual service users. We agree a budget and a timeframe to achieve these outcomes and payments are linked to our success.

2

Deliver sustainable pricing

We are focusing on those contracts that allow us to recruit a workforce delivering a high quality service. This has resulted in a further tightening of our bid/no bid decisions. We have been increasingly risk averse in new contract bidding to ensure we develop a portfolio of customer contracts with sustainable margins.

The proportion of customers rating our service as excellent

91% (2014: 91%)

In focus

Lambeth

Mears now delivers repairs and maintenance to 47,000 properties in Lambeth. Our housing operations in the South London Borough have continued to grow since the first contract started in 2011.

In 2015, we took over the contract for the south of the borough, after already delivering responsive repairs, voids refurbishment services, disrepairs and planned works to the north and central areas Borough.

Gary Mitchell, Lambeth's Head of Repairs, said: "The team has a "can do" attitude, with colleagues coming forward with ideas and innovations to improve service, improve satisfaction and improve the working relationships with each other and stakeholders."

Repairs and maintenance, Lambeth

3

Invest in the workforce to ensure both motivated and well trained

We have agreed new minimum pay levels for our staff which are set ahead of the National Minimum Wage with a further significant enhancement for those working within the London area. With the introduction of the National Living Wage, we are committed to maintaining this differential. We are also investing further in training and a range of other benefits. We believe this investment is fundamental to help reduce the staff churn rate; as such, this investment should be self-funding over the long term.

4

Evolve the breadth and depth of service offering

Increasing integration of NHS and social services is growing the number of people with more complex conditions who need care at home. Complex care covers services such as spinal injuries, head injuries, end of life care, dementia care and learning disabilities. Given the potential of this area, we will continue to invest in our own Mears Nurseplus infrastructure.

Review of operations continued

Prospects for the UK care market over the long term remain very strong given the underlying growth drivers of an ageing population and the need to look after people in their own homes rather than in hospital or other residential settings. Domiciliary care will also benefit from greater integration of health and social care. Social care has seen a significant reduction in funding over the last few years, but these pressures have in turn created a momentum for change which is starting to support Mears' long-term vision for a more integrated and better commissioned range of services, delivered by a sustainable workforce.

Within this framework of financial pressure we have seen some significant change:

- Commissioners are now increasingly recognising the need to improve pay and conditions for staff. The introduction of the new National Living Wage (NLW) has acted as a further catalyst for change. Whilst there is still dialogue taking place with a number of customers as to how the NLW is to be incorporated into charge rates, Mears has already secured significant price increases from a number of commissioners; Mears is committed to passing these increases on to our carers who have for too long been under-rewarded for the vital role that they carry out. Mears had already taken a long-term approach to this by investing significantly in care worker pay rates ahead of the introduction of the NLW to develop more sustainable contracts and will look to continue to pay at the top end of the sector.
- We have continued to win two out of three of the Care tenders for which we bid; however, these bids have predominantly been for a single lead provider for a particular zone, as opposed to a previous practice of multi-provider framework contracts. The most advanced example of this is at Torbay, where we are the single provider for the whole region, on a contract expected to grow to revenues of £10m per annum. We are extremely pleased with the positive start that we have had with this contract and see significant opportunity for future development. Following the positive start, we were almost immediately asked to take over a contract by the neighbouring Devon Council, giving us our first opportunity to work with this commissioner. The pipeline of opportunities is also characterised by significantly fewer providers, with longer-term contracts now typically three to five years in length.
- Provider consolidation continues, including our own recent acquisition of CAH. In an increasingly regulated environment and given the new requirements of the Care Act to more actively consider provider financial stability, scale and diversity of service are continuing to rise in importance. This is evidenced by the significant reduction in the number of providers per let contract.

In focus

Torbay Living Well@Home

Living Well@Home is a new approach to supporting and caring for people at home and is delivered through a partnership between Torbay Council, Torbay and South Devon NHS Foundation Trust and Mears Group. Uniquely, Mears is the single provider of homecare services to Torbay.

As well as providing domiciliary care, Living Well@Home also works to develop a more competent and multi-skilled workforce. This means carers provide a wider range of care and support, with training to expand their roles so that they can undertake more complex health and care tasks.

This reduces the number of visits and callers to people's homes, and also increases the time carers spend with their customers, strengthening relationships. This way of working focuses more on the overall wellbeing of the person and helps them to have a more fulfilling life.

In November, the project won a prestigious LaingBuisson Award, which celebrates excellence and innovation in independent care and healthcare in the UK.

Dr Sonja Manton, Associate Director for Community Health and Social Care for Torbay and South Devon NHS Foundation Trust, said: 'Living Well@Home is a significant change in the way domiciliary care is provided for local people. By working this way, the potential benefits are important not just for the people receiving the care but for the staff providing more meaningful care as well. The staff will also be able to benefit from ongoing training and career development making it increasingly attractive and rewarding work.'

Supporting people at home

Winner of LaingBuisson Award

- Greater integration between the NHS and social care is now an absolute necessity and is gathering pace, although we would still prefer this to be faster. The £5.3 billion Better Care Fund, which is the leading Government initiative to support NHS investment in community services, is felt by many to have not yet reached front line service delivery in the way intended. However, a large proportion of new tenders now include a pooled NHS and Local Authority funding contribution.

Care – business development

We entered the care market in 2007 with a clear strategic vision that the market would develop in a similar way to Social Housing. Notably, we expected to see a shift towards outcome-based contracts, where vendor payments are based on the quality of the outcome for the recipient rather than simply based on the time spent in delivering the service. We also expected to see customers move toward awarding contracts for longer terms to fewer providers, who could provide broader services and also assist in driving efficiencies within clients' cost bases. We have positioned ourselves as a high quality business focused upon service delivery in readiness for the market change. The speed of change has been slow but momentum has now built up, endorsing our strategy.

We are seeing a positive move in the structure of tendered opportunities, in line with our predictions at the time we entered the care market. The majority of new opportunities are now leading to a consolidation in the number of providers, with several Councils adopting strategic partnering arrangements.

This change has been driven by the need to deliver new service models through greater integrated working with the NHS and by the need to address financial challenges. Contract lengths are also improving from an average of 2.5 years in 2012 to an average of over three years in 2015. Those looking at strategic partnerships typically have contract lengths of five to eight years. We anticipate this change will continue at a pace over the next few years.

Social care continues to be a focus for society at large and, consequently, further evolution of the market is expected. Councils are striving to protect spending on adult care as their overall budgets come under pressure due to the prevailing environment of austerity.

These financial pressures are being offset by a phased programme of budget transfer from the NHS, announced last year, to promote better joint working between the 'free' at the point of delivery NHS and 'means tested' local domiciliary and residential care services. The greater integration of the NHS can be seen in the proportion of opportunities involving complex services, having grown from one in four in 2012 to approaching half of all tenders in 2015.

D J Miles
Chief Executive Officer
david.miles@mearsgroup.co.uk
18 March 2016

Care - new contract bidding

The Group has maintained its Care new contract win rate in line with its long-term average at 63% (by value) (2014: 73%) and secured new work with a total value in excess of £80m (2014: £130m). The most significant awards are detailed below.

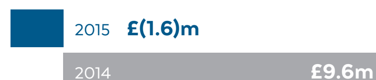
Contract	Detail
Midlothian Council	Mears was awarded a contract for personal care and support worth £5.7m over three years. Midlothian is a new customer relationship and provides increased scale around the Edinburgh region.
North Tyneside Council and North Tyneside CCG	A three-year contract worth £4.8m to provide personal care. This is an increase in the level of work currently provided to this client.
Cumbria County Council	Mears was awarded a contract for homecare, extra care and night services over a four-year term. The contract is valued at £13.4m.

Care revenue

£146.0m +18%

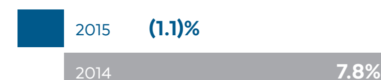
Operating loss

£(1.6)m



Operating margin

(1.1)%



Financial review

Summary

Earnings
- The normalised diluted EPS, which allows for the potential diluting impact of outstanding share options, reduced by 13% to 27.94p (2014: 32.20p). This reduction is in line with the reduction in profit following the acquisition of CAH delivering initial trading losses together with the costs of integration and rebranding.

Dividend
- The Board has recommended a final dividend of 7.85p per share which, combined with the interim dividend, gives a total dividend for the year of 11.00p (2014: 10.00p), a 10% increase.

Cash
- The efficiency with which the Group manages working capital remains a cornerstone of its business. The Group's conversion of EBITDA to cash in the period was 99% (2014: 96%).

Andrew Smith
Finance Director

Group revenue
£881.1m
(2014: £838.7m)

Dividend per share
11.0p
(2014: 10.0p)

Group operating profit*
£38.7m
(2014: £43.0m)

Cash conversion
99%
(2014: 96%)

* Before acquisition intangible amortisation.

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 Review of Operations.

Acquisition of the Care at Home division of Care UK
During May 2015, Mears completed the acquisition of Care UK Homecare Limited and Care UK Community Care Agency Limited, the corporate entities comprising the Care at Home division of Care UK Limited (CAH). CAH provided community-based care services to over 10,000 service users in England, Wales and Scotland, and had contracts with around 90 Local Authorities and Clinical Commissioning Groups (CCGs), employing over 4,000 staff. The acquisition of CAH significantly increased the scale of Mears within the domiciliary care market, making Mears the second largest provider in the UK. CAH provided an excellent geographic fit with Mears' existing Care business with limited cross over.

The total consideration paid was £10.2m in cash comprising a base payment of £9.0m valuing the business on a debt-free basis and assuming a normal level of working capital together with a further payment of £1.2m made in respect of excess working capital acquired on completion. The total consideration of £10.2m represented a pound-for-pound payment against the reported book value of tangible net assets of the CAH business. Book adjustments, resulting in a reduction in the carrying value by £4.9m, were subsequently made to the balance sheet of the acquired business to ensure that the carrying values of the net assets acquired were both conservative and in line with Mears' accounting policies.

The CAH business was loss making at the time of its acquisition. The company had reported particularly poor results in certain regions and had already commenced localised closure plans. There was also considerable staff instability, impacting upon service delivery. The Board was fully aware of the challenges to improve the operations and financial performance of CAH. At the time of the acquisition, it was anticipated that the CAH business would continue to deliver trading losses in both 2015 and 2016 and to also suffer non-recurring costs in respect of restructuring and rebranding. The Board's expectations remain in line with the original estimates. These trading losses and integration costs are reported within the normal trading results.

"The efficiency with which the Group manages working capital remains a cornerstone of our business."

Acquisition of Omega Group

In October 2014, the Group acquired the Omega Group ('Omega'), a leading private sector provider of residential lettings and management services to the Social Housing market. The initial consideration was £20.0m in cash. Additional contingent consideration is payable in instalments subject to future profitability, capped at £20.0m. The entity has performed strongly and the Directors believe it is highly probable that the full contingent consideration will be paid. The future instalments of £10m, £5m and £5m will fall due and be payable in 2016, 2017 and 2018 respectively.

The corporate structure of Omega, in addition to a number of wholly owned companies, also included an interest in 50% of the share capital of three jointly owned vehicles. Given the significant number of new opportunities being developed in this area, the Group increased its holding to 75% in the year for a cash consideration of £6.1m.

Discontinued activities

In November 2013, the Group completed the disposal of the entire share capital of Haydon Mechanical and Electrical Limited ('Haydon UK'). As part of that disposal, the Group retained the beneficial interest in 49% of the share capital of an investment in a company registered in the United Arab Emirates, Haydon Mechanical and Electrical Company LLC ('Haydon LLC'). This beneficial interest was retained due to a number of performance guarantees in place at the time of the disposal which unravel as the underlying contracts are completed. During the period the Group agreed in principle to sell its interest in the company to the management. The transfer will happen in stages as the performance guarantees are cancelled. The formal sales and purchase agreement is expected to be signed imminently.

At 31 December 2014, a balance of £2.6m was due from Haydon LLC to the Group. During the period, the Group provided additional financial support to Haydon LLC of £4.5m to fund on going losses in the company so as to mitigate its risk in respect of the performance guarantees. The Group has fully provided for these losses and written the net carrying value of the company's assets and liabilities down to nil which equates to the full outstanding loan balance of £7.1m. This is reported as a loss from discontinued operations. A further loss of £0.9m was incurred during the year as a result of the Group making full provision against all remaining unsecured amounts due from Haydon UK.

Amortisation of acquisition intangibles

A charge for amortisation of acquisition intangibles of £10.8m (2014: £12.3m) arose in the period. This charge relates to a number of acquisitions in both Housing and Care over recent years. The amounts recognised as identifiable intangibles relate predominantly to customer relationships and are written off over their estimated lives.

Net finance charge

A net finance charge of £1.9m has been recognised in the year (2014: £1.3m). The finance cost in respect of bank borrowings was £2.7m (2014: £2.8m). The small decrease reflects the reduction in average debt.

The Group has two interest rate swaps which have fixed LIBOR at a blended rate of 1.87% on the first £57.5m of its borrowing. The remaining debt bears a variable LIBOR rate that has been in the region of 0.5% throughout the year. The Group pays a margin over and above the LIBOR which is subject to a ratchet mechanism and which, during the year, was typically in the region of 1.5% above LIBOR.

The finance costs also include other interest of £0.1m (2014: £0.3m) relating to the discounting of trade receivables and provisions to properly reflect the time value of money. The net finance income in respect of the defined benefit pension scheme was £0.7m (2014: £1.8m).

Tax expense

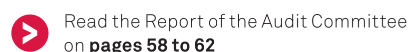
	2015 £m	2014 £m
Current tax recognised in Income Statement	**5.1**	4.7
Deferred tax recognised in Income Statement	**(1.3)**	(0.3)
Total tax expenses recognised in Income Statement*	**3.8**	4.4
Profit before tax and before amortisation of acquired intangibles	**36.8**	42.0
Profit before tax	**25.9**	29.7
Effective current tax rate	**19.8%**	15.8%

* Continuing activities.

The headline UK corporation tax rate for the year was 20.3% (2014: 21.5%). The total tax charge for the year on continuing operations was £3.8m (2014: £4.4m) resulting in an effective total tax rate of 14.8% (2014: 15.0%). The key reconciling items to the headline rate were tax credits recognised following the conclusion of discussions with HM Revenue & Customs (HMRC) on matters relating to prior years and an annual corporation tax deduction in respect of share options.

Total tax includes deferred tax, which is an estimate of the tax due on any differences between the carrying value and the tax base of assets or liabilities. The current tax charge excludes deferred tax and is therefore affected by both permanent and temporary differences in the recognition of items for tax and accounting purposes.

The current tax charge for the year on continuing operations was £5.1m (2014: £4.7m) which represents an effective tax rate of 19.8% (2014: 15.8%). For both the years, the key reconciling items to the headline rate were permanent differences on the amortisation of acquisition intangibles and the utilisation of brought forward tax losses, primarily associated with the Morrison business.


Read the Report of the Audit Committee on **pages 58 to 62**

View the primary statements on **pages 98 to 102**

Financial review continued

Tax expense continued

The Group complies with all relevant tax laws and regulations regarding the payment of tax and the provision of information to tax authorities. Mears does not undertake any aggressive tax planning or schemes that utilise low tax regimes in other jurisdictions for the purposes of tax avoidance. Mears seeks to maintain an open and honest relationship with the tax authorities and benefits from an HMRC 'low risk' status.

Earnings per share (EPS)

	2015 p	2014 p	Change %
Diluted earnings per share*	**20.10**	24.65	(18%)
Normalised diluted earnings per share**	**27.94**	32.20	(13%)
Dividend per share	**11.00**	10.00	+10%

* Continuing activities.

** Continuing activities before acquired intangible amortisation with an adjustment to reflect a full tax charge.

The normalised diluted EPS, which allows for the potential dilutive impact of outstanding share options, reduced by 13% to 27.94p (2014: 32.20p). This reduction is in line with the reduction in profit reflecting the initial trading losses of CAH delivering initial trading losses together with the costs of its integration and rebranding. Normalised earnings exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge of 18.0% (2014: 21.5%). We believe that this normalised diluted EPS measure provides a more appropriate assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance.

Cash performance

	2015 £m	2014 £m
Operating profit*	**38.7**	43.0
Depreciation and amortisation	**6.3**	5.5
Adjusted EBITDA	**45.0**	48.5
Cash inflow from operating activities	**44.5**	46.4
EBITDA to cash conversion	**99%**	96%
Net cash at balance sheet date	**0.8**	3.8
Average debt in the year**	**68.0**	59.0
Core debt at the year end**	**80.0**	75.0

* Before amortisation of acquisition intangibles.

** Average debt represents a 365-day mean. Core debt provides a better indication of the Group's working capital requirement given the timing of acquisitions which would not be fully reflected in daily average.

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group's conversion of EBITDA to cash in the year was 99% (2014: 96%). The Group has consistently set high standards of working capital management and high levels of conversion of profit into cash. Despite a lack of growth related working capital expansion, cash conversion in a high volume, low value and public sector environment always represents a challenge and we are delighted at this continued strong performance.

Balance sheet

	2015 £m	2014 £m
Goodwill and intangible assets	**224.9**	227.4
Investment in joint ventures	**—**	1.9
Property, plant and equipment	**18.4**	15.9
Inventories	**9.1**	8.5
Trade receivables	**146.9**	142.6
Trade payables	**(188.6)**	(187.1)
Net cash	**0.8**	3.8
Deferred consideration	**(20.9)**	(21.0)
Cash flow hedge	**(0.9)**	(1.4)
Pension	**4.0**	6.8
Taxation	**(2.1)**	(2.9)
Net assets	**191.6**	194.5

Goodwill and intangible assets

The carrying value of identifiable acquisition intangibles at 31 December 2015 was £26.8m (2014: £32.0m) which predominantly relates to order book and customer relationships valued on acquisition. The carrying value will be amortised over its useful economic life, with over half of this value being expensed over the next three years. The net movement in the year comprised an increase of £5.6m relating to the acquisitions completed in the year together with a reduction of £10.8m relating to amounts amortised and charged to the Income Statement during the year.

The carrying value of goodwill of £193.1m (2014: £192.0m) is not amortised but is reviewed for impairment on an annual basis or more frequently where there is an indication of impairment. The headroom between the goodwill carrying value for the Housing division, when compared to the value in use, is significant. However, the headroom is in respect of the Care division is low, especially given the high level of sensitivity in the estimate of the value in use when the key assumptions are flexed. The Board has carried out a detailed business planning process which underpins its impairment review and supports the carrying value of the Care goodwill. The Board is confident that its strategy for Care will deliver long-term value for its stakeholders.

In addition, development expenditure was incurred in developing the in-house IT platform of £3.0m (2014: £1.5m). The increase in development expenditure was in line with expectations and is a direct result of our partnership with the Department for Communities and Local Government (DCLG) for the commercialisation of its Planning Portal which commenced during the year. The Planning Portal is a web-based one-stop shop for advice and guidance on planning, building regulations and appeals. It is the sole electronic means to submit a planning application with links to all Local Authorities in England and Wales. The capital expenditure relating to this engagement will continue at this higher level until the end of 2017.

Tangible fixed assets

The Group capital expenditure of £6.2m (2014: £4.5m) relates to IT hardware, other office equipment and the refurbishment of new office premises. The majority of plant utilised by our operational teams is subject to short-term hire and motor vehicles are subject to operating leases and hence neither are included within capital expenditure or recognised as an asset within the balance sheet. The level of capital expenditure in respect of property, plant and equipment has been consistent over several years and we would anticipate these low levels being maintained in 2016.

Working capital and net debt

Trade receivables and inventories increased to £155.9m (2014: £151.1m), which reflects the increased size of the business following the acquisitions. Trade payables were consistent at £188.6m (2014: £187.1m) which reflects a shift in the sales mix in favour of Housing Management and Care, both of which carry lower levels of trade payables compared to the Housing maintenance activities.

Our net cash position at 31 December 2015 was £0.8m (2014: £3.8m). Whilst the year-end cash position was pleasing, typically the accounting period end has 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 was £68.0m; however, given the cash outflow of £17.4m in respect of the acquisitions that occurred across the period, a truer indication of the Group's core debt at the end of the year is £80.0m.

Since the year end, the Group finalised the 'amend and extend' to its revolving capital facility which extended the expiry date from July 2018 to July 2020 plus an extension option of a further one year. The total commitment under the facility increased from £120m to £140m. The revised facility results in a reduction to the interest cost with the margin payable over and above LIBOR, which is subject to a ratchet mechanism, reducing from a range of 150–250bps to 120–220bps. The Group continues to maintain a strong relationship with both of its bankers, Barclays and HSBC.

Pensions

	2015 £m	2014 £m
Pension asset	**8.3**	15.1
Pension liability	**(4.2)**	(8.3)
Net asset	**4.1**	6.8

The Group participates in two principal Group pension schemes (2014: two) together with a further 28 (2014: 28) individual defined benefit schemes where the Group has received Admitted Body status in the 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.

The Group's largest single scheme is the Morrison Facilities Pension Scheme which is predominantly attached to our North Lanarkshire contract. This scheme currently enjoys a net asset position of £8.3m (2014: £15.1m), the reduction being the result of a reassessment of mortality rates. In respect of the Mears Group Scheme, the Group continues to comply with a repayment plan agreed with the trustees of the scheme whereby the Group will pay £1.0m per annum for a period of seven years with a view to that scheme being fully funded by 2020.

Guidance for 2016

The 96% visibility of consensus forecast revenues secured for 2016 underpins the Board's confidence that the Group will meet its revenue forecast. The Group targets annual revenue growth of 5–10% per annum although over the last two years it has fallen short of this target. The improved revenue visibility gives a higher level of confidence in respect of 2016.

The Housing margin returning to its historic normal level of 5.8% is pleasing and marks the completion of the Morrison turnaround. The shifting sales mix towards Housing Management, which typically generates a higher operating margin, provides an opportunity to see margins edging above the historic 5.8% level. However, to balance this, the significant new contract mobilisations in 2016, which would be expected to generate losses in their first year of trading, will provide short-term headwinds to profitability.

With the introduction of the National Living Wage, the Care margin is the hardest area to predict for 2016. This new legislation, which comes into force in April 2016, has further increased pressures on Councils, Trusts and care providers. We have completed a detailed review of all our Care contracts and agreed a clear plan on a client-by-client basis. Whilst our Care contracts rarely have an automatic contractual entitlement to a price increase, there is an increasing realisation from commissioners that care providers cannot absorb any further cost increases. The reaction from a number of commissioners has been reassuringly supportive. In the short term, ensuring that the timing of the charge rate increases match the increase in the cost base will be a fine balance. Beyond 2016, we see the National Living Wage as being strongly positive for our Care business in terms of both operational delivery and financial output.

The CAH acquisition will continue to deliver a trading loss in 2016 in line with our original estimates. Our expectation in respect of the Care operating margin for 2016 is in the range of 2.5–3.5%.

We will continue to manage working capital to a high standard. Given the strong organic growth expected to be delivered in 2016, this will naturally utilise some additional working capital. We will continue to target EBITDA to cash conversion in excess of 90%.

A C M Smith
Finance Director
andrew.smith@mearsgroup.co.uk
18 March 2016

Viability statement

Business planning and financial viability

In accordance with C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a five-year period. A period of five years has been chosen as it reflects the average contract length, being a blend of an average contract length of seven years in Social Housing and around three years in Care. Whilst the Group holds contracts which extend beyond this time horizon, a period of greater than five years is considered too long, given the inherent uncertainties involved.

The Board considered its key risks. The principal risks are set out on pages 38 to 41 and the most relevant of these risks to viability were considered to be:

- a service delivery failure, possibly resulting in the death or harm of a service user, with significant negative publicity and long-term reputation damage;
- deterioration in carer churn rates and poor recruitment practices resulting in a reduction in carer numbers, sales volumes and profitability;
- a health and safety failure resulting in serious personal injury or death of an employee or service user, leading to significant financial penalties and significant reputation of damage; and
- a failure in our IT systems, impacting upon our ability to deliver our services. We provide services to vulnerable people and even a short period of downtime could cause severe reputation damage. A serious system failure could have significant impact to invoicing our customers and collecting cash.

A financial model has been built on a contract-by-contract basis for the next twelve months and extended on a business-by-business basis for the following four years. The five-year plan considers cash flows as well as financial covenants. Consideration was given to a number of key assumptions, namely future revenue growth, operating margins and working capital management. The assumptions set were considered conservative given the focus of the model is in respect of underperformance. Sensitivity analysis was undertaken to stress test the resilience of the Group and its business model to the potential impact of the Group's principal risks, or a combination of those risks. The Board overlaid the potential impact of the principal risks which could affect solvency or liquidity in 'severe but plausible' scenarios.

Two scenarios were modelled. The first scenario assumed a significant business failure within the Social Housing division. The model assumed a 6% per annum compound reduction in revenues for each year within the five-year plan, a total reduction of 22%.

> "The Group has a broad spread of customers – our largest client constitutes less than 6% of Group revenues which, while significant, would, in the event of its loss, not impact on the Group's wider viability."

This was combined with a 1% deterioration in the Housing gross margin which, when combined with an under-recovery in central support overhead, resulted in a reduction in operating margin from 5.8% to 4.5% in year five of the model. The second scenario assumed a similar failure within the Care division. The model assumed a 15% per annum compound reduction in revenues for each year within the five-year plan, a total reduction of 50%. This was combined with a 2% deterioration in the Care gross margin which resulted in an operating loss of £4.3m in year five of the model. Both scenarios showed that the Group would remain viable even in the event of a severe business failure over an extended period. No mitigating actions were included within either scenario, which was considered conservative albeit not entirely realistic.

Whilst the Group's continuing operations are entirely based in the UK, the large network of branches does reduce the risk of serious business interruption. In addition, the Group has a broad spread of customers – our largest client constitutes less than 6% of Group revenues which, while significant, would, in the event of its loss, not impact on the Group's wider viability.

Whilst future viability reviews will consider the Group's ability to renew its existing debt facilities, the Directors have recently completed an 'amend and extend' of the Group's revolving credit facility which now runs to July 2020 with an option of a one-year extension.

The Board accepts that uncertainty of results increases as the projections cover a five-year period. However, the Board concluded that there was a reasonable expectation that the Group will continue in operation and would be able to continue to meet liabilities as they fall due over the five-year period of business planning.

Key risks impacting upon viability and delivery of our strategic priorities

1 Reputation

Service quality remains our key differentiator and underpins our future viability.

Customer excellence rating

91%

Jobs completed on time

92%

2 People

We have almost 18,000 employees; the majority of these are interacting with our customers on a daily basis. It is this day-to-day contact which is fundamental in delivering a differentiated service and high levels of satisfaction. It is imperative to Mears' viability that the Group's strategic goals are well communicated and understood by all employees.

Customer complaints

0.30%

The Board reviewed the Group's viability in terms of both its financial viability and its ability to achieve its strategic goals.
Strategic priorities **pages 16 to 17**

3 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 such as working at height and working with gas and electricity.

Accident frequency rate

0.17%

(2014: 0.23%)

Effective risk management underpins the Group's long-term viability.
Key risks **pages 38 to 41**

Risk management and principal risks

Effective management of risks and opportunities is essential to the delivery of the Group's strategic objectives, achievement of sustainable shareholder value and maintaining good standards of corporate governance.

Risk management process

Details of financial risk management and exposure to price risk are given in note 19 on **pages 123 to 128**

The Board

The Board has overall responsibility for determining the nature and extent of risk it is willing to take within the agreed strategy, and ensuring that risks are managed effectively across the Group.

Risk is a regular agenda item at Board meetings and is closely aligned to strategy review.

The Board also reviews reports on the effectiveness of the systems and processes of risk management and internal control.

The Audit Committee

The Audit Committee monitors the Group's key risks identified by the risk assessment processes and reports findings to the Board bi-annually. It also has delegated responsibility for reviewing in detail the effectiveness of the Group's system of internal control policies, and procedures for the identification, assessment and reporting of risk.

The Senior Management Team

The Senior Management Team reviews and identifies the key risks which may impact upon the achievement of the Group's strategic goals and will consider how these risks are developing with changes in the operations, markets and the regulatory environment.

The nature of the risk is reviewed including the possible triggering events and the aggregated impacts before setting appropriate mitigation strategies directed at the causes and consequences of each risk. The risk is assessed in relation to the likelihood of occurrence and the potential impact of the risk upon the business and assessed against a matrix scoring system which is then used to escalate risks within the Group as appropriate. The Senior Management Team has responsibility for managing the Group's key risks.

Risk management function

The Group risk function supports the risk management process by providing guidance and support to management. Group Risk also acts as the central point for the coordination and initial review of risk assessment and risk monitoring procedures. To ensure our risk management process continues to drive improvement, the Group risk function monitors the ongoing status and progress of mitigation plans on a quarterly basis.

The Group outsources elements of internal audit to external advisers.

The control environment is underpinned by a detailed scheme of delegated responsibilities that defines processes and procedures for the approval process in respect of decision making. This ensures that decisions within the organisation are made by the appropriate level of management.

Risk management process

Risk management approach

The Group's approach to risk management is targeted at early identification of risks, mitigation of those risks before they occur and dealing with them effectively if they crystallise.

The Group is committed to protection of its assets through an effective risk management process, supported by insurance where appropriate. Examples of assets within scope include human, intellectual, physical property and financial resources.

Reporting within the Group is structured so that key issues can be escalated rapidly through the management team to the Board where appropriate. Risks are continuously monitored, contingency plans are provided and this information is reported through established procedures.

The internal control approach is designed to manage rather than eliminate the risk of failure and thus can only provide a reasonable, rather than absolute, assurance against material misstatement or loss.

Risk management process

Business

The responsibility for risk identification, analysis, evaluation and mitigation rests with the line management of the businesses. They are also responsible for reporting and monitoring key risks in accordance with established processes under the Group operational policies.

Identified risks are documented in risk registers showing: the risks that have been identified; characteristics of the risk; consequences of the risk; the basis for determining the mitigation strategy; and what reviews and monitoring is necessary. The person(s) accountable for assessment and monitoring each risk is noted.

We continue to drive improvements in our risk management process. We also review our business model, core markets and business processes to ensure that we have properly identified all risks. We continually review our mitigating actions to ensure that they are sufficient to minimise our residual risk.

