Mears Group PLC

Annual report and accounts 2017

Shaping the future

MEARS

Who we are

Mears is a market leader in providing housing management and maintenance services to the affordable housing sector and a major presence in the homecare and support market.

Housing Page 29

Care Page 33

Strategic report

Corporate governance

Financial statements

Shareholder information

Our year in summary

Key highlights

- → Group revenue of £900.2m (2016: £940.1m), impacted by both delays to the timing of planned workloads and a slow period in securing new contract revenues in Housing, combined with the planned rationalisation of Care contracts.
- → Group profit before tax and before amortisation of acquisition intangibles reduced to £37.1m (2016: £40.1m), with the diluted EPS reducing by 8% to 28.05p (2016: 30.36p).
- → Housing revenues of £766.1m (2016: £787.5m), a reduction of 3%, impacted by the timing of our planned workloads following the tragic events at Grenfell Tower, and combined with a slow period in securing new contract revenues.
- → Housing operating margins reduced to 5.2% (2016: 5.6%), reflecting the revenue reduction and a resulting lower overhead recovery.
- → Service quality remains our key differentiator; the proportion of customers rating our service as 'excellent' showed further improvement at 92% (2016: 91%).
- → Care revenue decreased by 12% to £134.1m (2016: £152.6m), reflecting the restructuring of the Care contract portfolio following the closure of branches accounting for around 27% of Care revenues. The restructuring is now complete and our remaining Care contracts have a much improved mix of longevity, certainty of spend and price.
- → The Care division returned to profit as planned, delivering an operating profit for the full year of £0.5m (2016: loss £1.2m), representing an operating margin for the second half of 2.3%.
- → Exceptional loss of £16.5m reported in discontinued activities relating to the full provision against performance guarantees in the legacy M&E division.
- → EBITDA to cash conversion of 61% (2016: 70%) is below our historical norm, reflecting the changing sales mix.
- → Reported net debt position of £25.8m (2016: £12.4m) at the year end. The average net debt over the year was £96.4m (2016: £85.0m), in part reflecting the changing sales mix and after funding of both the deferred consideration on earlier acquisitions and the cash outflow included within the loss on discontinued activities.
- → New separate debt facility of £30m to fund short-term purchase of properties as part of the Group's development of longer-term homelessness solutions.
- → Total dividend increased by 3% to 12.00p (2016: 11.70p), reflecting the Board's confidence in the underlying performance and the long-term prospects of the Group.
- → New Housing contract awards of circa £150m with a conversion rate of 16%, which falls below our historical norm of 33% and is a disappointing output. Mears will remain highly selective and we will not change our bidding model which has served us well over many years.
- → New Care contract awards of £140m with a conversion rate of 59% (2016: £200m and 74%). The quality of the new orders secured continues to improve in terms of both charge rates and contract lengths.
- → Order book at £2.6 billion (2016: £3.1 billion). The current bidding pipeline is in excess of £2 billion for 2018, which is well in excess of normal bidding levels. The strategic evolution of Mears means greater access to opportunities previously out of our reach.

Pick up where you left off, any time

Read this report at any time on our website, **www.mearsgroup.co.uk**

Group revenue

£900.2m -4%

2017	£900.2m
2016	£940.1m
2015	£881.1m

Group operating profit[1]

£39.2m -6%

2017	£39.2m
2016	£41.9m
2015	£38.7m

Dividend per share

12.00p +3%

2017	12.00p
2016	11.70p
2015	11.00p

Normalised diluted earnings per share[2]

28.05p -8%

2017	28.05p
2016	30.36p
2015	27.94p

1 Operating profit before amortisation of acquisition intangibles (see note 1 to the financial statements).

2 On continuing operations, see note 9 to the financial statements.

At a glance

We focus on long-term outcomes and positive social, economic and environmental impact, across our two divisions.

Housing

Revenue

£766.1m -3%

2017	£766.1m
2016	£787.5m
2015	£735.1m

Operating profit

£39.5m -10%

2017	£39.5m
2016	£44.1m
2015	£42.4m

Operating margin

5.2%

2017	5.2%
2016	5.2%
2015	5.8%

We carry out 6,000 repairs a day in Homes across the UK.

The Housing division made excellent progress in 2017

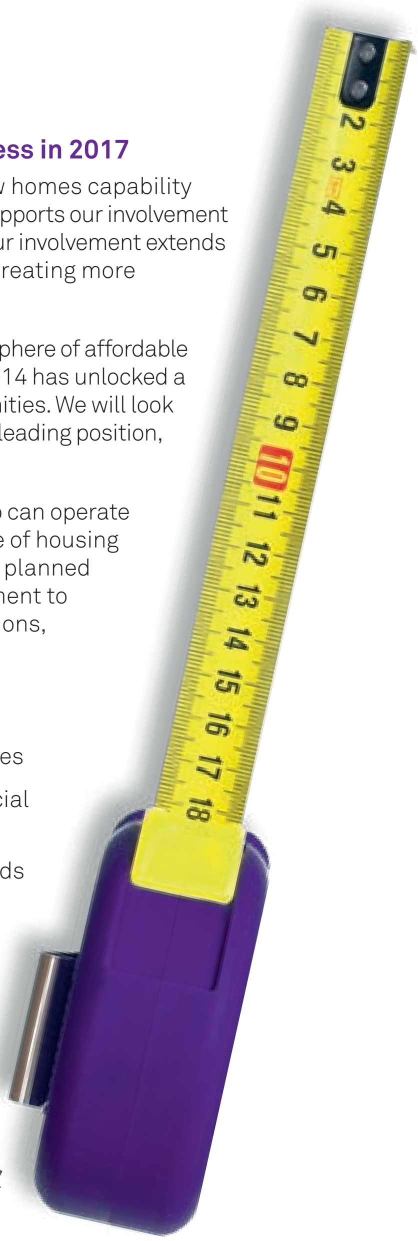
Our broader service offering, incorporating our new homes capability alongside housing management and maintenance, supports our involvement in new emerging placemaking partnerships, where our involvement extends beyond traditional outsourcing and is focused on creating more sustainable communities.

We have broadened the services we offer across the sphere of affordable 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, however our primary focus remains organic growth.

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 to support clients in delivering more integrated solutions, aligned to their strategic challenges.

Our services
- Repairs and maintenance
- Planned and cyclical maintenance
- Estate management
- Asset management
- Income management
- Emergency accommodation
- New housing development

Our customers
- Local Authorities
- Registered Social Landlords
- Private landlords
- Tenants and service users
- Community groups
- Pension funds



Regeneration in Milton Keynes

Read from **page 32**

Our key strengths

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

Strategic relationships
We listen carefully to the needs of our clients and their tenants. As our clients' needs have changed, we have developed a broader service offering which has increased the depth of our client partnerships.

Strong financial management
We operate in a high volume, low value and low margin environment where we have delivered consistent financial results over an extended period of time. This is achieved through works management systems, conservative accounting policies and a culture of giving attention to detail.

Social value
We lead the way with social value in the markets where we operate, delivering meaningful outcomes through positive community engagement projects and effective measurement.

Care

Revenue

£134.1m -12%

2017	£134.1m
2016	£152.6m
2015	£146.0m

Operating profit

£0.5m

2017	£0.5m
2016	£(1.2)m
2015	£(1.6)m

Operating margin

0.4%

2017	0.4%
2016	(0.8%)
2015	(1.1%)

We provide personal care to over 15,000 elderly and disabled people.

The Care division made good progress in a challenging period
We are continuing to see the emergence of new commissioning models that are long-term partnering orientated. We are 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.

Whilst there has been no shortage of demand for care work, our limitation has been recruiting sufficient numbers of good quality carers. However, we believe the continuing funding pressure will be the catalyst for change.

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.

At the heart of what we do is the provision of quality care to those that depend on us.

Our services
- Independent living services
- Aids and adaption
- Complex care
- Assistive technology
- Live-in care
- Extra care

Our customers
- Local Authorities
- Community groups
- Charities
- NHS

Our new care contract in Staffordshire

Read from **page 35**

Chairman's statement

"We continue to take a long-term approach to how we run the business, reflected by the well-established leadership team that thoroughly understands the strategy and operational workings of the business. As leaders in our core markets, we will continue to innovate and demonstrate our value for money proposition."

Bob Holt
Chairman

Summary

- We have a strict and continuing discipline when bidding new contract opportunities. We remain highly selective, and we will never change our bidding model to meet any short-term growth aspiration.
- We have reassessed how we guide our investors and city analysts. We will set our expectations for the next twelve months in line with our "firm and probable" order book, providing updates to those expectations when new orders are secured.
- The Board remains confident in the future opportunities and consequently it expects to continue following a progressive dividend policy.
- I was delighted to see exceptional response rates in our 'Say what you see' survey across our 12,000 employees, which showed continued improvement from the already good levels achieved in 2016.
- We are looking to appoint an employee director to the Board to ensure that the Board gets full, open and honest insight and views from its workforce on how strategic initiatives are being implemented.

Our strategic priorities are the building blocks of our business

See them on **page 16**

While it has been a challenging year, I am pleased to report a year of operational progress and that the Group is very well positioned to benefit as our core markets continue to develop. During the year, Housing and Care have been at the top of the political agenda and we believe our differentiated offering has never been more relevant. The events seen in the wider outsourcing sector have been frustrating, where company-specific issues have been perceived to have wider sector implications. We have, over recent months, needed to remind stakeholders of how Mears is different from the competition.

Mears is a very simple business. Our focus has always been on a single service user, namely the individual in their home. Whilst the end service users are at the centre of our business model, the services themselves are primarily funded by the public sector. The benefit of having this narrow focus is that we understand our markets, we understand the challenges faced by our clients and we are well placed to provide innovative solutions to address those challenges. We have a strict and continuing discipline when bidding new contract opportunities: we are highly selective and we never change our bidding model to meet a short-term growth aspiration. This has been most evident recently where we have seen a lower rate than normal in the conversion of new contract opportunities. However, I remain extremely confident in the quality of our tender submissions. We have missed some opportunities on price, having scored well on all the quality measures. We are very confident that our conversion rate over the medium term will continue to be in line with our historical norms. We will continue to take a long-term approach to how we run the business, reflected in the well-established leadership team that thoroughly understands the strategy and operational workings of the business. As leaders in our core markets, we will continue to innovate and demonstrate our value for money proposition.

I am satisfied with the financial performance for the year to 31 December 2017, but I am also mindful that our financial results were short of our aspirations at the start of the year. While our focus is on sustainable growth in the medium to long term, I understand the importance of delivering against our financial targets in the short term too. The tragic events of Grenfell Tower, and the resulting impact on our Housing revenues, could not have been anticipated. Group revenue was £900.2m (2016: £940.1m). Our second half revenues of £429.4m (2016: £473.9m) showed a significant reduction versus those delivered in the first half of £470.8m (2016: £466.2m) reflecting the delays in the timing of our planned workload as clients' attentions was diverted towards ensuring that their housing portfolios were safe and fully compliant. We supported our clients in postponing this planned work, knowing that it will return once they have confirmed their housing is fully compliant. The revenue reduction, together with the associated impact upon overhead recovery, saw Group profit before tax and before acquired intangible amortisation reduce by 7% to £37.1m (2016: £40.1m) and a margin of 4.1% (2016: 4.3%). Normalised diluted earnings mirrored the profit reduction, decreasing by 8% to 28.05p (2016: 30.36p). Our performance by operating division is discussed in greater detail in the Review of operations.

The Group reacted quickly to the reduction in Housing revenues. Whilst the reduction is expected to be temporary given the contractual nature of the work, it has prompted the Group to carry out a more detailed review of its operational and central support structures to ensure that they deliver the best value. This is particularly relevant given the evolution towards a broader service offering with a changing support requirement. The Board expects annual savings in excess of £5m to be delivered in the 2018 financial year.

The order book is £2.6 billion (2016: £3.1 billion), reflecting the quiet period of new contract awards. Previously, Mears has reported secured revenue as a key performance metric. Due to the evolving nature of our business, secured revenue over recent years has been found to be a less robust metric than it was historically. This became increasingly evident following the challenges encountered in 2017, where secured revenues reduced over the course of the year. The Board has reassessed how we guide the market and, going forward, we will set our expectations for the next twelve months in line with our 'firm and probable order book', providing market updates to those expectations when new orders are secured whilst also giving us an increased ability to absorb unforeseen challenges. The 'firm and probable order book' for 2018 currently stands at £900m.

The Group has positioned itself to provide a broader service offering to the increasingly complex challenges faced by our clients. The pipeline of traditional contracting opportunities continues to flow through at a consistent level and the innovative nature of our Housing Management solutions means that much of that work can be secured without the requirement for an extended, competitive and expensive tender process. Moreover, I do wish to highlight that the Group is currently working on two opportunities that are very significant and, until recently, would have been beyond the reach of the Group. While significantly bigger in scale than the Group's previous bids, they remain true to our core approach of focusing on services around a tenant, funded by public money.

We continue to have good dialogue with our shareholders and one topic which prompts discussion more than any other is in respect of our Care activities. We need to communicate more clearly the fundamental role played by Care within our Housing business, and the extent to which it underpins the success of that part of the Group. We do see an increasing number of opportunities where clients are seeking a seamless service to provide both care and housing to vulnerable people. The Group will increasingly focus its Care bidding activity towards those clients where there are opportunities to provide Housing services. The Board remains aware of its obligations to shareholders, and it will continue to target better returns from the Care business. A particular highlight for me was the significant improvement in the performance of the Care division which returned to profitability in the second half of 2017.

Dividend

The Board remains confident in the Group's future opportunities and consequently it expects to continue following a progressive dividend policy. The Board is therefore recommending a final dividend of 8.55p (2016: 8.40p) per share which, when combined with the interim dividend, gives a total dividend for the year of 12.00p (2016: 11.70p), a 3% increase, reflecting the Board's confidence in the underlying performance of the Group. The dividend is payable, subject to shareholder approval, on 5 July 2018 to shareholders on the register on 15 June 2018. The Board regularly reviews the Group's dividend policy to maximise returns to shareholders whilst maintaining a prudent capital structure and retaining the ability to invest for growth.

Our values

1 Customers and communities

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

2 Working together

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

3 Personal responsibility

We value personal responsibility, setting and achieving consistently high standards in our work and our conduct and never adopting a negative attitude.

4 Innovative thinking

We value innovation, being inventive in our approach and never allowing conventional thinking or bureaucracy to get in the way.

Chairman's statement continued

Our people

During the second half year, the Group carried out its annual staff survey, 'Say What You See'. I was delighted to see an exceptional response rate of 83% across our 12,000 employees which is all the more pleasing considering much of the Mears workforce is mobile and therefore engagement is naturally harder. Staff feedback showed continued improvement from the already good levels in 2016. Areas that scored particularly highly in the survey were our commitment to customer service and to people development, both of which are fundamental to delivering our strategic priorities.

I commend our employees for their commitment and energy throughout a challenging period for the Group and I continue to be impressed by their quality, professionalism and loyalty. Mears has a diverse workforce including several hundred apprentices. The vast majority of our employees live in the areas in which they work. Diversity and respect for all remains core to our induction, recruitment and customer care programmes.

Corporate governance and risk management

During the year, a number of our Non-Executive Directors reached nine years' service and did not therefore offer themselves for re-election. Accordingly, the Board was delighted to welcome Roy Irwin and Jason Burt as Non-Executive Directors, whose appointments were confirmed at the 2017 AGM. Both Roy and Jason have brought skills and experience that have added considerably to the Board. I was also delighted to welcome Elizabeth Corrado to the Board in September 2017 who further enhanced the breadth of skills and balance of the Board.

Peter Dicks will not be offering himself for re-election at the 2018 AGM and will step down from the Board in June 2018. I would like to thank Peter for the significant contribution that he has made to the Group.

The Board continues to set itself high standards of corporate governance. Our Corporate Governance Report, issued within our Annual Report, details how we approach governance and the areas of focus for the Board in 2017 and into the future. In line with good practice, we have reviewed and updated the Group's risk register. The Senior Management Team plays a central role in reviewing and mitigating the Group's risks. The Group risk team presented risk management training modules to all levels of management via the Group development programme, to reinforce our strong risk management ethos.

Board evaluation and effectiveness

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis. An externally facilitated performance evaluation was conducted during the year covering a broad range of areas including Group strategy, independence, experience and effectiveness and the interaction between Board members. It confirmed that the Board is functioning well. It is vital that as a Board we have the right mix of skills, experience and diversity, whilst ensuring that Board members have sufficient knowledge of the Company and maintain their independence and objectivity. I am fortunate as Chairman to be able to call upon a Board with a broad range of expertise and specialist knowledge.

Employee Director

We understand the vital role that our workforce plays in the success of the Group. To further increase engagement between the Board and our employees, we are looking to appoint an Employee Director to the Board. This role will ensure that the Board receives full, open and honest insight and views from its workforce on how strategic initiatives are being implemented and will provide the wider workforce with a better understanding of how the Board operates. We are currently managing the recruitment process, with applications open to all employees. The role will be restricted to a two-year term and we hope that the appointment of the successful applicant will be confirmed at the 2018 AGM.

Gender pay

Mears will shortly be issuing its first report based on the UK's new gender pay reporting requirements.

Mears' gender pay gap is strongly influenced by the salaries and gender makeup of its Care division, which accounts for around two thirds of employees. The Care division is predominantly female and within a sector which is poorly funded, with many of employees paid at levels tracking the National Living Wage. The Housing division comprising the remaining one third of employees, is predominantly male. The Housing sector is significantly better funded and pay rates reflect this. We are determined to continue to lead the way in encouraging more women to pursue a career in housing and indeed take every opportunity to highlight the need for Central Government and Local Authorities to raise the funding and status of roles in the Care sector.

Social value

At the heart of Mears lies a strong sense of responsibility towards improving peoples' lives. We aim to lead the way with social value in the markets where we operate, delivering lasting and meaningful outcomes. During the year we conducted a review of our social value strategy, identifying our key priorities to ensure that we effectively engage with communities and deliver social value on the ground throughout the business, with an effective measurement of the social impact that is created.

We continued to secure Social Mobility Champion status from the Department of Business, Energy and Industrial Strategy. Social mobility is about creating opportunities for young people from disadvantaged backgrounds. At Mears, we aim to make sure jobs and opportunities are open to everyone.

Summary

From a personal perspective, I am incredibly proud of the progress the Group has made since its IPO in 1996. Our revenues have grown from £10m to £900m, a significant part of which has been delivered organically. Profits have grown from a few hundred thousand pounds to tens of millions. We employ around 12,000 people and support wider stakeholders in the communities where we operate. These achievements should not be forgotten in what has been a difficult political and trading environment. We will continue to play a leading role in shaping our core markets. The Executive team has an outstanding track record and I am proud to be associated with the Group. I look forward to reporting on further progress during the coming year.

Chief Executive's strategy overview

"Our highly focused strategy in the Housing and Care markets, built on service leadership and sustainable pricing, continues to give me great confidence in the future."

David Miles
Chief Executive Officer

Summary

- Our dedication to providing our clients with first class service and value remains undiminished and is key to how we manage the business. Our unique strategy leaves us better placed than ever to achieve long-term success.
- Mears has evolved its strategic focus towards housing management and Placemaking activities where we are using our broader service capability to create stronger, more sustainable communities. As a part of this, Mears is also building new homes as part of managing regeneration and to support our clients' overall asset management plans.
- The Government has already announced major commitments to housing, meaning investment will grow over the coming years, with the removal of the rent cap in 2020 giving additional confidence to our clients.
- We firmly believe in our long-term Care strategy and that Mears is best placed to benefit as the market evolves. The Group will increasingly focus its care bidding activity towards those clients, where there are likely to be opportunities to provide a complete housing service.

Our financial performance in 2017 was disappointing and I understand the importance of delivering against our financial targets. Whilst some of the short-term challenges in Housing could not have been anticipated, it was frustrating that a number of other opportunities, which could have helped mitigate these challenges, did not develop quickly enough. Nonetheless, I am pleased with the progress made over the last year across the entire Mears business and on a range of important indicators.

I am particularly excited by the prospects for the Mears Housing offering over a medium-term time horizon. The Mears operations are performing very well and I am encouraged that this excellent performance is putting us in a good position to secure new opportunities. The pipeline of opportunities for Mears has never been greater. Given the nature of the type of work for which we are bidding, the contracts we secure are increasingly of longer duration, with multiple work tasks. Some of the most significant of these current bidding opportunities will be awarded in 2018, although commencement dates may not be until 2019.

Chief Executive's strategy overview continued

In 2017, the value of new contracts secured was below our expectations. This was due to two particular factors: firstly, we did experience a reduced level of some traditional repairs and maintenance work coming to market and secondly, we have seen some competitors being very aggressive on price. Mears will continue to focus on bidding only at sustainable pricing levels.

The market has seen some reductions in capital discretionary expenditure levels in the last two years. This is due to a number of factors and we have in most circumstances been very supportive of our clients' approach to these reduced spending levels. In the same period, social housing landlords have been focusing more on new-build activity to address the significant housing shortage, a clear Government priority.