Executive Committee

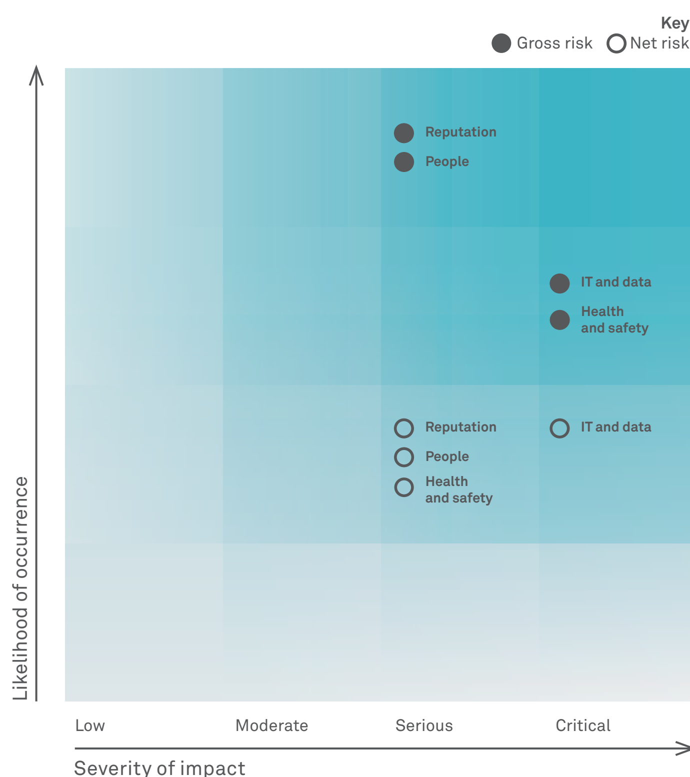
Key financial and non-financial risks identified by the business from the risk assessment processes are collated and reviewed by the Executive Committee. The financial and non-financial risk registers are reviewed by the Executive Committee to monitor the status and progression of mitigation plans; the key risks are reported to the Board on a regular basis.

Principal risks

The Board has carried out a robust assessment of the principal risks facing the Group, including those that threaten the business model, strategy, future performance, solvency and liquidity. Risks have been identified as principal based on the likelihood of occurrence and the severity of the impact on the Group, and have been identified through the application of policies and processes outlined above.

During 2014, the Board committed to simplify the reporting of risks, to ensure the risks disclosed to shareholders are those that are considered as business critical or potentially catastrophic. Therefore no additional risks have been disclosed in this Annual Report. These business as usual risks are monitored by divisional management. However, the Board has added an additional principal risk: IT and data.

Prioritising our risks



The Group's risk register rates risks on a matrix scoring system based on their likelihood and potential severity. This severity can be measured using financial, life and limb, customer service, growth, regulatory compliance and reputational criteria. Therefore, Mears measures more than simply the financial impact of the risk. These scores are used to escalate risks and to drive the mitigation plans.

Read more about governance measures on **pages 48 to 85**

Read more about the Audit Committee on **pages 58 to 62**

Risk management and principal risks continued

Risks are identified as principal based on the likelihood of occurrence and the potential impact on the Group. The Group's principal risks are identified below, together with how we mitigate those risks.

Key risk movements

Each principal risk is considered in the context of how it relates to achievement of the Group's strategic objectives. The risk discussion includes assessment of gross risk and net risk. Gross risk reflects the exposure and risk landscape before considering the mitigations in place, with net risk being the residual risk after mitigations. The gross risk movement from prior year for each principal risk has been assessed and is presented below:

Mitigations in place supporting the management of the risk to a net risk position are also described for each principal risk.

Reputation

No change

Definition

We recognise that significant commercial value is attributable to the Mears brand.

Poor service delivery would damage our reputation. Both our Social Housing and Care markets are close-knit communities where examples of poor performance are quickly communicated widely.

Furthermore, in Care we deliver services to people who are elderly and vulnerable. A service delivery failure within our Care division could result in the physical harm or, in the most extreme cases, death of a service user.

In the environment of caring for vulnerable people, there is a risk of isolated incidences of abuse and neglect which rightly receive significant press coverage with the inevitable reputational damage.

KPIs associated with risk:

'Excellent' service rating
Customer complaints
Job completion
Net carer recruitment and retention

Mitigation

- In-house IT system developed to provide operational management with a real-time dashboard of service delivery indicators.
- Internal auditing of KPI reporting including 'mystery shoppers'.
- Joint venture with the Tenants' & Residents' Organisations of England (TAROE), which undertakes independent audits.
- Strict process in place for vetting and approval of subcontractors.
- We drive a culture of putting our customers first; this is continually reinforced within internal communications.
- Well communicated policy for dealing with press enquiries and incident management.
- Care risk plans for dealing with vulnerable customers.
- Compliance management of bribery and corruption legislation and whistleblowing policy.
- We induct and train all new starters. This induction ensures that all employees understand our values and it reinforces the Group's culture.
- We ensure that staff are properly trained for their roles. We ensure that we deliver relevant training and implement best practice.

People

Increased gross risk exposure

Definition

The Group employs over 18,000 employees who are critical to the success of our contract performance. Attracting and maintaining good relations with employees and the investment in their training and development is essential to the efficiency and sustainability of the Group's operations. Delivery of strategic objectives increases our ability to attract, motivate and retain talent.

In addition, the Care division is facing a challenging environment where the ability to recruit and retain carers is restricting performance.

KPIs associated with risk:

'Excellent' service rating
Carer net recruitment and retention

Mitigation

- We induct and train all new starters. This induction ensures that all new employees understand our strategy, vision and values. All Care staff have access to NVQ qualification training.
- We regularly review and benchmark our remuneration packages to ensure that they remain competitive.
- In Care, we are investing in an innovative recruitment process to ensure an increase in the volume and quality of carers. Local Care branches are targeted on a monthly basis in the area of recruitment and retention.
- At the senior end of the business we have increased our focus on succession planning and increased our investment in senior management development. Our Senior Leadership programme has identified a cross-section of the Group's brightest talent that we would envisage will play central roles in our future business.
- An annual appraisal process is completed for all employees to ensure that all people receive feedback in respect of their performance and to identify future training and development requirements. We hold a national accreditation as an Investor in People.
- We are continually looking to improve our position as an employer of choice by improving the level of engagement with our employees through formal communications, awards to recognise success, local events and family fun days.
- We are continually monitoring our future skills requirements.
- We regularly undertake employee surveys to gauge employee satisfaction, engagement and any barriers to high level performance.

Health and safety

No change

Definition

Prevention of injury or loss of life for both employees and customers is of utmost importance. In addition, it is vital to maintaining the confidence our customers and clients have in our business.

KPIs associated with risk:

Accident frequency rates
Reportable incidents
Customer complaints
'Excellent' service rating

Mitigation

- Significant investment in centralised Health, Safety and Environment (HSE) function to maintain consistency and quality.
- We have comprehensive safe systems of work which are well communicated through a robust and coordinated internal training regime.
- We have robust processes for inducting new staff to ensure importance of health and safety is emphasised together with detailed method statements for working safely.
- Regular HSE training and updates are held, predominantly delivered by internal function.
- Independent review of health and safety cases by insurers where recommendations of change are implemented.
- Internal SHE auditing takes place using third party validation.
- Annual Group SHE strategy and plan are produced.

IT and data

Increased gross risk exposure

Definition

A major incident or catastrophic event could impact on the Group's ability to trade. In addition, it is essential that the security of customer, employee and company confidential data is maintained. A major breach of information security could have a major negative financial and reputational impact on the business. The risk landscape of IT and data is constantly increasing with deliberate acts of cyber crime becoming more sophisticated and frequent across all markets.

Mitigation

- The Business Continuity Plan is constantly reviewed and frequently tested to ensure it is fit for purpose.
- Business continuity and IT disaster recovery management resource is convened at short notice to manage the response and any associated risk to the Group.
- Various information security policies and standards are in place with a focus on network security, access controls, encryption, system security, data protection and information handling.
- Information security penetration is externally tested to identify improvement recommendations which are implemented.
- Data Security Committee in place to monitor and review both physical data security and IT data security.

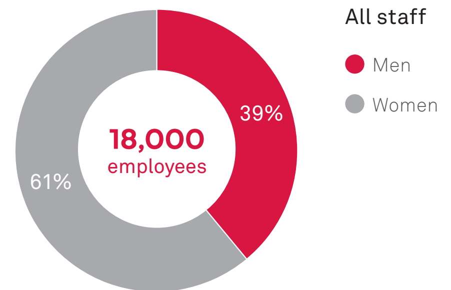
Our people

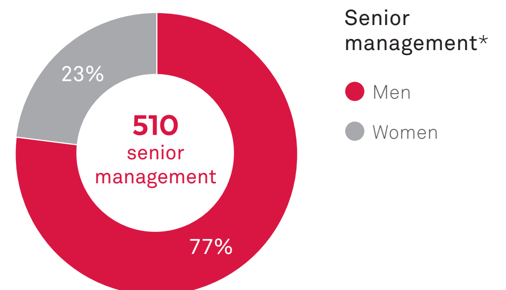
A major factor behind Mears' success is the commitment to the training and development of our employees.

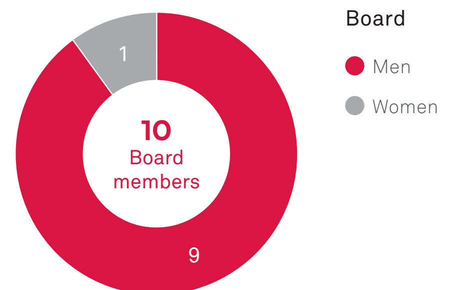
Putting people at the heart of our business

Mears has a diverse workforce of over 18,000 staff and 400 apprentices; the vast majority live in the areas that they work.

Diversity and respect for all are core to our induction programme and our training on recruitment and customer care.







* The Company's Board includes nine Directors, eight of whom are male and one of whom is female.

Our offering:

- Repairs
- Estate management
- Planned and cyclical maintenance
- Fuel poverty initiatives
- Grounds maintenance
- Capital projects

Sustainability

For Mears sustainability means creating strong partnerships with customers, supply chain partners, staff and communities that create lasting value for all concerned.

Valuing customers

We continue to prioritise customer service and for the fourth year in a row our Housing business has been awarded the Government's highly coveted Customer Service Excellence Award. We are particularly pleased that our Care business has now also been awarded this important accreditation.

Along with CSE accreditation, we have also retained the TPAS accreditation for Quality. The accreditation assesses the quality of Resident Involvement and this year's report shows that Mears' performance in this area continues to improve; all residents interviewed reiterated that Mears tailors its services to specifically meet the needs of individual residents.

Our tender success rate in 2015, demonstrates the strength of our reputation for service.

Supporting communities

Mears has always believed that good customer service is more than just ensuring that we deliver an effective repairs and care service. Given the longevity of most of our contracts, we see it as our responsibility to make a long-term difference to the sustainability of the communities in which we operate.

In 2015, once again, over 365 local community projects were carried out by Mears, from North Lanarkshire to Falmouth and many places in between. Our colleagues undertook 55,480 hours of voluntary activities across a range of events that included: re-painting nursery school playgrounds; creating patio and garden areas for sheltered housing schemes; fundraising to improve sporting facilities; organising community fun days; and holding music mentoring classes for school pupils.

Loneliness is now known to be a bigger killer than smoking. The Mears Foundation (the independent, charitable arm of Mears, which has been set up to harness the goodwill, talents and skills within Mears) has created a fund to support grassroots activities which are tackling loneliness. Thousands of pounds have been raised due to the efforts of Mears' employees. Funds are targeted to those projects that are enabling isolated people to establish social networks.

Championing positive change for customers and staff

Mears provides a range of services that help address some of the major challenges faced by British policy makers. Our thought leader programme brings sector leaders together to design, create, discuss and roll-out best practice in the social housing and social care sectors. Our expertise means we are well placed to support and influence policy makers both at a national and local level.

In focus

TPAS Award

Mears won the Excellence in Contractor Engagement category at the Tenants Participation Advisory Service (TPAS) Awards for its work with the Livin Futures project.

The annual TPAS Awards recognise excellent service by social housing providers, tenants and contractors.

The Livin Futures project was set up to provide pathways into work for people living in deprived areas of County Durham. The project offers a choice of 18 pathways delivered in partnership with Mears, Sunderland Football Club's charity the Foundation of Light and others.

The project also won the Inspiring Young Talent Award at the Business in the Community (BITC) Awards.

Winners at TPAS

We are pleased to have established an externally led Social Value Group, whose work it is to challenge and support Mears in our drive to show real corporate leadership in the Social Value space.

We have continued to champion the needs of care workers and we are pleased to see the introduction of the Living Wage in 2016. We have commissioned research to look at the benefits of outcome-based commissioning and moving away from task and time care approaches, which do little for customers or staff.

We have worked on developing suitable accommodation for homeless people that gives them a place to call their own and to help reduce the significant and rising number of people that have to live in bed and breakfast accommodation.

We are pleased to have retained our status as one of the Government's Social Mobility Champions. Social mobility is about giving young people equal chances in life, regardless of where they are born, the school they go to, or the jobs their parents do.

The Government initiative began last year and we were one of just twelve UK companies selected. As a Social Mobility Champion, we have pledged to lead by example by encouraging behavioural change in our business to ensure jobs and opportunities are open to everyone and inspiring other businesses to follow.

Protecting the environment and working with the supply chain

Mears has a proud record of managing waste effectively. We have seen a more consistent trend on a national basis with in excess of 95% diversion of waste from landfill. Our waste provider, Network Waste, is at present completing a further review of all the major Mears branches. The branch reviews will ensure each branch is recycling to its maximum potential and will also draw out more financial savings from an increased level of recycling through segregation. We have also been working to identify solutions for particularly challenging waste streams. Typically these are the products that produce either large volumes or specialist waste that cause issues for disposal. The objectives are to challenge manufacturers to review their packaging solutions to reduce the impact in one, or both, scenarios. Ironmongery, in particular, is now being purchased in plain boxes rather than the more 'retail' friendly blister packs. Progress has also been made in disposing of paint residue efficiently and in an environmentally friendly manner through simple, yet ingenious, storage vessels.

Mears recognises the importance of measuring and addressing our own carbon footprint which is why we operate an Environmental Policy accredited with ISO 14001. We work hard to minimise the negative impact of our operations on the environment.

Mears' commitment to the environment extends beyond our own operations, into the supply chain. 85% of our c. £70m annual spend is on materials directly purchased with merchants recognised for sustainable procurement. Mears buys 100% FSC-approved timber from their preferred suppliers.

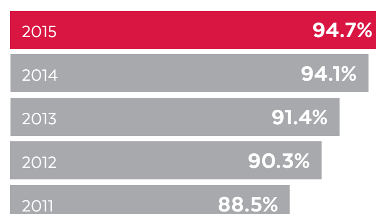
Mears' procurement approach supports providing opportunity to local SMEs. We have a robust pre-qualification process that must be completed by all subcontractors before they are able to provide services to either ourselves or our clients. This can be a challenge for some SME businesses, so in these cases, Mears runs 'training' sessions to establish the standards for those that are struggling. This includes an introduction to the relevant processes to ensure consistency on delivery moving forward. As regards health and safety, a more intensive session is run, focusing on risk assessment and reporting.

Mears continues to operate a local employment strategy with approximately 90% of our workforce living within the postcode district of their branch, meaning staff spend less time on the roads getting to work. For staff who require a vehicle to carry out their roles, training in economical driving has been shown to reduce fuel consumption by up to 20%.

Mears works hard to keep carbon emissions low in all areas of our operation. The key components of this being to limit the travel time of our operatives and Care staff, using the latest mileage management systems and by having well maintained fuel efficient vehicles.

Waste diverted from landfill

94.7%



We work hard to minimise the negative impact of our operations on the environment. Our recycling rates have continued to improve.

	Units	**2015**	2014	2013
Scope 1	Tonnes CO_2e	**22,010**	21,039	16,787
Scope 2	Tonnes CO_2e	**1,792**	1,467	1,715
Scope 1 and Scope 2 intensity	Tonnes CO_2e/ £m revenue	**27.01**	26.83	21.38

Sustainability continued

Our people

At Mears, we firmly believe that our staff are our most important resource. Our staff numbers have grown significantly over the last decade and we now have more than 18,000 people working in the Group.

Our leadership team has been strengthened and the structure of the business simplified to ensure we continue to balance local delivery with the benefits of national expertise.

With the large numbers of staff we employ comes the great responsibility of ensuring that they are properly supported, trained and protected whilst at work. The creation of Mears Learning in 2015 and the building of our National Training Academy in Rotherham are just two recent steps taken to ensure that we continue to be seen as one of the most responsible employers working in the UK with the public sector.

Mears has strengthened its commitment to training and development with the launch of Mears Learning in partnership with Rotherham United Football Club. Work is well underway to turn part of the club's New York Stadium into a Mears National Training Academy. This new venture provides a vehicle for Mears to offer innovative and leading edge training solutions using the latest techniques and technologies.

Mears Learning offers apprenticeships and a range of upskilling and professional development for Mears managers and employees, together with programmes for young and/or unemployed people from our communities. Going forward Mears Learning will also offer training and development services to our clients and supply chain partners.

In 2015 Mears achieved endorsement from the Institute of Leadership and Management (ILM) for its range of leadership development programmes. The programmes were expanded from 2014 to include care managers and those from the support functions and non-core for the first time. This progress is expected to continue in 2016 with the introduction of entry-level access to management programmes. We also plan to strengthen our national talent and succession planning strategy.

In 2015, Mears employed 400 apprentices across the Group in a number of areas. We see our apprenticeship programme as one of the most important ways to secure our workforce needs of the future and are increasingly broadening our approach to cover not only housing trades but also care and support services roles.

We were extremely proud in 2014 to be awarded Social Mobility Champion status by the Office of the Deputy Prime Minister for our work in helping people from disadvantaged backgrounds to develop skills and careers. We continued to drive this agenda in 2015. As one of only twelve Government Social Mobility Champions we have worked alongside our partners in both the social housing and social care sectors with some of the most marginalised communities in the UK.

In focus

Celtic Horizons Award

United Welsh, Mears and Celtic Horizons took top honours in the Maintaining High Quality Homes category at the 2015 UK Housing Awards ceremony in London. The awards, jointly organised by the Chartered Institute of Housing (CIH) and Inside Housing, are regarded as the most prestigious in recognising excellence in the sector.

The judges said that the partnership 'clearly demonstrated a strong commitment to developing customer service standards through embedding a strong leadership culture through investment in employee training and reinvestment back into the communities they serve'.

United Welsh entered into a partnership with Mears to deliver its maintenance services with Celtic Horizons, a subsidiary of United Welsh.

The contract was rolled out in April 2013 and has a total potential value of £145m over 15 years. Celtic Horizons is the first wholly owned subsidiary of its kind, delivering total asset management and maintaining properties located in eleven Local Authority areas in South Wales.

Commenting on the award Tony Whittaker, Chief Executive of United Welsh, said: "It is a testament to the strong relationship between United Welsh and Mears that Celtic Horizons has so quickly become an award-winning organisation."

Top honours at 2015 UK Housing Awards

On the Care side of our business, our accredited training is designed not only to meet the needs of our service users and the requirements of the regulators, but also to promote industry best practice in mandatory subjects such as manual handing, safeguarding adults against abuse and helping with medicines management. This training supplements a series of more specialised training workshops that provide our staff with insight into the specific needs of service user groups including training on supporting people with dementia, learning disabilities and epilepsy.

Training courses are continually reviewed to ensure that they are in line with Skills for Care standards and changes in legislation. We were delighted that in 2015 we developed a new Pre-Employment Assessment Workshop (PEAW) that meets both the Care Certificate and our own training structure, especially since our acquisition of Care UK. As planned we successfully developed and delivered management workshops to achieve Level 5 Leadership and Management qualification.

Mears once again retained its Investors in People (IIP) accreditation which has been in place since 1994.

Mears has an excellent record on health and safety and last year was no exception. We have reduced accident rates by more than 10% and have fulfilled the RoSPA Gold Award standard for the 13th consecutive year. In addition, we were highly commended for our exemplary health and safety performance by RoSPA. In 2015, we achieved full integration of ISO 9001, ISO 14001 and OHSAS 18001, showing our credentials have been verified by an independent third party. Achieving certified status brings tangible business benefits and can unlock doors to new business. On top of that, we attained a diversion to landfill of more than 93% and gained approval by the Construction Industry Training Board (CITB) as a training provider and this allows us to deliver the full suite of CITB Site Safety Schemes.

Our Say What You See survey was very successful with more than 7,000 employees responding to a series of questions about working with Mears. The return was our biggest response ever and, in another first, had responses across all areas of our business: Housing, Care, non-core and support services. The overall response was very positive with staff in particular commenting on the following:

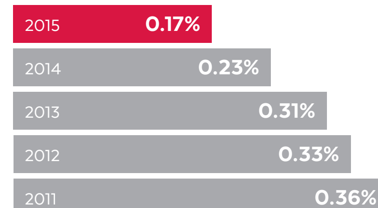
- that the business is a warm and friendly place to work;
- that staff feel well supported in their roles and there is a good sense of team spirit;
- that Mears puts the customers first, allowing colleagues to make a personal difference; and
- Mears encourages everyone to work to high standards.

The survey confirmed that, despite the growth in Mears over the years, we have been successful in maintaining the culture that drove this success. The survey also provided a valuable insight into the areas where Mears could make improvements and managers across the Group have been given actions to ensure that 2016's figures are even better.

Communication is incredibly important across our workforce and the Executive team gives this area significant focus. The CEO's weekly senior management briefing keeps senior managers informed of current issues and news. Items of general interest go out as a Daily Mears Matters email to around 4,000 staff every morning with branches asked to pass on relevant items to field staff.

Accident frequency rate

0.17%



Providing our employees with a safe working environment remains paramount. Our accident rates have reduced year on year.

In 2015, we continued our highly successful range of communication meetings around the country. These regional cross-business networking sessions helped to identify common issues and the sharing of good practice.

We hold two family fun days for staff, one in Scotland and one in England. These free events are to say thank you not only to our employees but also to their families and 2015 saw our best attended fun days ever. Almost 10,000 people attended in 2015 across the two events with 7,900 at Drayton Manor in England and 2,100 at M&D's in Scotland – a theme park venue we used for the first time. Feedback for these events is always enormously positive with many staff proactively writing to thank the Group for the day and praising the event organisation. In 2016 we will be returning to both Drayton Manor and M&D's.

Football-loving staff were also able to take on their colleagues with five-a-side tournaments held at Sunderland AFC's academy in the North and the Valley Stadium (Charlton Athletic) in the South.

In 2016, the tournaments will take place in the New York Stadium (Rotherham United) and St George's Park (FA's training academy).

Celebrating performance, individual or team success, good news stories and best practice initiatives are shared with all staff through the quarterly staff magazine and the increasing number of branch newsletters that combine local news with Group news.

Mears Smile awards are increasingly popular with an increase in nominations. All nominees are given a 'you've been nominated' card by their manager and go through to the quarterly regional finals. Many branches are extending the programme locally with a Branch Smile award and putting nominations together with compliments onto a dedicated display board.

Our Mears Advantage discount scheme enables our staff to save money on their weekly shop, while Mears Assist enables staff to get free and independent advice on a range of work and non-work related topics.

The Strategic Report was approved by the Board of Directors on 18 March 2016 and signed on its behalf by:

D J Miles
Chief Executive Officer
david.miles@mearsgroup.co.uk

Introduction to corporate governance

We are committed to achieving high standards of corporate governance. Effective corporate governance is essential to facilitate the success of the Group.

Bob Holt
Chairman

Dear shareholder,

We seek to create a working culture where honesty, openness and fairness are valued.

This is created from the 'tone at the top', where your Board demonstrates these values. The Board has made good progress in 2015 in embedding these cultures within the Group.

We seek to maintain the highest standards of corporate governance as this will help to facilitate the success of the Company and sustain this over time. An important distinction between the management, led by David Miles, Chief Executive Officer, and the Board is that the management is responsible for running the business while the Board, acting under my leadership, provides constructive challenge to management which is necessary to create accountability and drive performance. This results in an environment that creates and preserves value for shareholders.

It is vital that as a Board we have the right mix of skills, experience and diversity, ensuring that Board members have sufficient knowledge of the Company whilst maintaining their independence and objectivity. I am fortunate as Chairman to be able to call upon a Board with a broad range of expertise and specialisms.

During 2015, the Board successfully integrated the acquired Mears Home Care (Care at Home division of Care UK) within the Care segment of our business. The Board is planning further operational enhancements for the combined business during 2016.

Board performance

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis. The 2015 Board performance evaluation was internally facilitated. I met with all Board members individually, and asked for their views on a broad range of areas including Group strategy, independence, experience, effectiveness, shareholders and the interaction between Board members. Some recommendations were proposed which have been implemented, but the overall conclusion is that the Board is working effectively.

Succession and diversity

We take succession at Board and senior management level very seriously. We believe we have a good record of resourcing the needs of our business along with developing our own people in line with our desired culture.

We announced in October that Geraint Davies will be joining the Board and taking the role of Audit Committee Chairman. I am delighted to welcome him to the Board. Geraint's wide audit experience, breadth of commercial skills and experience will add considerably to Board discussions. His detailed and up-to-date financial experience will ensure strong leadership of our Audit Committee in the future.

In January 2016 we announced that Julia Unwin will be joining the Board which is another excellent appointment. Julia has significant skills and experience in the housing sector which will add value to our Board.

R Holt
Chairman
bob.holt@mearsgroup.co.uk
18 March 2016

Your Board

Bob Holt OBE
Chairman

Age: 61
Tenure: 19 years
Skills and experience:
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
Chief Executive Officer

Age: 49
Tenure: 19 years (9 years on the Board)
Skills and experience:
David joined Mears in 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
Finance Director

Age: 43
Tenure: 16 years (9 years on the Board)
Skills and experience:
Andrew joined Mears in 1999 and, prior to his appointment to the Board, was Finance Director covering all of the Mears Group's subsidiaries. Andrew qualified as a Chartered Accountant in 1994 and worked in professional practice prior to joining Mears.

Alan Long
Executive Director

Age: 53
Tenure: 10 years (6 years on the Board)
Skills and experience:
Alan joined Mears in 2005 and, prior to his appointment to the Board in August 2009, was Managing Director of the Group's Care division, having previously held the position of Group Sales and Marketing Director. Prior to joining Mears, Alan held senior roles at Britannia Building Society, Mars and Smith & Nephew.

Michael G Rogers
Non-Executive Director

Age: 74
Tenure: 8 years
Skills and experience:
Michael founded Careforce in 1999 and has over 30 years' experience in healthcare services and care provision. In 1976 he joined Nestor Medical Group Limited as Managing Director and went on to become Chief Executive of Nestor Healthcare Group plc from 1986 to 1996. From 1996 to 1999 he worked as a consultant to a number of healthcare related organisations.

Peter F Dicks
Non-Executive Deputy Chairman and Senior Independent Director

Age: 73
Tenure: 8 years
Skills and experience:
Peter has been active in the venture capital and investment 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
Non-Executive Director

Age: 52
Tenure: 8 years
Skills and experience:
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.

Rory Macnamara
Non-Executive Director

Age: 61
Tenure: 5 years
Skills and experience:
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.

Geraint Davies CBE
Non-Executive Director

Age: 61
Tenure: Joined the Board in October 2015
Skills and experience:
Geraint is a fellow member of the Institute of Chartered Accountants in England and Wales. He was previously a partner for a leading professional practice for over 25 years. His commercial experience includes working with Registered Social Landlords and a number of organisations in the healthcare sector.

Julia Unwin CBE
Non-Executive Director

Age: 53
Tenure: 10 years (6 years on the Board)
Skills and experience:
Julia is Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust. She has significant experience in the social housing sector, having been a member of the Housing Corporation Board for ten years.

Ben Westran
Company Secretary

Age: 39
Tenure: 12 years

Skills and experience:
Ben is a Chartered Accountant and, prior to his appointment as Company Secretary, was Group Financial Controller and Director of a number of the Group's subsidiaries. Ben joined the Group in 2004 having previously worked in professional practice.

Key: R Remuneration Committee; A Audit Committee; N Nomination Committee; ◯ Chairman; S Senior Independent Non-Executive Director

Corporate governance report

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 high standards of corporate governance, integrity and business ethics for all activities.

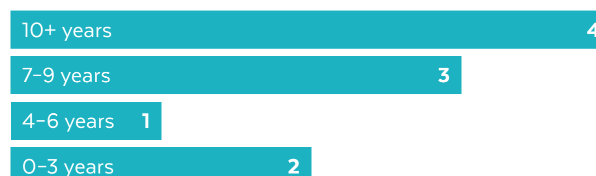
Your Board has due regard for the benefits of diversity in its membership, including gender, and strives to maintain the right balance. It comprises individuals with deep knowledge and experience in core and diverse business sectors within local, international and global markets, bringing a wide range of perspectives to the business. This diversity ensures thorough challenge during discussions which results in effectiveness in all aspects of the Board.

The independence of Non-Executive Directors is considered annually. This includes the review of length of service of Non-Executive Directors which is delegated to the Nomination Committee. The Board has remained stable despite the recent appointment of Chairman of the Audit Committee. This has enabled the Board to perform effectively before and after the acquisition of Mears Home Care (Care at Home division of Care UK).

The UK Corporate Governance Code

The Board is 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 (the 'Code') issued in 2014 and has complied with all Code principles and relevant provisions throughout the year.

Length of tenure of Board



Non-Executive/Executive Directors

Read the Report of the Audit Committee on **pages 58 to 62**

Read the Report of the Nomination Committee on **pages 56 to 57**

Corporate governance framework

Responsibility for good governance lies with your Board. There is a strong and effective governance system in place throughout the Group.

Overview

The Board leads and provides strategic direction to the Group and carries ultimate responsibility for management of the Group's activities and financial performance. The Board acknowledges accountability to shareholders for proper conduct of the business, and responsibility for long-term success of the Group, having regard for the interests of all stakeholders.

Our business model and strategic priorities can be found on pages 12 to 13 and 16 to 17. There is a formal schedule of matters reserved specifically to the Board for decision. An overview of these can be found on page 52.

Other matters are delegated specifically to four principal Board Committees. The Chairman of each Committee briefs the Board at each meeting on the principal items that were discussed, decisions made and key issues.

The day-to-day running of the business is delegated to the Executive Committee, which comprises the Chief Executive Officer, the Financial Director and the Executive Director.

Corporate governance framework

Responsibility for good governance lies with the Board. There is a strong and effective governance system in place throughout the Group which ensures that integrity and good ethical conduct are the foundations of our decision making. The governance framework extends to operational activities, as outlined in the risk management process on pages 38 to 39.

Board members

Bob Holt
David J Miles
Andrew C M Smith
Alan Long
Michael G Rogers
Peter F Dicks
David L Hosein
Rory Macnamara
Geraint Davies (from 27 October 2015)
Julia Unwin (from 1 January 2016)
Ben Westran

Chairman, Bob Holt

The Chairman 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 Board

Audit Committee

The Audit Committee is responsible for effective corporate governance in respect of financial reporting, agreeing the scope of the external audit, the setting of their remuneration and reviewing the effectiveness of the Group's internal controls, risk management and internal audit processes.

Committee members

- Geraint Davies (Chairman)
- Peter F Dicks
- Rory Macnamara

Read the Report of the Audit Committee on **pages 58 to 62**

Remuneration Committee

The Remuneration Committee is responsible for setting, reviewing and recommending the remuneration policy and strategy in respect of Executive remuneration.

Committee members

- Peter F Dicks (Chairman)
- Rory Macnamara
- Michael G Rogers

Read the Report of the Remuneration Committee on **pages 63 to 76**

Nomination Committee

The Nomination Committee is responsible for ensuring that the Board comprises a high level and range of business experience, skills and diversity to enable the Group to be managed effectively.

Committee members

- Rory Macnamara (Chairman)
- Peter F Dicks
- Julia Unwin

Read the Report of the Nomination Committee on **pages 56 to 57**

Chief Executive Officer

The Chief Executive Officer manages the day-to-day business operations of the Group and recommends key strategies and implements those agreed by the Board.

Read the Review of Operations on **pages 22 to 31**

Senior Management Team

The Senior Management Team 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.

Corporate governance report continued

The Board of Directors

During the year, the Board had a total of ten Directors of whom eight served throughout the year. Davida Marston did not offer herself for re-election as a Non-Executive Director at the AGM on 3 June 2015 and Geraint Davies was appointed as a Non-Executive Director with effect from 28 October 2015. Julia Unwin was appointed Non-Executive Director with effect from 1 January 2016. Following resignation from the Board, Davida Marston did not have any concerns over the running of the Company or any proposed actions at the time of resignation.

The Board comprises the Chairman, the Chief Executive Officer, the Group Finance Director, the Executive Director and six* Independent Non-Executive Directors. Peter Dicks is the Senior Independent Non-Executive Director. The Directors' biographical details are set out on page 49. These indicate the respective backgrounds and range of business experiences which enable the Board to operate effectively. Their differing mix of skills and business experience is a major contribution to the proper functioning of the Board and its Committees, by ensuring that matters are challenged and there is constructive debate.

The Board's prime objective is to ensure the ongoing commercial and financial success of the Group. The Board provides entrepreneurial leadership of the Group within a sound and prudent risk management framework using effective internal control systems which enable risk to be assessed and managed. The Board sets the Group's strategic objectives, and the nature and extent of principal risks it is willing to take in achieving these strategic objectives, and ensures that the necessary financial and human resources are in place for the Group to meet its objectives and also 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.

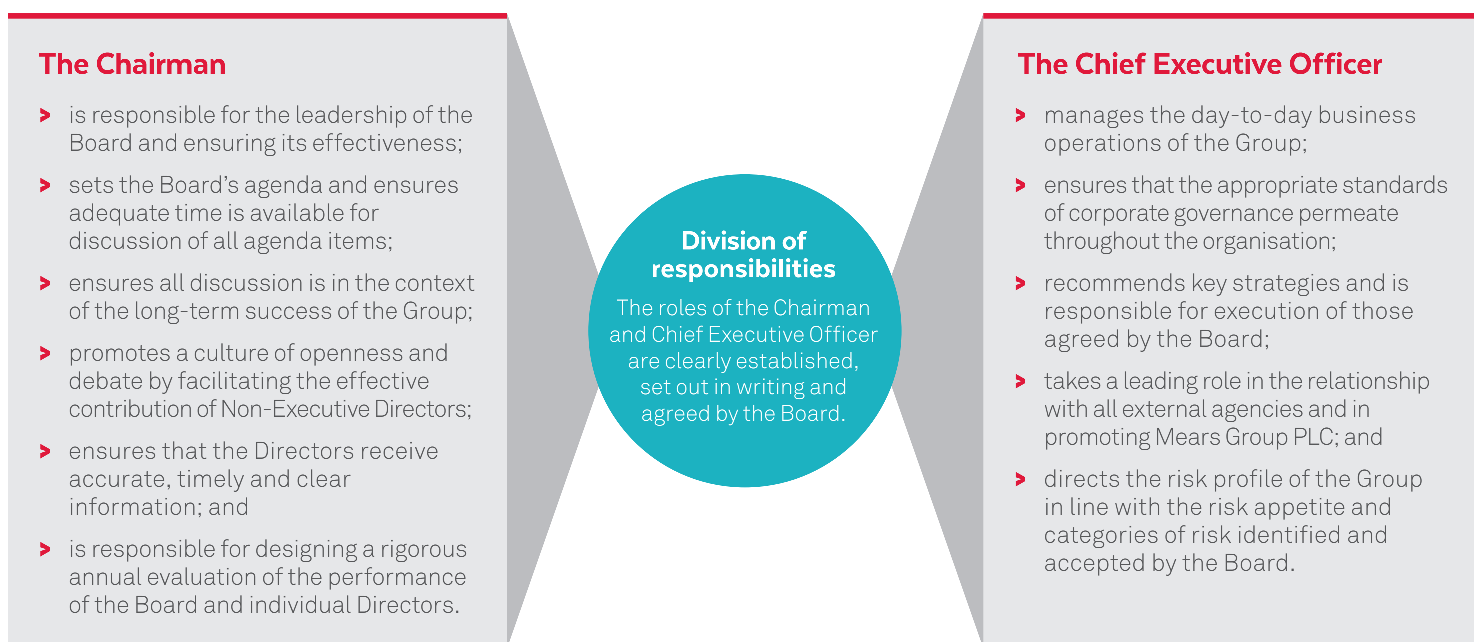
* Seven Independent Non-Executive Directors from 1 January 2016.

Matters reserved for the Board

The Board maintains and regularly reviews a full list of matters and decisions that 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;
- the approval of budgets;
- changes to the Group's debt and equity funding;
- 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;
- values and 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. Other decisions are delegated to the Senior Management Team, which have prescribed areas of responsibility.



Independence of our Board

The balance and independence of our Board is kept under review by our Nomination Committee.

The Code suggests that the length of tenure is a factor to consider when determining independence. The Nomination Committee is responsible for the progressive refreshing of the Board's membership. This process is underway and is evidenced by the appointment of Geraint Davies and Julia Unwin. The table below shows the length of tenure for each Non-Executive Director.

The Board considers that each of the Non-Executive Directors who served during the year is independent in terms of judgement and character and free from any relationship that might materially interfere with the exercise of independent judgement. Independence of long-serving Independent Non-Executive Directors has been determined as part of the Board appraisal, where conduct and communications recorded from meetings were assessed.

Notwithstanding this and for the sake of completeness, below is a summary of relationships of which shareholders should be aware:

- Michael Rogers became a Director of the Group in April 2007, on the acquisition of Careforce, where he continued as Chief Executive Officer in a purely transactional role, focused on Careforce and not involved in the Group business, until 2008 when he became a Non-Executive Director of Mears; and
- Geraint Davies was the audit partner responsible for the Mears Group PLC audit but stepped down from the role in 2012 and therefore for this year end has been entirely unconnected to the Company for four years.

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

The Non-Executive Directors constructively challenge and develop proposals on strategy and 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.

Terms of Reference of Non-Executive Directors are reviewed annually as part of Board performance evaluation and are held by the Company Secretary.

Board membership and Board and Committee meeting attendance

The table opposite shows the attendance of Directors at scheduled Board and Committee meetings. The Board scheduled six meetings during the year including two strategy days. Further information relating to the strategy days can be found on page 55. Additional ad hoc meetings or conference calls were also organised pertaining to specific matters which require Director involvement between the scheduled meetings.

Directors are required to provide sufficient time to discharge their duties in office effectively. Where possible, Directors should attend all meetings. The Chairman of the Board or respective Committee is informed of any issues with meeting attendance.

The Nomination Committee receives regular updates outside of scheduled meetings which relate to the search process for potential new Board members. The Report of the Nomination Committee can be found on page 56.

In addition to the meetings scheduled:

- the Chairman and the Non-Executive Directors met without the presence of the Executive Directors; and
- the Non-Executive Directors met without the presence of the Executive Directors and the Chairman.

Information

The Chairman is responsible for ensuring Directors are properly briefed on issues to be discussed at Board meetings and that they have full and timely access to relevant information, including minutes of previous Board and Committee meetings. Timely access to information is a priority in order for Directors to be able to consider and present their own challenges to each meeting. The quality and timeliness of information provided to Directors was included as part of the Board evaluation. The findings were that information provided to Directors was thorough and relevant, and in all instances provided suitably in advance.

Length of tenure

Director	
D L Hosein	8 years
M G Rogers	8 years
P F Dicks	8 years
R Macnamara	5 years
G Davies	<1 year
J Unwin	<1 year

Corporate governance report continued

Board performance evaluation overview

The performance evaluation process included:

- a review of the areas of Board roles and responsibility;
- an internally facilitated review by the Chairman, which included meeting with all Board members individually;
- 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;
- an assessment of the appropriateness of Directors' Terms of Reference;
- the content of Board meetings and presentations to meetings; and
- the openness of communications between the Board members and Executive Management.

Recommendations were made and all were duly implemented, but overall the Board was found to be operating effectively.

Board appraisal

The Chairman conducts individual appraisals with all Non-Executive Directors on an annual basis. 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 Directors standing for re-election at this year's AGM continue to perform effectively and demonstrate commitment to their roles. Likewise the Senior Independent Director has given the same confirmation in respect of the Chairman. In line with current practice, all Directors will retire and, being eligible, offer themselves for re-election annually.

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.

Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of David Miles, Andrew Smith and Alan Long, who all respond on a daily basis to queries from institutional and private investors. The Chairman is generally available to shareholders and meets with investors on a regular basis; the Senior Independent Director is also available when required. The Directors regularly meet shareholders at operational locations which both parties find more rewarding as it provides greater insight into the business and its processes. All Directors are available at each AGM and shareholder participation is encouraged. The Group has more regular contact with its banking partners, Barclays and HSBC, and the Group values this close relationship.

The Board is committed to maintaining regular contact through the provision of the Annual Report, regular Interim Reports and regular trading updates. This information can be found on the Group's website (www.mearsgroup.co.uk).

The Board is updated on its major shareholders by Neville Registers Ltd, the provider of registrar services to the Group. There is more dialogue with institutional investors following the publication of interim and preliminary results, which is facilitated through a series of formal presentations. Site visits are arranged throughout the year for shareholders and City commentators in order for them to gain exposure to our operations and management.

Feedback from communications with major shareholders and other investors, where necessary, is discussed at each Board meeting. In addition, analyst views are shared prior to Board meetings enabling an opportunity for discussion and challenge. The feedback received has improved due to the introduction of both divisional Chief Operating Officers being present at investor meetings, giving an insight into the strength of the Senior Management Team.

Board membership and Board and Committee meeting attendance

	Board		Strategy days		Audit		Nomination		Remuneration	
Number of meetings	Potential	Actual	Potential	Actual	Potential	Actual	Potential	Actual	Potential	Actual
R Holt	6	6	2	2	—	—	—	—	—	—
D J Miles	6	6	2	2	5	5	—	—	—	—
A C M Smith	6	6	2	2	5	5	—	—	—	—
A Long	6	6	2	2	—	—	—	—	—	—
M G Rogers	6	6	2	2	—	—	—	—	2	2
P F Dicks	6	6	2	2	5	5	1	1	2	2
D L Hosein	6	6	2	2	—	—	1	1	—	—
R Macnamara	6	6	2	2	5	5	1	1	2	2
G Davies	1	1	—	—	3	3	—	—	—	—
D Marston	2	2	1	1	2	2	—	—	—	—

Investor relations continued

Principal methods of communication with investors

- Annual Report and Accounts
- Interim statements
- Trading updates
- Quarterly newsletters
- Group website (www.mearsgroup.co.uk)

Director induction and development

The Group's policy is to provide appropriate training to its Directors. Training takes into account each individual's qualifications and experience and includes environmental, social and governance training, tailored to individual requirements as appropriate. 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. All Directors also have unfettered access to the Group's operations and staff.

In accordance with Board policy, following the appointment of Geraint Davies and Julia Unwin as Independent Non-Executive Directors, both received a full, formal and tailored induction relating to all of the Group's activities upon joining the Board.

Existing and new Directors are required to avail themselves of opportunities to meet with our major shareholders.

Strategy days

Keeping up to date with developments within the Group is essential for the Directors to maintain and enhance their effectiveness. This is achieved through two strategy days which were attended by all Directors. This achieved:

- an update on the process of setting Group strategic objectives;
- financial plans, including budgets and forecasts, were reviewed and discussed;
- an update on external factors affecting Group strategy; and
- open discussion relating to the Group's medium-term and long-term strategy.

Indemnifications of Directors

In accordance with our Articles of Association and to the extent permitted by the laws of England and Wales, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. However, our indemnity does not cover Directors or officers in the event of being proven of acting dishonestly or fraudulently.

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 only, as required by the UK Corporate Governance Code 2014.

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

P F Dicks
Senior Independent Non-Executive Director
peter.dicks@mearsgroup.co.uk
18 March 2016

Report of the Nomination Committee

Introduction

The Nomination Committee ensures there is an effective balance of skills and experience for Board discussions. Succession and diversity are key aspects of our agenda to ensure the Board is continually challenged.

The Committee's priorities over the past year have been:

- maintain a succession plan for the Executive Board members and Senior Management Team;
- manage the appointment process of Geraint Davies as Independent Non-Executive Director and Audit Committee Chair; and
- manage the appointment process of Julia Unwin as Independent Non-Executive Director.

R Macnamara
Nomination Committee Chairman
rory.macnamara@mearsgroup.co.uk
18 March 2016

Rory Macnamara
Nomination Committee Chairman

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 are made, on merit, against objective criteria and with due regard to the benefits of diversity on the Board, including gender.

The appointment of members of this Committee is conditional upon them allocating sufficient time to the Company to discharge their duties.

Role of the Committee

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, requiring that the proposed appointee discloses any other business interests that may result in a conflict of interest and reports any future business interests that could result in a conflict of interest;
- ensuring 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 Board meetings; and
- reviewing the length of service of Non-Executive Directors to ensure a progressive refreshing of the Board.

> "The Board acknowledges that diversity extends beyond the boardroom and supports the management effort to build a diverse organisation."

Committee meetings

The Committee formally met once during the year and all members of the Committee were present at the meeting. In addition to its formal meeting, there was regular contact between Committee members as well as ad hoc meetings with other Board members and management, when deemed necessary by the Committee Chairman, particularly relating to the search process for the new Non-Executive Directors.

Following the confirmation that Davida Marston would not offer herself for re-election at the AGM in 2015, the recruitment of a Non-Executive Director who would Chair the Audit Committee duly commenced. The Committee considered both the balance of skills, experience and diversity of the Board, with the specific skills required of an Audit Committee Chair, in determining the types of candidate who might best fit the specification of this role. The process ensued with a thorough search which included meetings with the Chairman and other Directors. The Board was delighted to be able to appoint Geraint Davies on 27 October 2015. Geraint has detailed and up-to-date financial knowledge with over 25 years' experience as a partner in a leading professional practice. This experience includes working with Registered Social Landlords and across a broad spectrum within the healthcare sector.

During the year, the Committee considered the membership of each Board Committee and updated its succession plans for Executive and Non-Executive Directors and senior management. As a result of this process, the Board was able to announce the appointment of Julia Unwin from 1 January 2016. This is an excellent appointment due to Julia's significant experience within the social housing sector.

This year the Committee commissioned an internally facilitated evaluation of Board members from the Chairman, Bob Holt. Further information about the this process can be found on page 54 of the Corporate Governance Report. The evaluator interviewed each Board member and also contacted external advisers. No major issues were identified but a number of action points were noted and are now being addressed. The policy adopted is that an externally facilitated evaluation will be undertaken at least every three years. The last externally facilitated evaluation was in 2014.

The Board acknowledges that diversity extends beyond the boardroom and supports the management effort to build a diverse organisation. The Company believes in promoting diversity at all levels of the organisation; at present 23% of our senior managers are female. The Board is confident that this will increase over time. It is the aspiration of the Board for the diversity in membership to mirror the diversity in our Senior Management Team. Currently 9% of Board members are female (2014: 10%). When considering the optimum composition of the Board, the benefits of diversity are appropriately balanced with their skills, knowledge, experience and approach.

Report of the Audit Committee

Introduction

The Committee assists the Board in fulfilling its oversight responsibilities regarding, in particular, the Company's financial and corporate reporting, risk management and internal controls, and the independence and effectiveness of the external auditor.

G Davies
Audit Committee Chairman
geraint.davies@mearsgroup.co.uk
18 March 2016

Geraint Davies
Audit Committee Chairman

This report sets out how the Committee has discharged its responsibilities during the year, one in which I have succeeded Davida Marston as Audit Committee Chairman. The Board is required to ensure that the Annual Report is fair, balanced and understandable, and the Committee assists in considering this. This report will also set out, in relation to the financial statements, the significant issues considered and how these were addressed.

In the intervening period between Davida Marston leaving the Board and my joining, Rory Macnamara undertook the interim appointment. Whilst a period of change is never ideal, I have myself spent considerable time in meeting the divisional senior management and I had a number of detailed review meetings with the Group's Chief Risk Officer (CRO) during which I have obtained a high degree of comfort around the risk management and control environment of the Group. Notwithstanding this, I believe that I have already added fresh challenge and value to what is already a robust process.

The work of the Committee is far-ranging. However, without attempting to summarise here, I would draw attention to the following:

In relation to financial reporting, three particular areas contain significant judgements: the carrying value of goodwill, defined benefit liabilities, and revenue recognition.

In relation to risk management and internal control, we focused on IT security and disaster recovery, financial controls and updating and reviewing the risk register which enables the review of the internal audit plan and the internal audit findings which are produced by our outsourced internal audit partner, KPMG, and our internal audit team led by the CRO. Principal risks are generated from our risk register; further information relating to principal risks can be found on pages 38 to 41. In relation to risk management, the Senior Management Team plays a central role in safeguarding against risk. The Group's risk personnel present risk management training modules to ensure operations are conducted with a strong risk management ethos and I personally attended and presented at a recent senior management development event.

In relation to the independence and effectiveness of the external auditor, the Committee continues to review the external audit engagement on an annual basis having carried out a tender exercise in 2013. The review process includes reviewing reports produced by the external auditor, and Committee discussion around the sophistication and appropriateness of audit procedures and approach. The tender process resulted in the re-appointment of Grant Thornton UK LLP and I am delighted that, each year, new and challenging audit procedures are used by our external auditor.

Role of the Committee

The Committee has access to the financial expertise of the Group and its auditor, if required, and can seek further professional advice at the expense of the Group, if required.

The key responsibilities of the Committee are to:

- consider the appointment of the external auditor, its reports to the Committee and its independence, including an assessment of its appropriateness to conduct any non-audit work;
- review the financial statements and announcements relating to the financial performance of the Company;
- review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- discuss with the external auditor the nature and scope of the audit;
- review, and challenge where necessary, the action and judgements of management, in relation to the interim and annual financial statements before submission to the Board;
- formally review the effectiveness of the external and internal audit processes;
- consider management's response to any major external or internal audit recommendations;
- review the Company's plans for business continuity;
- review the Company's plans for prevention and detection of fraud, bribery and corruption;
- review the effectiveness of the whistleblowing arrangements; and
- report to the Board on how it has discharged its responsibilities.

The Committee's Terms of Reference are available on the Company's website and on request from the Company Secretary.

The Committee is comprised of financially literate members with the requisite ability and experience to enable the Committee to discharge its responsibilities. Geraint Davies and Rory Macnamara are the current members who have recent and relevant financial experience. Davida Marston also served on the Committee as Chairman during the year and also had recent and relevant financial experience.

Committee meetings

The Committee met five times during the year with attendance by all members. These meetings were also attended by the Group Chief Executive Officer, the Group Finance Director and the Chief Risk Officer as required by invitation from the Chairman of the Audit Committee. The external auditor, Grant Thornton UK LLP, was invited to all meetings. There was also significant dialogue outside formal meetings between Committee members, Executive Directors and the external auditor particularly during the audit process and the preparation of the Annual Report. The Audit Committee Chairman meets with the external auditor regularly throughout the year.

Main activities of the Committee during the year

Financial reporting

The primary role of the Committee in relation to financial reporting is to review, with both management and the external auditor, the appropriateness of the half-year and annual financial statements, concentrating upon the reasonableness of the accounting policies, adherence to accounting standards and sufficiency and clarity of the information disclosed.

The primary areas of judgement considered by the Committee in relation to the 2015 accounts, and how these were addressed, were:

Carrying value of goodwill

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows; these are termed as cash-generating units (CGUs). Due to the Board successfully integrating the newly acquired Care business into the existing Care business, there have been two CGUs identified: Social Housing and Care. Determining whether goodwill is impaired requires an estimate of the value in use of each of the CGUs to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the CGU and also the selection of an appropriate discount rate to calculate present values. Future cash flows are estimated using the current one-year budget, extrapolated for five years to December 2020 using specific rates with a general terminal growth rate being used thereafter. This has been derived from the extensive business planning process described in greater detail within note 10 on page 113 of the Annual Report. Estimated growth rates over each period are based on past experience and knowledge of the individual sector's markets. The Directors consider that the estimates and judgements involved in determining the value in use of the Care CGU goodwill are the most significant to the Group and they have therefore utilised the services of an external consultant to assist with this impairment review. The value in use is most sensitive to changes in the terminal growth rate, the explicit growth rate during the forecast period and the discount rate. The sensitivity to changes in these estimations is detailed in note 10.

The Audit Committee addressed this area of judgement by reviewing the key assumptions proposed by management, notably forecast growth rate, discount rate, terminal growth rate and carer recruitment and retention rates. Given the importance of these two assumptions, the Committee also reviewed reports prepared by a third party valuation expert, PwC, which provided validation to the management proposals:

- the Committee reviewed the asset valuation report prepared by PwC on behalf of management and met with PwC to discuss the report in detail. The Committee gave particular focus to the sensitivity analysis which showed the level of changes in key value-in-use calculation assumptions that would be required before triggering any impairment;
- the Committee reviewed the disclosure in the notes to the financial statements; and
- this area represented a prime area of audit focus and Grant Thornton UK LLP provided detailed feedback to the Committee.

Report of the Audit Committee continued

Main activities of the Committee during the year continued

Financial reporting continued

Defined benefit pension valuation

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

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the particular estimates used are included in the pensions note on pages 132 to 136.

Where the Group has a contractual right to recover the costs of making good any deficit pension 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 contributions payable 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.

The Audit Committee addressed this area of judgement in the following ways:

- the Committee reviewed the key assumptions proposed by management, notably assumptions in respect of discount rate, RPI, CPI and future salary increases. Given the materiality of this area, the Committee reviewed a report prepared by Ernst & Young LLP which validated the assumptions set by management and provided a comparison with other quoted companies;
- the Committee reviewed the accounting treatment of pension related transactions. Full disclosure has been provided within the pensions note on pages 132 to 136; and
- given the technical nature of this area, the Committee placed reliance upon the actuarial reports prepared by the respective scheme actuaries in respect of each of the defined benefit pension schemes.

The completeness of provisions in respect of performance guarantees of discontinued activities

As detailed within note 7, in 2013 the Group completed the disposal of the entire share capital of Haydon Mechanical and Electrical Limited. As part of that disposal, the Group retained the beneficial interest in 49% of the share capital of an investment in a company registered in the United Arab Emirates, Haydon Mechanical and Electrical LLC ('Haydon LLC'). This beneficial interest was retained due to a number of performance guarantees in place at the time of the disposal which would unravel as the underlying contracts are completed. During the period the Group agreed, in principle, to sell its interest in the company to the management. The transfer will happen in stages as the performance guarantees are cancelled. The formal sales and purchase agreement is expected to be signed imminently.

As at 31 December 2015, the Group has performance guarantees of £15.4m. These performance guarantees are disclosed as contingent liabilities in note 27.

At 31 December 2014, a balance of £2.6m was due from Haydon LLC to the Group. During the period, the Group provided additional financial support to Haydon LLC of £4.5m to mitigate risk in respect of its underlying performance guarantees. A number of the underlying contracts are now reaching completion and whilst there remains a range of possible outcomes, the Directors believe that the carrying values are appropriate. The extent to which performance guarantees will be called upon is judgemental and depends on the quality and timeliness of the work undertaken to which the guarantees relate and when it is likely that guarantees will be cancelled due to the performance criteria having been met.

The Committee addressed this area of judgement in the following ways:

- the Committee reviewed with management the position on each of the relevant contracts with particular reference to the state of completion;
- the Committee looked at the cash flow and costs to complete forecasts with management to see whether they might indicate any likely impact on the performance guarantees; and
- the Committee saw the contract management work undertaken by the auditor, which provided detailed feedback to the Committee.

Revenue recognition

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.

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

Main activities of the Committee during the year continued

Financial reporting continued

Revenue recognition continued

The Audit Committee addressed this area of judgement in the following ways:

- the Committee reviewed the key judgements report prepared by management which provided a detailed explanation in respect of the valuation of unbilled works and the recognition of revenues;
- the Committee took comfort from the contract management system which is central in generating the valuation of works (both billed and unbilled) and the integrated process that follows to ensure an accurate cut-off to that revenue is appropriately matched to cost. Grant Thornton tested these systems during its audit fieldwork and provided feedback to the Committee on this crucial area; and
- this area represented a prime area of external audit focus. Grant Thornton UK LLP carried out both controls-based and substantive testing of the amounts recoverable on contracts, adopting a blend of risk-based and random sampling approaches to testing and provided detailed feedback to the Committee in this area. Grant Thornton's comments can be seen on pages 80 to 85.

Internal control and risk management

With respect to its oversight of risk management and internal controls, the Board reviewed and discussed a wide range of matters with management, internal audit and external audit, as appropriate. This extends 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 has delegated some of these responsibilities to the Audit Committee which has reviewed the effectiveness of the system of internal control and ensured that any remedial action has been 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 Group has 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;
- 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, people, legal compliance, quality assurance, insurance and security and reputational, social, ethical and environmental risks;
- discussion relating to a presentation from the IT Director on cyber security, including an assessment of vulnerabilities and the programmes being implemented to protect the Group against the evolving and potentially catastrophic risk;
- following the requirement for the Group to provide additional funding to Haydon LLC, as detailed in note 7 to the financial statements, the Committee reviewed with management the additional controls put in place by the Chief Executive Officer to protect the Group's position in relation to certain performance guarantees;
- consideration and discussion relating to regular updates from the Finance Director regarding development within the finance function; and
- review of the Group's treasury policies with the Finance Director and Head of Treasury in order to ensure best practice is being adhered to.

Report of the Audit Committee continued

Main activities of the Committee during the year continued

Internal control and risk management continued

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. The Chief Risk Officer (CRO) and Finance Director presented a report on the robustness of the internal controls for the year and an internal audit plan for 2016. The Committee has concluded that 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
- regular reporting of operational performance and risks to the Board.

In 2014 a review of internal controls was performed by independent internal audit outsourced partners, KPMG. This work was commissioned on a risk-based approach and was performed to provide the Committee with independent assurance over the quality of risk management and strength of internal controls. The procedures performed by KPMG were undertaken within inherently risky areas that would affect KPI performance. This assignment was finalised during 2015 and the independent view of internal controls was that controls were generally adequate, though improvements were suggested. The improvements have been implemented.

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 working 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 requirements. As at the end of the period covered by this report, the Audit Committee, with the participation of the Chief Executive Officer 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.

The Committee carried out a review of its effectiveness with input from Committee and Board members, management and the external auditor. The review concluded that the Audit Committee members had sufficient expertise and committed time to discharge their responsibilities.

External audit related services

The Committee is also responsible for monitoring and reviewing the performance, independence and objectivity of Grant Thornton UK LLP, the external auditor. The external auditor has also confirmed that it has complied with relevant UK independence standards. The Company has a non-audit service policy for work carried out by Grant Thornton. This is split into the following three categories:

- pre-approved work for the external auditor – this is predominantly the audit of subsidiary undertakings' statutory accounts and is audit related in nature;
- work for which Committee approval is specifically required – this includes transaction work and corporate tax services, and certain advisory services; and
- work from which the external auditor is prohibited.

To safeguard audit objectivity and independence, the Committee is responsible for approval of all non-audit services provided by Grant Thornton. As part of the approval process, the Committee will consider whether it is in the interest of the Company that services are supplied by Grant Thornton. Where Grant Thornton is chosen, this is due to the detailed knowledge of the structure of the business and the understanding of the markets the Group operates in, which means it is the preferred provider of the service.

The fees paid to Grant Thornton during the year in respect of non-audit services were £0.03m (2014: £0.05m). The total fees for non-audit services represented approximately 7% of the audit fees paid for the year (2014: 14%).

Read more in the financial statements in note 2 on **page 104**

Report of the Remuneration Committee

Dear shareholder,

I am pleased to introduce the Mears 2015 Remuneration Report.

The Directors' Remuneration Policy sets out the Company's remuneration policy for Directors.

Peter Dicks
Remuneration Committee Chairman

This policy was subject to a binding shareholder vote at the 2014 AGM and will remain unchanged for a period of at least three years. For completeness, the policy is detailed in full within this Annual Report.

The Annual Report on Remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the 2015 financial year. This report, together with this letter, is subject to an advisory shareholder vote at the 2016 AGM.

The Company's remuneration structure has been designed to support the evolving business strategy and foster a pay for performance culture helping us achieve our corporate goals. The success of the Company is driven by a continued focus to drive shareholder value through:

- growing revenues and earnings in a sustainable and profitable manner;
- a progressive dividend policy closely tracking growth in earnings;
- generating a strong level of cash flow to deliver returns for shareholders and investment for future growth; and
- efficient and targeted investment of cash.

These measures, together with shareholder returns, are captured in the cornerstone of our remuneration structure, namely the Management Incentive Plan (MIP).

During the last twelve months, the Company has continued to make significant progress in a number of areas including:

- achieving a broader housing management offering;
- an important step forward with the award of the long-term joint venture partnership with Milton Keynes Council;
- the acquisition of Care at Home business of Care UK ('CAH') strengthened our position in the Domiciliary Care market;
- the order book has increased to £3.5 billion (2014: £3.3 billion) with excellent visibility of 96% of 2016 consensus revenues reflecting strong progress in positioning the business for the future; and
- continued financial discipline evidenced by strong cash conversion.