The Government has already announced major commitments to housing, meaning investment will grow over the coming years, with the removal of the rent cap in 2020 giving additional confidence to our clients. The strategic evolution of our business means we can now access opportunities that previously would have been out of our reach. Mears has evolved its strategic focus towards Housing Management and Placemaking activities. In line with this, Mears is also building new homes as part of managing the regeneration and delivery of affordable housing for clients, to support their overall asset management plans. The Group has become a leading housing management business in the UK, directly addressing the issues resulting from rising levels of homelessness.

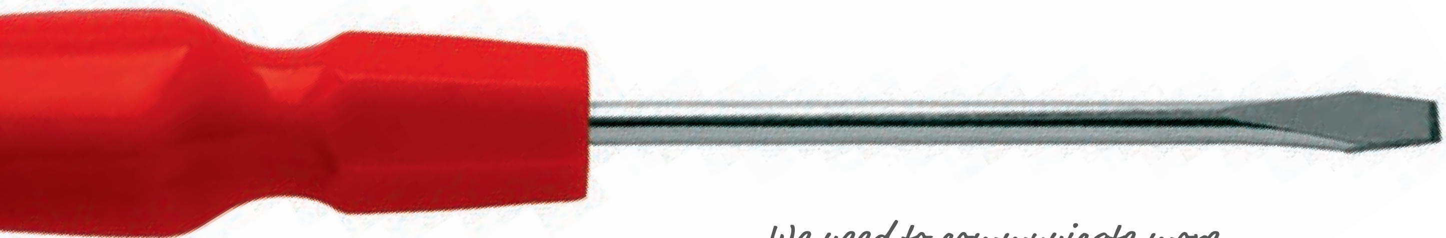
"We have developed a broader service offering to meet our clients' needs."

We firmly believe in our long-term Care strategy and that Mears is well placed to benefit as the market evolves. We have concluded the restructuring of our Care business, exiting those contracts where low pricing, lack of longevity and uncertainty of spend did not allow us to deliver a high quality service at sustainable margins. We will continue to be highly selective going forward.

Looking ahead, we need to communicate more clearly the fundamental role played by Care within our Housing business. To understand the link between Housing and Care, one needs to understand the demographics of our social housing customers. Almost half of social housing is occupied by a single resident, with a very high proportion of people aged 65 or older. In addition, where single residents are below 65 years old, there is a disproportionately high number of people who are disabled and/or living with multiple conditions that require care support. Almost one quarter of social housing is occupied by two people; however, a significant proportion of these are single parents. Whilst very few contract opportunities have our Housing and Care services being tendered together, it is vital in Housing that we can show that we have a deep understanding of the needs of our service users. This has become even more important as we have developed our housing management services, where tenancy management and care provision are increasingly directly linked. A significant proportion of our Housing customers have personal challenges and needs, and it is our capability and awareness of this which has underpinned our success. I envisage that the Group will increasingly focus its Care bidding activity towards those clients where there are likely to be opportunities to provide a complete Housing service.

We continue to see interest from Local Authorities to procure new care accommodation for supported living and extra care services which, in the majority of instances, involves a combination of funding, build, property management and care provision which is seen as a compelling service offering. We are currently on site in respect of three such schemes and there is a good pipeline developing.

Our dedication to providing our clients with first class service and value remains undiminished and is key to how we manage the business. Our unique strategy leaves us better placed than ever to achieve long-term success.



We need to communicate more clearly the fundamental role played by Care within our Housing business

Q&A with CEO, David Miles

How have you performed against your strategic priorities?

We have continued to grow our broader housing expertise, with Mears playing an ever increasing role in helping clients shape their placemaking plans. Our established repairs and maintenance capability delivers market-leading service levels and has been complemented by our growing range of services housing management that help address the rising homelessness issues that exist. We have also been asked, by a growing number of clients, to build affordable housing, given our extensive knowledge as to how to create homes that are then efficient to repair and maintain on an ongoing basis. Our Care division has, as forecast, improved its performance, returning to profitability, and has been put on a more sustainable footing. It is also pleasing to see increasing joint working across Care and Housing to facilitate the provision and management of more specialist housing, reflecting the changing demographics in the UK. We would have liked to have secured more repairs and maintenance work in the year, but we have not compromised our position and only bid for work where we are confident that our service standards can be achieved, at a sustainable pricing level. We will not make the mistakes that some of our competitors have made.

Where do you see the opportunities going forward?

We see growth in both the housing and care sectors, as both central and local Government funding increases in these areas (see Market Report on page 12). Importantly our broader range of Housing services will enable us to bid for the size of contract that would have previously been out of our reach. These are very large opportunities that will come to market in 2018 and 2019. Shortages of affordable housing will continue to mean significant opportunity for our housing management division, in the short, medium and long term. Mears has quickly become market leader in this field.

How have you changed the structure of Mears to reflect the broader range of solutions for clients?

We continue to invest in a strong Housing and Care leadership team. Significant additional resource has been brought into housing management, given the growth here. We have, however, created simple, relatively flat structures, focusing on ensuring good teamwork across the Group. It was pleasing to see the results of our employee survey at the end of 2017, to which 83% of staff responded and which illustrated a growing recognition across the Group of the improvements that have been made in communication, team working and training and development. This result is in no small part down to the structure of the organisation and the quality of leadership. This is not an area where we can afford to stand still and we expect to make further improvements in 2018.

Sustainability and corporate social responsibility have always been an important part of the Mears ethos; do you see that continuing?

We are very proud of our achievements made in this area and our commitment to this will not change. Please read how we delivered social value in 2017 on pages 41 to 47. We were also pleased to get a very high rating against the FTSE4Good Index, which looked across a range of areas, benchmarking our approach to corporate responsibility versus our peers. As a national Social Mobility Champion and leading employer of apprentices along with our commitments to supporting women into the trades and promotion of better working terms for care workers, I am proud to lead such a great organisation. Importantly, these commitments are not only ethically right, they are fundamental to our business model.

How is new technology being utilised to improve service and efficiency?

We have led the way for many years in using technology to enhance both the service and cost efficiency of our Housing services. The detail behind every job is captured on our housing system, with handheld technology fully utilised to communicate, schedule, cost and monitor every job that we undertake. We are now testing technology in tenants' housing that will give early warning as to potential repair needs, for example for boiler systems and we see further opportunities in this space. Within Care we have committed to a single system, again backed up by handheld technology, that has many of the benefits we see on the housing side. As with Housing, we are also using technology in people's homes to help deliver positive care outcomes, including tackling increasing issues such as social isolation. Mears, of course, remains a people business, but technology helps people carry out their work more effectively and enables customers to communicate more efficiently. We have also created a powerful insight tool that, at a very local level, provides data on a range of important criteria, such as demographics, housing availability, health and crime, all of which can help our decision making throughout our operations and our social value work.

Business model

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

Our 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.

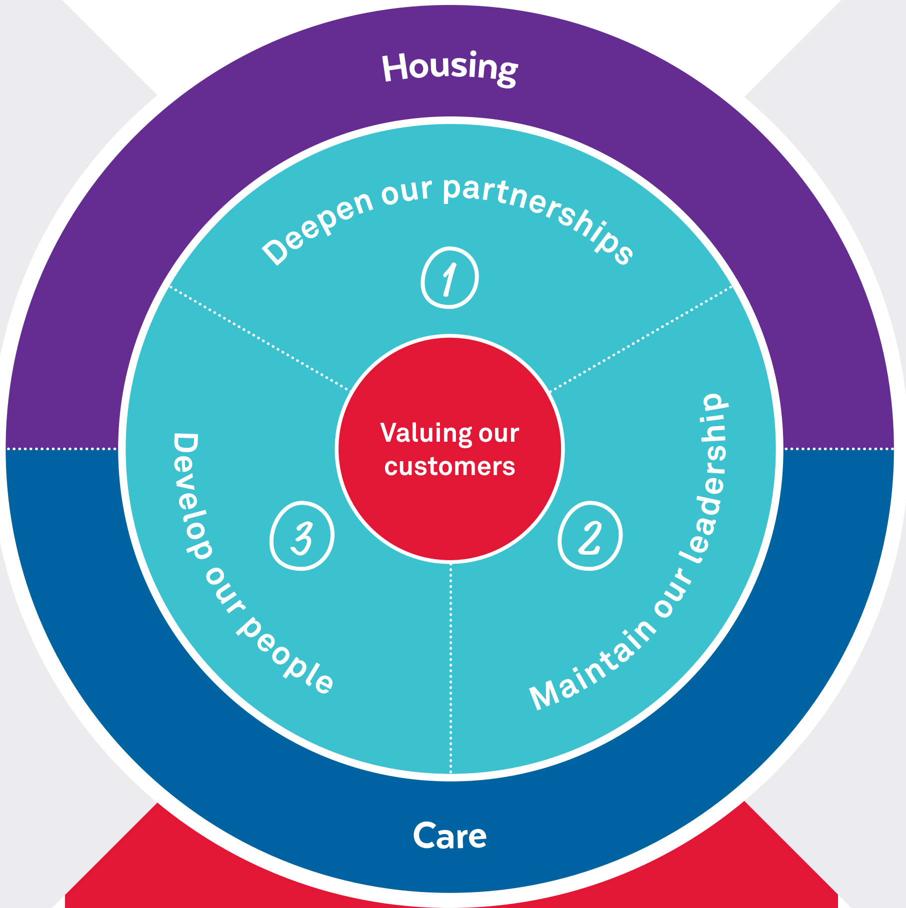
Exceptional people
We recognise our staff as our greatest asset. Mears employees are skilled in delivering an excellent service whilst showing a strong customer service ethos and an empathy for our service users.

Market-leading technology
Our performance is built on a bedrock of first class 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 manage ourselves

Corporate governance
Read more from **page 48**

Risk management
Read more from **page 22**

Values
Read more from **page 41**

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 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 strategic priorities on **page 16**

At the heart of Mears lies a strong sense of responsibility towards improving people's lives

Why clients and 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 and the use of technology. We create and lead 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.

Social value
Mears defines its responsibilities to society to include social, economic and environmental impact. We take a proactive approach to these and recognise that highlighting the positive difference this makes in communities enthuses staff, motivates customers and clients, creates substantial environmental and social benefits and builds competitive advantage for Mears. This is why Mears refers to its social and environmental activities as 'social value' – because through these activities it is creating value for Mears and the wider communities in which it operates.

How we create value for...

Shareholders
We generated a normalised diluted EPS of 28.05p and the proposed dividend for the year increased by 3% to 12.00p per share.

Customers
We maintain over 650,000 homes in the UK undertaking around 6,000 repairs per day. Mears has extended its activities to provide solutions to resolve the challenges of homelessness. Our Care division provides care and support to around 15,000 people, enabling older and disabled people to continue living in their own homes for longer.

Government
In 2017, we paid £3.8m in corporation tax and £23.8m in social security, whilst collecting £54.2m in income taxes and £46.0m in indirect taxes. In addition, through the services we provide to the public sector, we are delivering significant cost savings and better value to Local Authorities and the NHS.

Communities
At the heart of Mears lies a strong sense of responsibility towards improving people's lives. We are proud of our Social Mobility Champion status, creating opportunities and enabling people to develop new skills within some of the most disadvantaged and marginalised communities in the UK. Every branch of Mears makes a social value pledge, which focuses on specific activities to improve its local community in at least one of our social value priorities.

People
Mears is committed to training. We employ over 700 apprentices and provide a number of alternative training solutions for upskilling employees and for the professional development of Mears managers. We are proud to have been appointed one of only twelve Government Social Mobility Champions working in some of the most marginalised communities in the UK.

How we maintain our leadership position

We measure ourselves
We measure ourselves with a suite of KPIs focused on financial and non-financial measures, mindful of there being multiple stakeholders.

Read more about our key performance indicators from **page 18**

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

Read more about our remuneration policy from **page 65**

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.

Read more about our strategic priorities from **page 16**

Market report

There are clear signs of growth and investment opportunities in our key markets, and Mears is well placed to meet them.

Mears is a strategic partner to the public sector, supporting a broad range of housing and care services. We are uniquely placed to meet the challenges of affordable housing and social care in the 21st century. This includes an increasing role in using our broad range of services to create stronger, more sustainable communities, or placemaking as it is known.

In Housing, we repair and maintain around 14% – over 650,000 – of the social homes in the UK, from remote rural villages to large inner city estates. Our rapidly growing housing management service addresses the challenge of homelessness and the lack of suitable housing and now manages around 10,000 homes from Cornwall to Inverness. We have also been asked by our clients to support their local housebuilding plans and now deliver to this requirement as part of our overall placemaking strategic approach.

In Care, we provide a comprehensive range of homecare and complex care services to over 15,000 people a year, enabling older and disabled people to continue living in their own homes.

We see increasing integration between our Housing and Care services and only see that trend accelerating in the future.

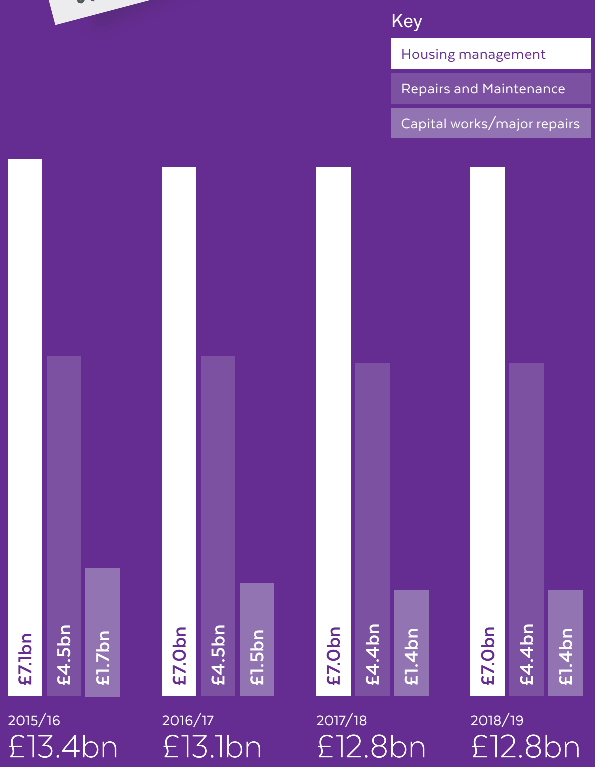
Despite the challenges faced in the last five to ten years of austerity, swingeing cuts to Local Authority budgets, chronic shortages of affordable housing and major underfunding of social care. There are clear signs of growth in both our key markets.

Markets

Housing

In Housing, which accounts for circa 85% of Group revenues, our key markets remain strong.

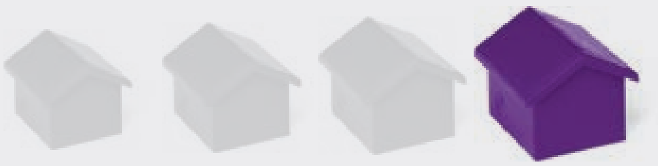
Expenditure by Local Authorities and private registered providers in England, Scotland and Wales (based on official estimates)



Reasons for optimism: Housing growth drivers

Population

Across the UK, there is an increasing and pressing demand for housing. There are 27.2m households in the UK and the number is expected to grow over 30m by 2027.[1]



1996	2007	2017	2027
23.7m	25.6m	27.2m	30.5m

Growing demand to tackle homelessness

We see significant opportunity for our housing management services, given the chronic shortage of affordable housing that is forcing councils to spend more than £2m a day on temporary accommodation for homeless families. Almost 75,000 households are currently living in temporary accommodation, including bed and breakfasts, hostels and private rented accommodation.[2]

A steady decline in affordable housing and squeezes on household incomes have seen the number of households that local authorities have been forced to place in temporary accommodation rise by 50% since 2010.

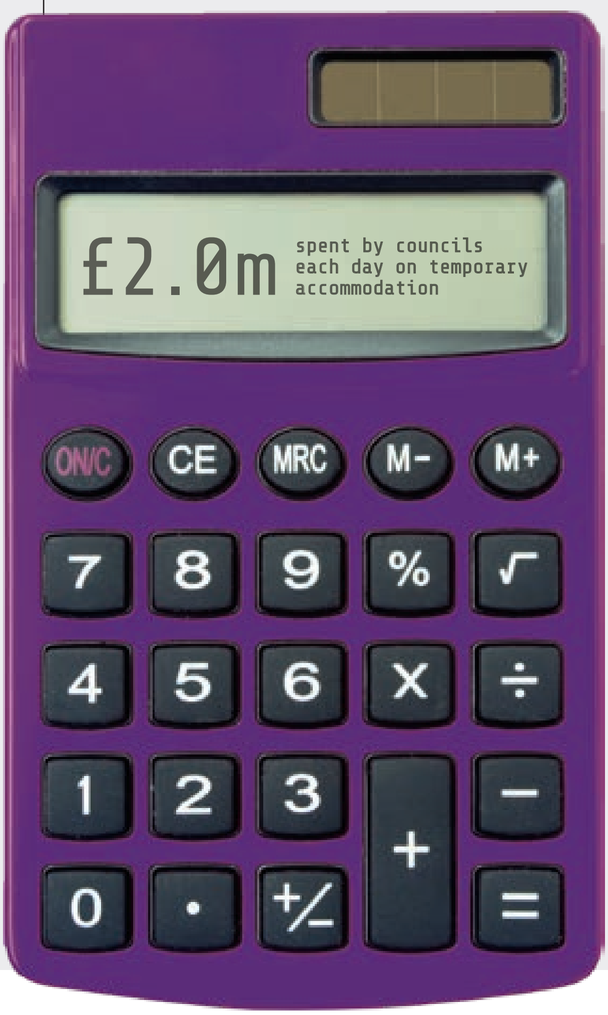
Under the Homeless Reduction Act (coming into force in early 2018), councils will have new statutory obligations to develop housing plans for all those approaching them – this will mean an even bigger demand for our services.

1. ONS.
2. Local Government Association.

Investment

In the Autumn Budget, the Chancellor announced a comprehensive package of new reforms to increase housing supply, including over £15 billion of additional financial support for housebuilding over the next five years and planning reforms to ensure more land is available for housing.

The Chancellor also set out his aim to build 300,000 homes annually by the mid-2020s, with £44 billion of capital funding to help. Specifically, within repairs and maintenance, the Homes and Communities Agency forecasts suggest that, in aggregate, major repairs spend will increase in the three remaining years of the rent reductions up to 2020, at which point the rent cap will be removed and further investment will be possible.



Markets

Care

The UK homecare market is estimated to be worth approximately £6.5 billion[5], with over 75% funded by Local Authorities or the NHS.

Given the additional funding being provided, Mears expects the market to grow by 5% per annum to 2020.

Public sector provision has moved towards longer-term contracts and better partnership working, although the pace of change has been slower than in housing.

Providing a comprehensive range of homecare and complex care services to around 20,000 people a year

Reasons for optimism: Care growth drivers

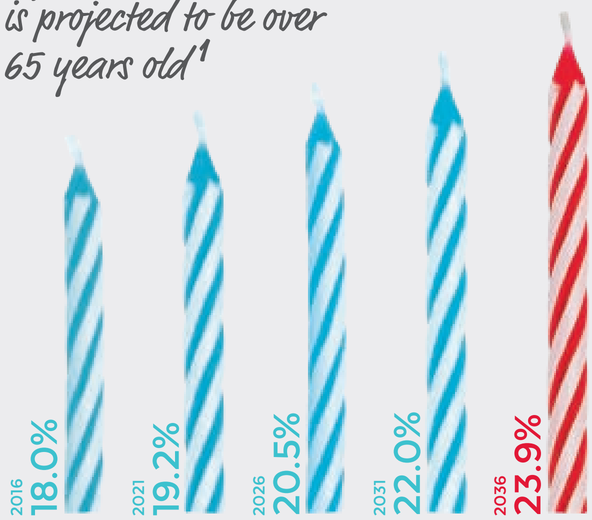
Population

An ageing population means the need to find new solutions for caring for people in older age is pressing. The number of people eligible for social care will increase by 30% by 2022.

Added to this, forecasts predict there will be more than a 20% increase in people aged over 85 by 2028; by 2039, the average number of households with people aged over 75 is predicted to double.

An increasing number of these people will be living with multiple conditions. Care at home is the preferred solution for the vast majority of people.

By 2036, almost one in four people is projected to be over 65 years old[1]



Pressures on the NHS

Two thirds of the NHS £120 billion spend is on older people, who account for 62% of all hospital bed days and 52% of admissions that involve hospital stays of more than seven days.[3]

There has been a rapid rise in waits for care packages at home, up 163% over the past five years and up by 40% in the past year alone. The NHS has publically stated that increased investment in social care is vital to avoid a collapse in the NHS and the amount of pooled funding injected from the NHS into social care will increase substantially through to 2020 using the Better Care Fund.

Investment

After decades of underfunding, there are real signs now that the political landscape for social care is improving.

Homecare is likely to be one of the fastest growing areas of spending for Local Authorities. Based on current commitments made by the UK Government up to 2020, we should see the market increasing at a rate of 5% per year.