Group profit before tax declined due to the acquisition of the loss-making CAH. The Directors have reported the results of CAH in normal trading. These results are reflected in the performance against MIP targets for 2015 as follows:

Performance measures*	Target	Maximum	Actual
EPS growth	10%	15%	(10)%
Total shareholder return (TSR) growth	10%	15%	23%
Cash conversion (underpin)		80%	121%
ROCE (underpin)		10%	18%

* See page 72 for definitions of performance measures and actual remuneration outcomes.

Report of the Remuneration Committee continued

"The Company's remuneration structure has been designed to support the evolving business strategy and foster a pay for performance culture helping us achieve our corporate goals."

To strengthen the alignment with the Executive Directors and shareholders, the Committee has decided that, for the second year running, the MIP contribution for 2015 will be made entirely in shares with no cash contribution being released. This alignment should ensure management is focused on delivering strong performance in the coming year.

Looking forward the Remuneration Committee, as noted in last year's report, is aware that given the growth and size of the company, the Executive Director remuneration levels are well below market norms. To rectify this situation salary levels for the Executive Directors were increased by 10% for 2015 and we said we would consider similar increases for 2016 and 2017 but contingent on corporate and individual performance to ensure that Mears' exceptional management team were paid fairly. Taking into account all relevant circumstances we have decided to increase base pay by 5% for current year. It is important to note that there will be no change to the actual remuneration structure. The Committee firmly believes that the increase in base pay, along with the MIP structure, will continue to motivate and retain the exceptional management team who are committed to the success of the Company, while helping to ensure the creation of long-term value for shareholders.

I hope you will find the information in this report informative and helpful. I am always happy to hear from shareholders and should you have any questions about this report or remuneration issues generally, please contact me directly or through the Company Secretary, Ben Westran.

P F Dicks
Remuneration Committee Chairman
peter.dicks@mearsgroup.co.uk
18 March 2016

Remuneration report

Directors' remuneration policy

Remuneration policy and philosophy

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.	> By providing a 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 Mears' remuneration policy, 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 packages are designed to ensure that variable components of an Executive Director's total remuneration package amounts to around one third for target performance and around two thirds for stretching performance.
A significant component of each Executive's total compensation should be delivered through performance related pay.	> At stretching performance, around two thirds of the Executive Directors' total remuneration package is based on performance related pay.
There should be a commitment to fostering a strong performance culture that aligns an individual's rewards with the key corporate metrics that drive shareholder value creation.	> Performance targets are set which are motivating and directly aligned to the Group's strategic underlying performance. > The Committee also ensures that the remuneration package does not lead to irresponsible behaviour and that it takes appropriate account of risk.

Directors' remuneration policy continued

Executive Directors

The table below sets out the key elements of the policy for Executive Directors:

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Base 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 April in order to ensure that Executive Directors remain competitively aligned with external market rates. The Committee will retain the discretion to increase an individual's salary 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. When setting the salary levels for the Executive Directors, in addition to the factors summarised above, salary levels paid by a number of comparator companies of a similar size to Mears are taken into account.	The Committee's policy is to set base salary at an appropriate level taking into account the factors outlined in this table.	Not applicable.
Other benefits			
To provide benefits that are valued by the recipient and are appropriately competitive.	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.	Benefit values vary year on year depending on premiums and the maximum potential value is the cost of these provisions.	Not applicable.
Management Incentive Plan (MIP)			
The MIP provides a strong link between reward and corporate performance in order to appropriately retain and motivate the Executive Directors and senior management who are critical to executing the business strategy. Align the interests of Executive Directors and senior management more closely with shareholders over the longer term and provide a greater exposure to share price movements over this period.	› Participants have a plan account into which contributions by Mears are made. › Performance is measured by reference to targets over the financial year. › Contributions are made annually with payments made each year to ensure an overlap with the next plan year depending on the extent to which the performance conditions are met. › After contributions are made, 50% of the plan balance is paid in cash and 50% is deferred in shares. However, at the discretion of the Remuneration Committee, the element to be deferred can be increased from 50% but never decreased. › No contribution is made to a participant's plan account unless the performance conditions and financial underpins set at the beginning of the relevant year are satisfied. Where only one of the financial underpins is met and the performance conditions are met then the annual contribution will be reduced by 50%. › 50% of the plan account is at risk of forfeiture each year if minimum level of performance is not met. › Further details of the operation of the MIP including the performance conditions for 2016 are set out on page 75.	Annual contributions made to Executive Directors will be capped at a maximum of 250% of salary. Target payments will be at 20% of an Executive Director's maximum opportunity.	Contributions will be based on the satisfaction of performance conditions, for example EPS and TSR. The Remuneration Committee has discretion to set performance measures and weightings on an annual basis, with performance conditions for the next financial year set out in the statement of implementation on pages 75 to 76.

Remuneration report continued

Directors' remuneration policy continued

Executive Directors continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Pension			
To provide a framework to save for retirement that is appropriately competitive.	All Executive Directors receive a contribution into their respective defined contribution plans, which are subject to periodic review to ensure that they remain in line with rates applicable in the market. Only the base salary is pensionable.	The Executive Directors receive a contribution of 15% of salary. R Holt receives a contribution of 30% of salary.	Not applicable.
All employee share plan			
Encourages employees to own shares in order to increase alignment over the longer term.	Under the terms of the Sharesave Plan all employees can apply for three or five-year options to acquire the Company's shares priced at a discount of up to 20%.	£500 per month over a three-year or five-year period.	Not applicable.
Shareholding requirement			
Ensures a long-term locked-in alignment between the Executive Directors and shareholders, ensuring that they build up and maintain a minimum level of shareholding throughout their employment with the Company.	The shareholding requirement will operate in the following manner: › only shares unconditionally owned by the Executive Director will count against the requirement; and › shares can be built up over a five-year period from implementation of the policy through the vesting and retention of share awards and/or MIP payments.	Minimum shareholding requirement is 200% of salary.	Not applicable.
Provisions of previous policy that will continue to apply			
Other Non-Executive appointments.	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.	Not applicable.	Not applicable.

Directors' remuneration policy continued

Notes to the future policy table

Reasons for selecting performance targets

The Committee believes that the EPS growth performance condition for the MIP is directly aligned to the Company's strategic objectives over the long term and is also transparent, fully understood by participants and is an externally audited metric over which they have line of sight. Total shareholder return has been selected as a performance condition for the MIP as it provides an unbiased indicator of value created for shareholders and creates a strong link with executive reward. Targets are set on a sliding scale based on internal growth expectations of the Company and market forecasts. Maximum targets are believed to incorporate an appropriate amount of stretch which would reflect excellent performance in current market conditions. Two financial underpins, based on threshold levels of cash conversion and return on capital employed, have also been set which impact the level of contribution under the EPS performance condition. Given that no contribution will be made in respect of the EPS condition unless these underpins are achieved, this ensures that the quality of earnings is protected and overall corporate performance is strong before a contribution to the plan accounts is made.

Where there are multiple underpins, failure to achieve one of the underpins will result in a reduction of the annual contribution by a relevant proportion. For example, if there are two underpins and one is not met then the annual contribution will be reduced by 50%. If both underpins are not met then there will be no annual contribution.

Changes to remuneration policy from previous policy

There have been no changes to the operation and implementation of the remuneration policy from the previous year.

Differences in remuneration policy for all employees

The remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees with a large proportion of their overall package dependent on successful and sustained execution of the business strategy over the longer term. The objective of such a policy is to create a strong link between pay for Executive Directors and the value created for shareholders.

Committee discretions

The Committee will operate the MIP and Share Plan according to their respective rules. Awards under the Share Plan will not be granted to the existing Executive Directors. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include, but are not limited to, the following in relation to the MIP and Share Plan:

- the participants;
- the timing of grant of an award;
- the size of an award;
- the determination of vesting;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures and weighting for the MIP and exercise conditions (if any) for the Share Plan.

These discretions, which in certain circumstances can be operated in both an upward and downward manner, are consistent with market practice and are deemed necessary for the proper and fair operation of the schemes in order to achieve their original purpose. It is the Committee's policy, however, that there should be no element of reward for failure and any upward discretion will only be applied in exceptional circumstances.

Non-Executive Directors

The remuneration of the Non-Executive Directors is set at a level sufficient to attract individuals with appropriate knowledge and experience. It 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. No additional fees are paid for Committee membership or other normal duties and Non-Executive Directors do not participate in any incentive, pension or bonus arrangements. Current fee levels are set out in the statement of implementation of remuneration policy on page 75.

Approach to recruitment remuneration

In the event that the Company recruits a new Executive Director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors (including but not limited to quantum, the type of remuneration being offered and the jurisdiction the candidate was recruited from) to ensure that arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an Executive of the required calibre.

The Committee would generally seek to align the remuneration of any new Executive Director following the same principles as for the current Executive Directors (set out in the table on pages 65 and 66).

The elements that would be considered by the Company for inclusion in the remuneration package for a new Director are in line with those offered to existing Directors (see policy table on pages 65 and 66 for more details):

- salary and benefits including defined contribution pension participation or a salary supplement in lieu of pension provision;
- participation in the MIP of up to 250% of salary;
- in certain circumstances, participation in the Share Plan of up to 200% of salary and all employee share plans operating at that time; and
- costs relating to but not limited to relocation, legal, financial, tax and visa advice and pre-employment medical checks.

The Committee may make awards on appointing an Executive Director to 'buy out' remuneration arrangements forfeited on leaving a previous employer. The Committee would take into account both market practice and any relevant commercial factors in considering whether any enhanced and/or 'one-off' annual incentive or long-term incentive award was necessary. Awards made by way of compensation for forfeited awards would be made on a comparable basis, taking account of performance achieved (or likely to be achieved), the proportion of the performance period remaining and the form of the award. Compensation could be in cash or shares.

Remuneration report continued

Directors' remuneration policy continued

Approach to recruitment remuneration continued

The Committee's policy is for all Executive Directors to have rolling service contracts with a notice period of twelve months, unless on an exceptional basis to complete an external recruitment successfully, when a longer initial period reducing to twelve months may be used.

Service contracts and payment for loss of office

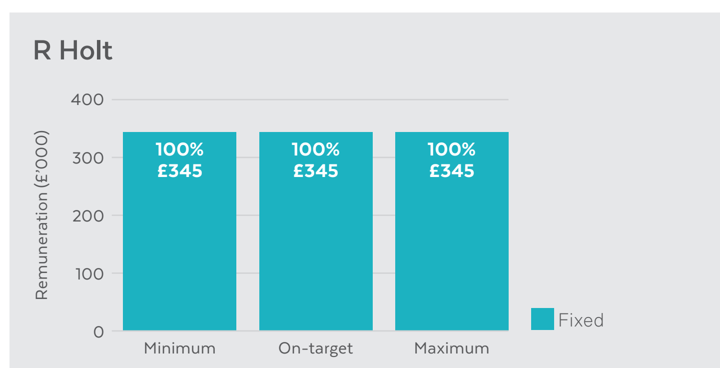
Director	Date of contract/ letter of appointment	Notice period by Company or Director
Executive		
R Holt	June 2015	6 months
D J Miles	June 2015	12 months
A C M Smith	June 2015	12 months
A Long	June 2015	12 months
Non-Executive		
D L Hosein	June 2015	Rolling 6-month appointment
M G Rogers	June 2015	Rolling 6-month appointment
P F Dicks	June 2015	Rolling 6-month appointment
R Macnamara	June 2015	Rolling 6-month appointment
G Davies	October 2015	Rolling 6-month appointment
J Unwin	January 2016	Rolling 6-month appointment

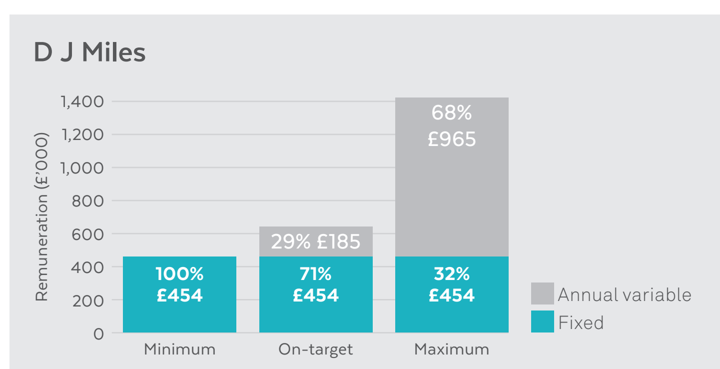
All Executive Directors' contracts are rolling and, therefore, will continue unless terminated by written notice. In the event of the termination of an Executive Director's contract, salary and benefits will be payable during the notice period. There will, however, be no automatic entitlement to bonus payments or share incentive grants during the period of notice.

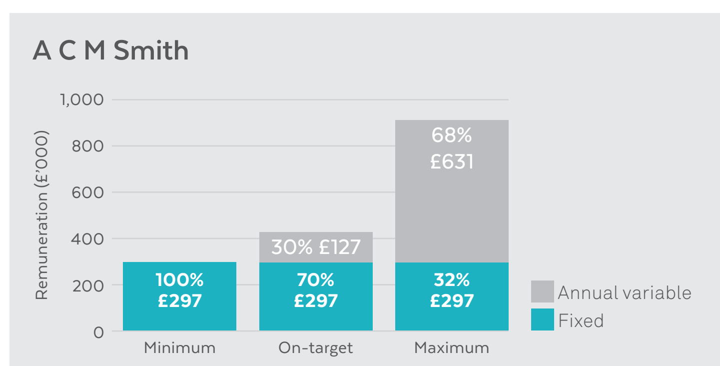
The rules of the MIP and Share Plan set out what happens to awards if a participant ceases to be an employee or Director of Mears before the end of the vesting period. Generally, any outstanding share awards will lapse on such cessation, except in certain circumstances.

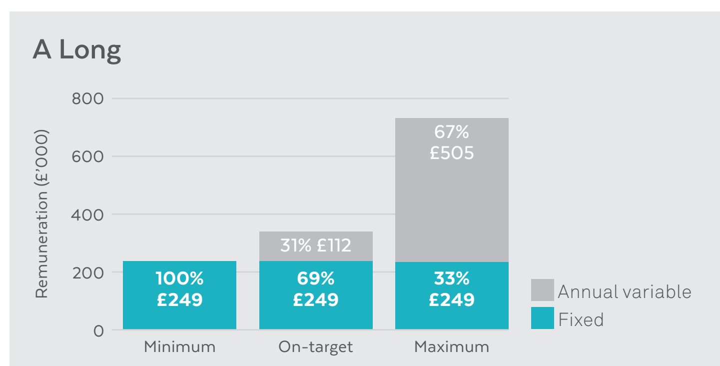
If the Executive Director ceases to be an employee or Director as a result of death, injury, ill health, redundancy, retirement, the sale of the business or company that employs the individual or any other reason at the discretion of the Committee, then they will be treated as a 'good leaver' under the plan rules.

Under the MIP, a good leaver's accumulated plan account (as measured at the date of cessation of employment) will be paid to them. The Committee has discretion to determine the amount, if any, of any contribution to be made to their plan account in the year of cessation which will then be pro-rated by the time elapsed from the start of the year to the date of cessation. This amount would then be paid to the participant.









Directors' remuneration policy continued

Service contracts and payment for loss of office continued

On a change of control, the accumulated plan accounts of all participants (as measured at the date of change of control) will be paid to them.

Under the Share Plan, a proportion of a good leaver's award will vest on cessation of employment by reference to the time elapsed from grant to cessation. The Committee has discretion to determine the period during which the good leaver may exercise their award after cessation.

On a change of control, all awards under the Share Plan will vest immediately.

Illustrations of application of remuneration policy

We estimate that the level of remuneration received by each Executive Director for the first full year in which the policy applies will be, indicatively, at three different levels of performance:

- minimum performance is where only fixed pay (salary, benefits and pension) is payable and no performance related pay accrues;
- on-target performance is the level of performance required to deliver 20% of the maximum annual contribution to the MIP; and
- maximum performance would result in the maximum annual bonus contribution to the MIP.

Fixed salary is base salary for 2016 plus the value of pension and other benefits.

The charts on page 68 demonstrate the balance between fixed and variable pay for minimum, on-target and maximum performance for Executive Directors' remuneration in 2016 in line with the relevant policy.

Consideration of employment conditions elsewhere in the Company in developing policy

The Company sets terms and conditions for employees which reflect the different legislative and labour market conditions that operate in each of our jurisdictions. We will always meet or exceed national minimum standards for terms and conditions of employment in each of our business areas. Pay arrangements in our businesses also reflect local performance with personal increases based on achievement, individually assessed. Mears believes in the value of continuous improvement, both for the individual and for the Company. The Company did not consult with employees in drawing up the Directors' remuneration policy.

When determining the remuneration of Executive Directors, the Remuneration Committee takes into account business unit performance, including both financial performance and safety improvements in the year. Due to the wide variety of labour market conditions and the markets in which we operate, pay rates are not normally considered when considering Executive Director base pay reviews.

The Remuneration Committee reviews and notes the salaries of Senior Executives within the Group. Share awards and bonus plans are cascaded down below Executive level to senior management, aligning the Senior Management Team to deliver value for the Group.

Consideration of shareholder views

The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements. We remain sensitive to the views of shareholders and sought to consult many of our largest shareholders during the changes we made to the remuneration structure in 2013, and in 2014 with regards to clarification as to the operation of certain aspects of our remuneration policy.

The Company will continue to monitor shareholder comments and retain an open dialogue as necessary.

Remuneration report continued

Annual report on remuneration

This section of the Remuneration Report contains details of how the Company's remuneration policy for Directors was implemented during the financial year.

Single total figure of remuneration (audited)

Executive Directors

The remuneration of Executive Directors showing the breakdown between elements and comparative figures is shown below. Figures provided have been calculated in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations').

Executive Director (£'000)	Year	Salary	Taxable benefits	Annual incentives	Pension	Total
R Holt	2015	250	20	—	75	345
	2014	250	20	—	75	345
D J Miles	2015	363	19	—	54	436
	2014	330	32	—	50	412
A C M Smith	2015	242	7	—	36	285
	2014	220	6	—	33	259
A Long	2015	198	11	—	30	239
	2014	180	11	—	27	218

Non-Executive Directors

The remuneration of Non-Executive Directors showing the breakdown between elements and comparative figures is shown below. Figures provided have been calculated in accordance with the Regulations.

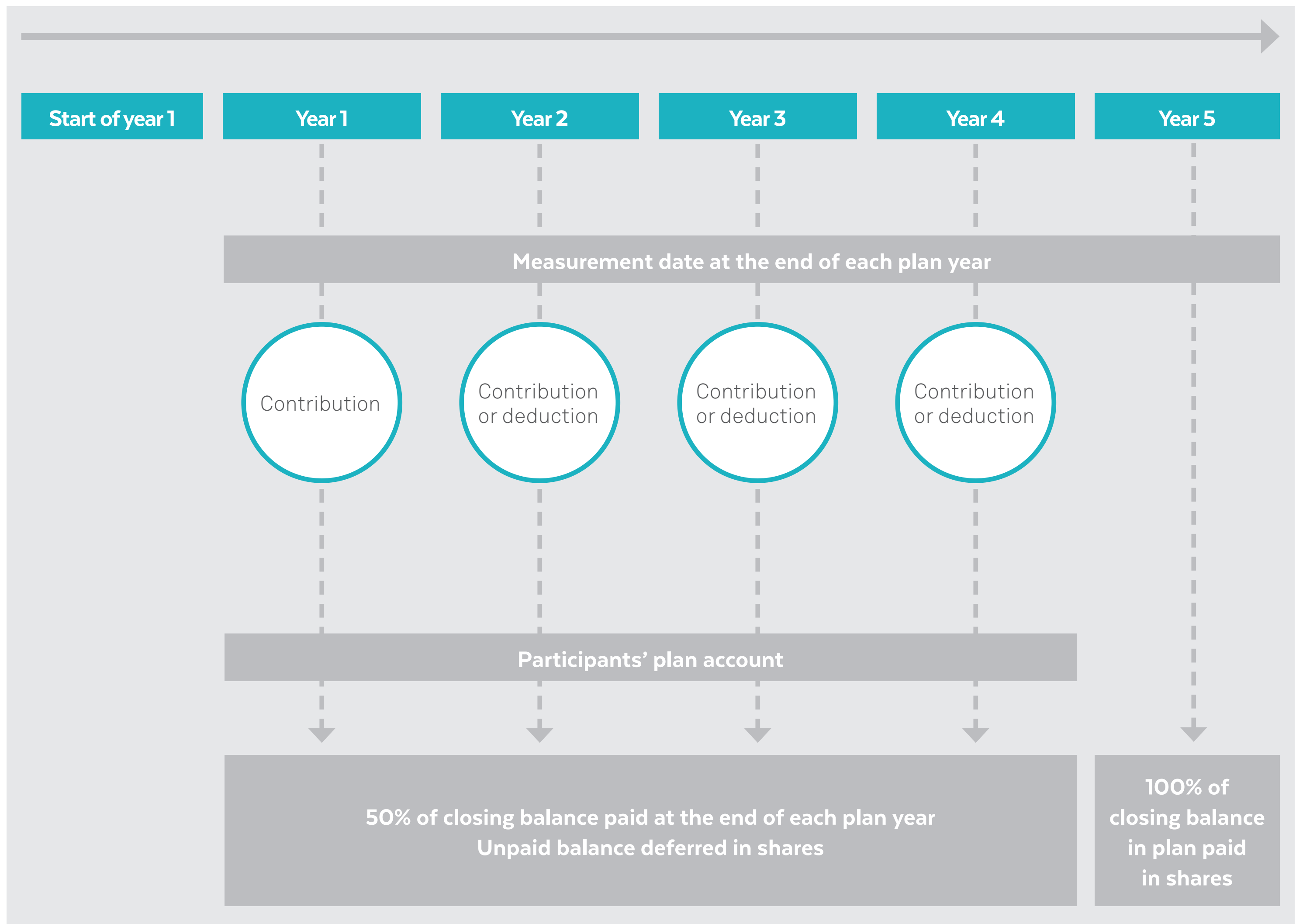
Non-Executive Director (£'000)	Year	Basic fees	Additional fees	Other	Total fees
D L Hosein	2015	45	—	—	45
	2014	45	—	—	45
M G Rogers	2015	45	—	3	48
	2014	45	—	1	46
P F Dicks	2015	45	—	—	45
	2014	45	—	—	45
R Macnamara	2015	45	—	—	45
	2014	45	—	—	45
D Marston	2015	22	—	—	22
	2014	45	—	—	45
G Davies	2015	11	—	—	11
	2014	—	—	—	—

M G Rogers' other benefits relate to private medical insurance.

Annual report on remuneration continued

Additional details in respect of single total figure table (audited)

The outcome of the MIP for the year ended 31 December 2015, being year three on the schematic, is set out on page 72.
The following schematic illustrates the operation of one cycle of the MIP:



Remuneration report continued

Annual report on remuneration continued

Additional details in respect of single total figure table (audited) continued

The performance measures and targets for the MIP for the year ended 31 December 2015 are detailed below:

Description	Weighting	Calculation	Targets
Earnings per share (EPS)	80%	> Growth in diluted EPS. Diluted EPS is stated before exceptional costs, share-based payments and the costs relating to the MIP and amortisation of acquisition intangibles and is adjusted for a normalised tax charge from 1 January 2015 to 31 December 2015. > Base figure of 33.0p to be used.	> Threshold: 8% EPS growth leads to 20% maximum contribution. > Maximum: 13% EPS growth leads to 100% maximum contribution. > Straight-line contribution between 8% and 13% growth.
Absolute total shareholder return (TSR)	20%	> Growth in absolute TSR from 1 January 2015 to 31 December 2015 (using an averaging period of 30 days for both dates). > Starting share price = £3.73.	> Threshold: 10% TSR growth leads to 20% maximum contribution. > Maximum: 15% TSR growth leads to 100% maximum contribution. > Straight-line contribution between 10% and 15% growth.
Cash conversion (underpin)	N/A	> Cash inflow from operating activities as a proportion of operating profit before acquisition intangible amortisation measured at 31 December 2015.	> A threshold level of cash conversion of 80% must be achieved. > If this threshold level is not achieved, 50% of any annual contribution in respect of EPS will be forfeited.
Return on capital employed (ROCE) (underpin)	N/A	> Operating profit before acquisition intangible amortisation and exceptional costs/(total assets – current liabilities less all balances relating to bank borrowing and overdraft classified within non-current liabilities) at 31 December 2015.	> A threshold level of ROCE of 10% must be achieved. > If this threshold level is not achieved, 50% of any annual contribution in respect of EPS will be forfeited.

The actual performance achievement is summarised below:

Performance measures	Actual	% of target satisfied
EPS growth	(10.4)%	0%
TSR growth	22.7%	100%
Cash conversion (underpin)	99%	Achieved
ROCE (underpin)	18%	Achieved

The Remuneration Committee was also satisfied that a minimum level of corporate performance had been exceeded and so no forfeiture of the accumulated plan accounts was necessary.

The resulting payments and unpaid balance deferred in shares are summarised below:

	D J Miles	A C M Smith	A Long
2014 closing balance brought forward (shares)	169,237	112,824	92,311
2014 closing balance brought forward (£)*	792,029	528,016	432,015
2015 contribution (£)	181,500	121,000	99,000
% of salary	50%	50%	50%
2015 cash element released	—	—	—
2015 closing balance (deferred into shares) of participants' plan account (£)	973,530	649,016	531,016
Number of shares represented by closing balance**	217,695	145,129	118,742

* Using share price as at 31 December 2015 = 468p.

** Using the average 30-day share price to 31 December 2015 = 447.2p.

Annual report on remuneration continued

Statement of Directors' shareholding and share interests (audited)

Directors' share interests are set out below:

Director	Number of beneficially owned shares	Share interests: Conditional unvested – Share awards/options	Share interests: Vested but unexercised – Options	Total interests held at year end
R Holt	—	—	150,000	150,000
D J Miles	175,020	217,695	264,097	656,812
A C M Smith	110,000	145,129	135,578	390,707
A Long	36,230	118,742	110,927	265,899
D L Hosein	—	—	—	—
M G Rogers	40,000	—	—	40,000
P F Dicks	39,541	—	—	39,541
R Macnamara	10,000	—	—	10,000
G Davies	2,500	—	—	2,500
J Unwin	—	—	—	—

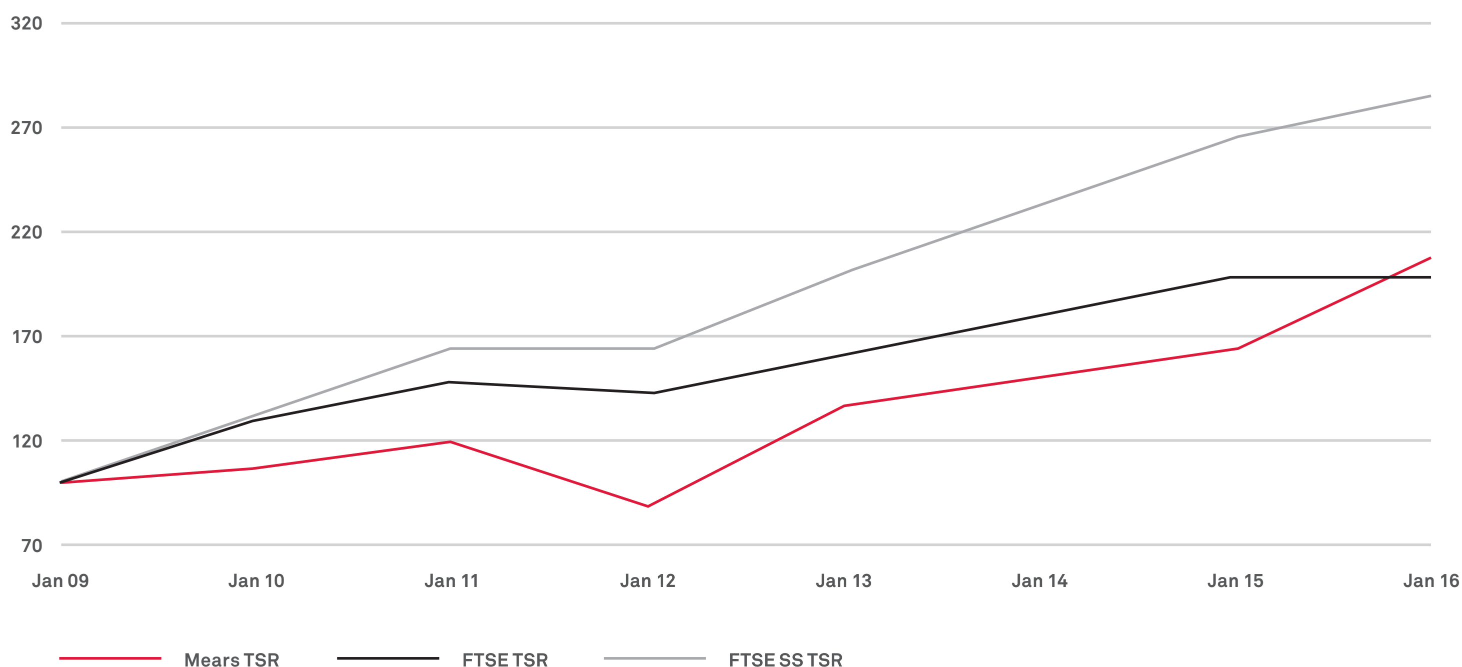
There were no options exercised during the year.

Shareholder 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 issue 5% to satisfy awards under discretionary or Executive plans. The Company operates all its share plans within these guidelines.

Performance graph and table

The graph below shows the Group's performance, measured by TSR compared with the constituents of the FTSE All Share Support Service Sector over the last seven years. The 2009 TSR has been re-based to £100. The indices shown are considered to be the most relevant to compare the Group's performance against its peers.



Remuneration report continued

Annual report on remuneration continued

Performance graph and table continued

The table below shows the Chief Executive Officer's remuneration package over the past seven years, together with incentive payout/vesting as compared to the maximum opportunity.

Year	Name	Single figure of total remuneration (£'000)	Bonus pay out (as % maximum) opportunity	Long-term incentive vesting rates (as % maximum opportunity)
2015	D J Miles	436	—	20%
2014	D J Miles	412	—	35%
2013	D J Miles	825	—	100%
2012	D J Miles	409	0%	—
2011	D J Miles	384	0%	—
2010	D J Miles	270	0%	—
	R Holt	600	0%	—
2009	R Holt	960	100%	—

Percentage change in Chief Executive Officer's remuneration

The table below compares the percentage change in the main elements of remuneration of the Chief Executive Officer (between 2014 and 2015) with the wider employee population.

	Salary		
	Salary	Benefits	Cash bonus
Chief Executive Officer	+10%	-41%	0%
Office salaries	+2%	0%	0%

Under the MIP, an annual contribution for the year ended 31 December 2015 was delivered at 50% of salary. This will be delivered entirely in shares which will be released over a period of two years; no cash bonus is paid in respect of the 2015 financial year. This treatment is consistent with the prior year.

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the financial year and previous financial year compared with other disbursements from profit.

Significant distributions	Disbursements from profit in financial year £'000	Disbursements from profit in previous financial year £'000	% change
Total Directors' pay	1,858	1,846	+1%
Profit distributed by way of dividend	10,445	9,252	+13%
Underlying profit before tax	36,757	42,005	-12%

Statement of implementation of remuneration policy in the following financial year

Executive Directors

Salary

The salaries for the forthcoming year are set out below:

Executive Director	2016	2015	% change
R Holt	**£250,000**	£250,000	—
D J Miles	**£364,500**	£363,000	+5%
A C M Smith	**£254,100**	£242,000	+5%
A Long	**£207,900**	£198,000	+5%

MIP

Details of the maximum and target MIP opportunities potentials along with the performance measures and their respective weightings for the year ended 31 December 2015 for Executive Directors (excluding Bob Holt) are set out below:

MIP opportunity		Performance measure weighting (% award)	
Target (% of salary)	Maximum (% of salary)	Earnings per share	Total shareholder return
50%	250%	80%	20%

The 2016 MIP performance conditions are as follows:

Condition	Weighting	Payout range (threshold to maximum contribution)
Earnings per share (EPS)	80%	10%–15% from baseline diluted normalised EPS of 29.58p (pre share-based payments and the costs relating to the MIP)
Total shareholder return (TSR)	20%	10%–15% from baseline share price of £4.47
EBITA cash conversion (underpin)	N/A	Cash conversion target of 80%. If this measure underpin is not met (but the other is) then the annual contribution in respect of EPS, if any, will be reduced by 50%
ROCE (underpin)	N/A	ROCE target of 10%. If the underpin is not met (but the other is) then the annual contribution in respect of EPS, if any, will be reduced by 50%

EPS and TSR are considered key indicators of the Company's performance and success – the former as it is directly aligned to the Company's strategic objectives over the longer term and the latter as it provides a direct measure of the value created for shareholders. Financial underpins will also be implemented in order to ensure that overall corporate performance is satisfactory and the Company's financial health is stable before contributions are made. A minimum level of performance will also be considered to ascertain whether any deductions in relation to the accumulated plan accounts is necessary.

In setting these targets, the Committee is taking under consideration (amongst other items):

- the Company's 2016 business plan;
- consensus forecasts for the Company; and
- alignment with the Company's business strategy.

Pension

Details of pension contributions for the year ended 31 December 2015 are set out below:

Executive Director	Pension
R Holt	30%
D J Miles	15%
A C M Smith	15%
A Long	15%

Non-Executive Directors

The following table sets out the fee rates for the Non-Executive Directors:

	2016	2015	% change
D L Hosein	**£45,000**	£45,000	—
M G Rogers	**£45,000**	£45,000	—
P F Dicks	**£45,000**	£45,000	—
R Macnamara	**£45,000**	£45,000	—
G Davies	**£45,000**	£11,000	N/A
J Unwin	**£45,000**	—	N/A

In respect of G Davies (appointed in October 2015) and J Unwin (appointed in January 2016), their respective figures are pro-rated.

Remuneration report continued

Statement of implementation of remuneration policy in the following financial year continued

Role of the Committee and activities

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.

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

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.

Annual overview

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

- improve the level of openness and transparency in remuneration reporting through a detailed annual Remuneration Report;
- operate a structured bonus arrangement with clear financial 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 of 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 dependent upon the efforts of key individuals and that they should be fairly rewarded for their efforts and contributions in making Mears the success it is.

Advisers to the Committee

In 2015, the Committee continued to engage PwC and received wholly independent advice on Executive compensation. PwC is a member of the Remuneration Consultants' Group and complies with its code of conduct which sets out guidelines to ensure that its advice is independent and free of undue influence. Fees paid to PwC in respect of these services in the year ended 31 December 2015 were £49,500 (2014: £19,000).

Statement of voting at general meeting

The table below shows the advisory vote on the Directors' Remuneration Report:

Item	Votes for	%	Votes against	%	Votes withheld
To approve the Directors' Remuneration Report	71,757,002	88	10,067,078	12	3,285,217

The total number of ordinary shares eligible to vote at the AGM was 101,896,321.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2015.

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 Strategic Report, Review of Operations and Financial Review. The results of the Group can be found within the Consolidated Income Statement. Information required to be disclosed in respect of emissions and future developments is included within the Strategic Report.

Dividend

The final dividend in respect of 2014 of 7.15p per share was paid in July 2015. An interim dividend in respect of 2015 of 3.10p was paid to shareholders in November 2015. The Directors recommend a final dividend of 7.90p per share for payment on 7 July 2016 to shareholders on the Register of Members on 17 June 2016. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2015.

Corporate governance

Details of the Group's corporate governance are set out on pages 50 to 55.

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 page 49.

In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the AGM in June 2016.

The beneficial interests of the Directors in the shares of the Company at 31 December 2015 and 31 December 2014 are detailed within the Remuneration report on page 73.

The process governing the appointment and replacement of Directors is detailed within the report of the Nomination Committee on pages 56 to 57.

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.

Appointment of Directors

Directors are appointed by ordinary resolution, or the existing Directors may appoint a person as a Director to either fill a vacancy or as an additional Director provided that the number of Directors does not exceed the maximum permissible. Any person appointed by the Directors must retire at the next AGM but will be eligible for re-election at that meeting.

Share capital authorisations

The 2015 AGM held in June 2015 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 was limited to one third of the issued share capital, a total of £338,997 plus an additional one third of issued share capital of £338,997 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 was limited to 5% of the issued share capital of £50,847 and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing.

Further details of these authorisations are available in the notes to the 2015 Notice of AGM. Shareholders are also referred to the 2016 Notice of AGM which contains similar provisions in respect of the Company's equity share capital as detailed below.

AGM

The 2016 AGM will be held at the offices of Buchanan, 107 Cheapside, London EC2V 6DN on 1 June 2016 at 9.30am and a formal Notice of Meeting and Form of Proxy are enclosed. The ordinary business to be conducted will include the re-appointment of all Directors.

The special business will comprise the following resolutions:

- to authorise the Directors to allot shares within defined limits. The Companies Act 2006 requires Directors to seek this authority and, following changes to FSA rules and institutional guidelines, the authority, as in previous years, will be limited to one third of the issued share capital, plus an additional one third of issued share capital that can only be used for a rights issue or similar fund raising;
- to authorise the Directors to issue shares for cash on a non pre-emptive basis. This authority is limited to 10% of the issued share capital and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and

Report of the Directors continued

AGM continued

- to authorise the convening of general meetings (other than an AGM) on 14 days' notice. This results from a European Union Directive that became effective on 3 August 2010 and will override Section 307 of the Companies Act 2006 where the requirement to give 21 days' notice for certain meetings has been amended.

Principal risks and uncertainties

Risk is an accepted part of doing business. The Group's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail within the Corporate Governance Statement. The key risks and mitigating factors are set out on pages 40 to 41. Details of financial risk management and exposure to price risk, credit risk and liquidity risk are given in note 19 on pages 123 to 128.

Contracts of significance

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

Payment policy

The Company acts purely as a holding company and as such is non-trading. Accordingly, no payment policy has been defined. However, the policy for Group trading companies is to set the terms of payment with suppliers when entering into a transaction and to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 57 days (2014: 57 days) of average supplies for the year.

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 22 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 1 March 2016 the Company has been notified of, or is aware of, the shareholders holding 2% or more of the issued share capital of the Company, as detailed in the table adjacent.

Fund manager	City	Number (m)	%
Neptune Investment Management	London	13.3	13.1
Majedie Asset Management	London	10.1	9.9
Heronbridge Investment Management	Bath	7.6	7.5
Legal & General Investment Management	London	5.5	5.4
Franklin Templeton Investments	London	4.4	4.4
Columbia Threadneedle Investments	London	3.9	3.8
Invesco Asset Management	Henley-on-Thames	3.8	3.8
Schroder Investment Management	London	3.3	3.2
Fidelity Management & Research	London	2.8	2.7
Mawer Investment Management	Calgary	2.5	2.4
Sanlam Four Investments UK	London	2.3	2.3
Artemis Investment Management	Edinburgh	2.3	2.3
Montanaro Asset Management	London	2.1	2.0
		64.0	62.7

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 daily news email, a quarterly newsletter posted out to all staff, the Group website and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

CREST

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

Auditor

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

By order of the Board

B Westran
Company Secretary
ben.westran@mearsgroup.co.uk
18 March 2016

Statement of Directors' responsibilities

In respect of the Directors' Report and financial statements

The Directors are responsible for preparing the Annual Report, the Remuneration 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 and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' (United Kingdom Accounting Standards and Applicable Law). 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 and Remuneration Report 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.

The Directors confirm that:

- so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order 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 Annual 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.

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Board considers the Annual Report and Accounts, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Going concern

We principally operate in robust defensive markets, Social Housing and Care, where spend is largely non-discretionary and our contracts tend to be long-term partnerships.

The Group had net cash of £0.8m at 31 December 2015. The core debt required to satisfy the day-to-day requirements of the business is in the region of £80m. This represents significant headroom against the £140m unsecured revolving credit facility, with an additional accordion mechanism allowing the facility to be increased to a maximum of £200m, maturing in July 2020.

After reviewing the Group's and Company's budget for the next financial year and longer-term plans, the Directors consider that, as at the date of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

A C M Smith
Finance Director
andrew.smith@mearsgroup.co.uk
18 March 2016

Independent auditor's report

To the members of Mears Group PLC

Our opinion on the financial statements is unmodified

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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; 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.

Who we are reporting to

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.

What we have audited

Mears Group PLC's financial statements for the year ended 31 December 2015 comprise the Group principal accounting policies, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related Group notes, the Company principal accounting policies, the Parent Company Balance Sheet, the Parent Company Cash Flow Statement, the Parent Company Statement of Changes in Equity and the related Company notes.

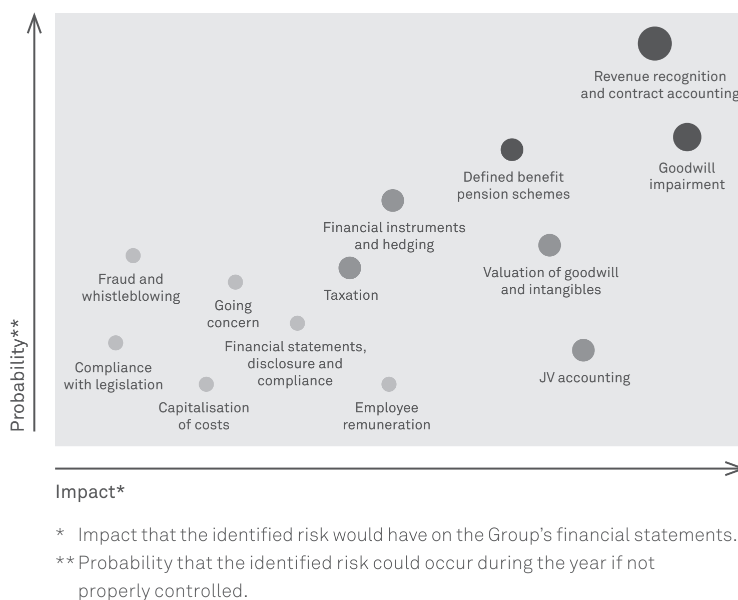
The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Overview of our audit approach

- The key audit risks were identified as: revenue recognition and contract accounting, goodwill impairment; and defined benefit pension schemes.
- Overall Group materiality was set at £1.7m, which represents 4.75% of the Group's earnings before interest, tax, amortisation and discontinued items.
- We performed full scope audits at 17 companies and specific audit procedures over certain balances and transactions at four further companies to gain sufficient, appropriate audit evidence over all material balances at both divisional and Group levels.

Our assessment of risk

At the outset of our audit we identified the risks and matters that would need to be considered in dispensing our duties and then updated them as the audit progressed. These were first presented to the Audit Committee on 2 December 2015 and then as part of our concluding procedures on 3 March 2016. The following graph illustrates the risks identified by us and our assessment of the impact of them on our audit approach.



* Impact that the identified risk would have on the Group's financial statements.
** Probability that the identified risk could occur during the year if not properly controlled.

Key
- Significant risks
- Other risks
- Other areas of focus

Our assessment of risk continued

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Revenue recognition and contract accounting	**Our audit work included, but was not restricted to:**
Refer to pages 90 to 92 and pages 60 to 61. Revenue is recognised throughout the Group as the fair value of consideration receivable in respect of the performance of contracts and the provision of services. Provision is made for expected contract losses as soon as they are foreseen. Determining the amount of revenue to be recognised requires management to make significant judgements and estimates as to the stage of completion, the costs to complete, the impact of any changes in scope of work and the recoverability of work-in-progress and receivables balances. We therefore identified revenue recognition and contract accounting as a significant risk.	> an evaluation of the methodology by which the Directors determine the amount of revenue and profit to recognise based on each type of contract as disclosed in the accounting policies. This included assessing whether the accounting policies adopted by the Directors are in accordance with the requirements of International Accounting Standard (IAS) 11 'Construction contracts' and IAS 18 'Revenue' and whether management accounted for revenue in accordance with the accounting policies; > testing key controls, where applicable, over the recognition of revenue and the allocation of costs to the contracts, including invoicing, cost approval and cost allocation; > selecting a sample of contracts in progress at the year end by reference to materiality and other risk factors including those requiring significant estimates by management, those contracts that are currently loss making and contracts with significant aged work-in-progress and debtor balances; > assessing, for the sample selected, whether the revenue and profit recognised are in accordance with the Group's accounting policies by agreeing inputs to contract terms, re-performing management's calculations and assessing management's assumptions and assertions underpinning their forecasts for contracts' future performance by reference to supporting documentation such as contract KPIs and discussions with key operations personnel; > reviewing contracts that are loss making and for which there is a risk of future losses through the life of the contract and challenging management's assumptions and assertions relating to the future results of those contracts by reference to supporting evidence such as management's plans to address the position, forecast models, previous history of turning around loss-making contracts, the opinions of key operational personnel and correspondence with clients where appropriate. We also physically visited a number of loss-making sites during the year in order to further understand the operations; and > investigating the recoverability of receivables and work-in-progress balances by reference to post balance sheet cash collection, certifications performed by the Group or external quantity surveyors, reviewing the quality of supporting evidence and correspondence with customers, and examining the Group's historical experience of recovery.

Independent auditor's report continued

To the members of Mears Group PLC

Our assessment of risk continued

Audit risk	How we responded to the risk
Goodwill impairment	**Our audit work included, but was not restricted to:**
Refer to pages 88 to 89 and page 59. The Directors are required to make an annual assessment to determine whether the carrying value of goodwill of £193.1m is impaired. Past experience has indicated that there is significant headroom in the goodwill relating to the Social Housing division cash-generating unit (CGU) but limited headroom in respect of the Care division CGU which accounts for £99.0m of the carried goodwill. The process for assessing whether an impairment exists under International Accounting Standard (IAS) 36 'Impairment of Assets' is complex. The process of determining the value in use, through forecasting cash flows related to CGUs and the determination of the appropriate discount rate and other assumptions to be applied can be highly judgemental and can significantly impact the results of the impairment review. We therefore identified the impairment review of goodwill undertaken by management in relation to the Care division as a significant risk.	› obtaining management's discounted cash flow forecast for the Care division used in the impairment review and comparing it to our understanding of the division and recalculating the arithmetical accuracy of those calculations; › challenging the assumptions utilised in the impairment models, including the ability for the Group to recruit and retain the appropriate levels of carers, the rate at which the Group can pass National Living Wage increases on to customers and the rate at which the Group can increase its contracted hours; › testing the assumptions utilised in the impairment models, including growth rates, discount rates and terminal values. We involved our specialist valuation team to consider whether the assumptions used were appropriate to the Care division circumstances and, where possible, benchmarked these assumptions against available industry data; and › testing the accuracy of management's forecasting through a comparison of budget to actual data and historical variance trends and reviewing the cash flows for exceptional or unusual items or assumptions.
Defined benefit pensions schemes	**Our audit work included, but was not restricted to:**
Refer to page 93 and page 60. The Group has a number of defined benefit pension plans. At 31 December 2015 the defined benefit pension schemes had a combined net surplus of £24.0m, of which £4.0m is recognised in the financial statements as recoverable. The gross value of the pension assets and obligations which form the net surplus amounted to £472.7m and £445.2m respectively. The measurement of the obligations in accordance with IAS 19 (revised) 'Employee Benefits' involves significant judgement and their valuation is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different value of pension liabilities being recognised within the Group financial statements. We therefore identified the valuation of the defined benefit retirement scheme obligations as a significant risk.	› utilising the expertise of our actuarial specialists in order to review the appropriateness of the assumptions used in the calculation of the obligation and testing the appropriateness of the valuation methodologies and their inherent actuarial assumptions by benchmarking key assumptions such as discount rates, wages and salary growth rates and mortality rates to available market data; › testing the accuracy of underlying membership data utilised by the Group's actuaries for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing key standing data such as date of birth, gender and date of membership to underlying records; › directly confirming the existence and valuation of pension scheme assets with asset managers; and › considering the appropriateness of the recognition of any scheme surpluses by reading scheme rules to assess whether the Group will benefit from any future refund or reduction in future contributions as a result of such surpluses.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the Group financial statements as a whole to be £1.7m, which is 4.75% of earnings before interest, tax, amortisation and discontinued items. This benchmark is considered the most appropriate because it is the key financial measure by which management assesses the performance of the Group and is used to report to investors on the financial performance of the Group.

Materiality for the current year is lower than the level that we determined for the year ended 31 December 2014 to reflect the lower earnings before, interest, tax, amortisation and discontinued items of the Group in the year.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the Group financial statements. We also determine a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £94,000. In addition we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

A description of the generic scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Group's business and is risk based. In order to address the risks described above as identified during our planning procedures, we performed a full scope audit of the consolidated financial statements of the Parent Company, Mears Group PLC, and of the Group's operations throughout the United Kingdom.

The companies of the Group were evaluated by the Group audit team based on a measure of materiality considered as a percentage of total Group assets, revenues and profit before taxes, to assess the significance of the component and to determine the planned audit response. For those components that we determined to be significant components, either a full scope approach or specific procedures in relation to specific balances and transactions were carried out. This approach was determined based on their relative materiality to the Group and our assessment of audit risk.

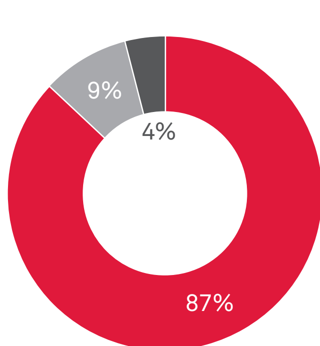
The Group's companies vary significantly in size. We performed full scope audits at 17 companies. Specific audit procedures over certain balances and transactions were performed on a further four companies, to give appropriate coverage of all material balances at both divisional and Group levels. Together, the reporting units subject to audit procedures were responsible for 95.8% of the Group's revenues and 98.5% of the Group's earnings before interest, tax, amortisation and discontinued operations.

For significant components requiring a full scope approach an interim visit was conducted before the year end to undertake substantive procedures in advance of the final visit and to evaluate the Group's internal control environment including its IT systems. We then evaluated and tested controls over the financial reporting systems identified as part of our risk assessment, reviewed the accounts production process and addressed critical accounting matters. We sought, wherever possible, to rely on the effectiveness of the Group's internal controls which allows us to reduce substantive testing. We then undertook substantive testing on significant transactions and material account balances, including the procedures outlined above in relation to the key risks. For the components where specific procedures were carried out a similar testing strategy was applied, focused on the significant transactions and material account balances.

The remaining non-significant components of the Group were subject to analytical procedures over their information packs after taking into account the risks identified above and the significance of the components to the Group. The charts on page 84 summarise the extent of our audit approach.

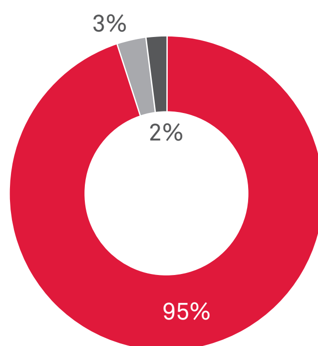
Independent auditor's report continued

To the members of Mears Group PLC



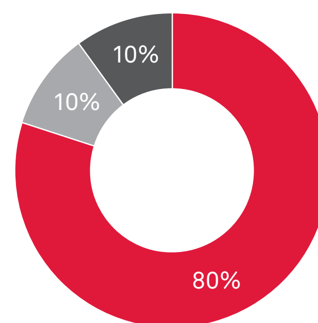
Revenue*

- Comprehensive
- Specific procedures
- Analytical



EBITA*

- Comprehensive
- Specific procedures
- Analytical



Total assets

- Comprehensive
- Specific procedures
- Analytical

* from continuing activities.

Other reporting required by regulations

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Under the Listing Rules, we are required to review:

- the Directors' statements in relation to going concern and longer-term viability, set out on pages 79 and 36 respectively; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

Matters on which we are required to report by exception continued

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable; or
- the Annual Report does not appropriately disclose those matters that were communicated to the Audit Committee which we consider should have been disclosed.

We have nothing to report in respect of any of the above matters.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Responsibilities for the financial statements and the audit

What the Directors are responsible for:

As explained more fully in the Statement of Directors' Responsibilities set out on page 79, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Simon Lowe
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
18 March 2016

Principal accounting policies – Group

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRS as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and therefore the Group financial statements comply with Article 4 of the EU International Accounting Standards Regulations. The financial statements are prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and share-based payments.

The accounting policies remain unchanged from the previous year except for the adoption of Improvements to IFRS 2011–2013 Cycle. The adoption of these amendments had no material effect of the Group's financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on the Directors' best knowledge of the amounts, actual results may ultimately differ from those estimates. The most significant estimates made by the Directors in these financial statements are set out in Use of judgements and estimates on pages 96 and 97.

Mears Group PLC is incorporated and domiciled in England and Wales (registration number 3232863). Its registered office and principal place of business is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH. Mears Group PLC's shares are listed on the London Stock Exchange.

The Directors consider that as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. The Directors have discussed the principal risks and uncertainties of the business in the Risk Management section on pages 38 to 41.

Basis of consolidation

The Consolidated Balance Sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2015. Entities over which the Group has the ability to exercise control over financial and operating policies are accounted for as subsidiaries. Control is achieved where the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

A joint venture is a joint arrangement whereby the parties that have joint control have the rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method of accounting. Under this method, the Group's share of post-acquisition profits or losses is recognised in the Consolidated Income Statement; the cost of the investment in a given joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included in investments within the Consolidated Balance Sheet.

Business combinations

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

Where applicable the consideration for an acquisition includes any assets or liabilities arising from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information obtained up to one year from the acquisition date about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IAS 39 in the Consolidated Income Statement.

Costs relating to acquisitions in the year have been expensed.

Business combinations continued

For transactions with non-controlling parties that do not result in a change of control, the difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognised in equity.

Any business combinations prior to 1 January 2010 were accounted for in accordance with the standards in place at the time, which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Property, plant and equipment

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

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

Freehold buildings	–	2% p.a., straight line
Leasehold improvements	–	over the period of the lease, straight line
Plant and machinery	–	25% p.a., reducing balance
Fixtures, fittings and equipment	–	25% p.a., reducing balance
Motor vehicles	–	25% p.a., reducing balance

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.

Principal accounting policies – Group continued

Intangible assets continued

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 the asset is available for use on completion of the project, the assets are subject to impairment testing only. Development expenditure is amortised over the period expected to benefit.

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

Order book	–	over the period of the order book, typically three years
Client relationships	–	over the period expected to benefit, typically five years
Development expenditure	–	25% p.a., 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 directly 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 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.

Impairment continued

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 revenue. Work in progress represents costs incurred on contracts that cannot be matched with contract work accounted for as revenue. Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and any subcontracted work that 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 that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the accounting periods to which they relate, based on the taxable profit for the year.

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

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

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

Deferred taxation is calculated using the tax rates and laws 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 Consolidated Income Statement, the Consolidated Statement of Comprehensive Income or equity to the extent that it relates to items charged or credited. Deferred tax relating to items charged or credited directly to equity such is also credited or charged equity.

Principal accounting policies – Group continued

Revenue

Revenue is measured in accordance with IAS 18 'Revenue' and IAS 11 'Construction Contracts' 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.

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 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 some contracts where we are entitled to a fee to reimburse the costs relating to a new contract start-up. This fee is sometimes paid on commencement or paid in instalments over an extended period. Where the contractual entitlement to this income crystallises upon commencement, the revenue is recognised. All costs relating to pre-commencement and mobilisation are written off as they are incurred.

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 the majority of contracts. At tender stage we enter a price for each of the numerous tasks carried out in respect of 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 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 valued at the individual 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, consideration needs to be given as to whether 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 support such recognition.

For completed but not yet priced 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 priced 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.

Full provision is made in respect of any job if a future loss is foreseen.

Revenue continued

Housing continued

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.

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.

Full provision is made in respect of any contract if a future loss is foreseen.

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 revenue based on the proportion of costs incurred to date compared with the estimated total costs of the contract.

Full provision is made in respect of any contract if a future loss is foreseen.

Rental income

Rental income relating to Housing Management activities is recognised in the Income Statement on a straight-line basis over the term of the lease.

Construction contracts

Revenue 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 that it is probable that contract costs incurred will be recoverable. 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 future loss is first foreseen.

Principal accounting policies – Group continued

Revenue continued

Care

Revenue is recognised when the actual care has been delivered and is generally based on a price per time period of care delivered. Revenue relating to care delivered and not invoiced is accrued and disclosed under trade and other receivables as amounts recoverable on contracts. Certain 'block' contracts guarantee a certain level of revenue. 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.

The Group 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.

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 costs

Exceptional costs 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 and the resultant cost are 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.

Employee benefits continued

Retirement benefit obligations continued

ii) Defined benefit pensions

The Group contributes to 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, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. In accordance with IFRIC 14, the asset that is recognised is restricted to the amount by which the IAS 19 (Revised) service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Where the Group has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme (LGPS) but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that guarantee 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 payable by the Group is not set so as to contribute to reducing the deficit in the scheme. Movements in the guarantee asset are taken to the Income Statement and to the Statement of Comprehensive Income to match the movement in pension assets and liabilities.

Actuarial gains and losses are taken to the Statement of Comprehensive Income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus of deficit are recognised in the Income Statement, including the current service cost, any past service cost and the effect of curtailments or settlements. The net interest cost is also charged to the Income Statement. The amount charged to the Income Statement in respect of these plans in included within operating costs.

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

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 and cash-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 Black Scholes option pricing model 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. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve; for cash-settled share-based payments the Group recognises a liability at the balance sheet date.

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.

Principal accounting policies – Group continued

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 those maturing more 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. Trade receivables and amounts recoverable on contracts are initially recorded at fair value net of transaction costs, being invoiced value less any provisional estimate for impairment should this be necessary due to a loss event. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Income Statement.

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

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

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

Financial instruments continued

Financial liabilities

The Group's financial liabilities are overdrafts, trade and other payables including contingent consideration, and interest rate swaps. They are included in the Balance Sheet line items 'Short-term borrowings and overdrafts', 'Trade and other payables', 'Financial liabilities' and 'Other liabilities'.

All interest related charges are recognised as an expense in 'Finance cost' in the Income Statement with the exception of those that 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 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.

Trade payables on normal terms are not interest bearing and are stated at their fair value on initial recognition and subsequently at amortised cost.

Contingent consideration is initially recognised at fair value and is subsequently measured at fair value through the Income Statement.

Derivative financial instruments

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.

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.

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 '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

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

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

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

The hedging reserve represents the effective part of any gain or loss on a cash flow hedge which has not been removed from equity and recognised in the Income Statement.

Principal accounting policies – Group continued

Nature and purpose of each reserve in equity continued

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

Dividends

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

Use of judgements and estimates

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

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

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

Critical judgements in applying the Group's accounting policies

Revenue recognition

Revenue is recognised based on the stage of completion of job or contract activity. As described in the Revenue section on pages 90 to 92, certain types of Social Housing pricing mechanisms and Care revenue require minimal judgement; however, Social Housing lump sum contracts and construction contracts do require judgements and estimates to be made to determine the stage of completion and the expected outcome for the individual contract.

Joint arrangements

The Group participates in a number of joint arrangements where control of the arrangement is shared with another party. A joint arrangement is classified as a joint operation or as a joint venture, depending on management's assessment of the legal form and substance of the arrangement.

The classification can have a material impact on the consolidated financial statements. The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations would be included in the consolidated financial statements on a line-by-line basis, whereas the Group's investment and share of results of joint ventures are shown within single line items in the Consolidated Balance Sheet and Consolidated Income Statement respectively.

Key sources of estimation uncertainty

Impairment of goodwill

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

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:

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the particular estimates used are included in the pensions note. Sensitivity analysis for these key estimates is included in note 25.

Where the Group has a contractual obligation to make good any deficit in its share of a LGPS but also has the right to recover the costs of making good any deficit 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 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

Accounting for acquisitions of interests in joint operations, amendments to IFRS 11. The Group is expected to apply this amendment to the Group's 31 December 2016 financial statements.

Clarification of acceptable methods of depreciation and amortisation, amendments to IAS 16 and IAS 38. The Group is expected to apply these amendments to the Group's 31 December 2016 financial statements.

Amendments to IAS 27 'Separate Financial Statements' – Equity method in separate financial statements. The Group is expected to apply these amendments to the Group's 31 December 2016 financial statements.

Disclosure initiative, amendments to IAS 1 'Presentation of financial statements'. The Group is expected to apply these amendments to the Group's 31 December 2016 financial statements, subject to endorsement by the EU.

Disclosure initiative, amendments to IAS 7 'Cash flow statements'. The Group is expected to apply these amendments to the Group's 31 December 2017 financial statements, subject to endorsement by the EU.

IFRS 9 'Financial Instruments' specifies how an entity should classify and measure financial assets, including some hybrid contracts. The Group is expected to apply this standard for the Group's 31 December 2018 financial statements, subject to endorsement by the EU.