There has been concern that increased Local Authority spend would not translate into a better market for providers – that spending would increase the number of care hours available rather than improve pricing, but we are not seeing this borne out in practice.

In fact, we have seen our charge rates increase in both 2016 and 2017 and further rate increases are expected. This makes it more viable to provide good quality care and enables us to pay good wages to staff.

An additional £2 billion has been promised over the next three years from central Government pots, and at a local level through ring-fenced council tax increases. The Government has also announced that council tax can increase by up to 6% next year, without the need for a referendum, provided that at least 50% of this is spent on social care. It is expected that the majority of authorities will go for the maximum increase possible.

A Government Green Paper on the future of social care funding is expected in summer 2018.

Markets

Care and Housing working together

Care already plays a fundamental role in our housing business. We are increasingly seeing integration between our Housing and Care contracts, at the front line of delivery of service but also in the creation of new specialist accommodation, such as supported living housing and extra care property. Mears combines its skills to build, manage, maintain and provide care to specially adapted homes for elderly and disabled people to help them live independently. These schemes are not new, but there is renewed interest as Local Authorities look for innovative ways to look after vulnerable people and increase their health and wellbeing. As one example, in 2017, we started two new extra care schemes with more in the pipeline.

Currently, specially adapted units account for just 0.5% of all housing stock, but this is likely to rise and get nearer to other countries such as Australia and Canada, which have 5% of their stock in specialist accommodation. Growth is already happening, as illustrated by the fact that ten years ago there were 40,000 extra care units in the UK – today there are 73,000, with 8–9,000 units being built a year.

As industry expert LaingBuisson says in its 'Housing with care' UK market report (published December 2017):

'The growth in the older population means that a solution is needed for unmet care needs, and the solution needs to include coordinated support and lifetime security. If we get this right, and following the example of countries such as Australia and New Zealand, housing with care could provide the solution not only to the broken housing market, but also allow people to live longer and better as they benefit from the wellbeing of independent living. This, in turn, will create savings in national health and social care expenditure. Where investors and developers are concerned, this is a predictable market, the demographic change being a clear indicator of the likely demand.'[4]

1. National Audit Office 2016.
2. LaingBuisson: https://www.laingbuisson.com/blog/housing-care-answer-broken-housing-market/.
3. LaingBuisson.

Our strategic priorities

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

A better, more responsible business

Mears Group has been recognised for its outstanding environmental, social and governance practices by gaining a place in the FTSE4Good Index, which placed Mears in the top 9% of companies in the index.

FTSE4Good is an initiative run by FTSE to provide an independent measure of the environmental, social and governance (ESG) practices of companies on its global index. It was set up to cater for a growing number of investors who want access to a list of companies recognised for being involved in socially responsible investment (SRI).

Mears Group has also taken the Inclusive Culture Pledge as a visible commitment to the work it already does to promote an open and inclusive workplace.

Diversity and inclusion in the workplace was a standout story in 2017. Companies are putting increased focus on the need for staff at all levels to live their values and display inclusive behaviours – because it is the right thing to do and because it is good for business.

Indeed, we have released new research, uncovered by our 'Tradeswomen into Maintenance' project, which suggests that a strategic national approach is needed to boost the numbers of women working in trade roles in the housing sector.

The research, which was carried out by the Construction Youth Trust on Mears' behalf, was launched at a special event hosted by the Rt. Hon. Baroness Smith of Basildon at the House of Lords.

Latest figures produced by the CITB in 2016 revealed that, while women make up 13% of the construction workforce, when it comes to manual roles only 1% are female.

1

Deepening our client partnerships in both core markets

Performance in 2017

- Continued growth of our newer services in Housing management and New Build, to support our clients challenges around homelessness.
- Securing our first contracts, which combine funding, building, managing and maintaining property as well as care provision.
- Agreeing a timetable for the £1 billion regeneration of Milton Keynes building on our successful mobilisation.
- While we would like to have won more new repairs work, we did secure new long-term client relationships with organisations such as Accent Housing and Lewes District Council, through successful bids.
- Good progress of our innovative JV with Bromley housing to purchase, repair and manage over 400 homes.
- The development of a £30m property acquisition fund, to enable our clients to respond more quickly to housing asset challenges.
- Successful refocus of our care business on stronger client relationships, enabling a return to profitability.
- Achieving record levels of social value work, ensuring we make a lasting impact on the communities that we work in.
- Began work on tendering for the two biggest opportunities that Mears has ever seen, reflecting how we have been able to develop our services in line with changing client needs.

Focus in 2018

- Continue the development of our broader placemaking portfolio.
- Improving our housing tender performance.
- Continue to focus on Local Authorities adopting partnership-based and outcome-based commissioning in Care.

Link to KPIs

- Housing new contract success rate
- Order book growth
- Revenue growth

Link to risks

- Reputation
- Business continuity

In 2017, we once again retained our 'Investors in People' accreditation

Maintaining quality leadership

Performance in 2017

- 92% of our customers rated our service as excellent, which is a new record.
- First care branch achieved an Outstanding CQC rating.
- Reaccreditation with Customer Service Excellence, which is a Government backed scheme.
- Development of a Supply Chain charter to encourage all of our supply chain to work with us on social value activities.
- Implementation of new mobile technology to further increase quality visibility of every single job delivered.

Focus in 2018

- Ensure all new developing services achieve the same levels of quality that our established services enjoy.
- Enable quality improvements in our supply chain partners through technological and training support.
- Focus on care quality through better care worker recruitment and retention and continued development of care managers.

Link to KPIs

- Housing new contract success rate
- Order book growth
- Customer complaints
- 'Excellent' service rating

Link to risks

- Health and safety
- Business continuity
- People
- Reputation

Developing our people

Performance in 2017

- We had a fantastic response to our annual staff survey with 83% response and high levels of staff satisfaction as measured by a Net Promoter index.
- Implementation of a Group HR system to enable better measurement of how our workforce is developing.
- We are a National Social Mobility Champion. Social mobility is about giving young people equal chances in life, regardless of their social background.
- Continued to nationally champion activity to get more women into the housing trades.
- Successful delivery of a range of upskilling and professional development for Mears managers and employees, together with programmes for young and/or unemployed people from our communities.

Focus in 2018

- Increased focus on succession planning.
- Complete business restructuring to ensure that both operationally and financially we have the workforce that we need.
- Extend our work to create a more diverse workforce at every level of the organisation.
- Recruit an Employee Director to the Board.

Link to KPIs

- Carer churn
- Accident frequency rate

Link to risks

- Health and safety
- People
- Business continuity
- Reputation

Find out more about our KPIs on **page 18**

Find out more about our risks on **page 22**

How have we performed?

Our KPIs are our most important measures to monitor our business and to ensure that we are on target to deliver our strategic priorities.

Great service delivery

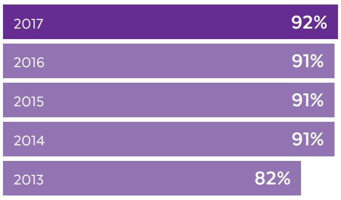
'Excellent' service rating

(Housing)

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

92%



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

How we performed

2017 target

91%

Outperformance

2018 target

92%

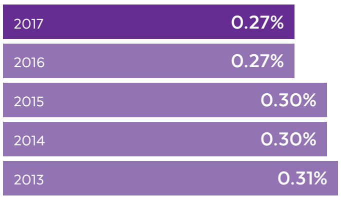
Customer complaints

(Housing)

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

0.27%



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.

How we performed

2017 target

<0.27%

On target

2018 target

<0.27%

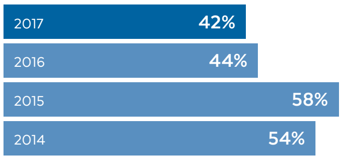
Carer churn

(Care)

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

42%



There has been some improvement in carer churn rates but the levels remain unsustainable. We have increased carer pay rates across the business and focused on those Care contracts which provide a better mix of longevity, spend certainty and price, which allows us to offer carers more attractive terms and conditions.

How we performed

2017 target

30%

Underperformance

2018 target

30%

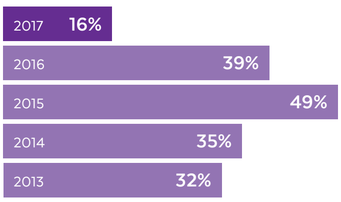
Business development

New contract success
(Housing)

Contract success is measured by results of tender by contract value. We typically tender around £1 billion of new opportunities each year. The average contract length is around six years. 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

16%



We are disappointed with our poor bidding success. A higher proportion of bids were in respect of capital works, where our conversion rate has always been lower. Also, this year, the significant majority of bids were with new customers (rather than existing relationships) where our conversion rate is also historically lower. Notwithstanding this, we missed out on both our top target bids which was disappointing.

How we performed

2017 target

33%

Underperformance

2018 target

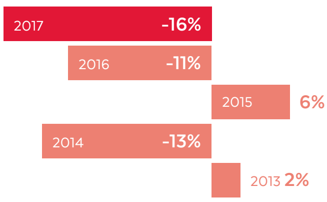
33%

Order book growth
(Group)

Contracts with our clients are long term. Housing contracts average six years and Care contracts average around three years. We only account for contractually secured orders. We anticipate particularly active contract bidding in 2018, but would be satisfied to maintain the order book at current levels.

Results from the year

-16%



The order book has reduced from £3.1m to £2.6m. This reflects new orders secured of just £350m in a year that the Group delivered revenue of £900m. Whilst the aggregate order book number is important, the detail and the phasing is equally important. We are happy with the quality of our order book.

How we performed

2017 target

0%

Underperformance

2018 target

0%

We have removed 'secured revenue' as a key performance indicator. Due to the evolving nature of our business, secured revenue has been found to be a less robust metric than it was historically

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

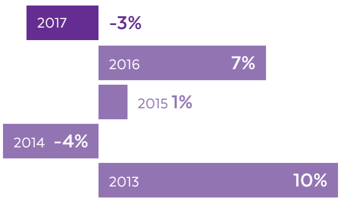
Financial performance

Revenue growth
(Housing)

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

-3%



Mears Housing revenues are predominantly non-discretionary which provides protection from significant fluctuation. Our Review of Operations explains the underperformance in 2017. There remains some uncertainty as we enter 2018. Whilst we expect a high level of new bidding in 2018, this is likely to impact on 2019 more than 2018.

How we performed

2017 target

5%

Underperformance

2018 target

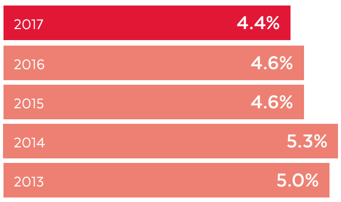
0%

Operating margin
(Group)

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

Results from the year

4.4%



As detailed within the Review of Operations, the shortfall in Housing revenues resulted in both a loss of profit and, more significantly, lower overhead recovery with operating margins reflecting this. Positively Care margins reported improvement on the prior year, but given that Care represents only a small part of the Group, the aggregate margin showed a reduction.

How we performed

2017 target

>5.1%

Underperformance

2018 target

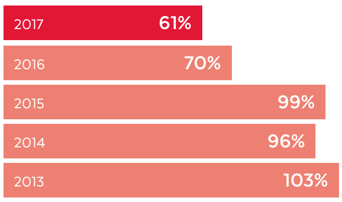
>5.2%

Profit to cash conversion
(Group)

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

61%



As detailed in the Finance Review, Mears has seen a shift in sales mix towards housing management which impacts upon the Group's ability to advance cash flows at the year end. The Group will be reporting this measure based on average debt moving forward which will provide a better reflection of our cash performance. Notwithstanding this, the Group's performance fell short of our expectations in this area.

How we performed

2017 target

90%

Underperformance

2018 target

>85%

Providing our employees with a safe working environment remains paramount

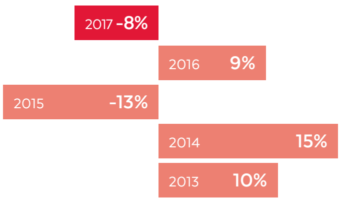
Normalised diluted EPS

(Group)

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

-8%



Our headline EPS reduced by 8%, mirroring the reduction in profits. The EPS of 28.05p sits at a similar level to that delivered in 2013 which highlights the lack of progress, from a financial perspective, in recent years.

How we performed

2017 target

>10%

Underperformance

2018 target

+5%

Health and safety

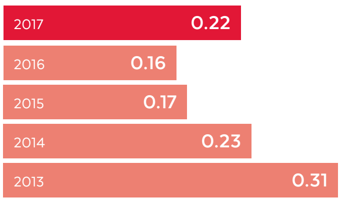
Accident frequency rate

(Group)

Providing our employees with a safe working environment remains paramount. Our accident frequency rate (AFR) is calculated as the number of reportable incidents (by both employees, service users and third parties) divided by the number of hours worked, multiplied by 100,000.

Results from the year

0.22



We are proud of our record in this area and we continue to invest in our health and safety training, which is delivered through our in-house registered training provider. We place emphasis upon all accidents and near misses, however trivial, being reported and properly captured, which naturally impacts negatively on this measure. Much of this increase relates to an improved reporting regime.

How we performed

2017 target

0.16

Underperformance

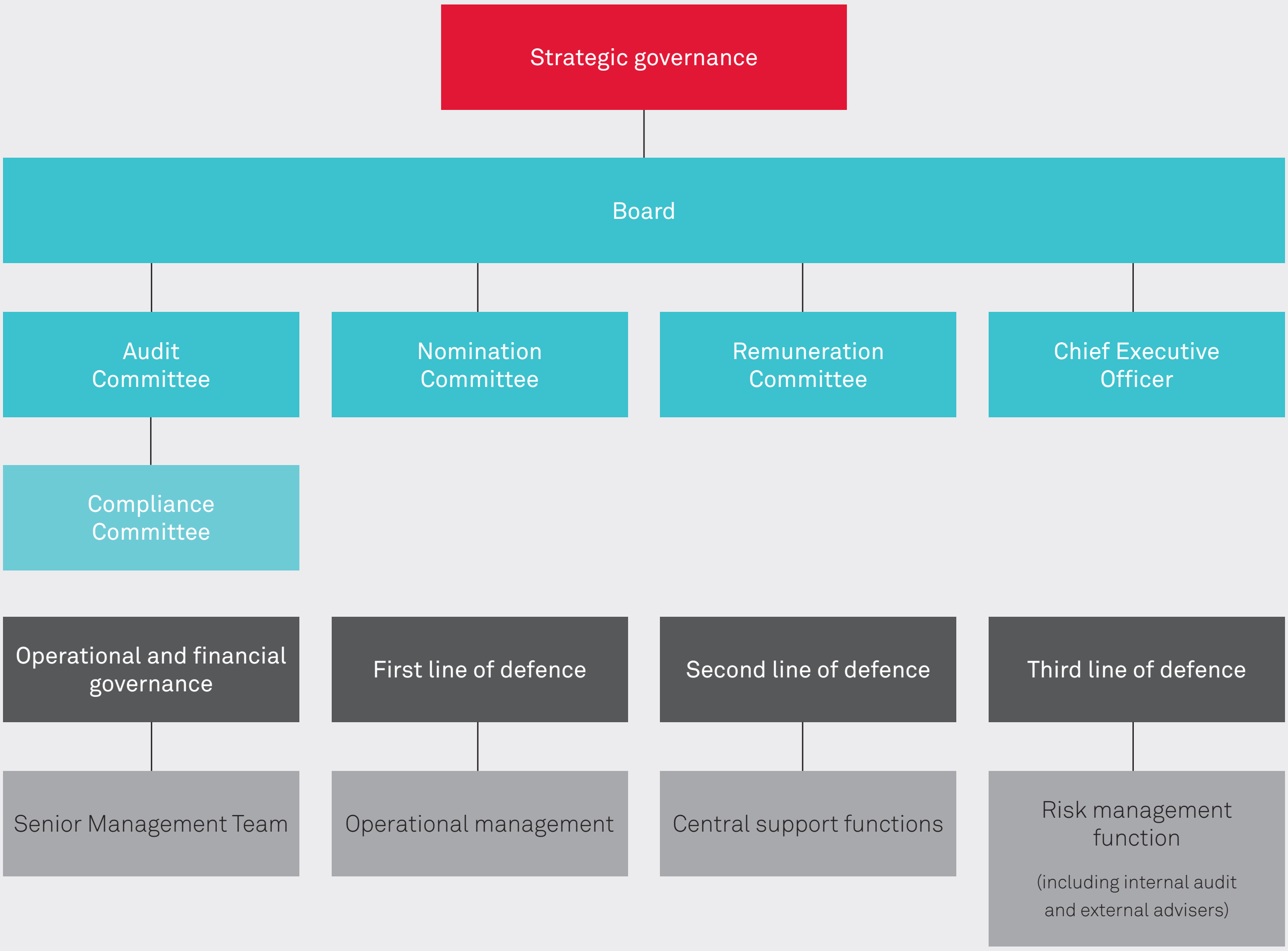
2018 target

<0.20

Risk management and principal risks

Effective management of risks and opportunities is essential to the delivery of the Group's strategic objectives, the 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 21 on **pages 125 to 129**

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.

The Board

The Board has overall responsibility for determining the nature and extent of risk it is willing to accept 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. 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.

Compliance Committee

Created in 2017 as a sub-committee of the Audit Committee. The purpose of this Committee is to continue to increase the Board's focus on health and safety strategy, performance and related risk management and provide a closer link between the Board and the operations.

Risk management function

The Group risk function, headed by the Group's Chief Risk Officer, 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 and cyber-security 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 approach

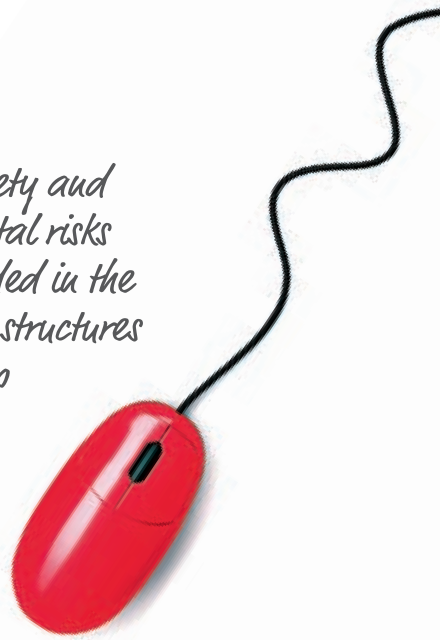
The Group's approach to risk management is targeted towards early identification of risks and mitigation of those risks to reduce their likelihood and impact.

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 continually monitored, contingency plans are provided and this information is reported through established procedures. There is extensive fieldwork undertaken by risk auditors incorporating systems review, branch visits and cross-business surveillance.

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.

Health, safety and environmental risks are embedded in the governance structures of the Group



Risk management process

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 risks; consequences of the risks; the basis for determining the mitigation strategy; and what reviews and monitoring are necessary. The person(s) accountable for assessing 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.

Key financial and non-financial risks identified by the business from the risk assessment processes are collated and reviewed by the Audit Committee. The financial and non-financial risk registers are reviewed 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 previously outlined.

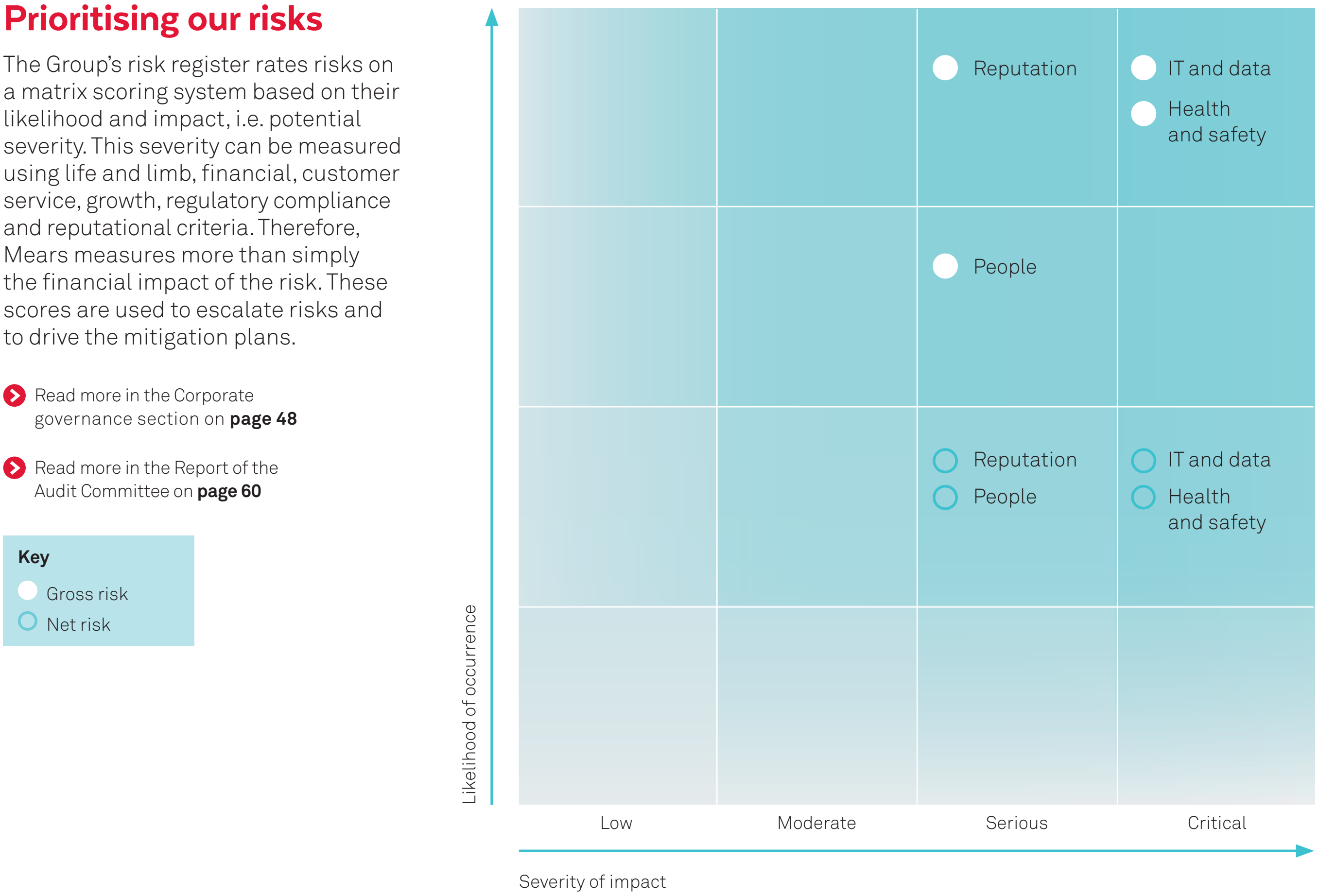
The Board is keen to simplify the reporting of risks, to ensure the risks disclosed to shareholders are those that are considered as business critical or potentially catastrophic. Therefore no additional risks have been disclosed in this Annual Report. These business-as-usual risks are monitored by divisional management.