IFRS 15 'Revenue from Contracts with Customers'. This standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group is currently expected to apply this standard for the Group's 31 December 2017 financial statements, subject to endorsement by the EU. Management has started to assess the impact of this standard but is not yet in a position to provide quantified information.

IFRS 16 'Leases'. Under IFRS 16 lessees have to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for almost all lease contracts. This is a significant change compared to IAS 17 under which lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 contains an optional exemption for certain short-term leases and leases of low value assets. The Group is expected to apply this standard for the Group's 31 December 2019 financial statements, subject to endorsement by the EU. Management has started to assess the impact of this standard but is not yet in a position to provide quantified information.

Consolidated income statement

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Continuing operations			
Sales revenue	1	**881,139**	838,740
Cost of sales		**(649,007)**	(613,699)
Gross profit		**232,132**	225,041
Other administrative expenses		**(193,470)**	(182,046)
Amortisation of acquisition intangibles	11	**(10,837)**	(12,328)
Total administrative costs		**(204,307)**	(194,374)
Operating profit before amortisation of acquisition intangibles		**38,662**	42,995
Operating profit	1	**27,825**	30,667
Share of results of equity accounted joint ventures		**—**	299
Finance income	3	**1,171**	2,315
Finance costs	3	**(3,076)**	(3,604)
Profit for the year before tax and the amortisation of acquisition intangibles		**36,757**	42,005
Profit for the year before tax		**25,920**	29,677
Tax expense	6	**(3,832)**	(4,442)
Profit for the year from continuing operations		**22,088**	25,235
Discontinued operations			
Loss from discontinued operations	7	**(7,964)**	—
Tax income from discontinued operations	7	**165**	—
Loss for the year after tax from discontinued operations		**(7,799)**	—
Profit for the year from continuing and discontinued operations		**14,289**	25,235
Attributable to:			
Owners of the Parent		**12,874**	25,286
Non-controlling interest		**1,415**	(51)
Profit for the year		**14,289**	25,235
Earnings per share – from continuing operations			
Basic	9	**20.31p**	25.03p
Diluted	9	**20.10p**	24.65p
Earnings per share – from continuing and discontinued operations			
Basic	9	**12.65p**	25.03p
Diluted	9	**12.52p**	24.65p

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

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Profit for the year		**14,289**	25,235
Other comprehensive (expense)/income:			
Which will be subsequently reclassified to the Income Statement:			
Cash flow hedges:			
– losses arising in the year	19	**(72)**	(841)
– reclassification to the Income Statement	19	**559**	722
(Decrease)/increase in deferred tax asset in respect of cash flow hedges	19	**(97)**	5
Which will not be subsequently reclassified to the Income Statement:			
Actuarial loss on defined benefit pension scheme	24	**(3,371)**	(3,290)
Increase in deferred tax asset in respect of defined benefit pension schemes	20	**675**	694
Other comprehensive expense for the year		**(2,306)**	(2,710)
Total comprehensive income for the year		**11,983**	22,525
Attributable to:			
Owners of the Parent		**10,568**	24,302
Non-controlling interest		**1,415**	(1,777)
Total comprehensive income for the year		**11,983**	22,525

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

Consolidated balance sheet

As at 31 December 2015

	Note	2015 £'000	2014 £'000
Assets			
Non-current			
Goodwill	10	**193,058**	192,003
Intangible assets	11	**31,851**	35,375
Share of net asset of joint ventures	13	**—**	1,856
Property, plant and equipment	12	**18,436**	15,880
Pension and other employee benefits	24	**8,272**	15,131
Deferred tax asset	20	**6,584**	8,573
		258,201	268,818
Current			
Assets included in disposal group classified as held for sale	7	**13,255**	—
Inventories	14	**9,021**	8,468
Trade and other receivables	15	**146,879**	142,616
Cash at bank and in hand		**68,612**	66,634
		237,767	217,718
Total assets		**495,968**	486,536
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	21	**1,019**	1,011
Share premium account		**58,124**	56,714
Share-based payment reserve		**1,651**	1,653
Hedging reserve	19	**(572)**	(962)
Merger reserve		**46,214**	46,214
Retained earnings		**86,438**	92,179
Total equity attributable to the shareholders of Mears Group PLC		**192,874**	196,809
Non-controlling interest		**(1,246)**	(2,347)
Total equity		**191,628**	194,462
Liabilities			
Non-current			
Long-term borrowing and overdrafts	19	**57,500**	57,500
Pension and other employee benefits	24	**4,224**	8,372
Deferred tax liabilities	20	**6,970**	9,418
Financial liabilities	17	**368**	788
Other liabilities	18	**15,396**	25,956
		84,458	102,034
Current			
Liabilities included in disposal group classified as held for sale	7	**13,255**	—
Short-term borrowings and overdrafts	19	**10,290**	5,300
Trade and other payables	16	**194,103**	182,098
Financial liabilities	17	**510**	580
Current tax liabilities		**1,724**	2,062
Current liabilities		**219,882**	190,040
Total liabilities		**304,340**	292,074
Total equity and liabilities		**495,968**	486,536

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 18 March 2016.

R Holt
Director

A C M Smith
Director

Company number: 03232863

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

Consolidated cash flow statement

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Operating activities			
Result for the year before tax		**25,920**	29,677
Adjustments	22	**19,887**	20,191
Change in inventories		**(553)**	2,195
Change in trade and other receivables		**6,668**	11,967
Change in trade and other payables		**(7,458)**	(17,595)
Cash inflow from operating activities of continuing operations before taxation		**44,464**	46,435
Taxes paid		**(5,888)**	(2,285)
Net cash inflow from operating activities of continuing operations		**38,576**	44,150
Net cash outflow from operating activities of discontinued operations		**(4,503)**	—
Net cash inflow from operating activities		**34,073**	44,150
Investing activities			
Additions to property, plant and equipment		**(4,297)**	(3,962)
Additions to other intangible assets		**(2,978)**	(1,484)
Proceeds from disposals of property, plant and equipment		**86**	106
Acquisition of subsidiary undertakings, net of cash		**(17,590)**	(22,221)
Interest received		**158**	78
Net cash outflow from investing activities		**(24,621)**	(27,483)
Financing activities			
Proceeds from share issue		**1,418**	636
Discharge of finance lease liability		**(545)**	(62)
Interest paid		**(2,764)**	(3,707)
Dividends paid – Mears Group shareholders		**(10,445)**	(9,252)
Dividends paid – non-controlling interests		**(128)**	—
Net cash outflow from financing activities		**(12,464)**	(12,385)
Cash and cash equivalents, beginning of year		**3,834**	(448)
Net (decrease)/increase in cash and cash equivalents		**(3,012)**	4,282
Cash and cash equivalents, end of year		**822**	3,834
Cash and cash equivalents comprises the following:			
– cash at bank and in hand		**68,612**	66,634
– borrowings and overdrafts		**(67,790)**	(62,800)
Cash and cash equivalents		**822**	3,834
Cash conversion key performance indicator			
Cash inflow from operating activities of continuing operations		**44,464**	46,435
EBITDA for continuing operations		**44,940**	48,509
Conversion		**98.9%**	95.7%

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

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Attributable to equity shareholders of the Company							
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2014	1,007	56,082	1,050	(848)	46,214	77,366	(570)	180,301
Net result for the year	—	—	—	—	—	25,286	(51)	25,235
Other comprehensive expense	—	—	—	(114)	—	(870)	(1,726)	(2,710)
Total comprehensive (expense)/income for the year	—	—	—	(114)	—	24,416	(1,777)	22,525
Deferred tax on share-based payments	—	—	—	—	—	(418)	—	(418)
Issue of shares	4	632	—	—	—	—	—	636
Share option charges	—	—	670	—	—	—	—	670
Exercise of share options	—	—	(67)	—	—	67	—	—
Dividends	—	—	—	—	—	(9,252)	—	(9,252)
At 1 January 2015	1,011	56,714	1,653	(962)	46,214	92,179	(2,347)	194,462
Net result for the year	—	—	—	—	—	12,874	1,415	14,289
Other comprehensive income/(expense)	—	—	—	390	—	(2,696)	—	(2,306)
Total comprehensive income for the year	—	—	—	390	—	10,178	1,415	11,983
Deferred tax on share-based payments	—	—	—	—	—	(552)	—	(552)
Issue of shares	8	1,410	—	—	—	—	—	1,418
Share option charges	—	—	771	—	—	—	—	771
Exercise of share options	—	—	(773)	—	—	773	—	—
On acquisition	—	—	—	—	—	—	282	282
Transactions with non-controlling interests	—	—	—	—	—	(5,695)	(468)	(6,163)
Dividends	—	—	—	—	—	(10,445)	(128)	(10,573)
At 31 December 2015	**1,019**	**58,124**	**1,651**	**(572)**	**46,214**	**86,438**	**(1,246)**	**191,628**

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

Notes to the financial statements – Group

For the year ended 31 December 2015

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 two operating segments during the year:

- Housing – services within this sector comprise a full housing management service predominantly to Local Authorities and other Registered Social Landlords; and
- Care – services within this sector comprise personal care services to people in their own homes.

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 are that of revenue growth and operating margins in both the core divisions of Housing and Care. The operating result utilised within the key performance measures is stated before amortisation of acquisition intangibles, exceptional costs and costs relating to the long-term incentive plans.

	2015			2014		
Operating segments	**Housing £'000**	**Care £'000**	**Total £'000**	Housing £'000	Care £'000	Total £'000
Revenue	**735,129**	**146,010**	**881,139**	714,733	124,007	838,740
Operating result pre amortisation of acquisition intangibles, exceptional costs and long-term incentive plans	**42,413**	**(1,601)**	**40,812**	34,410	9,641	44,051
Operating margin pre amortisation of acquisition intangibles, exceptional costs and long-term incentive plans	**5.77%**	**(1.10%)**	**4.63%**	4.81%	7.78%	5.25%
Long-term incentive plans	**(2,150)**	**—**	**(2,150)**	(1,056)	—	(1,056)
Operating result pre amortisation of acquisition intangibles and exceptional costs	**40,263**	**(1,601)**	**38,662**	33,354	9,641	42,995
Amortisation of acquisition intangibles			**(10,837)**			(12,328)
Finance costs, net			**(1,905)**			(990)
Tax expense			**(3,832)**			(4,442)
Profit for the year from continuing activities			**22,088**			25,235

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.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

1. Segment reporting continued

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

	2015			2014		
Operating segments	Housing £'000	Care £'000	Total £'000	Housing £'000	Care £'000	Total £'000
Segment assets	**346,323**	**136,390**	**482,713**	365,824	120,712	486,536
Segment liabilities	**(224,434)**	**(66,651)**	**(291,085)**	(237,474)	(54,600)	(292,074)
Property, plant and equipment additions	**5,388**	**829**	**6,217**	4,203	333	4,536
Depreciation	**3,710**	**1,253**	**4,963**	3,631	731	4,362
Amortisation of acquisition intangibles	**6,707**	**4,130**	**10,837**	6,069	6,259	12,328
Amortisation of other intangibles	**1,314**	**—**	**1,314**	1,152	—	1,152
Share of result of joint venture	**—**	**—**	**—**	299	—	299

2. Operating costs

Operating costs, relating to continuing activities, include:

	2015 £'000	2014 £'000
Share-based payments	**2,150**	670
Long-term incentives	**1,379**	386
Depreciation	**4,936**	4,362
Amortisation of acquisition intangibles	**10,837**	12,328
Amortisation of other intangibles	**1,314**	1,152
Profit on disposal of property, plant and equipment	**(44)**	(3)
Hire of plant and machinery	**5,727**	5,916
Other operating lease rentals	**25,188**	24,705

Fees payable for audit and non-audit services during the year were as follows:

	2015 £'000	2014 £'000
Fees payable to the auditor for the audit of the Group's financial statements	**60**	58
Other fees payable to the auditor in respect of:		
– auditing of accounts of subsidiary undertakings pursuant to legislation	**331**	228
– taxation compliance fees	**—**	45
– taxation advice fees	**21**	16
– audit related advisory fees	**8**	—
Total auditor's remuneration	**420**	347

3. Finance income and finance costs

	2015 £'000	2014 £'000
Interest charge on overdrafts and short-term loans	**(2,136)**	(1,975)
Interest charge on hedged items (effective hedges)	**(559)**	(722)
Interest charge on hedged items (ineffective hedges)	**—**	(70)
Other interest	**(4)**	(80)
Finance costs on bank loans, overdrafts and finance leases	**(2,699)**	(2,847)
Interest charge on defined benefit asset	**(252)**	(426)
Unwinding of discounting	**(125)**	(331)
Total finance costs	**(3,076)**	(3,604)
Interest income resulting from short-term bank deposits	**16**	10
Interest income resulting from defined benefit asset	**964**	2,238
Unwinding of discounting	**49**	—
Other interest income	**142**	67
Finance income	**1,171**	2,315
Net finance charge	**(1,905)**	(1,289)
Gains and losses on hedged items recognised in other comprehensive income		
Losses arising in the year	**(72)**	(841)
Reclassification to the Income Statement	**559**	722
Changes in mark-to-market of interest rate swaps (effective hedges)	**487**	(119)

4. Employees

Staff costs during the year were as follows:

	2015 £'000	2014 £'000
Wages and salaries	**291,542**	262,730
Social security costs	**22,310**	22,061
Other pension costs	**9,859**	11,387
	323,711	296,178

Notes to the financial statements – Group continued

For the year ended 31 December 2015

4. Employees continued

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

	2015 Number	2014 Number
Site workers	**3,900**	4,133
Carers	**7,318**	5,944
Office and management	**3,110**	2,888
	14,328	12,965

Remuneration in respect of Directors was as follows:

	2015 £'000	2014 £'000
Emoluments	**1,323**	2,189
Gains made on the exercise of share options	**—**	536
Pension contributions to personal pension schemes	**195**	185
	1,518	2,910

During the year contributions were paid to personal pension schemes for four Directors (2014: four).

During the year no Director (2014: two) exercised share options.

Following a number of acquisitions during the period, the number of employees at 31 December 2015 was 18,064 (2014: 13,000).

5. Share-based employee remuneration

As at 31 December 2015 the Group maintained seven share-based payment schemes for employee remuneration.

Details of the share options outstanding are as follows:

	2015		2014	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	**2,994**	**223**	2,420	40
Granted	**1,462**	**330**	1,205	414
Forfeited/lapsed	**(550)**	**394**	(159)	260
Exercised	**(804)**	**176**	(472)	135
Outstanding at 31 December	**3,102**	**2,554**	2,994	223

The weighted average share price at the date of exercise for share options exercised during the period was £1.76. At 31 December 2015, 0.5 million options had vested and were still exercisable at prices between 1p and 300p. These options had a weighted average exercise price of 88p and a weighted average remaining contractual life of two years.

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

5. Share-based employee remuneration continued

The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon Government bond at the date of grant. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions. In the case of the SAYE scheme the expected forfeitures take account of the requirement to save throughout the life of the scheme. There were 1.5 million options granted during the year and 0.6 million options lapsed during the year. The market price at 31 December 2015 was 468p and the range during 2015 was 376p to 475p.

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

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

	2015 £'000	2014 £'000
Giving rise to share-based payment reserve:		
– LTIP	—	(134)
– SAYE	113	146
– Share Plan	658	658
Giving rise to liabilities:		
– MIP	1,379	—
	2,150	670

In total, £0.8m of employee remuneration expense has been included in the Consolidated Income Statement for 2015 (2014: £0.7m), which gave rise to additional share-based payment reserves. In total, £1.4m (2014: £nil) of liabilities were recognised due to cash-settled share-based payment transactions.

The Mears Group PLC Long-term Incentive Plan (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 p.a.
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 (2010 issue)

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 p.a.	100%

All options issued under this plan have vested or were forfeited.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

5. Share-based employee remuneration continued

Approved share option plan

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

All options issued under this plan have vested or were forfeited.

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 Mears 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.

All options issued under this plan have vested or were forfeited.

Save As You Earn (SAYE) scheme

Options are available to all employees. Options are granted for a period of three 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 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.

Special Incentive Plan 2007 (SIP)

The SIP was introduced in 2007 to reward the then Chief Executive Officer, Rob Holt, with premium priced options linked to long-term performance. The terms and conditions were subsequently amended on 3 July 2009. If the options remain unexercised after a period of ten years from the date of grant, the options expire. There was a single award and no further awards will be made under this plan.

All options issued under this plan have vested.

The Mears Group PLC Share Plan 2013

The Share Plan was introduced in June 2013 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 p.a.
Exercise price	1p
Vesting period	Three-year (future awards under this plan will be subject to a five-year vesting period).
Performance conditions	None
Expiry conditions	Options are forfeited if the employee leaves the Group before the options have been vested.

Management Incentive Plan (MIP)

The MIP was introduced in June 2013 following shareholder approval. The award of options is offered to a small number of key senior management. The MIP is a cash-settled share-based payment plan. Further details are provided on pages 71 to 72 of the Remuneration Report.

6. Tax expense

Tax recognised in the Income Statement

	2015 £'000	2014 £'000
United Kingdom corporation tax	**5,783**	5,410
Adjustment in respect of previous periods	**(642)**	(721)
Total current tax recognised in Income Statement	**5,141**	4,689
Deferred taxation charge:		
– on defined benefit pension obligations	**133**	285
– on share-based payments	**(151)**	(130)
– on accelerated capital allowances	**(232)**	293
– on amortisation of acquisition intangibles	**(2,130)**	(2,127)
– on short-term temporary timing differences	**(276)**	2,285
– on corporate tax losses	**1,609**	(674)
– impact of change in statutory tax rates	**—**	(179)
Adjustment in respect of previous periods	**(262)**	—
Total deferred taxation recognised in Income Statement	**(1,309)**	(247)
Total tax expense recognised in Income Statement on continuing operations	**3,832**	4,442
Total tax credit recognised in Income Statement on discontinued operations	**(165)**	—
Total tax expense recognised in Income Statement	**3,667**	4,442

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

	2015 £'000	2014 £'000
Results for the year before tax	**17,956**	29,677
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 20.25% (2014: 21.50%)	**3,636**	6,381
Effect of:		
– expenses not deductible for tax purposes	**1,412**	775
– tax relief on exercise of share options	**(397)**	(275)
– statutory tax rate changes	**—**	(179)
– small company tax rate	**—**	(6)
– temporary timing differences not previously recognised in deferred tax	**(20)**	(773)
– tax losses not previously recognised in deferred tax	**(60)**	(760)
– adjustment in respect of prior periods	**(904)**	(721)
Actual tax expense	**3,667**	4,442

Notes to the financial statements – Group continued

For the year ended 31 December 2015

6. Tax expense continued

Tax recognised in the Income Statement continued

Deferred tax is recognised on both temporary and permanent differences between the treatment of items for tax and accounting purposes. Deferred tax on the amortisation of acquisition intangibles is a permanent difference and arises because no tax relief is due on this kind of amortisation.

Tax losses generated in previous years which are expected to be utilised against future profits are recognised as a deferred tax asset and a subsequent charge arises as those losses are utilised. The majority of the charge of £1.6m (2014: credit of £0.7m) represents losses associated with Morrison which were utilised in the year.

No deferred tax asset is recognised in respect of losses of £32.9m (2014: £28.9m) across several entities in the Group as it is not expected that they will be eligible to be utilised against profits in the future.

Deferred tax is also recognised on short-term temporary timing differences, primarily relating to provisions. These differences are expected to reverse in the following year and arise because tax relief is only available when the costs are incurred.

Capital allowances represent tax relief on the acquisition of property, plant and equipment and are spread over several years at rates set by legislation. These differ from depreciation which is an estimate of the use of an item of property, plant and equipment over its useful life. Deferred tax is recognised on the difference between the remaining value of such an asset for tax purposes and its carrying value in the accounts.

The following tax has been charged to other comprehensive income or equity during the year:

	2015 £'000	2014 £'000
Deferred tax recognised in other comprehensive income		
– on defined benefit pension obligations	**(675)**	(658)
– on cash flow hedges	**97**	(38)
– impact of change in statutory tax rates	**—**	(3)
Total deferred taxation recognised in other comprehensive income	**(578)**	(699)
Deferred tax recognised directly in equity		
Deferred taxation charge:		
– on share-based payments	**(552)**	(359)
– impact of change in statutory tax rates	**—**	(59)
Total deferred taxation recognised in equity	**(552)**	(418)
Total tax		
Total current tax	**4,976**	4,689
Total deferred tax	**(2,439)**	(1,364)

7. Discontinued activities

On 21 November 2013, the Group completed the disposal of the entire share capital of Haydon Mechanical and Electrical Limited ('Haydon UK'). As part of that disposal, the Group retained the beneficial interest in 49% of the share capital of an investment in a company registered in the United Arab Emirates, Haydon Mechanical and Electrical Company LLC ('Haydon LLC'). These beneficial interest was retained due to a number of performance guarantees in place at the time of the disposal which unravel as underlying contracts complete. During the period the Group agreed in principle to sell its interest in the company to the management. The transfer will happen in stages as the performance guarantees are cancelled. The formal sales and purchase agreement is expected to be signed imminently.

As at 31 December 2015, the Group has performance guarantees of £15.4m outstanding and these are anticipated to reduce to £12.0m, £9.0m and £nil by December 2016, 2017 and 2018 respectively. These performance guarantees are disclosed as contingent liabilities in note 27.

At 31 December 2014, a balance of £2.6m was due from Haydon LLC to the Group. During the period, the Group provided additional financial support to Haydon LLC of £4.5m to fund on going losses in the company so as to mitigate its risk in respect of the performance guarantees. The Group has fully provided for these losses and written the net carrying value of the company's assets and liabilities down to nil which equates to the full outstanding loan balance of £7.1m. This is reported as a loss from discontinued operations. A further loss of £0.9m was incurred during the year as a result of the Group making full provision against all unsecured amounts due from Haydon UK.

The results of Haydon LLC, which have been aggregated into a single line within the consolidated income statement, comprise sales revenue of £38.5m, costs of sales of £44.1m, administrative expenses of £3.3m and a tax credit of £0.2m, equating to a loss on discontinued activities of £6.9m. A number of the underlying contracts are now reaching completion and whilst there remains a range of possible outcomes, the Directors believe that the carrying values are appropriate. A further loss of £0.9m was incurred during the year as a result of the Group making full provision against all remaining unsecured amounts due from Haydon UK.

The Group accounted for its beneficial interest in Haydon LLC as an investment within its 2014 financial statements. Given the increased level of influence exerted by the Group on Haydon LLC in order to manage and mitigate this risk, the Directors have reassessed the facts and circumstances in respect of its relationship. The Directors consider that the actions taken during the period were sufficient to determine the operating and financing policies of Haydon LLC, and as such, the activities require consolidation. Given the Group has agreed the sale of its interest to management, with the final transfer being completed upon the cancellation of its performance guarantees, the Group has disclosed the assets and liabilities separately as assets and liabilities held for sale. The Directors will keep under review the extent to which the Group continues to apply a level of influence in respect of this investment.

The loss on disposal in respect of discontinued activities is all attributable to the equity holders of the Parent.

8. Dividends

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

	2015 £'000	2014 £'000
Final 2014 dividend of 7.15p (2014: final 2013 dividend of 6.30p) per share	**7,286**	6,370
Interim 2015 dividend of 3.10p (2014: interim 2014 dividend of 2.85p) per share	**3,159**	2,882
	10,445	9,252

The proposed final 2015 dividend of 7.90p per share has not been included within the consolidated financial statements as no obligation existed at 31 December 2015.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

9. Earnings per share

	Basic (continuing)		Basic (discontinued)		Basic (continuing and discontinued)	
	2015 p	2014 p	**2015 p**	2014 p	**2015 p**	2014 p
Earnings per share	**20.31**	25.03	**(7.66)**	—	**12.65**	25.03
Effect of amortisation of acquisition intangibles	**10.65**	12.20	**—**	—	**10.65**	12.20
Effect of full tax adjustment	**(2.73)**	(4.54)	**—**	—	**(2.73)**	(4.54)
Normalised earnings per share	**28.23**	32.69	**(7.66)**	—	**20.57**	32.69

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	2015 p	2014 p	**2015 p**	2014 p	**2015 p**	2014 p
Earnings per share	**20.10**	24.65	**(7.58)**	—	**12.52**	24.65
Effect of amortisation of acquisition intangibles	**10.54**	12.02	**—**	—	**10.54**	12.02
Effect of full tax adjustment	**(2.70)**	(4.47)	**—**	—	**(2.70)**	(4.47)
Normalised earnings per share	**27.94**	32.20	**(7.58)**	—	**20.36**	32.20

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

	Normalised (continuing)		Normalised (discontinued)		Normalised (continuing and discontinued)	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Profit/(loss) attributable to shareholders:	**20,673**	25,286	**(7,799)**	—	**12,874**	25,286
– amortisation of acquisition intangibles	**10,837**	12,328	**—**	—	**10,837**	12,328
– full tax adjustment	**(2,784)**	(4,588)	**—**	—	**(2,784)**	(4,588)
Normalised earnings	**28,726**	33,026	**(7,799)**	—	**20,927**	33,026

9. Earnings per share continued

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.

	2015 Million	2014 Million
Weighted average number of shares in issue:	**101.77**	101.02
– dilutive effect of share options	**1.06**	1.54
Weighted average number of shares for calculating diluted earnings per share	**102.83**	102.56

10. Goodwill

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2014	157,539	406	157,945
Additions on acquisition	33,438	—	33,438
Revisions	620	—	620
At 1 January 2015	191,597	406	192,003
Additions on acquisition	1,055	—	1,055
At 31 December 2015	**192,652**	**406**	**193,058**
Accumulated impairment losses			
At 1 January 2014, at 1 January 2015 and at 31 December 2015	—	—	—
Carrying amount			
At 31 December 2015	**192,652**	**406**	**193,058**
At 31 December 2014	191,597	406	192,003

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 Group.

Additions to goodwill arising on consolidation are detailed within note 23.

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 cash-generating units (CGUs) according to the level at which management monitors that goodwill. Goodwill is carried at cost less accumulated impairment losses.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

10. Goodwill continued

The carrying value of goodwill is allocated to the following CGUs:

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Social Housing	93,656	406	94,062
Care	98,996	—	98,996
	192,652	406	193,058

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value in use. At 31 December 2015 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 CGU's value in use is calculated from the Board approved one-year budgeted cash flows and extrapolated cash flows for the next four years discounted at a post-tax discount rate of 8.5% over a five-year period with a terminal value. The impairment reviews have always taken a particularly prudent stance and incorporated a terminal growth assumption of 2.5%, which, whilst marginally higher than the UK long-term growth rate of 2.0%, is supported by historic organic growth.

The estimated growth rates are based on knowledge of the individual CGU's sector and market and represent management's base level expectations for future growth, dependent on the CGU. Changes to revenue and direct costs are based on past experience and expectation of future changes within the markets of the CGUs. All CGUs have the same access to the Group's Treasury functions and borrowing arrangements to finance their operations.

The rates used were as follows:

	Post-tax discount rate	Pre tax discount rate	Growth rates (year 1)	Growth rates (years 2–3)	Growth rates (years 4–5)	Terminal growth rate
Social Housing	8.5%	10.2%	5.0%	5.0%	5.0%	2.5%
Care	8.5%	10.2%	(3.8%)	7.6%	12.1%	2.5%

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%.

Budgeted operating profits during the budget period are estimated by reference to the run-rate operating margin achieved in the period leading up to the start of the budget period, flexed for known changes in either the pricing mechanism or the cost base at a contract level. 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.

10. Goodwill continued

Care

Management recognises that the profitability within the care-at-home market has regressed during the year. The decline is principally due to pressures on Local Authority spending, and recruitment and retention of quality care workers. In response to reducing carer numbers, Mears has increased carer pay rates significantly over the last two years which has, in the short term, reduced margin but improved Mears' operating capability at a local level. There is no shortage of care work. The acquisition of the Care at Home division of Care UK has, in the short term, also reduced profitability. As part of the annual impairment testing, management undertook an extensive business planning process which involved a detailed review, on a contract-by-contract basis, of charge rates and carer pay rates. The process generated a better understanding of the main drivers behind poor carer retention and recruitment rates; one of these factors was carer pay, but there are a number of factors around culture, working practices and recognition which impact upon maintaining a stable workforce. Recruitment plans were prepared locally for every contract. Consideration was also given to the organic growth opportunity available and discussions took place with every client and key actions were agreed with local care management.

The business plan identified a number of key factors which are built in to the value-in-use calculation:

- Mears has a good track record for winning new contracts. Management included a conservative assumption around contract wins based upon our historical performance and our appetite for winning new care work. The Group will be increasingly selective and will only tender work with good visibility of both sales volumes and margin. The Group has assumed an annual increase of 7,000 hours per week which is a small increase on a business currently delivering 220,000 hours of care per week.
- Recruitment and retention of quality care workers is a challenge which has been experienced during the year and is expected to continue during the short term. The business plan reflects improvements in carer retention and recruitment flowing from the business planning process. Mears has also entered into a national recruitment partnership with a leading labour recruitment company which is also anticipated to professionalise the process from identification of candidates through to the start of their employment. The plan includes modest growth during the medium and long term which, on average, equates to four additional carers per year per branch; this represents an increase of 450 carers per year on an existing workforce of 10,000 carers which is considered realistic.
- Mears is committed to leading the way with carer pay rates; the introduction of the National Living Wage in April 2016 will further increase direct costs from 1 April 2016. Mears will look to maintain a significant differential between the Mears pay rates and the National Living Wage to ensure it remains employer of choice in the homecare sector. We have commenced dialogue with all Care clients to ensure that the full increase from the introduction of the National Living Wage is properly incorporated into our charge rates. Initial progress in this area has been good; pleasingly a large number of our clients have run their own cost of care assessments and there is an increased realisation that providers are not in a position to fund further increases in the cost base without significant increases in charge rates.

Management has prepared two alternative scenarios in support of its value-in-use calculation.