Prioritising our risks

The Group's risk register rates risks on a matrix scoring system based on their likelihood and impact, i.e. potential severity. This severity can be measured using life and limb, financial, 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 in the Corporate governance section on **page 48**

Read more in the Report of the Audit Committee on **page 60**



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 the 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 the 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 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 incidents of abuse and neglect which rightly receive significant press coverage with the inevitable reputational damage.

KPIs associated with risk:

- 'Excellent' service rating
- Customer complaints
- Carer churn

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'.
- Strict process in place for vetting and approval of subcontractors.
- We drive a culture of putting our customers first; this is continually reinforced through 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

Decreased gross risk exposure

Definition

The Group employs around 12,000 people 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

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 training.
- We regularly review and benchmark our remuneration packages to ensure that they remain competitive.
- 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.

Risk management and principal risks continued

People continued

Decreased gross risk exposure

Definition continued

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
- Customer complaints
- Carer churn

Mitigation continued

- 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 areas 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.
- Expansion of apprenticeships.
- The investment in an in-house, dedicated training division to provide a range of employee development services through two academies in Rotherham and Brentwood.
- 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 and engagement, and any barriers to high level performance.

Health and safety

Increased gross risk exposure

Definition

Prevention of injury or loss of life for both employees and customers is of utmost importance. In addition, it is vital to maintain 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 the 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 the importance of health and safety is emphasised together with detailed method statements for working safely.
- Creation of a Compliance Committee to monitor and oversee health and safety strategy, performance and risk management.
- Closer review of buildings safety compliance (post Grenfell) in higher risk areas, e.g. housing management.
- Regular HSE training and updates are held, predominantly delivered by the in-house training function.
- Independent review of health and safety cases by insurers where recommendations of change are implemented.
- Internal health and safety auditing takes place using third party validation.
- Annual Group health and safety 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. During 2017 the preparations commenced to implement the new GDPR coming into force in 2018.

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 recommend improvements which are then implemented.
- Data Security Committee in place to monitor and review both physical data security and IT data security.
- GDPR implementation plan and steering group.

Viability statement

The Group has a broad spread of customers – our largest client constitutes 7% of Group revenues which, while significant, would, in the event of its loss, not impact on the Group's wider viability.

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 broadly reflects the average contract length. 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 25 and 26 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 reputational damage;
- deterioration in carer churn rates and poor recruitment practices resulting in a material 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 reputational 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 reputational damage. A serious system failure could have significant impact on 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 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 23%. This was combined with a 1% deterioration in Housing gross margin which, when combined with an under-recovery in central support overheads, resulted in a reduction in Group net profit margin from 4.1% to 2.9% 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 56%. This was combined with a 2% deterioration in Care gross margin which resulted in a Care operating loss of £4.2m in year five of the model but no reduction in Group net profit margin due to the reducing materiality of Care in this scenario.

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 realistic.

Whilst the Group's continuing operations are 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 circa 7% of Group revenues which, while significant, would, in the event of its loss, not impact on the Group's wider viability.

The Board has recently completed an 'amend and extend' of the Group's revolving credit facility, which now runs to November 2022. The Board has considered the Group's ability to renew the existing debt facilities in November 2022 and is confident that replacement sources of funding will be available at that time.

The Board also considered the impact of Brexit on the business and does not envisage any significant negative effect impacting on the Group's viability for the period under review.

The Board is mindful that there has been a significant increase in the fines that can be levied upon companies for non-compliance in areas such as health and safety and data protection. Fines are discretionary based on the nature, gravity and culpability of the company but fines are applied based upon a percentage of group revenue. In a low margin business such as Mears, any single fine could have a significant and disproportionate impact upon retained profits. The Board took the view, however, that, whilst such an event could be damaging, it would not ultimately impact on the long-term viability of the Group. Both health and safety and IT and data feature high on the Group's risk register and we continually review our mitigating actions to ensure that we minimise our residual risk.

The Board accepts that, particularly in an increasingly volatile macro-economic environment, uncertainty of results increases as the projections extend out over a five-year period. However, the Board concluded that there is a reasonable expectation that the Group will continue in operation and will be able to continue to meet liabilities as they fall due over the five-year period assessed.

Review of operations

We are aware that the financial outputs delivered in 2017 were below our high standards. However, of equal importance, is the quality of our operations and the progress made in positioning the business for future long-term opportunities. In this regard, the Board is pleased with the progress made.

Meeting future challenges

Our people remain our greatest asset. Their skills, knowledge and dedication continue to drive our business forward and place Mears in a unique position.

Our apprenticeship scheme, run from our national training academy in Rotherham, aims to ensure we continue to have the right level of skills for the business to meet future challenges.

Currently, we have 730 apprentices across the Group. In 2017, our Care business recruited 385 apprentices, with a further 79 apprentices recruited in the rest of the business in addition to the 266 apprentices already employed.

We also have a further 38 employees pursuing apprenticeships; 13 senior managers pursuing Level 5 Operations Management apprenticeships; and 23 managers pursuing Level 3 Team Leader apprenticeships.

Mears through its dedicated training arm, is now delivering a wide range of apprenticeships which include plumbing, gas, multi-trade, carpentry and plastering.

Mears is an accredited training provider, currently training five apprentices from other companies in the South Yorkshire area, and has a contract with Rotherham College to deliver adult programmes, including introduction into construction, Construction Skills Certification Scheme (CSCS) cards, and help with employability skills – our success rate for getting our attendees into employment is currently 80%.

The Board is mindful that many of the readers of our Annual Report are focused particularly on the financial performance of the individual divisions and the wider Group. This Review of operations will naturally address this. We are aware that a number of the financial results delivered in 2017 were below our high standards. However, of equal importance to our business is the quality of our operations and the progress made in positioning the business for future long-term opportunities. In this regard, the Board is pleased with the progress made last year in both divisions and it is this that will, over the longer term, underpin stronger financial performance and future success.

Construction Youth Trust

Read from page 16

We have registered in Rotherham and Brentwood

Read from page 28

Housing

We are increasingly involved in managing properties in a more holistic fashion over and above simply scheduling and delivering maintenance and repairs. We are often being asked by clients and other stakeholders to have greater involvement in helping them deliver appropriate housing outcomes for a range of tenants.

Housing revenues have historically been analysed between the reactive and planned nature of housing maintenance, whilst separately disclosing Housing Management activity. This allocation has become less relevant as we have broadened our service offering and we are increasingly providing a full asset management service. This evolution in our focus is extending our activities to all rented housing, in line with our clients' and the wider community's needs.

	2017			2016		
	H1	**H2**	**FY**	H1	H2	FY
Revenue	**402.0**	**364.1**	**766.1**	389.6	397.9	787.5
Operating profit	**20.8**	**18.7**	**39.5**	18.9	25.2	44.1
Operating profit margin %	**5.2%**	**5.1%**	**5.2%**	4.9%	6.3%	5.6%

The financial performance of the Housing division has been disappointing but there is merit in reviewing the results between the first half and the second half year of the year. The first half of 2017 reported both revenues and margins increasing from the comparative period in 2016, primarily driven by the full-year impact of the previous year's new contract mobilisations. Mears Housing revenues are predominantly non-discretionary, which provides the Group with protection from significant workload fluctuation. This is underpinned by an individual tenant's right to repair, which places an obligation on our Registered Provider clients and removes their ability to defer spend on essential maintenance. Certain planned maintenance expenditure, whilst non-discretionary, does provide clients with scope to defer spending over the short term. Historically, around 15% of Housing revenues are of a discretionary nature, providing clients with an ability to extend that spending spends over a longer time horizon.

Revenue

£766.1m -3%

2017	£766.1m
2016	£787.5m
2015	£735.1m

Operating profit

£39.5m -10%

2017	£39.5m
2016	£44.1m
2015	£42.4m

Operating margin

5.2%

2017	5.2%
2016	5.6%
2015	5.8%

See note 1 to the financial statements.

Our priority remains organic growth but we will consider acquisitions that reinforce our leadership position

The tragic event at Grenfell Tower impacted upon second half year activity with reported revenues 9% lower versus the first half. This terrible event affected the timing of our planned maintenance workloads as clients' attentions have naturally been diverted towards ensuring that their housing portfolios are safe and fully compliant. This was highlighted in our half-year statement and we saw this trend continue throughout the second half year. In addition, the Group had a particularly slow period in securing new work opportunities which one would typically have expected to have gone some way to making up the revenue shortfall.

The division reported full-year revenues of £766.1m (2016: £787.5m), a reduction of 3%. The shortfall in revenues resulted in both a reduction in gross profit and, more significantly, lower overhead recovery, with operating margins reflecting this dilution at 5.2% (2016: 5.6%).

Case study

High quality, affordable and efficient new homes

A £7m development of 34 new homes on the outskirts of Milton Keynes is one of the latest projects by Mears New Homes for client Lea Valley Homes, a subsidiary of Aldwyck Housing Group.

Mears, which first developed this capability in 2014, has built a strong portfolio of work across the South of England and is now expanding across the country.

We blend contemporary design and sustainable materials to build unique and attractive homes for rent and sale, combined with our extensive experience in the repairs and maintenance sector, we have the insight to ensure that the homes we build are high quality, affordable and energy efficient.

The Gables is an exclusive development of mixed tenure, with houses for sale, rent and shared ownership, and is due for completion in 2018.

Once appointed to the site in Milton Keynes, we worked with the Lea Valley team to 'value engineer' the scheme design, including the use of an innovative foundation system to reduce the cost in the ground, as well as a timber frame system to reduce the construction period.

Across this design engineering process, we were able to make savings of £625,000 for the client.

Blending contemporary design and sustainable materials

Our Housing strategy

We have maintained a consistent strategy across Housing over a long period, while developing a broader footprint of services to reflect client need:

Focus on delivering a high level of customer service

We have continued to maintain high levels of customer satisfaction. 92% of tenants regard our services as excellent.

Drive innovation to provide better outcomes for tenants

In 2017, we have continued to grow our housing management services and to support greater integration. We have secured our first contract to fund, build, manage, maintain and provide care into an Extra Care scheme. We have developed innovative technological solutions which deliver better service and operational outcomes. We lead the market on our approach to social value.

Evolve the breadth and depth of our service offering

We have, over recent years, extended our Housing service from our original maintenance offering to a full maintenance, regeneration and housing management capability. This is enabling us to bid for opportunities of a scale and breadth that would previously have been impossible.

Focus on building sustainable, long-term partnerships

Our broader service offering is enabling us to generate multiple revenue streams from single client relationships. For example, in the case of our Milton Keynes partnership, we are providing maintenance and care services, as well as providing temporary housing solutions whilst developing new homes. We are now supporting the development of a £1 billion regeneration program across the area.

The Housing division has historically sourced new contract opportunities through a competitive public procurement tender process. Mears has always been highly selective and maintains a disciplined approach to bidding new contract opportunities. Mears typically tenders for contracts with a value of between £1 billion to £1.5 billion each year. A bid conversion rate (by value) of around 33% has been consistently achieved, although within that blended measure there are other factors such as the proportion of reactive versus planned maintenance, and whether the opportunity is with an existing or new customer relationship. Mears secured new contracts of £150m in the year, representing a contract win rate on competitively tendered works of 16% (by value) (2016: £250m and 39%). This is our lowest bid conversion rate for many years and was partly driven by the mix of the bidding opportunities being skewed towards works of a capital nature and a high number of opportunities coming from new client relationships. Notwithstanding this, we are disappointed at missing out on a number of key bidding targets where we scored well in terms of quality but fell short in respect of pricing compared with the winning tender. We will not change our bidding model which has served us well over many years. We have always tried to make decisions based on a longer time horizon and not short-term opportunism.

Invest in the workforce to ensure that it is both motivated and well trained

The exceptional response to our employee survey in 2017, illustrates the progress we have made, as does the record number of apprenticeships and growing external recognition for our work in championing care worker pay and conditions and promoting more opportunities for women in the trades.

Primarily focus upon organic growth

Our priority remains organic growth but will consider acquisitions that reinforce our leadership position.

Case study

One Mears – housing with care solutions

Construction started in 2017 on two extra care housing schemes – in Northampton and Bolton – which sees Mears combine its services to provide innovative solutions to housing and care for Local Authority clients.

Extra care housing schemes offer positive lifestyle choices for older and disabled people by providing affordable, specially adapted properties with care and amenities on site.

Offering positive lifestyle choices for older and disabled people

In Northampton, Mears will manage and provide care to Balmoral Place, a development of 80 one-bedroom self contained apartments to people over the age of 55 who want to live independently with personalised care designed for their needs, with the added benefits of on-site services in a safe, secure and vibrant community.

The scheme will be delivered in partnership with developer HB Villages and is set to open in October 2018.

In Bolton, Mears is building, managing and maintaining a new scheme called The Hollies – offering 16 one-bedroom apartments and an eight-bed scheme for people with learning disabilities, with personalised care provided on site 24/7.

Both schemes are great examples of how Mears is helping to transform the way housing and care is delivered.

Encouragingly, the current pipeline of opportunities for Mears has never been greater. We would anticipate competitively bidding for in excess of £2 billion of work during the course of 2018. Some of the most significant current bidding opportunities will be awarded in 2018 although will not deliver revenue until 2019. The strategic evolution of our business means we are gaining access to opportunities that previously would have been out of our reach. Our long-term bid conversion target rate remains at 33%. In addition, an increasing number of opportunities can now be secured without the requirement for an extended, competitive tender process.

Case study

Milton Keynes £1 billion regeneration

YourMK – a partnership set up in 2016 between Mears Group and Milton Keynes Council – announced its timetable for a £1 billion regeneration of Milton Keynes.

The 15-year plan will affect 8,500 homes and 20,000 residents across seven housing estates – Netherfield, Coffee Hall, Tinkers Bridge, North Bradville, Fullers Slade, the Lakes and Beanhill.

Already, YourMK is responsible for the repairs and maintenance of 11,500 council homes and the next stage is set for regeneration.

A stock condition survey – carried out between September 2016 and April 2017 – showed that, on the whole, the condition of council-owned homes in Milton Keynes is poor.

Milton Keynes, like many other towns and cities across the UK, has a severe housing shortage, and many more homes are needed.

Regeneration is not just about bricks and mortar but about making positive and long-lasting changes that will improve people's lives. YourMK is doing this not only by improving homes and neighbourhoods, but also by providing opportunities for people to get jobs and training through our job clubs, and by encouraging and supporting the involvement of local people and groups in their community.

Regeneration is about people and opportunities as well as building and maintaining their homes.

Milton Keynes has a severe housing shortage and many more homes are needed

YourMK is already responsible for the repairs and maintenance of 11,500 council homes

Care

The return to profitability is a clear positive for the Care division in the year.

The Care division secured solid charge rate increases from existing contracts through the annual price review, and also enjoyed improved pricing when securing new contract opportunities. These increases have broadly matched the increases in the cost base, driven by an increase in the National Living Wage and introduction of the Apprenticeship Levy. The division reported a small loss for the first half year, however, in line with our expectations, improved performance in the second half delivered a profit for the full year of £0.5m (2016: loss £1.2m), implying an operating margin for the second half of 2.3%.

We are confident that we can deliver further margin improvement in 2018. We are looking to achieve this through maintaining a high level of selectivity on bidding new works, further operational improvements and support function efficiencies flowing from improved processes.

	2017			2016		
Care	**H1**	**H2**	**FY**	H1	H2	FY
Revenue	**68.7**	**65.4**	**134.1**	76.6	76.0	152.6
Operating profit	**(1.0)**	**1.5**	**0.5**	1.0	(2.2)	(1.2)
Operating profit margin %	**(1.4%)**	**2.3%**	**0.4%**	1.3%	(2.9%)	(0.8%)

We are increasingly selective in bidding for new contract opportunities

Revenue

£134.1m -12%

2017 £134.1m
2016 £152.6m
2015 £146.0m

Operating profit

£0.5m

£0.5m 2017
2016 £(1.2)m
2015 £(1.6)m

Operating margin

0.4%

0.4% 2017
2016 (0.8%)
2015 (1.1%)

See note 1 to the financial statements.

Review of operations continued
Care continued

We continue to place significant emphasis on maintaining a portfolio of contracts that can provide clear and sustainable margins. We completed a significant restructuring in 2016, which saw a reduction of around 20% of our branches, primarily in the North of England where a number of care commissioners were unwilling to recognise the underlying cost of delivering care. During the first half of 2017, we revisited our previous assessment, exiting additional contracts predominantly in the Midlands and London region, covering a further 7% of revenues. The restructuring is now complete and our remaining Care contracts have a much improved mix of longevity, certainty of spend and price, with very few branches that are not now delivering a profit contribution. Revenues for the Care division were £134.1m (2016: £152.6m), a reduction of 12% reflecting this planned rebalancing of the Care contract portfolio.

A summary of the changing volumes and charge rates as a result of the restructuring of our Care activities is detailed below. This reflects excellent progress, with the blended charge rate increasing by 8% across the Care portfolio driven by contractual uplifts and an improving sales mix.

	Hours per week	Annualised revenue £m	Charge rate per hour £
As at 1 January 2016	216,000	148.1	13.19
Net volume decrease	(54,600)		
As at 31 December 2016	161,400	126.2	15.04
Net volume decrease	(22,200)		
As at 31 December 2017	**139,200**	**117.9**	**16.29**

Whilst we have become increasingly selective in new contract bidding, it is pleasing that there continues to be a solid pipeline of good quality bidding opportunities. During the year, we secured £140m of new contracts at a win rate of 59% by value (2016: £200m and 74%). More importantly, the quality of the new orders secured continues to improve, together with a significantly higher charge rate which enables us to reflect this within our carer pay and conditions. The average contract lengths of these latest awards is approaching five years and the number of providers has reduced significantly; this reflects the trends we anticipated and should, in the future, result in a better quality of earnings from our Care activities. It is envisaged that the Group will increasingly focus its Care bidding activity towards those clients where there are likely to be opportunities to provide a complete housing service, with less focus on those opportunities which provide singular care services in isolation.

The main limitation to achieving growth in Care and to delivering a consistent, good quality service remains the sourcing and retention of sufficient care workers of good quality. Whilst we have experienced some improvement in carer turnover during the year, with attrition rates reducing from 44% to 42%, this still remains at an unsustainable level. We remain committed to driving improvement to the terms and conditions of care workers, including better financial rewards and incentives and a more formalised career pathway.

Our Care strategy

We have refocused our care work on partnerships which complement our housing work and are priced at sustainable levels:

Focus on delivering a high level of customer service

We hold the Government backed Customer Service Excellence accreditation for our Care division, which adds to our existing accreditation for Housing services. We have achieved the first Outstanding rating for one of our care operations.

Drive innovation to provide better outcomes for tenants

We have developed and tested innovative mobile digital technology that enables better support planning and more reliable information capture and audit.

Evolve the breadth and depth of our service offering

We are winning more work that combines our skills in housing with those in care. Indeed our care capability is a fundamental to some of the largest opportunities the Group is now bidding for.

Focus on building sustainable, long-term partnerships

We are increasingly selective in bidding for new contract opportunities. We are securing better quality orders with higher charge rates and increased longevity. These contracts are secured at rates which allow us to recruit a workforce delivering high quality care.

We are focused on improving quality and cost over time, and combining services into an integrated approach to achieve better outcomes

Case study

Clear and sustainable contracts in care

In November 2017, our Care division won a large, new contract with Staffordshire County Council to become lead provider for homecare services.

We have worked successfully for many years with Staffordshire County Council.

The new contract saw the council adopt a new model to reduce the number of providers, from 66 to one in each area.

The new model will make services easier to manage and more cost effective for both council and provider, and aims to increase quality with a more consistent approach.

Overall, Mears continues to place significant emphasis on maintaining a portfolio of Care contracts that can provide enhanced conditions for Care staff and at sustainable margins.

Providing enhanced conditions for Care staff

Consistent approach to care

Invest in the workforce to ensure that it is both motivated and well trained

We have minimum pay levels for our staff which are set ahead of NLW. We are also investing further in training and a range of other benefits. It is central to our strategy that care workers are properly recognised as the skilled workers they are.

Focus upon organic growth

Given the challenges we have encountered in Care, our sole focus is organic growth, targeting opportunities with clients where we can also deliver housing solutions

Financial review

"The Group has historically followed a strict and disciplined approach to financial management."

Andrew Smith
Finance Director

Summary

- The Group has historically followed a strict and disciplined approach to keeping capital expenditure low and, linked to this, a conservative debt structure. This principle still holds. However, on occasions it should be recognised that opportunities can often be more easily facilitated through utilising a small amount of leverage.
- The efficiency with which the Group manages working capital remains a cornerstone of our business to cash conversion linked to an average net debt position, which will provide a better reflection of our cash performance across the entire period.
- The adoption of new accounting standards, IFRS 15 Revenue from Contracts with Customers (effective in 2018) and IFRS16 Leases (effective in 2019) are both expected to have a material impact on the financial statements of the Group.
- Mears does not engage in inappropriate tax planning arrangements. The Group takes advantage of available tax reliefs and any tax planning is consistent with the spirit as well as the letter of tax law.

This section provides further key information in respect of the financial performance and financial position of the Group to the extent not already covered within the Review of operations.

Acquisitions

Having been relatively acquisitive over a number of years, this was the second consecutive year of no acquisitions. The primary focus for the business is organic growth however we regularly consider potential bolt-on acquisitions to our Housing business, where they could enhance our existing service capabilities.

Contingent consideration of £5.0m was paid during the year relating to the previous acquisition of Omega. A further payment of £11.1m has been paid in the early part of 2018 which has now settled all outstanding deferred and contingent consideration.

Property acquisition funding

As Mears has broadened its services, an increasingly important component of our offering has been to identify funding solutions to sit beside our housing maintenance and management solutions. An early example of this was our contract with the London Borough of Bromley, with Mears engaged to arrange the purchase and refurbishment of 400 homes from private ownership whilst identifying a long-term funding partner. Since then, Mears has developed a pipeline of similar opportunities and expects several of these to complete in the coming year.

The Group has historically followed a strict and disciplined approach to keeping capital expenditure low and, linked to this, a conservative debt structure. This principle still holds. However, on occasions it should be recognised that opportunities can often be more easily facilitated through utilising a small amount of leverage to acquire and build portfolios of properties. The period for carrying property assets on the balance sheet will typically be a few weeks, extending to perhaps six months on rare occasions, prior to their disposal to a long-term funding partner. To support this activity, the Group has put in place a £30m revolving credit facility for an initial two-year term. At 31 December 2017, £13.9m of this funding line had been drawn with the associated asset disclosed within assets held for resale.

Discontinued activities

In 2013, the Group completed the disposal of its Mechanical and Electrical division, which included an entity operating in the United Arab Emirates (UAE). As part of that disposal, the Group ultimately retained a beneficial interest of 1% of the share capital of this UAE company due to the Group still carrying a number of performance guarantees, which unwind as the underlying contracts reach the end of their defects liability period.

At 31 December 2016, a balance of £3.4m was due from the UAE entity to the Group, together with outstanding performance guarantees of £13.7m. Disappointingly, a number of those performance guarantees have been called and the Group was required to settle funds against those contingent liabilities. This resulted in a cash outflow during the year of £9.4m.

Mears has taken legal advice and believes there is a realistic expectation that these funds will be recovered in due course. However given the inherent uncertainty, a full provision has been made in respect of this as an exceptional item within the 2017 results. The exceptional item of £16.5m includes full provision against all outstanding performance guarantees.

Amortisation of acquisition intangibles

A charge for amortisation of acquisition intangibles of £10.6m (2016: £10.7m) arose in the year. This charge relates to a number of acquisitions in both Housing and Care over recent years. The remaining unamortised value of £9.6m (2016: £19.8m), relating to order book and customer relationships, will be written off over their estimated lives.

Net finance charge

A net finance charge of £2.0m has been recognised in the year (2016: £1.8m). The finance cost in respect of bank borrowings was £2.7m (2016: £2.8m), reflecting a lower blended interest rate on the Group's interest rate hedging arrangement.

The Group held two interest rate swaps covering 2017. The first fixed a rate of 1.85% on £30.0m of borrowings and expires in August 2018. The second, which ran throughout the year, fixed a rate of 0.83% on £40.0m of borrowings, expires in December 2020. The remaining debt bore a variable LIBOR rate. The Group pays a margin of 120–220bps over and above LIBOR, subject to a ratchet mechanism.

The net finance costs also includes a net credit generated from defined benefit pension accounting of £0.3m (2016: £0.9m).

Tax expense

	2017 £m	2016 £m
Current tax on continuing activities recognised in income statement	**5.3**	4.7
Deferred tax on continuing activities recognised in income statement	**(1.0)**	(1.0)
Current tax on discontinued activities recognised in income statement	**(3.2)**	—
Total tax expenses recognised in income statement	**1.1**	3.7
Profit before tax and before amortisation of acquired intangibles	**37.1**	40.1
Profit before tax on continuing activities	**26.5**	29.4
Effective current tax rate on continuing activities	**20.1%**	16.0%

Group revenue
£900.2m -4%
(2016: £940.1m)

Group operating profit*
£39.2m -6%
(2016: £41.9m)

Dividend per share
12.00p +3%
(2016: 11.70p)

Cash conversion
61%
(2016: 70%)

* on continuing activities and before amortisation of acquisition intangibles.

Tax expense continued

The headline UK corporation tax rate for the year was 19.3% (2016: 20.0%). The total tax charge for the year relating to continuing operations was £4.3m (2016: £3.7m) resulting in an effective total tax rate of 16.3% (2016: 12.5%). The key reconciling items to the headline rate were the utilisation of brought forward losses relating to previous acquisitions, an annual corporation tax deduction in respect of share options and adjustments in respect of the prior year estimated tax charge. The current tax charge for the year on continuing operations was £5.3m (2016: £4.7m), which represents an effective tax rate of 20.1% (2016: 16.0%).

Mears does not engage in inappropriate tax planning arrangements. Where appropriate, the Group takes advantage of available tax reliefs. The tax position in any transaction is aligned with the commercial reality and any tax planning undertaken is consistent with the spirit as well as the letter of tax law. In situations where material uncertainty exists around a given tax position, the Group engages with expert advisers and, where appropriate, advance clearance is sought from HMRC in order to establish the most appropriate treatment.

We value our low risk assessment from HMRC and will continue to work to maintain this status through continual review of our controls and processes.

Earnings per share (EPS)

	2017 p	2016 p	Change %
Diluted earnings per share – all activities	**7.29**	20.91	-65%
Normalised diluted earnings per share – continuing activities[1]	**28.05**	30.36	-8%

1 Before amortisation of acquisition intangibles with an adjustment to reflect a full tax charge.

The statutory diluted EPS measure allows for the potential dilutive impact of outstanding share options and reflects the exceptional loss reported through discontinued activities. The normalised diluted EPS decreased by 8% to 28.05p (2016: 30.36p). Normalised earnings are based upon continuing activities before the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge of 18% (2016: 18%). We believe that this normalised diluted EPS measure better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance.

Cash and net debt

	2017 £m	2016 £m
Operating profit before amortisation of acquisition intangibles	**39.2**	41.9
Depreciation and amortisation	**8.2**	7.4
EBITDA	**47.4**	49.3
Cash inflow from operating activities	**28.7**	34.5
EBITDA to cash conversion	**61%**	70%
Net debt at balance sheet date	**25.8**	12.4
Average daily net debt	**96.4**	85.0

The efficiency with which the Group manages working capital remains a cornerstone of our business. The Group's conversion of EBITDA to cash over the last two years has been well below target, being 61% (2016: 70%). Whilst our conversion record over the previous five years of 95% should provide comfort, this result warrants further explanation.

Whilst our year end EBITDA to cash conversion measure has historically been reported as a key performance indicator for the Group, we have always highlighted the Group's average daily net debt as being of greater importance. The year end position is significantly lower than the average net debt, given the efforts that the Group makes to maximise its cash balances at the year end. In addition, Mears has seen a significant shift in its sales mix towards housing management. Whilst the working capital required to fund housing management activities is typically lower than that required for traditional maintenance activities, it provides no scope for advancing cash inflows at the year end. Hence, part of the explanation for our lowering EBITDA to cash conversion metric over the last two years is the unwinding of this effect.

The evolution in strategic focus towards Housing Management and Placemaking activities has seen Mears starting to build new homes as part of managing the regeneration and delivery of affordable housing for clients to support their overall asset management plans. Whilst this is an area which provides significant opportunity for the Group, we have equally looked to keep tight control over the working capital requirement. Mears is not a property developer but having good capabilities in this area is very positive when linked to our homelessness solutions for clients. As at 31 December 2017, the working capital invested in new development projects amounted to £10.5m (2016: £5.7m). This is expected to peak at £15.0m in June 2018. We are developing opportunities in this area that look to not require any forward funding, which is our natural preference and better fits the Mears' model.

Our reported net debt position at 31 December 2017 was £25.8m (2016: £12.4m). The Group seeks to minimise its trade receivables at both its June and December period ends, resulting in period end net debt balances which don't reflect the underlying balance sheet position. A far more important metric is the Group's average daily net debt balance. The average net debt over the year increased to £96.4m (2016: £85.0m), reflecting the lower EBITDA to cash conversion due in part to the changing sales mix, and the funding of both the deferred consideration on earlier acquisitions and the cash outflow arising from the loss on discontinued activities.

As detailed above, the Group has arranged a £30m revolving credit facility to fund the purchase of properties before being sold onto longer-term funding partners. At 31 December 2017, £13.9m of this funding line had been drawn, with the associated asset disclosed within assets held for resale. Mears will report the net debt balances in respect of this property acquisition facility separately from the Group's operating net debt to ensure that this new facility does not mask underlying working capital performance.

During the year, the Group completed an extension to its revolving capital facility from July 2020 to November 2022. This has been well-timed as we have been surprised by the nervousness within the banking community following a number of recent corporate failures from entities within the outsourcing sector. The Group continues to maintain a strong relationship with its bankers.

Balance sheet

	2017 £m	2016 £m
Goodwill and intangible assets	**210.9**	219.6
Property, plant and equipment	**22.0**	20.3
Inventories	**18.7**	11.2
Trade receivables	**153.9**	157.2
Property assets held for resale	**13.9**	—
Trade payables	**(178.3)**	(186.6)
Operating net debt	**(25.8)**	(12.4)
Property acquisition facility	**(13.9)**	—
Deferred consideration	**(11.1)**	(16.5)
Cash flow hedge	**(0.3)**	0.4
Pension	**22.3**	8.5
Taxation	**(2.7)**	(3.0)
Net assets	**209.6**	198.7

Goodwill and intangible assets

The carrying value of identifiable acquisition intangibles at 31 December 2017 was £9.6m (2016: £19.8m), which predominantly relates to order book and customer relationships valued on acquisition. The carrying value will be amortised over its useful economic life, over half of which will be expensed over the next two years.

The carrying value of goodwill of £193.6m (2016: £193.7m) 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 carrying value of the Care asset and anticipated future value that will be delivered by the Care division has been low over a number of years. The Board has carried out a detailed impairment review and, for the second year running, this has shown an increase in the headroom which reflects the improvements made in the Care business. This is a key area of judgement and remains under continual review.

In addition, intangible assets includes the capitalisation of expenditure incurred in developing our in-house IT platform. Additions in the year amounted to £3.7m (2016: £2.9m) with a carrying value of £7.7m (2016: £6.1m), which is amortised over five years. Having made significant investment in our IT systems over a number of years, we would expect to see a reduction in our development expenditure moving forward.

Tangible fixed assets

The Group capital expenditure of £8.1m (2016: £7.4m) relates to IT hardware, other office equipment and the refurbishment of new office premises. The level of capital expenditure in respect of property, plant and equipment in any single year has a close correlation to the number of new contracts mobilised in that period. The majority of plant utilised by our operational teams is subject to short-term hire arrangements 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. Similarly, the Housing Management business has a large number of short-term property leases which are similarly not carried on the balance sheet. The new accounting standard IFRS 16 Leases will impact upon this treatment and is discussed in greater detail below.

Current assets and current liabilities

Trade receivables and inventories increased to £172.6m (2016: £168.4m) and trade payables reported a reduction to £178.3m (2016: £186.6m), both reflecting the changing sales mix and the associated impact on cash and net debt detailed above.

As detailed above, the Group secured a property acquisition credit facility of £30m to acquire and build portfolios for resale. These assets are separately identified on the balance sheet as an asset held for resale.

Pensions

The Group participates in two principal Group pension schemes (2016: two) together with a further 28 (2016: 33) individual defined benefit schemes where the Group has received Admitted Body status in a Local Government Pension Scheme (LGPS).

Given recent well publicised corporate failures, there has been increased attention given to pensions by a number of our stakeholders. It is unfortunate that the accounting standard we are required to follow for defined benefit pension schemes does not present the commercial reality for a number of our LGPS arrangements, where the Group holds back-to-back indemnities from its clients in respect of both its exposure to changes in pension contribution rates and to future deficit risk. For the remaining LGPS arrangements where the Group does not benefit from indemnities, the risks attaching to these schemes matches the time horizon of the underlying contract which, whilst not removing all risks, does reduce the period over which a deficit can arise.

Pensions continued

	Group schemes (no indemnity) long term	LGPS schemes (no indemnity) medium term	LGPS (indemnified) limited-risk	Total
Number of schemes	2	11	17	30
Assets £m	157.3	46.1	276.4	479.8
Liabilities £m	(132.6)	(47.5)	(277.4)	(457.5)
Net surplus/ (deficit) £m	24.8	(1.4)	(1.0)	22.3

It is pleasing that, despite the increasingly volatile macro-economic environment that has resulted in a downward move in the net discount rate and increased scheme liabilities, the Group has reported an increase in its pension net asset from £8.5m to £22.3m.

Guidance for 2018

We are disappointed that our financial results over recent years have not met our expectations. Whilst some of these adjustments have been outside of the control of management, it is frustrating that it has tarnished Mears' strong track record.

Previously, Mears has reported forward revenue visibility as a key performance metric. This has been expressed as the percentage of secured revenue as a proportion of consensus forecast revenues. Typically, consensus forecasts have been driven by an expectation that secured revenues at the turn of the year represents at least 95% of forecast revenue for the forthcoming year. Due to the evolving nature of our business, secured revenue over recent years has been found to be a less robust metric than it was historically. This became increasingly evident following the challenges encountered in 2017, where secured revenues reduced over the course of the year. The Board has reassessed how we guide the market and, going forward, we will set our expectations for the next twelve months in line with our 'firm and probable order book', providing market updates to those expectations when new orders are secured whilst also giving us an increased ability to absorb unforeseen challenges. The 'firm and probable order book' for 2018 currently stands at £900m. This change to a more conservative approach is particularly relevant given the shape of the Group's bid pipeline, which includes two opportunities that are bigger in scale but harder to forecast given the binary nature of the possible outcomes.

Changes to accounting standards

A new accounting standard, IFRS 15 Revenue from Contracts with Customers, becomes effective for annual periods beginning on or after 1 January 2018. The implementation of IFRS 15 can impact on the timing of recognising revenue and costs in respect of long-term contracts. The Group has completed its review of the impact of this new standard across all contracts. In the case of the large majority of our contracts, the accounting methodology will be unchanged.

Mears does not capitalise mobilisation costs and typically looks to recognise revenue and cost at the individual works order level, whether that be a singular maintenance order or care visit. This ensures that the valuation of working capital balances is straightforward and contains few areas for judgement.

However, there are a small number of occurrences where the Group has accounted for multiple service contracts by treating them as a single supply of a service. This has been the case where there is a mismatch between the works being delivered and the payment mechanism for reimbursement. The new accounting standard will require Mears to now identify the distinct services provided within a multiple service contract and to allocate a stand-alone selling price against each of those services. The impact of this change in 2018 will see a reduction in opening reserves in the range of £13m to £20m.

The change to IFRS 15 has no impact on the lifetime profitability of the contracts and there are no cash flow impacts, although the change will drive further alignment between the timing of profit recognition and its associated cash flow. Moving forward, we would expect the change to have a positive impact in respect of operating profit for 2018 through to 2027 as the reserves adjustment unwinds.

In respect of more complex contracts, where Mears may be required at times to forward fund some initial work streams, the underlying contractual arrangements will need to be structured to be in line with the new accounting treatment.

A second new accounting standard, IFRS 16 Leases, becomes effective for annual periods beginning on or after 1 January 2019. It is not currently Mears' intention to adopt this standard early, however it is likely to be very material to the Group, and as such, stakeholders will be kept informed as the impact becomes clear. The new standard aligns the treatment of operating leases and finance leases and will require Mears to recognise all leases on the balance sheet which will reflect the right to use an asset for a period of time, together with its associated liability. Given that Mears currently has operating leases in respect of 3,200 vehicles (with an average lease term of 4.5 years) and 5,000 properties (with an average lease term of 2.5 years), this is a significant change. The expected balance sheet impact will increase assets and liabilities in the range of £80m to £140m. In terms of the income statement, EBITDA will increase but we anticipate a neutral impact at a PBT level given that the reduction in administrative expenses is expected to broadly match the increase in depreciation and financing costs.

The Group has historically followed a strict and disciplined approach to keep capital expenditure low and, linked to this, a conservative debt structure. Whilst this core principle is still central to the Group's philosophy, the changes to operating lease accounting does potentially reduce the attractiveness of leasing. On a positive note, the increased transparency over leases may drive more economic lease decisions and so deliver cost savings.

IFRS 16 will affect a large number of commonly used financial ratios and performance metrics including gearing, interest cover, EBITDA, EBIT, operating profit and ROCE. The Group's banking covenants will not be affected by this accounting change as these are 'frozen', and are based on accounting standards at the time the facility agreements came into force. The Group's bank facility runs to 2022, which provides ample time for the banking community to properly digest the impact of IFRS 16 on our performance metrics.

It's about making a positive difference, to enable the individuals and the communities in which we operate to flourish and thrive.

The concept of social value has long been embedded in Mears. We have a strong reputation for delivering some great long-term community and legacy projects. Known to many as Serving our Communities (SOC), our social value goal is clear:

"At the heart of Mears lays a strong sense of responsibility towards improving people's lives. We are committed to achieving this by ensuring everyone we work with creates greater value and wider benefits from adopting an integrated Social Value approach."

As a leading organisation in our markets, we take seriously our responsibility to help meet the needs of wider society. We aim to lead the way with Social Value, delivering lasting and meaningful outcomes through positive community engagement projects.

The delivery of social value and community value are integral to our service offering and are embedded in our internal culture. We engage with all our stakeholders to find ways to use our skills and experience on community based projects that will make a real difference to people's lives.

We have developed a strategy and framework of practical approaches to effectively engage with communities and deliver Social Value throughout the business.

Mears' four social value priorities

1. Fair for All: Reducing prejudice, improving understanding of differences, supporting social inclusion.
2. Championing Local: Improving the wellbeing of people and the communities we serve.
3. Creating Chances: Providing career, skills and employment opportunities.
4. Healthy Planet: Making a positive contribution to our planet.

Social value board

Our key influencers
Our Social Value Board ensures we take a strategic approach to corporate social responsibility and embed it into every area of our business. To help us realise our vision, the Board is led by three external experts:

Richard Kennedy

Richard is chair of the board for Social Value UK and co-chair of Social Value International. Richard is our longest serving Board member and has supported us with the development of our Social Value measurement matrix calculator and supporting framework.

Keith Edwards

Keith is a freelance consultant working in the housing and regeneration sector specialising in new models of ownership and governance, community benefit programmes and co-production based service reviews. He is the lead associate for the Housing Quality Network in Wales and author of several reports for local authorities, national bodies and Welsh Government, and previously Director of the Chartered Institute of Housing (CIH) Cymru for 14 years.

Barry Malki

Barry has significant experience in the field of community development, with a focus on housing and regeneration. Barry is currently employed as Head of Communities for HACT, an innovation agency supporting the Housing Sector. Outside of this he serves on the boards of several Youth Charities and acts as a speaker for Save the Children.