Scenario 1: The business plan identified that the financial and operational success of delivering care was dependent upon paying carers a fair rate of pay that reflects the vital and challenging role that they deliver. The introduction of the National Living Wage will bring an immediate increase in our cost base but is proving to be a catalyst for change; the charge rates with Local Authorities will need to be increased to reflect this. Management has made good progress in agreeing price increases with clients and scenario 1 assumes that the full increase in costs flowing from the National Living Wage will be reflected in higher fee rates. Given that all care providers are impacted by this change, the Directors believe that its current contracts will be retained and the revenues will increase over time from their current level.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

10. Goodwill continued

Care continued

Scenario 2 (base case): The second scenario takes a more conservative outlook, reflecting that the Care division's existing portfolio of contracts enjoys charge rates predominantly within the range of £11.50 to £15.00 per hour. Following the introduction of the National Living Wage, combined with the overall shortage of carers driving increasing pay rates, the Directors expect the majority of charge rates to increase to a new range of £14.00 to £16.00. There will be some regional variances to this, especially within London and rural areas. For those clients already paying at the top end of the range, the anticipated increase in charge rates is reasonable. For those clients currently paying at rates which fall at the bottom end of the range, the required increases are likely to be in excess of 25%. The Directors have reviewed the current charge rates for each customer, with around 19% of revenue currently receiving charge rates of below £12.50 per hour of care delivered. Under scenario 2, it has been assumed that the increase will be unaffordable for these customers. Whilst these customers will still have a requirement for homecare, the Directors have assumed this work will be procured from providers who are willing to maintain a lower cost base. Under scenario 2, the revenue was reduced in 2016 to reflect this 19% lost revenue with subsequent years reduced in line with this.

The value-in-use calculation has been tested for sensitivity under both scenarios. Scenario 1 forms the basis of the Group's internal business plan. Scenario 2, whilst representing a negative outcome and whilst it would fall short of the Directors' targets, is considered to be the base case for testing the sensitivity to impairment. Management considers that the Care value-in-use calculation is most sensitive to changes in the terminal growth rate, discount rate and EBITA margin.

The table below shows the sensitivity of the headroom (£m) to simultaneous changes in the discount rate and the long-term growth rate under both scenario 1 and scenario 2.

	Scenario 1						
	Discount rate						
Long-term growth rate	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
0.5%	62.7	47.6	34.6	23.2	13.2	4.4	(3.5)
1.0%	75.9	58.7	44.0	31.3	20.2	10.4	1.8
1.5%	91.5	71.6	54.8	40.4	28.0	17.2	7.7
2.0%	110.2	86.9	67.4	51.0	37.0	24.9	14.3
2.5%	133.2	105.2	82.3	**63.3**	47.3	33.6	21.8
3.0%	161.8	127.6	100.2	77.9	59.4	43.7	30.3
3.5%	198.6	155.6	122.1	95.4	73.6	55.5	40.2
4.0%	247.7	191.5	149.5	116.8	90.8	69.5	51.8
4.5%	316.4	239.5	184.7	143.6	111.7	86.2	65.4

	Scenario 2						
	Discount rate						
Long-term growth rate	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
0.5%	4.1	(5.9)	(14.6)	(22.1)	(28.8)	(34.6)	(39.9)
1.0%	12.6	1.2	(8.5)	(17.0)	(24.3)	(30.8)	(36.5)
1.5%	22.8	9.6	(1.5)	(11.0)	(19.3)	(26.4)	(32.7)
2.0%	34.9	19.5	6.6	(4.2)	(13.5)	(21.5)	(28.5)
2.5%	49.8	31.3	16.3	**3.8**	(6.8)	(15.9)	(23.7)
3.0%	68.4	45.8	27.9	13.2	0.9	(9.4)	(18.2)
3.5%	92.3	64.0	42.0	24.5	10.1	(1.8)	(11.8)
4.0%	124.1	87.3	59.7	38.3	21.2	7.2	(4.4)
4.5%	168.7	118.3	82.4	55.5	34.6	17.9	4.3

11. 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 2014	61,296	18,100	79,396	6,186	224	6,410	85,806
Acquired on acquisition	10,465	1,260	11,725	—	—	—	11,725
Additions	—	—	—	1,484	—	1,484	1,484
Disposals	—	—	—	(315)	—	(315)	(315)
At 1 January 2015	71,761	19,360	91,121	7,355	224	7,579	98,700
Acquired on acquisition	377	5,272	5,649	—	—	—	5,649
Additions	—	—	—	2,978	—	2,978	2,978
At 31 December 2015	**72,138**	**24,632**	**96,770**	**10,333**	**224**	**10,557**	**107,327**
Accumulated amortisation							
At 1 January 2014	35,426	11,410	46,836	3,100	224	3,324	50,160
Amortisation charge for period	5,926	6,402	12,328	1,152	—	1,152	13,480
Disposals	—	—	—	(315)	—	(315)	(315)
At 1 January 2015	41,352	17,812	59,164	3,937	224	4,161	63,325
Amortisation charge for period	7,679	3,158	10,837	1,314	—	1,314	12,151
At 31 December 2015	**49,031**	**20,970**	**70,001**	**5,251**	**224**	**5,475**	**75,476**
Carrying amount							
At 31 December 2015	**23,107**	**3,662**	**26,769**	**5,082**	**—**	**5,082**	**31,851**
At 31 December 2014	30,409	1,548	31,957	3,418	—	3,418	35,375

Development expenditure is an internally developed intangible asset and relates largely to the development of the Group's Social Housing job management system, the Group's Care management system and the UK Planning Portal website. Development expenditure is amortised over its useful economic life of 4.0 years. The weighted average remaining economic life of the asset is 3.5 years (2014: 3.4 years).

Intellectual property is amortised over its useful economic life of 5.0 years.

Amortisation of development expenditure is included within other administrative expenses. Amortisation of acquisition intangibles is presented separately.

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 conservatism 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 is 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 acquisition are detailed within note 23.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

12. Property, plant and equipment

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Gross carrying amount						
At 1 January 2014	110	9,613	4,093	30,709	1,326	45,851
Acquired on acquisition	581	52	—	386	217	1,236
Additions	—	484	899	3,140	13	4,536
Disposals	—	(142)	(1,703)	(708)	(195)	(2,748)
At 1 January 2015	691	10,007	3,289	33,527	1,361	48,875
Acquired on acquisition	—	—	—	7,299	39	7,338
Additions	97	2,319	136	3,665	—	6,217
Disposals	—	(68)	(444)	(40)	(11)	(563)
At 31 December 2015	**788**	**12,258**	**2,981**	**44,451**	**1,389**	**61,867**
Depreciation						
At 1 January 2014	—	5,967	3,055	20,540	1,221	30,783
Acquired on acquisition	—	45	—	282	163	490
Provided in the year	—	917	355	3,033	57	4,362
Eliminated on disposals	—	(143)	(1,603)	(708)	(186)	(2,640)
At 1 January 2015	—	6,786	1,807	23,147	1,255	32,995
Acquired on acquisition	—	—	—	5,894	11	5,905
Provided in the year	—	996	372	3,538	57	4,963
Eliminated on disposals	—	(25)	(360)	(38)	(9)	(432)
At 31 December 2015	**—**	**7,757**	**1,819**	**32,541**	**1,314**	**43,431**
Carrying amount						
At 31 December 2015	**788**	**4,501**	**1,162**	**11,910**	**75**	**18,436**
At 31 December 2014	691	3,221	1,482	10,380	106	15,880

13. Investments

	Joint ventures £'000
At 1 January 2014	—
Acquired on acquisition	1,617
Share of results of equity accounted joint ventures	239
At 1 January 2015	1,856
Elimination on acquisition accounting	(1,856)
At 31 December 2015	**—**

The subsidiary undertakings within the Group at 31 December 2015 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited	100%	England and Wales	Maintenance services
Ardmore Home Care Limited	100%	England and Wales	Dormant
Careforce Group Plc	100%	England and Wales	Dormant
Careforce Services Limited	100%	England and Wales	Dormant
Coutler Estates Limited	100%	Scotland	Provision of care
Electrical Contracting Services (UK) Limited	100%	England and Wales	Dormant
Energy Insurance Services Limited	100%	England and Wales	Insurance Services
Evolve Housing Limited	100%	England and Wales	Dormant
Haydon Mechanical & Electrical Company LLC	49%	United Arab Emirates	Mechanical and electrical services
Heather Housing Limited	100%	England and Wales	Housing management services
Heatherpark Community Services Limited	100%	Scotland	Provision of care
Helcim Group Limited	100%	England and Wales	Dormant
Helcim Homes Limited	100%	England and Wales	Dormant
ILS Group Limited	100%	Scotland	Dormant
ILS Trustees Limited	100%	Scotland	Dormant
Independent Living Services (ILS) Limited	100%	Scotland	Provision of care
Insitu Care Limited	100%	England and Wales	Dormant
Jackson Lloyd Limited	100%	England and Wales	Dormant
Laidlaw Scott Limited	100%	Scotland	Dormant
Let to Birmingham Limited	100%	England and Wales	Housing management services
Manchester Working Limited	80%	England and Wales	Maintenance services
Mears Building Contractors Limited	100%	England and Wales	Dormant
Mears Building Services Limited	100%	England and Wales	Dormant
Mears Care (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Care (Northern Ireland) Limited	100%	Northern Ireland	Provision of care
Mears Care (Scotland) Limited	100%	Scotland	Provision of care
Mears Care Limited	100%	England and Wales	Provision of care
Mears Community Care Agency Limited	100%	England and Wales	Dormant
Mears Decorating Services Limited	100%	England and Wales	Dormant
Mears Energy Limited	100%	England and Wales	Dormant
Mears Estates Limited	100%	England and Wales	Grounds maintenance

Notes to the financial statements – Group continued

For the year ended 31 December 2015

13. Investments continued

	Proportion held	Country of registration	Nature of business
Mears Housing Management Limited	100%	England and Wales	Intermediate holding company
Mears Home Improvements Limited	100%	England and Wales	Maintenance services
Mears Homecare Limited	100%	England and Wales	Provision of care
Mears Insurance Company Limited	99.99%	Guernsey	Insurance services
Mears Learning Limited	100%	England and Wales	Training provider
Mears Lifetime Homes Limited	100%	England and Wales	Dormant
Mears Limited	100%	England and Wales	Maintenance services
Mears Mechanical & Electrical Services Limited	100%	England and Wales	Dormant
Mears Modular Homes Limited	100%	England and Wales	Dormant
Mears New Homes Limited	100%	England and Wales	House building
Mears Scotland (Housing) Limited	100%	Scotland	Dormant
Mears Scotland (Services) Limited	66.67%	Scotland	Maintenance services
Mears Scotland LLP	66.67%	Scotland	Maintenance services
Mears Social Housing Limited	100%	England and Wales	Dormant
Mears Wales Limited	100%	England and Wales	Dormant
Mears Window and Door Maintenance Limited	100%	England and Wales	Dormant
Morrison Facilities Services Limited	100%	Scotland	Maintenance services
Nurseplus Limited	100%	Scotland	Provision of care
O&T Developments Limited	75%	England and Wales	Housing management services
Omega Housing Limited	100%	England and Wales	Housing registered provider
Omega Lettings Limited	100%	England and Wales	Housing management services
Planning Portal Limited	100%	England and Wales	Dormant
Plexus UK (First Project) Limited	100%	England and Wales	Housing registered provider
Plexus UK (Systems) Limited	100%	England and Wales	Dormant
PortalPlanQuest Limited	100%	England and Wales	Professional services
Powersave Limited	100%	England and Wales	Dormant
PS Business Services Limited	100%	Scotland	Dormant
PS Payroll Services Limited	100%	England and Wales	Dormant
R Carter and Son (Painting Contractors) Limited	100%	England and Wales	Dormant
Robert Hawkins (Contractors) Limited	100%	England and Wales	Dormant
Scion Group Limited	100%	England and Wales	Dormant
Scion Property Services Limited	100%	England and Wales	Dormant
Scion Technical Services Limited	100%	England and Wales	Maintenance services
Supporta Limited	100%	England and Wales	Dormant
Supporta Services Limited	100%	England and Wales	Dormant
Tando Homes Limited	75%	England and Wales	Housing management services
Tando Property Services	75%	England and Wales	Housing management services
Terraquest Group Limited	100%	England and Wales	Dormant
Terraquest Limited	100%	England and Wales	Dormant
Terraquest Solutions Limited	100%	England and Wales	Professional services
Zenon Property Services Limited	100%	England and Wales	Maintenance services

All subsidiary undertakings with the exception of Manchester Working Limited and Omega Housing Limited prepare accounts to 31 December. Manchester Working Limited prepares accounts to 31 March in line with the minority shareholder. Omega Housing Limited prepares accounts to 31 March in line with its historic accounting reference date.

13. Investments continued

The Group includes two subsidiaries, Mears Scotland LLP and Manchester Working Limited, with material non-controlling interests. The table below sets out selected financial information in respect of those subsidiaries:

	2015 £'000	2014 £'000
Revenue and profits		
Revenue	**84,452**	86,541
Expenses and taxation	**(83,473)**	(86,897)
Profit/(loss) for the year	**979**	(356)
Other comprehensive expense	**—**	(5,181)
Total comprehensive income/(expense)	**979**	(5,537)
Loss for the year allocated to non-controlling interests	**(273)**	(51)
Total comprehensive expense allocated to non-controlling interests	**—**	(1,777)
Net assets		
Non-current assets	**295**	400
Current assets	**24,187**	18,890
Current liabilities	**(29,394)**	(25,182)
Total assets less total liabilities	**(4,912)**	(5,892)
Equity shareholders' funds	**(2,717)**	(3,545)
Non-controlling interests	**(2,195)**	(2,347)
Total equity	**(4,912)**	(5,892)

The financial and operating activities of the Group's joint ventures are jointly controlled by the participating shareholders. The participating shareholders have rights to the net assets of the joint ventures through their equity holdings. The Group held investments in the following joint ventures at 31 December 2015:

	Proportion held	Country of registration	Nature of business
Mears 24/7 LLP	50%	England and Wales	Call centre services
Asert LLP	50%	England and Wales	Customer service training

	2015 £'000	2014 £'000
Share of revenue and profits		
Revenue	**2,728**	2,930
Expenses and taxation	**(2,728)**	(2,691)
Profit for the year	**—**	239
Share of net assets		
Non-current assets	**14**	30
Current assets	**388**	2,613
Current liabilities	**(402)**	(787)
	—	1,856

Notes to the financial statements – Group continued

For the year ended 31 December 2015

13. Investments continued

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ending 31 December 2015:

	Registration number
Coulter Estates Limited	SC148145
Heatherpark Community Services Limited	SC314108
ILS Group Limited	SC285635
Let to Birmingham Limited	08757503
Mears Care (Holdings) Limited	03689426
Mears Estates Limited	03720903
Mears Housing Management Limited	04726480
Nurseplus Limited	SC200513
Scion Group Limited	03905442
Scion Technical Services Limited	03671450
Zenon Property Services Limited	07448134

14. Inventories

	2015 £'000	2014 £'000
Materials and consumables	**4,979**	5,065
Work in progress	**4,042**	3,403
	9,021	8,468

The Group consumed inventories totalling £649.0m during the year (2014: £613.7m). No items are being carried at fair value less costs to sell (2014: £nil).

15. Trade and other receivables

	2015 £'000	2014 £'000
Current assets:		
– trade receivables	**47,364**	44,023
– amounts recoverable on non-construction contracts	**90,627**	90,154
– prepayments and accrued income	**8,888**	8,439
Total trade and other receivables	**146,879**	142,616

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables and accrued income 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.

The ageing analysis of trade receivables is as follows:

	2015 £'000	2014 £'000
Neither impaired nor past due	**40,869**	38,852
Less than three months past due but not impaired	**4,008**	2,844
More than three months past due but not impaired	**2,487**	2,327
Total trade and other receivables	**47,364**	44,023

16. Trade and other payables

	2015 £'000	2014 £'000
Trade payables	**100,385**	103,943
Accruals and deferred income	**54,945**	43,494
Social security and other taxes	**23,669**	22,291
Payments on account for non-construction contract work	**140**	5,435
Finance lease liabilities	**386**	514
Other creditors	**14,578**	6,421
	194,103	182,098

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.

Included in other creditors is £10.5m (2014: £0.3m) relating to contingent consideration on acquisitions.

17. Financing liabilities

	2015 £'000	2014 £'000
Current liabilities:		
– interest rate swaps	**510**	580
Non-current liabilities:		
– interest rate swaps	**368**	788
Total financing liabilities	**878**	1,368

18. Long-term other liabilities

	2015 £'000	2014 £'000
Other creditors	**15,396**	25,956

Included in other creditors is £10.4m (2014: £20.7m) relating to contingent consideration on acquisitions.

19. Financial instruments

The Group uses a limited number of financial instruments comprising cash and liquid resources, borrowings, interest rate swaps 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.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

19. Financial instruments continued

Categories of financial instruments

	2015 £'000	2014 £'000
Financial assets		
Loans and receivables		
Trade receivables	**47,364**	44,023
Amounts recoverable on contracts	**90,627**	90,154
Cash at bank and in hand	**68,612**	66,634
	206,603	200,811
Financial liabilities		
Fair value (level 2)		
Interest rate swaps – effective	**(878)**	—
Interest rate swaps – ineffective	**—**	(1,368)
Fair value (level 3)		
Deferred and contingent consideration in respect of acquisitions	**(20,861)**	(21,045)
Amortised cost		
Bank borrowings and overdrafts	**(67,790)**	(62,800)
Trade payables	**(100,385)**	(103,943)
Accruals and deferred income	**(54,945)**	(43,494)
Other creditors	**(9,113)**	(11,332)
	(253,972)	(243,982)
	(47,369)	(43,171)

The IFRS 7 hierarchy 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).

The amount of contingent consideration payable is generally determined by future expected profits of the acquired businesses. The fair values of contingent consideration have been calculated by the Directors by reference to expected future income and expenditure in respect of the acquired businesses.

There have been no transfers between levels during the year.

Fair value information

The fair value of the Group's financial assets and liabilities is as disclosed above and approximates to the book value.

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.

19. Financial instruments continued

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 £120.0m with Barclays Bank PLC and HSBC Bank plc, of which £67.5m was utilised at 31 December 2015. Since the balance sheet date, the Group has agreed an increased borrowing facility of £140.0m with an expiry date of July 2020.

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 2015 were a £42.5m revolving credit facility and an overdraft facility of £10.0m.

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 rate 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 2015 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities – 2015	**57,500**	**10,290**	**20,861**	**88,651**
Financial liabilities – 2014	57,500	5,300	21,045	83,845

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 £57.5m of the £120.0m total borrowing facilities by entering into interest rate swap arrangements with Barclays Bank PLC and HSBC Bank plc. This consists of one £27.5m swap contract expiring in August 2016 and one £30.0m swap contract expiring in August 2018, both with quarterly maturity, matching the underlying facility.

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

	2015		2014	
	Nominal amount hedged £'000	**Average applicable interest rates %**	Nominal amount hedged £'000	Average applicable interest rates %
Within one year	**27,500**	**1.92%**	—	—
One to two years	**—**	**—**	27,500	1.92%
Two to five years	**30,000**	**1.85%**	30,000	1.85%
More than five years	**—**	**—**	—	—

Effective interest rates

Interest rate swaps with fair value liabilities of £0.9m (2014: £1.4m) and average remaining lives of one year and nine months have been accounted for in financing liabilities.

The Group's overall average cost of debt, including effective and ineffective interest rate swaps, is 3.0% as at 31 December 2015 (2014: 3.2%). Excluding these swaps the average is 2.1% (2014: 2.2%).

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 Consolidated 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 contracts have quarterly maturity and expire in August 2016 and August 2018.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

19. Financial instruments continued

Cash flow hedging reserve continued

Movements during the year were:

	£'000
At 1 January 2014	(848)
Amounts transferred to the Consolidated Income Statement	722
Revaluations during the year	(841)
Deferred tax movement	5
At 1 January 2015	(962)
Amounts transferred to the Consolidated Income Statement	559
Revaluations during the year	(72)
Deferred tax movement	(97)
At 31 December 2015	**(572)**

At 31 December 2015 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 2015 and reserves would decrease or increase, respectively, by £0.1m (2014: £0.1m).

Liquidity risk management

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

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

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

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

	Within 1 year £'000	1–2 years £'000	2–5 years £'000	Over 5 years £'000	Total £'000
2015					
Non-derivative financial liabilities					
Bank borrowings	**10,290**	**—**	**57,500**	**—**	**67,790**
Trade and other payables	**159,465**	**4,978**	**—**	**—**	**164,443**
Deferred and contingent consideration in respect of acquisitions	**10,443**	**10,418**	**—**	**—**	**20,861**
Derivative financial liabilities					
Interest rate swaps – effective	**510**	**210**	**158**	**—**	**878**
2014					
Non-derivative financial liabilities					
Bank borrowings	5,300	—	57,500	—	62,800
Trade and other payables	153,538	5,231	—	—	158,769
Deferred and contingent consideration in respect of acquisitions	320	20,725	—	—	21,045
Derivative financial liabilities					
Interest rate swaps – ineffective	580	428	360	—	1,368

19. Financial instruments continued

Liquidity risk management continued

The Group has disclosed core bank borrowings of £57.5m as due in two to five years. Whilst the amounts borrowed could be repaid each quarter, the Group's intention is to align core bank borrowings with its interest rate swaps.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables, amounts recoverable on contracts and work in progress.

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 Local Authorities and the NHS. The nature of both of these customers means that credit risk is minimal. 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 15.

Deferred and contingent consideration

The table below shows the movements in deferred and contingent consideration:

	Total £'000
At 1 January 2014	1,836
Increase due to new acquisitions in the year	20,000
Paid in respect of acquisitions	(387)
Released on reassessment	(424)
Unwinding of discounting	20
At 1 January 2015	21,045
Increase due to new acquisitions in the year	123
Paid in respect of acquisitions	(7)
Released on reassessment	(425)
Unwinding of discounting	125
At 31 December 2015	**20,861**

Contingent consideration represents an estimate of future consideration likely to be payable in respect of acquisitions. Contingent consideration is discounted for the likelihood of payment and for the time value of money. 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. The fair value of contingent consideration is estimated by forecasting future profits and utilising the forecast to determine the likely contingent consideration payable.

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

Notes to the financial statements – Group continued

For the year ended 31 December 2015

19. Financial instruments continued

Capital management

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 debt as disclosed below and equity as disclosed in the Consolidated Statement of Changes in Equity.

	2015 £'000	2014 £'000
Cash and cash equivalents is comprised as follows:		
– cash at bank and in hand	**68,612**	66,634
– bank borrowings and overdrafts	**(67,790)**	(62,800)
Cash and cash equivalents	**822**	3,834

20. Deferred taxation

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

Deferred tax asset

The following deferred tax assets were recognised by the Group as at 31 December 2015:

	Pension scheme £'000	Share-based payments £'000	Cash flow hedges £'000	Tax losses £'000	Short-term temporary differences £'000	Total £'000
At 1 January 2014	1,283	1,608	252	3,858	3,569	10,570
Acquired on acquisition	—	—	—	—	(4)	(4)
(Debit)/credit to Consolidated Income Statement	(252)	121	—	500	(2,593)	(2,224)
Debit to Consolidated Statement of Changes in Equity	—	(418)	—	—	—	(418)
Credit to Consolidated Statement of Comprehensive Income	644	—	5	—	—	649
At 1 January 2015	1,675	1,311	257	4,358	972	8,573
Acquired on acquisition	—	—	—	—	178	178
(Debit)/credit to Consolidated Income Statement	(9)	151	—	(1,598)	759	(696)
Debit to Consolidated Statement of Changes in Equity	—	(552)	—	—	—	(552)
Debit to Consolidated Statement of Comprehensive Income	(821)	—	(97)	—	—	(919)
At 31 December 2015	**845**	**910**	**160**	**2,760**	**1,909**	**6,584**

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.

20. Deferred taxation continued

Deferred tax asset continued

The cumulative amount credited to the Consolidated 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.

In addition to those recognised on the previous page, unused tax losses totalling £32.9m (2014: £28.9m) have not been recognised as the Directors do not consider that it is probable that they will be recovered.

The following deferred tax liabilities were recognised by the Group as at 31 December 2015:

Deferred tax liabilities

	Pension scheme £'000	Acquisition intangibles £'000	Total £'000
At 1 January 2014	3,093	6,671	9,764
Acquired on acquisition	—	2,173	2,173
Credit to Consolidated Income Statement	(17)	(2,452)	(2,469)
Credit to Consolidated Statement of Comprehensive Income	(50)	—	(50)
At 1 January 2015	3,026	6,392	9,418
Acquired on acquisition	—	1,054	1,054
Debit/(credit) to Consolidated Income Statement	124	(2,130)	(2,006)
Credit to Consolidated Statement of Comprehensive Income	(1,496)	—	(1,496)
At 31 December 2015	**1,654**	**5,316**	**6,970**

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.

21. Share capital and reserves

Classes of reserves

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 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 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.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

21. Share capital and reserves continued

Share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
At 1 January 101,134,142 (2014: 100,661,649) ordinary shares of 1p each	**1,011**	1,007
Issue of 804,193 (2014: 472,493) shares on exercise of share options	**8**	4
At 31 December 101,938,335 (2014: 101,134,142) ordinary shares of 1p each	**1,019**	1,011

During the year 804,193 (2014: 472,493) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.008m and the total consideration of £1.4m has been credited to the share premium account.

22. Notes to the Consolidated Cash Flow Statement

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

	2015 £'000	2014 £'000
Depreciation	**4,963**	4,362
Loss on disposal of property, plant and equipment	**45**	3
Amortisation	**12,151**	13,480
Share-based payments	**771**	670
IAS 19 pension movement	**(660)**	(1,425)
Finance income	**(158)**	(77)
Finance cost	**2,775**	3,178
Total	**19,887**	20,191

23. Acquisitions

On 11 March 2015 the Group acquired certain trade and assets relating to the UK Planning Portal from the Secretary of State for Communities and Local Government in exchange for 25% of the share capital of PortalPlanQuest Limited, the subsidiary company established to undertake this activity. This acquisition was completed as part of the award of a contract for the commercialisation of the Planning Portal.

On 30 April 2015 the Group acquired the entire issued share capital of Energy Insurance Services Limited for a total consideration of £0.3m, which was satisfied in cash. This acquisition was completed to expand the Group's offering within gas services and maintenance. The effect of this acquisition on the Group's assets is detailed below.

On 29 May 2015 the Group acquired the entire issued share capital of Care UK Homecare Limited and Care UK Community Care Agency Limited for a total consideration of £10.2m, which was satisfied in cash. The acquisition of Care UK's Homecare business expands the Group's Care offering across the United Kingdom.

On 1 July 2015 the Group acquired certain trade and assets of Full Circle Learning Limited for contingent consideration of £0.1m payable based on future contract profitability. The Directors' best estimate of contingent consideration payable is the full £0.1m. The acquisition was completed to enhance the Group's training offering for employees and clients.

On 1 January 2015 the Group reassessed the level of influence it held over O&T Developments Limited, Tando Property Services Limited and Tando Homes Limited and concluded that the threshold for control had been met and therefore, in accordance with IFRS 10, the Group has accounted for these entities as subsidiaries from that date. On 19 October 2015 the Group acquired an additional 25% of the issued share capital of O&T Developments Limited, Tando Property Services Limited and Tando Homes Limited for a total consideration of £6.2m satisfied in cash. The acquisition of an additional holding in these subsidiaries brings the Group's shareholding to 75% and allows the Group to better integrate its offering with its services.

The effect of the acquisition of Care UK's Homecare business is disclosed below individually and the effect of the remaining acquisitions is disclosed in aggregate.

23. Acquisitions continued

	Fair value		
	Care UK Homecare* £'000	Other £'000	Total £'000
Assets			
Non-current			
Property, plant and equipment	1,395	38	1,433
Deferred tax asset	150	28	178
Current			
Trade receivables	12,152	765	12,917
Other receivables	748	729	1,477
Cash at bank and in hand	—	384	384
Total assets	14,445	1,944	16,389
Liabilities			
Current			
Bank overdraft	1,262	—	1,262
Trade and other payables	7,907	1,069	8,976
Current tax liabilities	—	571	571
Total liabilities	9,169	1,640	10,809
Net assets acquired	5,276	304	5,580
Intangibles capitalised	4,922	726	5,648
Deferred tax liability recognised in respect of intangibles capitalised	(985)	(69)	(1,054)
Net assets acquired	9,213	961	10,174
Goodwill capitalised	985	70	1,055
	10,198	1,031	11,229
Satisfied by:			
– cash	10,198	344	10,542
– contingent consideration	—	123	123
– transfer from investments	—	282	282
Non-controlling interest	—	282	282
	10,198	1,031	11,229

* Provisional.

The Care UK Homecare intangible asset is recognised and valued at £4.9m. This represents the expected value to be derived from the acquired order book and customer relationships. The value placed on the order book and customer relationships is based on the expected cash inflows over the estimated remaining life of each existing contract. The value placed on the customer relationships is based on the expected cash inflows relating to other contracts obtained by virtue of the customer relationship. The cash flows are discounted using a rate of 10.2%, which the Directors consider is commensurate with the risks associated with capturing returns from the order book and customer relationships. The estimated life for the order book and customer relationships is three years.

The Directors consider that the value assigned to goodwill represents the workforce acquired and the access to new markets and additional geographical areas in the UK as a result of this acquisition.

The intangible asset in respect of other acquisitions is recognised and valued at £0.7m. This represents the expected value to be derived from the acquired order book.

The amounts receivable detailed above are not materially different from the gross contractual amounts receivable. The effect of the Care UK Homecare acquisition on the Group's assets and liabilities is disclosed as provisional due to its size and complexity and the proximity to the balance sheet date.

Notes to the financial statements – Group continued

For the year ended 31 December 2015

23. Acquisitions continued

In the period ended 31 December 2015, the acquisitions contributed revenue of £35.0m. It is not possible to isolate the operating loss before amortisation of acquisition intangibles from the wider Care business due to the level of integration into the existing business.

For the year ended 31 December 2015, had the acquisitions taken place on 1 January 2014, the combined Group full-year revenue for the year is estimated at £907.8m and the combined Group profit for the year before taxation from continuing operations is estimated at £23.1m.

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

	Total £'000
Cash consideration	(10,542)
Cash at bank and in hand acquired	384
Bank overdraft acquired	(1,262)
Transactions with non-controlling interests	(6,163)
Cash payments in respect of prior year acquisitions	(7)
	(17,590)

24. 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 £2.3m (2014: £2.3m) to these schemes.

IAS 19 'Employee Benefits'

The Group contributes to 32 (2014: 30) 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, Mears Care Limited, Morrison Facilities Services Limited and their subsidiary undertakings. The assets of the schemes 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 Group 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 133. Certain judgements around the value of this asset have been made and are discussed in the judgements and estimates disclosure within the accounting policies.

The disclosures in respect of the two (2014: two) Group defined benefit schemes and the 30 (2014: 28) other defined benefit schemes in this note have been aggregated.

Costs and liabilities of the schemes are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2015 by qualified independent actuaries using the projected unit method.