Social value continued

Independent committee members' report on Mears' social value activities

How Corporate Social Responsibility/ Social Value is done at Mears

Mears defines its responsibilities to society to include social, economic and environmental impact. It takes a proactive approach to these responsibilities and recognises that highlighting the positive difference this makes in communities enthuses staff, motivates customers and clients, creates substantial environmental and social benefits and builds competitive advantage for Mears.

Independent overall assessment compared to most companies:
The Independent Social Value Committee Members commend Mears on its wide range of Social Value initiatives in all regions that demonstrate strong community focus and excellent social and environmental behaviours from management and staff.

The level of local consultation to unearth and identify community needs and build them into bids is ahead of current mainstream business practices and is strongly focused on creating maximum Social Value while contributing to winning contracts.

In focus

South Wales National Apprenticeship Awards

Mears was highly commended in the 'Employer of the Year' category for companies with over 5,000 employees in the National Apprenticeship Awards this year. The Award recognises excellence in businesses that grow their own talent as well as investing in apprentices.

Sue Husband, Director of the National Apprenticeship Service, said: "Mears has been highly commended and I would like to congratulate them on their achievement. The recognition is greatly deserved. There has never been a better time to become an apprentice or employ one."

Investing in the future through training and skills:
Mears has its own in-house registered training provider dedicated to improving the skills of employees and the employability of people within the communities we serve. We opened the Training Academy as part of our ongoing efforts to address skills shortages in the sector. It is estimated that 230,000 new tradespeople will be needed in the UK by 2020.

The Training Academy will support unemployed young people and adults to help them gain skills for employment.

The academies are fully equipped and accredited to deliver practical training and apprenticeships across the trades. Our flagship Rotherham academy houses our national gas training centre, accredited by BPEC to train operatives to the standard required for registration with Gas Safe. Across the Group, we employ 360 apprentices and have been named as a Top 100 Apprentice Employer by the National Apprenticeship Service in recognition of the positive experience apprentices have with us.

How effective is our work for Social Value?

Delivering the Solutions to make a difference… Innovation in practice
We believe it is essential to target our social value activities such as volunteering, donations of staff time and materials into the most relevant areas to promote community cohesion and capacity.

The right projects in the right locations…
Through our sister company, Terraquest, we have developed a market-leading portal that gives us insight into local demographics and helps identify areas of deprivation. It enables us to drill down into a local area and find out more information about the demographics, but also to layer crime statistics, depravation information, isolation data, along with health and environmental data. This drives our decision making, allowing us to target intervention and outreach to the most disadvantaged groups and to focus on the right outcomes.

New for 2018, the tool will provide insight into specific housing stock locations aligned to our client business.

Understanding the impact
To understand the difference our work makes, it is essential that we have a robust method for capturing and measuring the full scope of our community engagement.

Our approach is based on evaluating wellbeing, using a bespoke social value calculator – which we continuously update – to measure outcomes and impact, so we can be sure of the difference our work is making.

Continuous improvement
To drive continuous improvement in our business and to gain objective feedback on whether we are achieving our aims, we engage in an annual programme of accreditations.

Customer Service Excellence accreditation
Mears have retained the Customer Service Excellence standard. The standard is a Government backed accreditation scheme which places customers firmly at the centre of the services they receive.

Social Mobility Champion

Mears Group has always been a proud supporter of social mobility and so we were extremely pleased to be chosen as one of the Government's first 12 Social Mobility Champions. The Group has retained its Social Mobility Champion status and reflects the many good things we do in opening our doors to people from all walks of life.

Mears and The Prince's Trust

Our corporate partnership with The Prince's Trust – which supports 13 to 30-year olds to get into work, education or training – has generated some exciting results this year. We've had the opportunity to take a hands-on role in the Trust's great work to make a real difference in young people's lives, delivering a Get into Construction programme in Your MK for 12 young people and supporting 25 programmes with business volunteers.

The Mears Foundation

The Foundation was established to promote charitable fund raising and giving for projects and initiatives which help disadvantaged and hard-to-reach groups across the spectrum of young people, vulnerable groups and elderly. It aims to provide support through volunteering and hands on help for nominated causes, not just financial support. This year, teams across the Group have been taking part in a variety of events, specifically focusing on social isolation.

Who has benefitted?

Men in Sheds: The foundation supported Dartford and Eastbourne branches with Age UK's Men in Sheds project. This is an innovative scheme that supports older men who want to get together, share and learn new skills - all in the welcoming space of a shed.

Laying foundations, building friendships – in South Africa

In October, a volunteer team from the Mears Foundation went to South Africa to maintain local orphanage buildings. The work included decorating, bricklaying, carpentry, glazing and laying foundations for a new building.

Delivering our Social Value Plans: in practice

Every branch of Mears makes a social value pledge, which focuses on specific activities to improve its local community in at least one of these areas.

Mears' four social value priorities

Championing local
Improving the wellbeing of the people and communities we serve

Fair for all
Reducing prejudice, improving understanding of differences and supporting social inclusion

Creating chances
Providing career, skills and employment opportunities

Healthy planet
Making a positive contribution to our planet

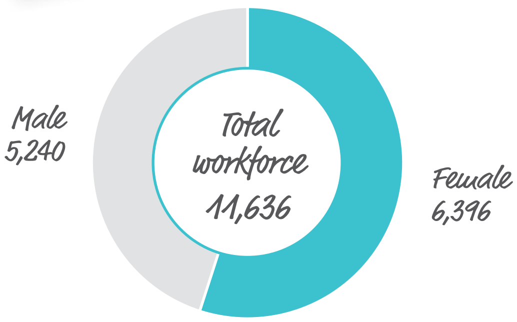
Championing local

Improving the wellbeing of people and the communities we serve

We work closely with our partners and clients to identify local social value projects to get involved in. This local approach makes all the difference: through the development of branch social value plans, we can push the boundaries to deliver real impact, enabling individuals and the communities in which we operate to flourish and thrive.

Vital Food Bank for Milton Keynes

Mears' Regeneration partnership, YourMK, joined forces with the Milton Keynes Food bank this year to increase the support the food bank could offer residents. Both organisations decided to work together as they share the similar values and ambitions for the city and its residents. We wanted to support this vital service while doing all we can through regeneration to address the issues that result in our residents needing that support in the first place.



Fair for all

Reducing prejudice, improving understanding of differences, supporting social inclusion

Only 1% of the construction trade workforce in the UK are women. Less than 2% of trade apprentices are female. We want to do better than that at Mears and we want to support the social housing sector to do better, too.

We have created a suite of publications, developed by the Mears' Tradeswomen into Maintenance Project, all aimed at increasing the number of women trade operatives in social housing maintenance. The suite can be found on the Mears' website and includes; 'Best Practice Guide making social housing landlords and maintenance companies open to tradeswomen', 'Resource Directory signposting for girls and women wanting to work on the manual trades in the Social Housing Maintenance sector' and 'Legal Guide guidance and templates for the procurement of social housing contracts, maximising the recruitment and retention of tradeswomen'. We are extremely proud of what we have achieved with the Tradeswomen into Maintenance project. Mears is determined to recruit and retain a diverse workforce. We have some fantastic tradeswomen who are keen to be mentors for the next generation.

Mears joint venture with Bromley to tackle homelessness

This year, we formed a joint venture with Bromley Council to help tackle the growing challenge of homelessness in the borough. The 'More Homes Bromley' venture will see us purchase, refurbish and manage 400 properties to 'Decent Homes' standard on behalf of the Council. Currently, more than 1,000 households in Bromley are in temporary accommodation – in many cases this means costly B&Bs as there is too little suitable accommodation to meet demand. Homelessness is a growing problem, especially in London, and we have to seek innovative ways to fulfil our duty to vulnerable families from the borough when they have now here else to go. With such large numbers needing temporary accommodation while more permanent solutions are sought, this venture offers a real alternative to using expensive B&B accommodation. It is important that we look at new and cost-effective ways in which to meet our statutory obligations, as housing is under such pressure as demand continues to rise.

Gender split of the workforce

	Directors	Employees	Total
Male	8	5,232	5,240
Female	2	6,394	6,396

In focus

Addressing training needs of hard-to-reach groups through collaborative working

Working with our partners Yes Manchester and The Skills Company, we held a pilot pre-recruitment programme, to target candidates out of reach of the employment market. They included a diverse mix of individuals representing the hard-to-reach and NEET groups, including BMEs, females, person with mental health issues and ex-offenders.

The results
The pilot was a great success and we directly recruited six out of the eight candidates for the Mears national apprenticeship programme and all of them are currently working towards NVQ Levels 2 and 3 in a range of trade and technical specialisms.

Barriers
One of the barriers that we encountered in formulating the pre-recruitment programme related to the issue of candidates being disqualified from receiving Universal Credit during the six weeks of training. To overcome this The Skills Company negotiated a special arrangement with the Job Centre Plus so that candidates could continue to receive their benefits.

Critical success factors
One of the critical factors contributing to the success of the pre-recruitment programme has been the time taken to communicate and explain the training in detail at the outset. This has ensured that candidates fully understand the programme objectives, what is entailed, what is required from them and the possibility of an apprenticeship at the end of the training.

Our female trainee Maintenance Operative got her opportunity through Yes Manchester, which helped her secure an interview with us and she successfully secured a six-week traineeship on the pre-recruitment programme.

After completing the traineeship she was offered a place on our apprenticeship programme as a maintenance trainee and is currently working towards her NVQ.

We directly recruited six out of the eight candidates for the Mears national apprenticeship programme and all of them are currently working towards NVQ Levels 2 and 3 in a range of trade and technical specialisms

Creating chances

Providing career, skills and employment opportunities

Rotherham Careers Event Brings Employment Opportunities
Mears brought together local businesses and organisations to showcase employment and training opportunities at the annual Local Employment Advisory Forum (LEAF) event in Rotherham. Over 1,200 students and jobseekers attended the LEAF event, held at the Magna Science Adventure Centre.

Working with schools
Our Rotherham branch and faith school St Pius in Wath are the first to be officially 'matched' in an exciting programme to help businesses and schools work together. The national 'Enterprise Advisers' programme, sees volunteers from the world of work and business team up with schools to increase the quality and quantity of careers and enterprise learning for young people.

Supporting our military veteran colleagues
We have launched a Military Veterans Group to recognise our colleagues who have served in the armed forces. These valued colleagues are best placed to encourage more ex-service personnel to consider Mears, whether within housing or care, for future employment opportunities. Our Military Veterans Group will also discuss ways in which our business can become more inclusive and supportive for those making the transition from the armed services.

Eight employers from across the South West have been presented with a Silver Defence Employer Recognition Scheme Award at a recent ceremony
Mears were amongst the award recipients of the Silver Defence Employer Recognition Award. The Defence Employer Recognition Scheme (ERS) encourages employers to support Defence and inspire others to do the same.

Creating a peaceful home for former soldiers
Mears have joined forces with building materials provider Travis Perkins, to transform Adelaide House, a former nursing home, in the Malvern Hills, which had been bought by Rooftops Housing Association. Once the Victorian building has been renovated it will become a treatment and recovery centre for former soldiers living with Post-Traumatic Stress Disorder (PTSD).

The national 'Enterprise Advisers' programme, sees volunteers from the world of work and business team up with schools to increase the quality and quantity of careers and enterprise learning for young people

Healthy planet

Making a positive contribution to our plan

Delivering Social Value with our Supply Partners
At Mears, we believe we are more effective in delivering social value where we can share resources, skills, experience and financial support with our supply partners. To ensure a consistent approach throughout our supply chain, we expect our suppliers to have or adopt similar business principles to our own. Our suppliers are required to acknowledge the significance of social, environmental and ethical matters in their conduct and must have a commitment to working towards improving quality standards and performance in these areas. Above all, we expect suppliers to be able to demonstrate compliance with all the UK, EU and international legislation that applies to business operations from Modern Slavery, Anti-Bribery and Health, Safety & Wellbeing laws to product specific regulations.

We also have a commitment to continuously increase the number of local SME subcontractors on our approved list, ensuring that a proportion of contract spend remains within the local economy by supporting increased revenue generation and increasing employment opportunities.

Mears' commitment to the environment extends beyond its own operations, into the supply chain. Over 90% of our material spend is purchased from merchants recognised for sustainable procurement. Mears continues to reduce carbon emissions, as detailed below.

Scope	Units	2016	**2017**
Scope 1	Tonnes CO_2e	19,069	**20,795**
Scope 2	Tonnes CO_2e	1,482	**1,673**
Scope 1 and Scope 2 intensity	Tonnes CO_2e/£m Revenue	22.83	**23.90**

A successful partnership with Network Waste has helped us to achieve 90% recycling rates and more than a 10% reduction in waste costs

relectricals

Mustard Tree
Combatting Poverty – Preventing Homelessness

In focus

Working with social enterprise to reuse materials

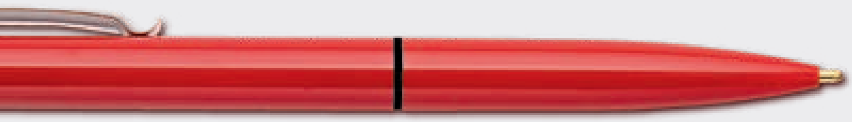
We engage and collaborate with social enterprises to facilitate the reuse of various items we come across whilst undertaking our services. We have worked with a number of social enterprises such as Electronics Recycling (Relectricals) and Mustard Tree, which is a Manchester-based social enterprise working to tackle homelessness and provide employment opportunities. This approach, whilst supporting our wider social value objectives, ensures that any reusable items are reused/recycled as waste to landfill is minimised.

The Strategic Report was approved by the Board of Directors on 19 March 2018 and signed on its behalf by

David Miles
Chief Executive Officer

Andrew Smith
Finance Director
19 March 2018

Corporate governance



We seek to maintain high standards of corporate governance as this will help to facilitate the success of the Company and sustain this over time.

Introduction to corporate governance

"Our Board aims to ensure a high standard of governance is embedded across all areas of our business."

Bob Holt
Chairman

An effective culture of governance

Dear shareholder,

I am pleased to confirm that your Company has applied the provisions of the UK Corporate Governance Code 2016 (the 'Code') throughout the year.

2017 has been an extremely challenging year for the Group. We have been disappointed with the financial performance, albeit some of the events could not have been anticipated. Our Strategic Report highlights our strategic priorities and the actions we are taking in order to position the business to deliver long-term value for our shareholders and all our stakeholders.

My fellow Non-Executive Directors and I have continued to add challenge and guidance to the Executive Directors to ensure we are well placed to maximise the future opportunities. The Board appointments made over the last twelve months have added quality and diversity to Board discussions.

Activity during 2017

In my last Governance Report, I explained that our Nomination Committee had identified two excellent new appointments to the Board in Roy Irwin and Jason Burt. They have both been fully inducted, settled in well and are making a positive contribution. The balance of the Board has continued to be a key focus and I am pleased to announce the appointment of Elizabeth Corrado as Independent Non-Executive Director in September 2017 to further enhance the skills, experience, quality and diversity of the Board. I am confident that recent Non-Executive Board changes will further enhance the independence and objectivity of the Board. Biographies of our Board members can be found on pages 50 and 51.

We have continued to challenge our working methods and processes in our pursuit of best practice. We will continue to monitor and review Group processes and procedures in order to identify and further mitigate risk.

We see a strong governance culture being key to the sustained success of the Group. We recognise it is the duty of the Board, under my leadership, to demonstrate that the behaviours and values we set in the boardroom, are embedded throughout our organisational structure. I see the appointment of an Employee Director as being an exciting step forward. The aim of the exercise is to enhance the voice of employees within Company governance so that better decisions are made in the long-term interests of the Company and all those who depend on it. I firmly believe that better employee representation can improve the quality of decision making by bringing a different perspective and information set to the Board. The benefits of listening to employees and engaging them in both consultation and decision making are already widely recognised. I look forward to nominating this candidate for election at the 2018 Annual General Meeting. Further information on this position can be found in the Report of the Nomination Committee.

Succession planning and skills shortage

The Board continues to support the internal leadership and development courses delivered by our insourced training provider. We have also placed significant focus on improving diversity across the business. For instance the 'Tradeswomen into Maintenance' project aims to increase the awareness of trade employment and training opportunities for female trade apprentices and operatives in the social housing maintenance sector. In addition we place great emphasis upon social mobility and creating opportunities for people from disadvantaged backgrounds. At Mears, we aim to make sure jobs and opportunities are open to everyone and to reflect the communities which we service.

Meeting our major shareholders

We continue to maintain regular engagement with investors and analysts to ensure our business model and strategy is well communicated and understood. Our Executive Directors meet with shareholders on a regular basis, and the entire Board is available for shareholders as required, and indeed have met shareholders on a number of occasions during the year. In my Chairman's Report on pages 4 to 6, I have highlighted that we intend to take a more conservative approach in setting market expectations in the future in an increasingly volatile market.

R Holt
Chairman
bob.holt@mearsgroup.co.uk

19 March 2018

Your Board

N

Bob Holt OBE

Non-Executive Chairman

Age: 63

Tenure: 21 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.

Principal external appointments:

Chairman, Lakehouse PLC

Chairman, Totally PLC

David J Miles

Chief Executive Officer

Age: 51

Tenure: 21 years (11 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.

Principal external appointments:

None

Andrew C M Smith

Finance Director

Age: 45

Tenure: 18 years (11 years on the Board)

Skills and experience:

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

Principal external appointments:

None

N S

Julia Unwin CBE

Non-Executive Director

Age: 61

Tenure: 2 years

Skills and experience:

Julia is former Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust. She has significant experience in the housing and care sectors, having been a member of the Housing Corporation Board for ten years.

Principal external appointments:

Yorkshire Water Services Limited

A

Jason Burt

Non-Executive Director

Age: 52

Tenure: 1 year

Skills and experience:

Jason Burt was a senior partner at Plexus Law, specialising in complex employers' and public liability claims. His appointment will further integrate health and safety into the Group's governance structures, driving good working and health and safety practices. Jason will chair a newly formed Health, Safety and Environment core group and be a member of the Audit and Risk Committee.

Principal external appointments:

None

R

Roy Irwin

Non-Executive Director

Age: 63

Tenure: 1 year

Skills and experience:

Roy Irwin has significant experience in the social housing sector, having lately been Chief Inspector for the Audit Commission following a career of over 30 years in public sector housing. Since 2013, Roy has held the position of Non-Executive Chairman of Plexus and Omega Housing, being Mears' Registered Providers of social housing with the Homes and Communities Agency.

Principal external appointments:

None

Alan Long

Executive Director

Age: 55

Tenure: 12 years (8 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.

Principal external appointments:

None

R A N S

Peter F Dicks

Non-Executive Deputy Chairman and Senior Independent Director

Age: 75

Tenure: 10 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.

Principal external appointments:

Chairman, Miton UK MicroCap Trust plc

A

Geraint Davies CBE

Non-Executive Director

Age: 63

Tenure: 2 years

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.

Principal external appointments:

Cardiff International Airport Limited

A

Elizabeth F Corrado

Non-Executive Director

Age: 52

Tenure: <1 year

Skills and experience:

Elizabeth was until recently an Executive Director of the Power to Change charitable trust, with a focus on creating innovative projects in housing and energy, enabling investment into UK communities at scale and generating both financial and social returns for investors and local communities. Liz previously held senior positions in investment banking providing advice and structured finance to both the Government and a range of business sectors.

Principal external appointments:

None

Ben Westran

Company Secretary

Age: 41

Tenure: 14 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

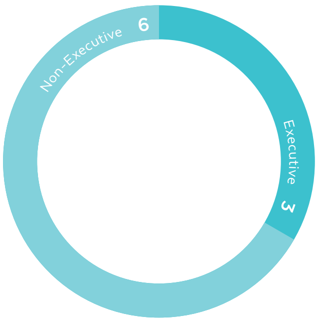
N Nomination Committee

Chairman

S Senior Independent Non-Executive Director

Length of tenure of Board

Executive/ Non-Executive Directors



Corporate governance report

Leadership

How the Board operates

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 the long-term success of the Group, having regard to the interests of all stakeholders.

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 these objectives. 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.

Corporate governance framework

As a Board we aim to be sector leaders in our standards of corporate governance across the business.

The governance framework extends to operational activities, as outlined in the risk management process on pages 22 to 24.

Leadership and effectiveness

Our Board

Role and responsibilities

Role and responsibilities

- Develop proposals on strategy and deliver value to shareholders and stakeholders.
- Monitor management activity and performance against targets.
- Provide constructive challenge to management.
- Set parameters for promoting and engaging the interest of shareholders and investors.
- Ensuring satisfactory dialogue with shareholders takes place.

Matters reserved for the Board's decision

Matters reserved for the Board's decision

- Group strategy, business objectives, long-range plans and annual budgets.
- Annual and interim results approval.
- Material acquisitions, disposals and contract bidding approval.
- Major changes to internal controls, risk management or financial reporting policies and procedures.
- Changes to advisers.
- Setting the risk appetite of the Group.
- Changes to capital and management structure.
- Succession planning for the Board and senior management.
- Board appointments and independence.
- Appointment, termination and remuneration of Directors and the Company Secretary.