24. Pensions continued

IAS 19 'Employee Benefits' continued

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

	2015	2014
Rate of increase of salaries – first year	**1.00%**	1.00%
Rate of increase of salaries – second year	**1.00%**	2.20%
Rate of increase of salaries – long term	**3.30%**	3.25%
Rate of increase for pensions in payment – based on CPI with a cap of 5%	**2.40%**	2.35%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	**3.20%**	3.15%
Rate of increase for pensions in payment – based on CPI with a cap of 3%	**2.10%**	2.05%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	**2.55%**	2.50%
Discount rate	**3.95%**	4.00%
Retail prices inflation	**3.30%**	3.25%
Consumer prices inflation	**2.40%**	2.35%
Life expectancy for a 65-year-old male	**22.4 years**	22.2 years
Life expectancy for a 65-year-old female	**24.7 years**	24.5 years

The amounts recognised in the Consolidated Balance Sheet and major categories of plan assets are:

	2015			2014		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Equities – quoted	**39,997**	**184,989**	**224,986**	40,426	179,433	219,859
Equities – unquoted	**—**	**24,047**	**24,047**	—	28,696	28,696
Bonds – quoted	**64,989**	**62,591**	**127,580**	60,961	66,875	127,836
Bonds – unquoted	**—**	**7,663**	**7,663**	—	5,046	5,046
Guarantee	**—**	**11,223**	**11,223**	—	17,740	17,740
Property – quoted	**—**	**6,010**	**6,010**	—	3,522	3,522
Property – unquoted	**122**	**16,671**	**16,793**	408	17,570	17,978
Cash	**11,404**	**39,496**	**50,900**	14,023	28,152	42,175
Group's estimated asset share	**116,512**	**352,690**	**469,202**	115,818	347,034	462,852
Present value of funded scheme liabilities	**(111,327)**	**(333,839)**	**(445,166)**	(106,710)	(331,666)	(438,376)
Funded status	**5,185**	**18,851**	**24,036**	9,108	15,368	24,476
Scheme surpluses not recognised as assets	**—**	**(19,988)**	**(19,988)**	—	(17,717)	(17,717)
Pension asset/(liability)	**5,185**	**(1,137)**	**4,048**	9,108	(2,349)	6,759

The amounts recognised in the Income Statement are as follows:

	2015			2014		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Current service cost	**2,143**	**5,521**	**7,664**	2,009	6,785	8,794
Past service cost	**—**	**39**	**39**	—	101	101
Administration costs	**197**	**119**	**316**	224	109	333
Total operating charge	**2,340**	**5,679**	**8,019**	2,233	6,995	9,228
Net interest	**(421)**	**(291)**	**(712)**	(561)	(1,249)	(1,810)
Total charged to the result for the year	**1,919**	**5,388**	**7,307**	1,672	5,746	7,418

Notes to the financial statements – Group continued

For the year ended 31 December 2015

24. Pensions continued

IAS 19 'Employee Benefits' continued

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

	2015			2014		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
On TUPE transfer of employees	—	(223)	(223)	—	121	121
Return on plan assets below that recorded in net interest	(4,984)	(7,406)	(12,390)	10,624	22,125	32,749
Actuarial (loss)/gain arising from changes in demographic assumptions	(9,311)	(155)	(9,466)	—	2,283	2,283
Actuarial gain/(loss) arising from changes in financial assumptions	3,800	11,167	14,967	(14,832)	(47,805)	(62,637)
Actuarial gain arising from liability experience	5,193	819	6,012	910	9,828	10,738
Effects of limitation of recognisable surplus	—	(2,271)	(2,271)	—	13,456	13,456
Total gains and losses recognised in equity	(5,302)	1,931	(3,371)	(3,298)	8	(3,290)
At 1 January	(5,436)	(7,533)	(12,969)	(2,138)	(7,541)	(9,679)
Total at 31 December	(10,738)	(5,602)	(16,340)	(5,436)	(7,533)	(12,969)

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

	2015			2014		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Present value of obligations at 1 January	106,710	331,666	438,376	88,195	295,641	383,836
Current service cost	2,143	5,521	7,664	2,009	6,785	8,794
Past service cost	—	39	39	—	101	101
Scheme administration costs	—	55	55	—	46	46
Interest on obligations	4,027	12,703	16,730	4,028	13,408	17,436
Plan participants' contributions	426	2,007	2,433	453	2,134	2,587
Benefits paid	(2,297)	(6,663)	(8,960)	(1,897)	(6,061)	(7,958)
Contract transfer	—	342	342	—	(16,082)	(16,082)
Actuarial loss/(gain) arising from changes in demographic assumptions	9,311	155	9,466	—	(2,283)	(2,283)
Actuarial (gain)/loss arising from changes in financial assumptions	(3,800)	(11,167)	(14,967)	14,832	47,805	62,637
Actuarial gain arising from liability experience	(5,193)	(819)	(6,012)	(910)	(9,828)	(10,738)
Present value of obligations at 31 December	111,327	333,839	445,166	106,710	331,666	438,376

24. Pensions continued

IAS 19 'Employee Benefits' continued

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

	2015			2014		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Fair value of plan assets at 1 January	**115,818**	**347,034**	**462,852**	98,910	324,723	423,633
Expected return on plan assets	**4,448**	**12,994**	**17,442**	4,589	14,657	19,246
Employers' contributions	**3,298**	**4,669**	**7,967**	3,363	5,480	8,843
Plan participants' contributions	**426**	**2,007**	**2,433**	453	2,134	2,587
Benefits paid	**(2,297)**	**(6,663)**	**(8,960)**	(1,897)	(6,061)	(7,958)
Scheme administration costs	**(197)**	**(64)**	**(261)**	(224)	(63)	(287)
Contract transfer	**—**	**119**	**119**	—	(15,961)	(15,961)
Return on plan assets (below)/above that recorded in net interest	**(4,984)**	**(7,406)**	**(12,390)**	10,624	22,125	32,749
Fair value of plan assets at 31 December	**116,512**	**352,690**	**469,202**	115,818	347,034	462,852

History of experience gains and losses is as follows:

	Group schemes				
	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Fair value of scheme assets	**116,512**	115,818	98,910	89,737	8,305
Net present value of defined benefit obligations	**(111,327)**	(106,710)	(88,195)	(79,336)	(13,097)
Net surplus/(deficit)	**5,185**	9,108	10,715	10,401	(4,792)
Experience adjustments arising on scheme assets					
Amount	**(4,984)**	10,624	3,796	695	(711)
Percentage of scheme assets	**(4.3%)**	9.2%	3.8%	0.8%	(8.6%)
Experience adjustments arising on scheme liabilities					
Amount	**(5,193)**	(910)	(932)	—	(21)
Percentage of scheme liabilities	**(4.7%)**	(0.9%)	(1.1%)	—	(0.2%)

	Other schemes				
	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Fair value of scheme assets	**352,690**	347,034	324,723	286,328	74,310
Net present value of defined benefit obligations	**(333,839)**	(331,666)	(295,641)	(260,689)	(68,828)
Net surplus	**18,851**	15,368	29,082	25,639	5,482
Asset value not recognised as surplus	**(19,988)**	(17,717)	(31,172)	(27,758)	(6,530)
Net deficit	**(1,137)**	(2,349)	(2,091)	(2,119)	(1,048)
Experience adjustments arising on scheme assets					
Amount	**(7,406)**	22,125	25,805	3,991	(11,759)
Percentage of scheme assets	**(2.1%)**	6.4%	7.9%	1.4%	(15.8%)
Experience adjustments arising on scheme liabilities					
Amount	**(819)**	(9,828)	(518)	143	8,521
Percentage of scheme liabilities	**(0.2%)**	(3.0%)	(0.2%)	0.1%	12.4%

Notes to the financial statements – Group continued

For the year ended 31 December 2015

24. Pensions continued

IAS 19 'Employee Benefits' continued

Funding arrangements are agreed for each of the Group's defined benefit pension schemes with their respective trustees. The employers' contributions expected to be paid during the financial year ending 31 December 2016 amount to £7.5m.

Each of the schemes manage risks through a variety of methods and strategies to limit downside in falls in equity markets, movement in inflation and movement in interest rates.

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below shows how a reasonably possible increase or decrease in a particular assumption, in isolation, results in an increase or decrease in the present value of the defined benefit obligation as at 31 December 2015.

	Decrease £'000	Increase £'000
Rate of inflation – decrease/increase by 0.1%	(2,480)	1,674
Rate of increase in salaries – decrease/increase by 0.1%	(523)	523
Discount rate – decrease/increase by 0.1%	2,844	(2,680)
Life expectancy – decrease/increase by 1 year	(5,995)	6,203

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of each other. In presenting this sensitivity analysis, the value of the defined benefit obligation has been calculated on the same basis that applied in calculating the defined benefit obligation recognised at the balance sheet date.

25. Operating lease commitments

Non-cancellable operating lease rentals payable were as follows:

	Land and buildings		Other	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Payable				
Within one year	**2,641**	2,554	**11,557**	13,447
Between two and five years	**6,864**	5,403	**17,136**	11,875
After more than five years	**3,090**	2,365	**—**	—
	12,595	10,322	**28,693**	25,322

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.

26. Capital commitments

The Group had no capital commitments at 31 December 2015 or at 31 December 2014.

27. Contingent liabilities

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2015 these guarantees amounted to £22.4m (2014: £26.3m).

As detailed in note 7, the Group has a facility in place guaranteeing the performance of a number of M&E projects in Haydon Mechanical and Electrical Company LLC. The guarantees will fall away as the underlying contracts are completed and the associated guarantees released. As at 31 December 2015, guarantees amounted to £15.4m (2014: (£8.7m)).

The Group had no other contingent liabilities at 31 December 2015 or at 31 December 2014.

28. Related party transactions

Identity of related parties

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

Pension schemes

Details of contributions to pension schemes are set out in note 24 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:

	2015 %	2014 %
Directors	**0.4**	0.4

Key management personnel's compensation is as follows:

	2015 £'000	2014 £'000
Salaries including social security costs	**1,513**	1,561
Contributions to defined contribution pension schemes	**195**	185
Share-based payments	**150**	100
	1,858	1,846

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

Transactions with other related parties

During the year the Group purchased call centre related services from Mears 24/7 LLP, a company in which Mears Limited is a 50% partner, totalling £2.3m (2014: £1.9m). The Group also recharged costs totalling £0.8m (2014: £0.8m) to Mears 24/7 LLP at cost. At 31 December 2015 the Group was owed £0.5m by (2014: owed £0.1m to) Mears 24/7 LLP.

During the year the Group purchased training related services from Mears Learning Limited, a company in which the Group is a 90% shareholder, totalling £0.4m (2014: £nil). At 31 December 2015, the Group was owed £0.2m (2014: £nil) by Mears Learning Limited.

Principal accounting policies – Company

Statement of compliance

Mears Group PLC is a public limited company incorporated in England and Wales. Its registered office is 1390 Montpellier Court, Gloucester Business Park, Brockworth Gloucester GL3 4AH.

The Company transitioned from previously extant UK GAAP to Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102) with effect from 1 January 2014. An explanation of how the transition to FRS 102 has affected the reported financial position and financial performance is given in the notes to the accounts.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 102 and the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments specified in the accounting policies below. The financial statements are presented in Sterling.

The Company has taken advantage of the exemption in Section 408 of the Companies Act from disclosing its individual profit and loss account.

The principal accounting policies of the Company are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Goodwill

Goodwill representing the reallocation of amounts previously classed as investments upon the hive-across of trade and assets is capitalised and amortised on a straight-line basis over its estimated useful economic life.

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 and cash-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 Black Scholes 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 profit and loss account. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve; for cash-settled share-based payments the Company recognises a liability at the balance sheet date. The Company operates share-based remuneration plans for employees of subsidiaries using the Company's equity instruments. The fair value of the compensation given in respect of these share-based compensation plans less payments received from subsidiaries in respect of those share-based payments is recognised as a capital contribution.

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 and laws that have been enacted or substantively enacted by the balance sheet date.

Retirement benefits

i) Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

ii) Defined benefit pensions

The Company contributes to 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, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. The asset that is recognised is restricted to the amount by which the service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Actuarial gains and losses are taken to the statement of comprehensive income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus of deficit are recognised in the profit and loss account, including the current service cost, any past service cost and the effect of curtailments or settlements. The interest costs less the expected return on assets is also charged to the Income Statement. The amount charged to the Income Statement in respect of these plans is included within operating costs.

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

Financial instruments

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

Financial assets

Basic financial assets, including trade and other receivables, amounts due to Group companies and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party which has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Principal accounting policies – Company continued

Financial instruments continued

Financial liabilities

Basic financial liabilities, including trade and other payables, and amounts payable to Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Bank borrowings are non-basic financial liabilities and are initially recognised at fair value, being the present value of future payments discounted at a market rate of interest. Bank borrowings are remeasured at fair value.

Derivatives, including interest rate swaps, are not basic 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. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Hedge accounting for interest rate swaps

The Company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the income statement.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

Parent Company balance sheet

As at 31 December 2015

	Note	2015 £'000	2014 £'000
Non-current assets			
Intangible assets: goodwill	5	—	969
Investments	6	**58,467**	58,123
		58,467	59,092
Current assets			
Debtors	7	**135,827**	104,308
Cash at bank and in hand		—	694
		135,827	105,002
Creditors: amounts falling due within one year	8	**(32,879)**	(5,754)
Net current assets		**102,948**	99,248
Total assets less current liabilities		**161,415**	158,340
Creditors: amounts falling due after more than one year	9	**(57,961)**	(58,688)
Provisions for liabilities			
Pension liability	15	**(3,087)**	(6,023)
		100,367	93,629
Capital and reserves			
Called up share capital	11	**1,019**	1,011
Share premium account		**58,124**	56,714
Share-based payment reserve		**1,651**	1,653
Hedging reserve		**(572)**	(962)
Profit and loss account		**40,145**	35,213
Shareholders' funds		**100,367**	93,629

The financial statements were approved by the Board of Directors on 18 March 2016.

R Holt
Director

A C M Smith
Director

Company number: 03232863

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

Parent Company cash flow statement

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Operating activities			
Result for the year before tax		**12,208**	16,264
Adjustments	12	**3,762**	3,558
Change in trade and other payables		**2,394**	(60)
Cash inflow from operating activities of continuing operations before taxation		**18,364**	19,762
Taxes paid		**1,257**	—
Net cash inflow from operating activities		**19,621**	19,762
Investing activities			
Acquisition of subsidiary undertakings, net of cash		**(351)**	(54)
Interest received		**7**	—
Net cash outflow from investing activities		**(344)**	(54)
Financing activities			
Proceeds from share issue		**1,418**	636
Loans to subsidiaries (advanced)/repaid		**(33,967)**	13,553
Interest paid		**(2,778)**	(2,778)
Dividends paid		**(10,445)**	(9,252)
Net cash (outflow)/inflow from financing activities		**(45,772)**	2,159
Cash and cash equivalents, beginning of year		**(61,806)**	(83,673)
Net (decrease)/increase in cash and cash equivalents		**(26,495)**	21,867
Cash and cash equivalents, end of year		**(88,301)**	(61,806)
Cash and cash equivalents comprises the following:			
– cash at bank and in hand		**—**	694
– borrowings and overdrafts		**(88,301)**	(62,500)
Cash and cash equivalents		**(88,301)**	(61,806)

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

Parent Company statement of changes in equity

For the year ended 31 December 2015

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2014	1,007	56,082	1,050	(848)	29,871	87,162
Net result for the year	—	—	—	—	16,862	16,862
Other comprehensive expense	—	—	—	(114)	(2,335)	(2,449)
Total comprehensive (expense)/income for the year	—	—	—	(114)	14,527	14,413
Issue of shares	4	632	—	—	—	636
Share option charges	—	—	670	—	—	670
Exercise of share options	—	—	(67)	—	67	—
Dividends	—	—	—	—	(9,252)	(9,252)
At 1 January 2015	1,011	56,714	1,653	(962)	35,213	93,629
Net result for the year	—	—	—	—	12,862	12,862
Other comprehensive income	—	—	—	390	1,742	2,132
Total comprehensive income for the year	—	—	—	390	14,604	14,994
Issue of shares	8	1,410	—	—	—	1,418
Share option charges	—	—	771	—	—	771
Exercise of share options	—	—	(773)	—	773	—
Dividends	—	—	—	—	(10,445)	(10,445)
At 31 December 2015	**1,019**	**58,124**	**1,651**	**(572)**	**40,145**	**100,367**

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

Notes to the financial statements – Company

1. Profit for the financial year

The Parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a profit of £12.9m (2014: £16.9m) which is dealt with in the financial statements of the Company. This result is stated after charging auditor's remuneration of £60,000 relating to audit services and £4,000 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:

	2015 £'000	2014 £'000
Wages and salaries	**1,323**	1,276
Social security costs	**190**	285
Other pension costs	**195**	185
	1,708	1,746

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

	2015 Number	2014 Number
Management	**8**	9

3. Share-based employee remuneration

As at 31 December 2015 the Group maintained seven share-based payment schemes for employee remuneration. The details of each scheme are included within note 5 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, £0.2m of employee remuneration expense has been included in the Company's profit and loss account for 2015 (2014: £0.1m), 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:

	2015 £'000	2014 £'000
Final 2014 dividend of 7.15p (2014: final 2013 dividend of 6.30p) per share	**7,286**	6,370
Interim 2015 dividend of 3.10p (2014: interim 2014 dividend of 2.85p) per share	**3,159**	2,882
	10,445	9,252

The proposed final 2015 dividend of 7.90p per share has not been included within the financial statements as no obligation existed at 31 December 2015.

5. Goodwill

	Goodwill £'000
Cost	
At 1 January 2015 and at 31 December 2015	**6,196**
Amortisation	
At 1 January 2015	5,227
Charge for the year	969
At 31 December 2015	**6,196**
Net book value	
At 31 December 2015	**—**
At 31 December 2014	969

Details of the impairment review undertaken at 31 December 2015 are included in note 10 to the consolidated financial statements.

6. Fixed asset investments

	Investment in subsidiary undertakings £'000
Cost	
At 1 January 2015	58,123
Additions	344
At 31 December 2015	**58,467**

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

7. Debtors

	2015 £'000	2014 £'000
Amounts owed by Group undertakings	**131,951**	97,983
Prepayments and accrued income	**810**	1,124
Other receivables	**2,000**	3,000
Corporation tax asset	**12**	738
Deferred tax asset	**1,054**	1,463
	135,827	104,308

The deferred tax asset above of £1.1m (2014: £1.5m) 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

	2015 £'000	2014 £'000
Bank loan	**10,000**	5,000
Bank overdraft	**20,801**	—
Interest rate swaps	**510**	580
Accruals	**1,548**	155
Other payables	**20**	19
	32,879	5,754

Notes to the financial statements – Company continued

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

	2015 £'000	2014 £'000
Bank borrowings	**57,500**	57,500
Contingent consideration	**93**	400
Interest rate swaps	**368**	788
	57,961	58,688

The Company has disclosed core bank borrowings of £57.5m as due in two to five years. Whilst the amounts borrowed could be repaid each quarter, the Company's intention is to align core bank borrowings with its interest rate swaps.

Included in other creditors is £0.1m (2014: £0.4m) relating to deferred consideration on acquisitions.

10. Financial instruments

The Company has the following financial instruments:

	2015 £'000	2014 £'000
Financial assets that are debt instruments measured at amortised cost:		
– other receivables	**2,000**	3,000
Financial liabilities that are measured at fair value through profit and loss:		
– bank borrowings	**(67,500)**	(62,500)
Financial liabilities that are measured at fair value through other comprehensive income:		
– interest rate swaps	**(878)**	(1,368)
Financial liabilities that are measured at amortised cost:		
– accruals	**(2,426)**	(1,523)
– other payables	**(8)**	(19)
	(2,434)	(1,542)
Other financial liabilities that are measured at fair value:		
– contingent consideration	**(100)**	(400)

There have been no changes during the period or cumulatively in the fair value of bank borrowings attributable to changes in the credit risk of the instrument. The change attributable to changes in own credit risk is not material due to the short life of individual drawdowns within bank borrowings. The difference between the carrying amount and the amount expected to be paid at maturity is not material due to the short life of individual drawdowns within bank borrowings.

The Company pays a margin over and above LIBOR on bank borrowings. The margin is based the ratio of Group consolidated net borrowings to Group consolidated adjusted EBITDA and could have varied between 1.5% and 2.5% during the year. Following the year end, the range of possible margins was reduced to 1.2% to 2.2%.

The Company has entered into interest rate swaps to receive interest at LIBOR and pay interest at fixed rates. The swaps consist of one £27.5m swap contract expiring in August 2016 with a fixed interest rate of 1.92% and one £30.0m swap contract expiring in August 2018 with a fixed interest rate of 1.85%. Both swaps have quarterly maturity matching the underlying debt.

These instruments are used to mitigate the Company's exposure to any interest rate movements in respect of the first £57.5m of the £120m revolving credit facility. The fair value of the interest rate swaps is £0.9m (2014: £1.4m).

During 2015, a hedging loss of £0.07m (2014: £0.8m) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £0.6m (2014: £0.7m) was reclassified from the hedge reserve to profit and loss.

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

10. Financial instruments continued

Management monitors rolling forecasts of the Group and Company's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. The quantum of committed borrowing facilities of the Group and Company is regularly reviewed and is designed to exceed forecasted peak gross debt levels. For short-term working capital purposes, the Group and Company utilises bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

11. Share capital and reserves

	2015 £'000	2014 £'000
Allotted, called up and fully paid		
At 1 January 101,134,142 (2014: 100,661,649) ordinary shares of 1p each	**1,011**	1,007
Issue of 804,193 (2014: 472,493) shares on exercise of share options	**8**	4
At 31 December 101,938,335 (2014: 101,134,142) ordinary shares of 1p each	**1,019**	1,011

During the year, 804,193 (2014: 472,493) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.008m and the total consideration of £1.4m has been credited to the share premium account.

Classes of reserves

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 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 Income Statement when the hedged item affects the Income Statement.

12. Notes to the Parent Company Cash Flow Statement

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

	2015 £'000	2014 £'000
Amortisation	**969**	969
Share-based payments	**771**	670
IAS 19 pension movement	**(759)**	(829)
Finance income	**(7)**	—
Finance cost	**2,788**	2,748
Total	**3,762**	3,558

13. Capital commitments

The Company had no capital commitments at 31 December 2015 or at 31 December 2014.

14. Contingent liabilities

The Company has guaranteed that it will complete certain Group contracts that its subsidiaries have commenced. At 31 December 2015 these guarantees amounted to £22.4m (2014: £26.3m).

As detailed in note 7 of the Group financial statements, the Company has a facility in place guaranteeing the performance of a number of M&E projects in Haydon Mechanical and Electrical Company LLC. The guarantees will fall away as the underlying contracts are completed and the associated guarantees released. As at 31 December 2015, guarantees amounted to £15.4m (2014: (£8.7m)).

The Company had no other contingent liabilities at 31 December 2015 or at 31 December 2014.

Notes to the financial statements – Company continued

15. 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 2015 by a qualified independent actuary using the projected unit method.

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

	2015	2014
Rate of increase of salaries – first year	1.00%	1.00%
Rate of increase of salaries – second year	1.00%	2.20%
Rate of increase of salaries – long term	3.30%	3.25%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	3.20%	3.15%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	2.55%	2.50%
Discount rate	3.95%	4.00%
Retail prices inflation	3.30%	3.25%
Consumer prices inflation	2.40%	2.35%
Life expectancy for a 65-year-old male	22.6 years	22.9 years
Life expectancy for a 65-year-old female	24.7 years	25.1 years

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

	2015 £'000	2014 £'000
Equities	11,341	10,723
Bonds	2,790	2,475
Cash	705	550
Group's estimated asset share	14,836	13,748
Present value of funded scheme liabilities	(17,923)	(19,771)
Funded status	(3,087)	(6,023)
Related deferred tax asset	617	1,205
Pension liability	(2,470)	(4,818)

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

	2015 £'000	2014 £'000
Current service cost	140	164
Past service cost	—	—
Total operating charge	140	164
Net interest	225	162
Total charged to the result for the year	365	326

15. Pensions continued

Defined benefit scheme continued

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

	2015 £'000	2014 £'000
Present value of obligations at 1 January	19,771	16,283
Current service cost	140	164
Past service cost	—	—
Interest on obligations	747	744
Plan participants' contributions	27	42
Benefits paid	(451)	(437)
Actuarial gain arising from changes in demographic assumptions	(389)	—
Actuarial loss arising from changes in financial assumptions	(656)	2,975
Actuarial loss arising from liability experience	(1,266)	—
Present value of obligations at 31 December	17,923	19,771

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

	2015 £'000	2014 £'000
Fair value of plan assets at 1 January	13,748	12,267
Expected return on plan assets	522	582
Employers' contributions	1,124	1,155
Plan participants' contributions	27	42
Benefits paid	(451)	(437)
Return on plan assets above that recorded in net interest	(134)	139
Fair value of plan assets at 31 December	14,836	13,748

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

	2015 £'000	2014 £'000
Deficit in schemes at 1 January	(6,023)	(4,016)
Current service cost	(140)	(164)
Past service cost	—	—
Contributions	1,124	1,155
Other finance income	(225)	(162)
Actuarial gain arising from changes in demographic assumptions	389	—
Actuarial loss arising from changes in financial assumptions	656	(2,975)
Actuarial loss arising from liability experience	1,266	—
Return on plan assets above that recorded in net interest	(134)	139
Deficit in schemes at 31 December	(3,087)	(6,023)

The employer's contributions expected to be paid during the financial year ending 31 December 2016 amount to £1.0m.

Notes to the financial statements – Company continued

16. Related party transactions

Identity of related parties

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

Pension schemes

Details of contributions to pension schemes are set out in note 15 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. Details of transactions are disclosed in note 28 to the consolidated financial statements.

17. Transition to FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 January 2014.

The impact of the transition to FRS 102 is as follows:

Reconciliation of equity at 1 January 2014 and 31 December 2014

	1 January 2014 £'000	31 December 2014 £'000
UK GAAP – as previously reported	89,904	93,629
Discounting of interest-free intra group financing transactions	(2,742)	(2,742)
Unwinding of discounting of interest-free intra group financing transactions	—	2,742
Increase in net defined benefit pension scheme liability due to no longer presenting net of deferred tax	(843)	(1,205)
Deferred tax on defined benefit pension scheme	843	1,205
Reduction in Fixed Asset Investment due to classification of intra group financing transactions	(22,000)	(22,000)
Increase in Current Asset Amounts owed by Group undertakings due to classification of intra group financing transactions	22,000	22,000
FRS 102	87,162	93,629

Reconciliation of profit for the year ended 31 December 2014

	31 December 2014 £'000
UK GAAP – as previously reported	14,120
Unwinding of discounting of interest-free intra group loans	2,742
FRS 102	16,862

There was no change to items reported in other comprehensive income.

17. Transition to FRS 102 continued

Reconciliation of profit for the year ended 31 December 2014 continued

The following were changes in accounting policies arising from the transition to FRS 102:

Defined benefit pension scheme

Under previous UK GAAP the Company recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 1 January 2014 or 31 December 2014. There has been no effect on the results presented as the previously reported expected return on investments approximated the discount rate used.

Under previous UK GAAP, the Company presented the defined benefit pension liability net of deferred tax. Under FRS 102 the defined benefit pension liability and deferred tax asset are presented separately in the Balance Sheet.

Interest-free intragroup loans

Historically the Company made intragroup loans on an interest-free basis. Under previous UK GAAP these were carried at the amount of the proceeds of the loan. Under FRS 102 intragroup financing transactions are recognised initially at fair value, being the present value of future payments discounted at a market rate of interest for a similar debt instrument. The effect of this change has been to reduce the brought forward profit and loss reserve at 1 January 2014 by £2.7m and to credit profit and loss in the year to 31 December 2014 by £2.7m. The Group has elected to charge interest at market rate on intragroup financing transactions with effect from 1 January 2015.

In addition under previous UK GAAP, the Company had presented a core portion of its intra group loans as a Fixed asset Investment. Given the Group elected to charge interest on intra group financing transactions, the Company considers it more appropriate to present this balance under Current assets.

Cash Flow Statement

The Company's Cash Flow Statement reflects the presentation requirements of FRS 102. Under FRS 1 the Company was able to take advantage of the exemption from presenting a cash flow statement. In addition the Cash Flow Statement reconciles to cash and cash equivalents whereas under previous UK GAAP the Cash Flow Statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'.

Five-year record (unaudited)

Income Statement

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Revenue by business segment					
Housing	**735,129**	714,733	742,479	504,686	415,000
Care	**146,010**	124,007	123,095	112,550	108,518
Continuing activities	**881,139**	838,740	865,574	617,236	523,518
Discontinued activities	**—**	—	32,632	62,289	65,453
Total sales revenue	**881,139**	834,740	898,206	679,525	588,971
Gross profit	**232,132**	225,041	227,960	184,305	174,764
Operating profit before acquisition intangible amortisation and exceptional costs	**38,662**	42,995	38,392	31,161	33,608
Exceptional items	**—**	—	(25,493)	(2,877)	(3,094)
Operating profit	**27,825**	30,667	2,039	20,323	22,731
Profit for the year before tax	**25,920**	29,677	277	18,199	20,582
PBT before acquisition intangible amortisation and exceptional costs	**36,757**	42,005	36,630	29,037	31,459
Earnings per share					
Basic	**20.31p**	25.03p	(1.21)p	19.61p	19.87p
Diluted	**20.10p**	24.65p	(1.17)p	18.85p	19.03p
Normalised	**27.94p**	32.20p	28.06p	25.60p	26.01p
Dividends per share	**11.00p**	10.00p	8.80p	8.00p	7.50p

Balance Sheet

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Non-current assets	**258,201**	268,818	233,960	225,964	149,923
Current assets	**237,767**	217,718	241,697	249,719	184,207
Current liabilities	**(219,882)**	(190,040)	(222,506)	(231,934)	(169,004)
Non-current liabilities	**(84,458)**	(102,034)	(72,850)	(74,931)	(13,341)
Total equity	**191,628**	194,462	180,301	168,818	151,785
Cash and cash equivalents, end of year	**822**	3,834	(448)	(12,384)	(13,429)

Shareholder and corporate information

Financial calendar

Annual General Meeting

1 June 2016

Record date for final dividend

17 June 2016

Dividend warrants posted to shareholders

7 July 2016

Interim results announced

16 August 2016

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Company registration number

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Company Secretary

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Internet

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

Registrar

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

Investor relations

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

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