The Chairman

Key responsibilities:

- is responsible for the leadership of the Board and ensuring its effectiveness;
- sets the Board's agenda and ensures adequate time is available for discussion of all agenda items;
- ensures all discussion is in the context of the long-term success of the Group;
- promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors;
- ensures that the Directors receive accurate, timely and clear information; and
- is responsible for designing a rigorous annual evaluation of the performance of the Board and individual Directors.

The Chief Executive Officer

Key responsibilities:

- manages the day-to-day business operations of the Group;
- ensures that the appropriate standards of corporate governance permeate throughout the organisation;
- recommends key strategies and is responsible for execution of those agreed by the Board;
- takes a leading role in the relationship with all external agencies and in promoting Mears Group PLC; and
- directs the risk profile of the Group in line with the risk appetite and categories of risk identified and accepted by the Board.

Read the Review of Operations on **page 28 to 35**

The Board

Audit Committee

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

Read the Report of the Audit Committee on **page 60**

Remuneration Committee

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

Read the Report of the Remuneration Committee on **page 65**

Nomination Committee

Key objective:
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.

Read the Report of the Nomination Committee on **page 58**

Divisional Boards

Key objective: Carries out activities delegated by the Board, including:

- day-to-day operational management of the business;
- monitoring service delivery performance measures and driving improvements;
- financial performance reviews and comparison to forecasts and updated forecasts; and
- business development activity not subject to Board approval.

Corporate governance report continued

Leadership

Corporate governance framework continued

Board composition and meetings in 2017

Governance framework

Our governance framework supports the development of good governance practices throughout the Group. No one individual has unfettered powers of decision. The Board works closely with the Executive team which ensures Board behaviours and culture are effectively communicated and embedded within the Group. Regular updates are received from the Executive Directors in order to keep the Non-Executive Board members informed of how the business is progressing.

Role	Potential	Attended	Responsibilities include:
Chairman			
Bob Holt	6	6	→ Promoting a culture of challenge, debate, openness and support. → Leadership of the Board and ensuring its effectiveness. → Ensuring Directors allocate sufficient time to the Company to discharge their responsibilities effectively. → Effective communication between the Board, the sub-committees and its key stakeholders. → Ensuring the Board demonstrates culture, values and behaviours of the Group. → Ensuring the Board presents a fair, balanced and understandable assessment of the position and prospects of the Group.
Senior Independent Director			
Peter Dicks	6	6	→ Being the principal conduit between the Chairman, Non-Executive Directors and shareholders. → Leading the annual performance evaluation of the Chairman, including collecting the views of the Executive Directors. → Providing a sounding board for the Chairman.
Independent Non-Executive Directors			
Jason Burt	4	4	→ Promoting the highest standards of integrity, probity and corporate governance throughout the Group and the Board.
Roy Irwin	4	4	→ Constructively challenging decisions proposed by the Executive Directors.
Julia Unwin	6	6	→ Assisting in developing proposals on strategy.
Geraint Davies	6	6	→ Contributing to the performance evaluation of the Chairman.
Elizabeth Corrado	2	2	→ Briefing the Board on decisions made and key issues from each Committee Chair.
Executive Directors			
David Miles Chief Executive Officer	6	6	→ Managing the day-to-day running of the business in line with the strategy and objectives set by the Board. → Ensuring the Board is supplied with sufficient and appropriate information on a timely basis. → Leading the business within the scope set by the Board. → Developing strategy and setting objectives to meet the Group strategy. → Managing the Group's operation to ensure it meets the risk appetite set by the Board.
Andrew Smith Group Finance Director	6	6	→ Supporting the CEO in developing strategy and meeting objectives. → Establishing strong control processes. → Managing the treasury activities in accordance with the credit risk appetite set by the Board. → Supporting the CEO with investor relations. → Leading the development of talent within the finance function.
Alan Long Group Executive Director	6	6	→ Supporting the CEO in developing strategy and meeting objectives. → Supporting the CEO in managing external communications and investor relations. → Setting the Group social value policies and procedures. → Leading the operational leadership and development function of the Group.

In addition to planned Board meetings, the Chairman meets with the Non-Executive Directors to discuss, on a less formal basis, Group performance, strategy, governance and Board succession plans. The Executive Directors do not attend these meetings.

The Board considers all Non-Executive Directors who served during the year to be independent in terms of judgement and character and free from any relationship that might materially interfere with the exercise of independent judgement.

Activities of the Board during the year

Board discussion during 2017 to deliver strategic priorities

Strategy

- Discussed performance of both operating segments
- Discussed strategy to ensure the Group is well placed as the market evolves, with particular focus in interdependencies between Housing and Care

Financial performance

- Approval of 2017 budget
- Reviewed performance by business segment
- Approval of 2016 Annual Report and dividend
- Approval of announcement of final results for 2016
- Approval of amend and extend to revolving debt facility
- Approval of interest rate and fuel hedging instruments

Deliver our strategic priorities

1. Deepening our client partnerships in both core markets
2. Maintaining quality leadership
3. Developing our people

Read about our strategic priorities on **pages 16 and 17**

Corporate governance and risk management

- Reviewed and considered matters discussed at Audit Committee meetings
- Selection and appointment of new Non-Executive Directors
- Reviewed statutory policies such as tax strategy, anti-slavery and gender pay policy and disclosure requirement
- Reviewed risk register and associated mitigation strategy

Values and ethics

- Review of social mobility plan
- Reinforcing the red thread principles which set out the behaviours and values underpinning the Group's culture
- Review of output from employee satisfaction survey

Stakeholder engagement

- Engaged with private shareholders at AGM
- Reviewed and considered investor feedback following final and interim results investor roadshows

Corporate governance report continued

Effectiveness

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.

Director information, induction and development

It is a key responsibility of the Chairman to ensure all Non-Executive Directors receive appropriate training and development to ensure they can discharge their duties to the Board and the Committees to the best of their ability. Non-Executive Directors are fully engaged with their ongoing development, which is discussed when each Non-Executive Director has their annual individual meeting with the Chairman.

All Directors have access to the Company Secretary, who is responsible for all Board compliance requirements, to ensure they are updated on all legislative developments. In addition to this, the Company Secretary ensures the Board agenda and papers are provided at least seven days in advance of the meeting. Minutes and actions from previous meetings are distributed on a timely basis. As per the Board policies and procedures, any Non-Executive Director may, on request through the Company Secretary, meet with any member of staff in the Group. Non-Executive Directors are able to request the support of an independent adviser from the Company Secretary.

The quality and timeliness of information provided by the Company Secretary was included as part of the Board evaluation. The findings were that information was thorough and relevant, and in all instances provided suitably in advance.

During the year, Independent Non-Executive Directors Jason Burt, Roy Irwin and Elizabeth Corrado received their individual inductions, which were led by our insourced leadership and development training academy.

The induction process covers:

Corporate – this included focused briefings on: the history of the Group, strategy, financial budget and capital structure overview, strategic planning, leadership and development, competition, legal, health and safety, other regulatory and Government affairs, information security, enabling technology, corporate responsibility, remuneration, internal audit, investor relations, the media and corporate governance. Each focused session was held by the relevant member of the Senior Management Team.

Operations – this included: a UK branch-by-branch overview, a customer service briefing, segmental strategic business development meetings, and one significant contract site visit for each trading division.

Board appraisal

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis. The 2017 Board performance evaluation was externally facilitated.

The external facilitator, Sean O'Connor, 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. Each Board member provided feedback and key observations on the Board's effectiveness as well as suggestions for further enhancement. The Chairman reviewed the range of feedback provided and identified some broad themes. Some recommendations were proposed which have been implemented, but the overall conclusion was that the Board is working effectively. In addition, the performance of the Chairman is evaluated by the Senior Independent Director, having collected the views of the other Directors.

Independence of Non-Executive Directors and Re-election of Directors

The Boards adopts the principals of the Code regarding tenure of the board, and seeks to strike an appropriate balance between continuity of experience and refreshment. Rigorous review is applied in assessing the continuous independence of Directors having served for over 9 years, with attention to ensuring that they remain independent in character and judgement, and continue to present an objective constructive challenge. In respect of Peter Dicks, the Board recognises that independence cannot be determined arbitrarily on the basis of a set period of time. The Board concluded that Peter Dicks remained independent for the report period.

To promote best practice governance, and in accordance with the requirements of the Code, each of the current Directors will offer themselves for re-election annually. Following the evaluation of the Board's performance during the year, it is confirmed that the performance of each of the Non-Executive Directors continues to be effective and that they are considered to demonstrate appropriate commitment to the role. The AGM papers include an accompanying statement as to why the Board believes each Non-Executive Director should be re-elected.

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.

Shareholder engagement

Principal methods of communication with investors

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

Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of the Executive Directors, who respond on a daily basis to queries from institutional and private investors. The Chairman, the Senior Independent Director and other Non-Executive Directors are available to shareholders to discuss any matters they wish to raise. 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 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).

There is an active programme of communication with existing and potential shareholders. There is increased dialogue with institutional investors following the publication of final and interim results, which is facilitated through a series of formal presentations.

The Group regularly receives and responds to questions raised by small private shareholders through the investor enquiry portal within the Group's website. In addition, a number of private shareholders attend the Company's AGM.

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. Shareholders are given access to other members of the Senior Management Team, giving an insight into the strength of the Senior Management Team.

The feedback from this year's shareholder dialogue gave consistent support for the Group's Housing strategy, particularly the recent development in Housing Management. The shareholder feedback in respect of Care was less consistent and the Board welcomes this challenge. Succession planning has been identified as a key area for the Group ensuring that there is less reliance on the Group Chief Executive.

The Group has more regular contact with its banking partners, Barclays and HSBC, and the Group values this close relationship.

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

19 March 2018

Q1 2017

Investor meetings prior to the close period.

Following release of final results for 2016, investor roadshow spanning six days, meeting with both 'buy' and 'sell' side.

Q2 2017

Regular update meetings with existing and prospective shareholders.

AGM held in June 2017, providing an opportunity to meet a number of private investors.

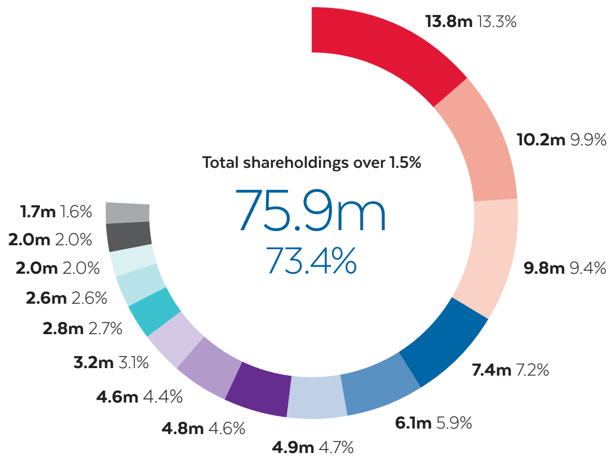
Q3 2017

Following release of interim results for 2016, investor roadshow spanning five days, meeting with both 'buy' and 'sell' side.

Q4 2017

Regular update meetings with existing and prospective shareholders.

Investor lunch providing cross-section of fund managers to meet the key management beneath the PLC Board.



- PrimeStone Capital
- Shareholder Value Management
- Majedie Asset Management
- Heronbridge Investment Management
- Artemis Investment Management
- Legal & General Investment Management
- Schroder Investment Management
- Fidelity Management & Research
- Franklin Templeton Investments
- Montanaro Asset Management
- Columbia Threadneedle Investments
- Close Asset Management
- Slater Investments
- Dimensional Fund Advisors

Report of the Nomination Committee

"I am pleased to present my report to you of the work carried out by the Nomination Committee for 2017, my first full year as Chair of the Nomination Committee."

J Unwin
Nomination Committee Chairman

Nomination Committee

Meeting attendance

J Unwin	●●●
R Holt	●●●
D Hosein	●●

Key

● Attended
○ Absent

This has been a particularly busy year for the Nomination Committee, seeing the appointment of three new Independent Non-Executives who have already made significant contributions to the effectiveness of the Board.

- Roy Irwin has significant experience in the social housing sector, culminating in him being Chief Inspector of Housing for the Audit Commission as part of a career of over 30 years in housing, which included being a Local Authority Housing Director and a Housing Association CEO. Since 2013, Roy has held the position of Non-Executive Chairman of Mears' Registered Providers of social housing with the Homes and Community Agency. Roy joined the Remuneration Committee at the same time as his appointment to the Board.
- Jason Burt was previously a senior partner at Plexus Law, specialising in complex employers' and public liability claims and health and safety related regulatory matters. His appointment was sought to further integrate health and safety into the Group's culture and governance structures, driving good working and health and safety practices. Jason joined the Audit Committee at the same time as his appointment to the Board.
- The latest appointment, in September 2017, was Elizabeth Corrado, who was until recently an Executive Director of the Power to Change charitable trust, with a focus on creating innovative projects in housing and energy, enabling investment into UK communities at scale and generating both financial and social returns for investors and local communities. Elizabeth has joined the Audit Committee.

Each appointment followed a rigorous appointment process either utilising the expertise of an external recruitment consultant or open advertising. The external recruitment consultants used have no connection with the company. This commenced with a detailed review of the cumulative skills and experience of the Board, the output of which was compared to the desired requirements of the Board. The appointments made have significantly contributed to the balance and diversity of the Board. In terms of induction, all new appointments to the Board completed a three-month induction period immediately after appointment. Further details around selection can be found in the Report of the Nomination Committee, and the induction process of our recent appointments has been explained in the Chairman's Introduction to Corporate Governance.

I am excited at the forthcoming appointment to the Board of an Employee Director. Mears will be one of the first listed companies to take this bold step. I firmly believe that better employee representation can improve the quality of decision making. The benefits of listening to employees and engaging them in both consultation and decision making are already widely recognised.

We have considered the culture of the Board and the Group as a whole during our discussions this year. The Mears culture is articulated in the Social value section of the Strategic Report, which can be found on pages 41 to 47. The Nomination Committee plays a vital role in embedding a positive culture throughout the Group. This is done by ensuring our succession planning and appointment processes identify candidates that demonstrate our vision, values and desired culture. This will continue to be an area of focus for the Nomination Committee going forward.

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;
- reviewing the length of service of Non-Executive Directors to ensure a progressive refreshing of the Board, whilst retaining the correct level of experience;
- 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; and
- 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.

Activities during the year

- reviewed Board effectiveness, Board governance, Executive and Non-Executive Director succession and deliberation of person requirements for the appointments to the Board;
- recommended to the Board the appointment of Roy Irwin, Jason Burt and Elizabeth Corrado as Non-Executive Directors;
- approved the process for the externally facilitated Board effectiveness evaluation;
- recommended to the Board that all Directors stand for re-election;
- reviewed the performance of the Committee against its terms of reference;
- considered the re-appointment of Peter Dicks as Non-Executive Director for a further one-year term. Peter will not be standing for re-election at the 2018 AGM; and
- reviewed and discussed the internal leadership and development programme to ensure its appropriateness for succession to the Board.

Diversity

We have a number of active diversity initiatives across the Group, including the 'Tradeswomen into Maintenance' project and our social mobility focus, as mentioned in the Chairman's Introduction to Corporate Governance.

The Committee receives updates on all diversity initiatives, and monitors the level of engagement and investment. The Executive Directors are challenged by the Nomination Committee to ensure that these diversity initiatives remain high profile.

The appointments in 2017 have increased the diversity of our Board in terms of gender and experience. The Board now comprises 20% female Directors. Whilst the Board notes the recommendation of the Hampton-Alexander review to target 33% female Board representation by 2020, the Committee follows a rigorous appointment process which the Committee feels is free from bias.

Board appointment process

When making Board appointments, the Committee reviews and approves an outline brief and role specification. Initially a longlist of candidates is prepared. The names of longlisted candidates are obliterated in the initial screening performed by the Committee in order to safeguard against unconscious bias in the selection process. A balanced assessment of diversity, skills, knowledge, experience and approach is performed. After interviews are held, the Committee will ultimately make a recommendation for Board consideration.

Following Board approval, a tailored induction programme is developed between the Committee and the Group's insourced leadership and development team.

The terms and conditions of each appointment of Non-Executive Directors are made available on request of the Company Secretary, and are available for inspection at the AGM.

J Unwin
Nomination Committee Chairman
julia.unwin@mearsgroup.co.uk

19 March 2018

Report of the Audit Committee

Accountability

> **"The Audit Committee assists the Board in fulfilling its oversight responsibilities including, in particular, the Group's financial reporting, risk management and internal controls and the independence and effectiveness of the external auditor."**

G Davies
Audit Committee Chairman

Audit Committee

Meeting attendance

G Davies	●●●●●
P Dicks	●●●●●
J Burt	●●●●●
E Corrado	●

Key
● Attended
○ Absent

This report sets out how the Committee has fulfilled its responsibilities during the year. This report also sets out, in relation to financial reporting matters, the significant issues that were considered and how they were addressed.

As confirmed at the 2017 AGM Jason Burt has joined the Committee and has been joined by Elizabeth Corrado, our newest Non-Executive Director. They bring to the Committee recent and relevant financial and risk experience and I welcome their appointment. At the same time Peter Dicks, a long-time member of the Committee, retires from the Board and this Committee at the 2018 AGM. I thank him for his considerable contribution to the work of the Committee over many years.

I have continued to have a number of detailed review meetings with the Chief Risk Officer and also met with a substantial shareholder to address some questions from them.

As presaged in the 2017 Annual Report and Accounts a new committee dealing with health, safety and environmental risks has been formed. This Compliance Committee is a sub-committee of the Audit Committee and is chaired by Jason Burt. With his detailed knowledge of employers' and public liability claims he is ideal for the role. The extent to which the full integration of health, safety and environmental risks are now embedded in the governance structures of the Group is highlighted by the members of the Compliance Committee who include: the Group's CEO, Chief Risk Officer, Health and Safety Director and Health and Safety Solicitor. The Compliance Committee has detailed terms of reference which include:

- to review and monitor the Group's policies in relation to safety health and environmental (SHE) matters;
- to review SHE risks and risk assessments on the Group risk register and mitigation actions and controls related thereto including subcontractor controls and related procurement; and
- to review Group buildings compliance and safety including fire and other risks.

In relation to financial reporting the two primary significant judgements remain the carrying value of Care goodwill and revenue recognition. Both of these continue to have a high level of materiality and carry a significant level of judgement. In reaching its conclusions the Committee has had very detailed discussion with management and gained assurance from the detailed procedures carried out by the external auditor, Grant Thornton UK LLP.

A third key judgement is the assumptions surrounding the defined benefit pension valuations. Despite the valuations being prepared by independent actuaries the Committee is very aware that, in a volatile economic environment, assumptions around bond rates and discount rates are less predictable and small movements in these assumptions can result in a material change to the carrying value of assets and liabilities in a reporting period. Given the requirement that the Annual Report is fair, balanced, concise and understandable, the Committee supports the analysis prepared by the Finance Director on pages 36 to 40 which enables stakeholders to understand the differing risks associated with our LGPS and non-LGPS pension schemes.

In relation to risk management and internal control the CRO manages an extended internal audit team whose annual plan is based on the Group risk register and is approved by the Committee. The 2017 Annual Internal Audit Report, presented to the Committee for approval in February 2018, included more coverage than ever before. I was particularly pleased to note the extent to which management has responded positively and quickly to the system changes suggested by the internal audit work. The CRO also provide detailed updates on the work being undertaken on checking Group buildings compliance post Grenfell and the preparedness for the General Data Protection Regulations (GDPR).

In 2014 KPMG, as outsourced internal audit resource, carried out a detailed review of central financial controls and processes. This year KPMG was asked to review that work and the extent of improvement since 2014. The results show management has very largely adopted the recommendations from 2014 and accepted recommendations arising from the latest review. More detail on the principal risks can be found on pages 25 and 26.

The Committee continues to review the independence and effectiveness of its external audit on an annual basis. The review process includes reviewing the external auditor's plan and subsequent reports and discussion by the Committee of the appropriateness of audit procedures and processes. The Senior Statutory Auditor for 2018 is Rebecca Eagle, who replaces Simon Lowe who rotated off the Mears audit at the end of last year in accordance with Ethical Standards.

Finally the external audit of the Group for 2018 onwards is being tendered currently as determined last year. The result of the tender will be known by the AGM in June this year.

Role of the Committee

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

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 actions 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.

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 and business reporting

The Audit Committee shares the responsibility with the Board for reviewing the appropriateness of the Annual Report and half-year announcements, to ensure that they properly reflect the Group's business model, strategic priorities, key risks and financial and non-financial performance. Consideration is given to 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 2017 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 2022 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 pages 115 to 117 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.

Report of the Audit Committee continued

Accountability continued

Main activities of the Committee during the year continued

Financial and business reporting continued

Carrying value of goodwill continued

The sensitivity to changes in these estimations is detailed in note 10. The Audit Committee takes reassurance from the previous year's impairment review, where the key assumptions have subsequently been found to have been reasonably conservative and that the actual results in the subsequent year have delivered better outcomes than anticipated. The headroom in the period, being the excess between value in use compared to carrying value, has increased which gives the Audit Committee further reassurance although the Committee remains mindful that there is still significant uncertainty in the Care sector and key assumptions could change and materially impact upon the carrying value of the Care business.

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 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 management 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.

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.

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 so 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 page 85.

The Audit Committee reviewed the impact of the new accounting standard, IFRS 15, which comes into effect in 2018 and will impact on the timing of recognising revenue and costs on a small number of contracts.

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 (note 26) on pages 133 to 137.

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 PricewaterhouseCoopers 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 (note 26) on pages 133 to 137 and the Committee concurred with the analysis provided on pages 39 and 40 of the Financial Review in respect of defined benefit scheme pension obligations; 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.

Discontinued activities

As disclosed in note 7 the Group has made full provision for outstanding performance guarantees relating to the disposal of Haydon Mechanical and Electrical Limited in 2013. In 2015 the Audit Committee reviewed the position on each outstanding contract and reviewed the cash flow and cost to complete forecasts of Haydon Mechanical and Electrical LLC (Haydon LLC) in the UAE to see whether they might impact on the performance guarantees. The Committee also saw the contract management work undertaken by the auditor who provided detailed feedback to the Committee. In 2016, note 7 to the Annual Report and Accounts contained a detailed note on the results of Haydon LLC and the position of the outstanding performance guarantees at 31 December 2016 of £13.7m which were disclosed as contingent liabilities in note 27. A number of the performance guarantees have been called in this year and as a result a provision has been made of £16.5m against all outstanding performance guarantees and a provision for future legal costs.

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

- The Committee discussed with management legal advice which suggests a realistic expectation of recovery of the cash outflow in the year and concluded that it was inappropriate to recognise and potential receipt at this stage.
- The Committee saw the contract management work by the auditor who provided detailed feedback to the Committee agreeing with management's views.

New standards and interpretations not yet applied

The Group is required to disclose information on standards that are in issue, not yet effective that have not been early adopted in the financial statements.

The Committee has met with management to discuss management's interpretation and proposed implementation of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. Following these discussions, the Committee reviewed the disclosures within Principal Accounting Policies on pages 100 and 101.

The Committee satisfied itself of the appropriateness of the disclosures after the discussions with management and the review of the disclosures by the external auditor.

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 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (the Risk Guidance) published by the Financial Reporting Council in September 2014.

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.

In addition, the Audit Committee has a new sub-committee; the Compliance Committee. An overview of the Terms of Reference of this committee is included within the Audit Committee Chairman's introduction; the Compliance Committee reports to the Audit Committee under these Terms of Reference.

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 reforecasts 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;

Report of the Audit Committee continued

Accountability continued

Main activities of the Committee during the year continued

Internal control and risk management continued

- regular reviews by the Board and the 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 this evolving and potentially catastrophic risk;
- consideration and discussion relating to regular updates from the Finance Director regarding developments 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.

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. The Chief Risk Officer (CRO) and the Finance Director presented a report on the robustness of the internal controls for the year and an internal audit plan for 2018. 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, including the work of the Compliance Committee.

In 2014 a detailed 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 as envisaged in the 2016 annual report; KPMG, as outsourced internal audit resource, carried out an updated review of centralised controls and processes. Management has accepted recommendations from the 2017 updated review.

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 the 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 external audit of the Group for 2018 forward is being tendered currently as determined last year. The result of the tender will be known by the AGM in June this year.

The Company has adopted a strict policy of prohibiting the external auditor from carrying out non-audit services, in order to safeguard audit objectivity and independence. The Committee is responsible for approval of all non-audit services provided by Grant Thornton; however, this is considered to be in exceptional circumstances only. In such an exceptional event, the Audit Committee would approve only where the Company would be disadvantaged by engaging an alternative provider, for instance where Grant Thornton possesses a detailed knowledge of the structure of the business or an understanding of the markets that the Group operates in. No non-audit services were provided by Grant Thornton during 2017.

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

19 March 2018

Report of the Remuneration Committee

"On behalf of the Board, I am pleased to introduce the Mears 2017 Remuneration Report."

P F Dicks
Remuneration Committee Chairman

Remuneration Committee

Meeting attendance

P F Dicks	●●
R Irwin	–
M Rogers	●●

Key
● Attended
○ Absent

Dear shareholder,

The Directors' Remuneration Policy Report sets out the Company's remuneration policy for Directors. This policy was subject to a binding vote at the 2017 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 2017 financial year. This report, together with this letter, is subject to an advisory shareholder vote at the 2018 AGM.

You will have read earlier in the Annual Report that 2017 has been a challenging year. The financial results fell short of the Board's expectations at the start of the year. Whilst some of the short-term challenges in Housing could not have been anticipated, the Executive team expressed their frustration that a number of other opportunities that could have helped mitigate these challenges did not develop quickly enough. In a year which saw the Group fall short on a number of key performance indicators as detailed on pages 20 and 21, there will be no awards made under the EIP in respect of 2017.

The Remuneration Committee is acutely aware of the sensitivity around increasing pay levels in excess of the general workforce. The Executive team is also mindful of the pay structure of the wider workforce, and has emphasised its desire to ensure that, where possible, resources are targeted to those at the lower end of the pay scale. No pay increases are proposed for the Executive team for the coming year.

During 2017, I was delighted to take the opportunity to invite all employees to participate in a new Save As You Earn scheme (SAYE). The Board applied the maximum discount allowed under HMRC rules of 20%, giving employees an opportunity to acquire shares at 348p subject to a three-year vesting period. Over one thousand employees subscribed for an aggregate of 1.3m shares. It is very pleasing to see such a wide cross-section of people wanting to participate in the future success of the Group.

I hope you find the information in this report helpful and I look forward to your support at the forthcoming AGM. I am always happy to hear from the Company's shareholders and you can contact me direct, or via the Company Secretary, Ben Westran, if you have any questions on this report or more generally in relation to the Company's remuneration.

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

19 March 2018

Remuneration policy

Directors' remuneration policy

Remuneration policy and philosophy

Remuneration policy	How is this achieved?
A simple and transparent remuneration structure that retains and motivates Executives while being sympathetic to Mears' operating environment from both an external and internal perspective.	→ Conservative levels of fixed remuneration balanced with one annual incentive strongly linked to performance. → The performance element of the annual incentive incorporates robust financial, operational and strategic KPIs that are aligned with an evolving business strategy in an uncertain economic environment. → All incentive payments are deferred into equity over a five-year period ensuring clear alignment with shareholders' interests and 'at-risk' remuneration.
A proportion of each Executive's total compensation should be linked to performance related pay and the provision of equity.	→ All incentive payments are delivered in 'deferred' shares. At stretching performance, around one third of the Executive Directors' total remuneration is based on the achievement of key corporate metrics that are aligned to the Company's long-term strategy.
There should be a commitment to fostering a performance culture that aligns an individual's rewards with the key corporate metrics that drive shareholder value creation.	→ The performance measures used in the Executive Incentive Plan are directly aligned with our corporate goals and as such ensure that there is no payment for poor performance. → The Committee will ensure that the remuneration package does not lead to irresponsible behaviour and that it takes appropriate account of risk.

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. 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. When determining base salaries and 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; → pay and conditions throughout the Group; and → the economic environment. When setting the salary levels for the Executive Directors, in addition to the factors summarised above, salary levels paid by companies of a similar size and complexity to Mears are taken into account.	The annual increase will not exceed 10% of annual base salary. The Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take into account relevant market movements. The Company will set out in the section headed Implementation of remuneration policy, in the following financial year, the salaries for that year for each of the Executive Directors.	Not applicable.

Directors' remuneration policy continued

Executive Directors continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
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. Other benefits may be provided where appropriate. 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.
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.	Not applicable.
Executive Incentive Plan (EIP)			
To provide a 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. To 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.	Annual awards of nil-cost options will be made based on the achievement of annual performance measures. Awards will be made in two parts: → 50% of the maximum award will be granted in deferred shares ('Part A'); and → 50% of the maximum award will be granted based on the achievement of a range of annual performance measures ('Part B'). Both awards will vest 60% after three years, with a further 20% after four years and the remaining 20% after five years. The Committee may award dividends/dividend equivalents on shares to the extent that the shares vest. In exceptional circumstances (such as recruitment) the Committee retains the discretion to provide an element of the award in cash. Further details of the operation of the EIP, including the performance measures for 2018, are set out on page 74.	Annual awards made to Executive Directors will be capped at a maximum of 200% of salary. For Part A of the award, 100% will vest if the EPS metric is met in full. For Part B of the award: → 20% of the award will vest for threshold performance; and → 100% of the award will vest for maximum performance. There is straight-line vesting between these points.	The performance measure for Part A will be earnings per share. The performance measures for Part B of the 2018 awards are as follows: earnings per share (EPS), return on capital employed (ROCE), cash conversion, customer satisfaction and health and safety. The Remuneration Committee has discretion to set performance measures and weightings on an annual basis, with performance measures for the next financial year set out in the Statement of Implementation on pages 77 to 79. The EIP contains malus (up to date of vesting) and clawback (two years post vesting) provisions.

Remuneration policy continued

Directors' remuneration policy continued

Executive Directors continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
All-employee share plans			
Encourages employees to own shares in order to increase alignment over the longer term.	All employees are eligible to participate in the Company's Share Incentive Plan (SIP) and Sharesave Plan (Save As You Earn). 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%. Under the terms of the SIP the Company can choose to offer free shares, partnership shares, matching shares (up to two for one on any partnership shares purchased) and/or dividend shares. In addition the Company operates a discretionary unapproved share plan and a Company Share Option Plan (CSOP). No awards to Executive Directors are proposed under these plans.	Under the SIP, Sharesave and CSOP, the maximum amount is equal to the regulatory limits set from time to time.	Not applicable.
Shareholding requirement			
Secures 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/EIP payments.	Minimum shareholding requirement is 400% of salary.	Not applicable.

Notes to the future policy table

Reasons for selecting performance measures

The Committee wanted to ensure that the performance measures selected provide a holistic assessment of overall corporate performance and tie in to the non-financial objectives that the Company embraces throughout the organisation.

EPS growth has been selected as it provides direct alignment to the Company's strategic objectives over the long term and is also transparent, fully understood by participants and an externally audited metric over which they have line of sight.

The use of ROCE and cash conversion (previously incorporated as underpins) ensures that quality of earning is protected and the Company maintains strong working capital management.

Customer satisfaction and health and safety performance conditions are included as these are key KPIs that the Company focuses on and by performing strongly in these areas, it will help win new contracts with end users and support new innovative operating models.

Targets are calibrated to reflect the Committee's assessment of good to exceptional performance and taking into account internal budgets and the current economic environment.

Differences in remuneration policy for all employees

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.

In general, all employees receive base salary, benefits and pension, and are eligible to participate in the Company's share plans. 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.

The remuneration of the Executive Directors and Senior Executives 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.

Directors' remuneration policy continued

Committee discretions

The Committee will operate the EIP according to the plan rules. 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:

- 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);
- the annual review of performance measures and weighting for the EIP and exercise conditions; and
- in exceptional circumstances, the payment of a proportion of the EIP in cash.

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 poor performance and any upward discretion will only be applied in exceptional circumstances.

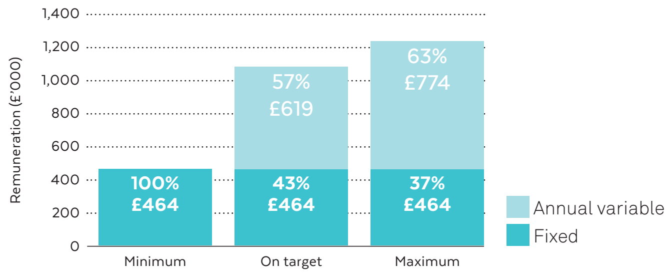
Illustrations of application of remuneration policy

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:

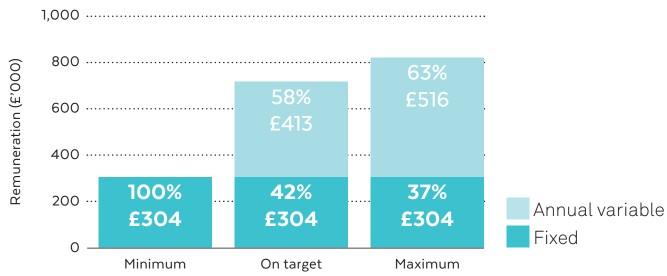
- minimum performance includes where only fixed pay (salary, benefits and pension);
- on-target performance includes Part A of the EIP and 60% of Part B of the EIP; and
- maximum performance includes the maximum opportunity under the EIP.
- Fixed pay is base salary for 2017 plus the value of pension and other benefits.

The charts demonstrate the balance between fixed and variable pay for minimum, threshold and maximum performance for Executive Directors' remuneration in 2017 in line with the relevant policy.

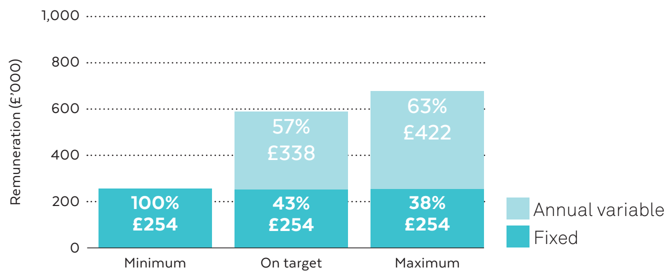
D J Miles



A C M Smith



A Long



Remuneration policy continued

Directors' remuneration policy continued

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 page 73).

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 66 to 68 for more details):

- salary and benefits including defined contribution pensionparticipation or a salary supplement in lieu of pension provision;
- participation in the EIP of up to 200% of salary;
- participation in 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 maximum variable remuneration will be 200% of salary.

The Committee may make awards on appointing an Executive Director to 'buy out' remuneration arrangements forfeited on leaving a previous employer. 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.

Service contracts and payment for loss of office

Director	Date of contract/ letter of appointment	Notice period by Company or Director
Executive		
D J Miles	June 2008	Twelve months
A C M Smith	June 2008	Twelve months
A Long	August 2009	Twelve months
Chairman/Non-Executive		
R Holt	June 2015	Six months
P F Dicks	June 2008	Six months
G Davies	October 2015	Six months
J Unwin	January 2016	Six months
J Burt	February 2017	Six months
R Irwin	February 2017	Six months
E Corrado	September 2017	Six months

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 EIP 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 EIP, 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 EIP will vest immediately.

Directors' remuneration policy continued

Chairman and Non-Executive Directors

The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman, whose remuneration is determined by the Committee and recommended to the Board.

The table below sets out the key elements of the policy for the Chairman and Non-Executive Directors.

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessments
To provide compensation that attracts individuals with appropriate knowledge and experience.	Fee levels are reviewed periodically taking into account independent advice and the time commitment required of Non-Executive Directors. The fees paid to the Chairman and the fees of the other Non-Executive Directors aim to be competitive with other listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity. Non-Executive Directors receive a base fee and additional fees for the role of Senior Independent Director or membership and/or chairmanship of certain Committees. The Chairman receives a single fee and does not receive any additional fees for membership and/or chairmanship of Committees. Non-Executive Directors also receive reimbursement of reasonable expenses (and any tax thereon) incurred through undertaking their duties and/or Company business.	Any increase in Non-Executive Director base fees or additional Committee/membership fees (if introduced) may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities. The maximum potential value of any benefits provided is the cost of these provisions. The Company will pay reasonable expenses incurred by Non-Executive Directors. Current fee levels are set out in the Statement of Implementation on page 78.	Non-Executive Director fees are not performance related. Non-Executive Directors do not receive any variable remuneration element.

Directors' remuneration policy continued

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.

Consideration of employment conditions elsewhere in the Group in developing policy

In setting the remuneration policy for Executive Directors, the Remuneration Committee takes into account Group and 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.

The Committee has not expressly sought the views of employees and no remuneration comparison measurements were used when drawing up the Directors' remuneration policy. Through the Board, however, the Committee is updated as to employee views on remuneration generally.

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 regarding the changes we made to the remuneration policy in 2017.

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

Annual remuneration report 2017

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 the regulations.

Executive Director (£'000)	Year	Salary	Taxable benefits	Pension	Annual incentives	Total remuneration
D J Miles	**2017**	**369**	**19**	**55**	**—**	**443**
	2016	363	19	54	—	436
A C M Smith	**2017**	**250**	**7**	**37**	**—**	**294**
	2016	242	7	36	—	285
A Long	**2017**	**205**	**12**	**31**	**—**	**248**
	2016	198	11	30	—	239

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.

Chairman and Non-Executive Director (£'000)	Year	Salary	Taxable benefits	Pension	Annual incentives	Total remuneration
R Holt	**2017**	**233**	**14**[1]	**38**	**—**	**285**
	2016	250	95[1]	—	—	345
D L Hosein	**2017**	**20**	**—**	**—**	**—**	**20**
	2016	45	—	—	—	45
M G Rogers	**2017**	**20**	**—**	**—**	**—**	**20**
	2016	45	—	—	—	45
P F Dicks	**2017**	**60**	**—**	**—**	**—**	**60**
	2016	45	—	—	—	45
G Davies	**2017**	**60**	**—**	**—**	**—**	**60**
	2016	45	—	—	—	45
J Unwin	**2017**	**60**	**—**	**—**	**—**	**60**
	2016	45	—	—	—	45
R Irwin	**2017**	**42**	**—**	**—**	**—**	**42**
	2016	**—**	—	—	—	—
J Burt	**2017**	**58**	**—**	**—**	**—**	**58**
	2016	**—**	—	—	—	—
E Corrado	**2017**	**14**	**—**	**—**	**—**	**14**
	2016	**—**	—	—	—	—

1. From the approval of the remuneration policy at the 2017 AGM, R Holt receives a single fee with no other benefits.

Annual report on remuneration continued

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

The performance measures and targets for the EIP for the year ended 31 December 2017 are detailed below. Despite the fact that a number of performance targets were met, the Executive team requested that no awards are made under the EIP in respect of the 2017 financial year.

Description	Weighting	Calculation	Targets
Earnings per share (EPS)	40%	→ Growth in diluted EPS. → Diluted EPS is stated before exceptional costs and amortisation of acquisition intangibles and is adjusted for a normalised tax charge from 1 January 2017 to 31 December 2017. → Base figure of 30.36p 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%.
Return on capital employed (ROCE)	20%	→ Operating profit divided by capital employed. → Operating profit is stated before acquisition intangible amortisation and exceptional costs. → Capital employed is defined as total assets less current liabilities less all balances relating to bank borrowings and overdrafts classified within non-current liabilities at 31 December 2017.	Threshold: → 15% ROCE leads to 20% maximum contribution. Maximum: → 20% ROCE leads to 100% maximum contribution. → Straight-line contribution between 15% and 20%.
EBITDA cash conversion	20%	→ Cash inflow from operating activities as a proportion of EBITDA measured at 31 December 2017.	Threshold: → 80% cash conversion leads to 20% maximum contribution. Maximum: → 100% cash conversion leads to 100% maximum contribution. → Straight-line contribution between 80% and 100%.
Customer satisfaction	10%	→ The measure is the percentage of customers who rate our service as 'excellent'. → This output is generated from around 80,000 customer surveys carried out during 2017.	→ A level of customer 'excellent' service rating of 90% must be achieved in order to deliver a maximum contribution.
Health and safety	10%	→ The measure is accident frequency rate (AFR). It is calculated as the number of reportable incidents divided by the number of hours worked, multiplied by 100,000.	→ An AFR below 0.25 must be achieved in order to deliver a maximum contribution.

Annual report on remuneration continued

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

The actual performance achievement is summarised below:

Performance measures	Actual	% of target satisfied
EPS growth	(8%)	0%
ROCE	17%	45%
EBITDA to cash conversion	61%	0%
Customer service – 'excellent' rating	92%	100%
AFR	0.22	100%

The Remuneration Committee and the Executive team have agreed that no awards will be made under the EIP in respect of the 2017 financial year.

Statement of Directors' shareholding and share interests (audited)

Directors' share interests are set out below:

		Share interests		
		Conditional unvested	Vested but unexercised	
Director	Number of beneficially owned shares	Share awards/ options	Options	Total interests held at year end
D J Miles	175,020	103,999	60,730	339,749
A C M Smith	110,000	69,333	—	179,333
A Long	36,230	56,727	—	92,957
R Holt	—	—	—	—
P F Dicks	39,541	—	—	39,541
G Davies	2,500	—	—	2,500
J Unwin	—	—	—	—
J Burt	—	—	—	—
R Irwin	—	—	—	—
E Corrado	—	—	—	—

During the year, the following Directors and connected persons exercised options, as detailed below:

Director	Date of transaction	Option scheme	Number of options exercised and sold	Option price	Sale price per share	Gain on exercise
D J Miles	22 March 2017	MIP (2013)	103,999	1p	500p	518,955
A C M Smith	22 March 2017	MIP (2013)	69,333	1p	500p	345,972
A Long	22 March 2017	MIP (2013)	56,727	1p	500p	283,068
R Holt	7 November 2017	SIP (2007)	150,000	1p	476p	686,625

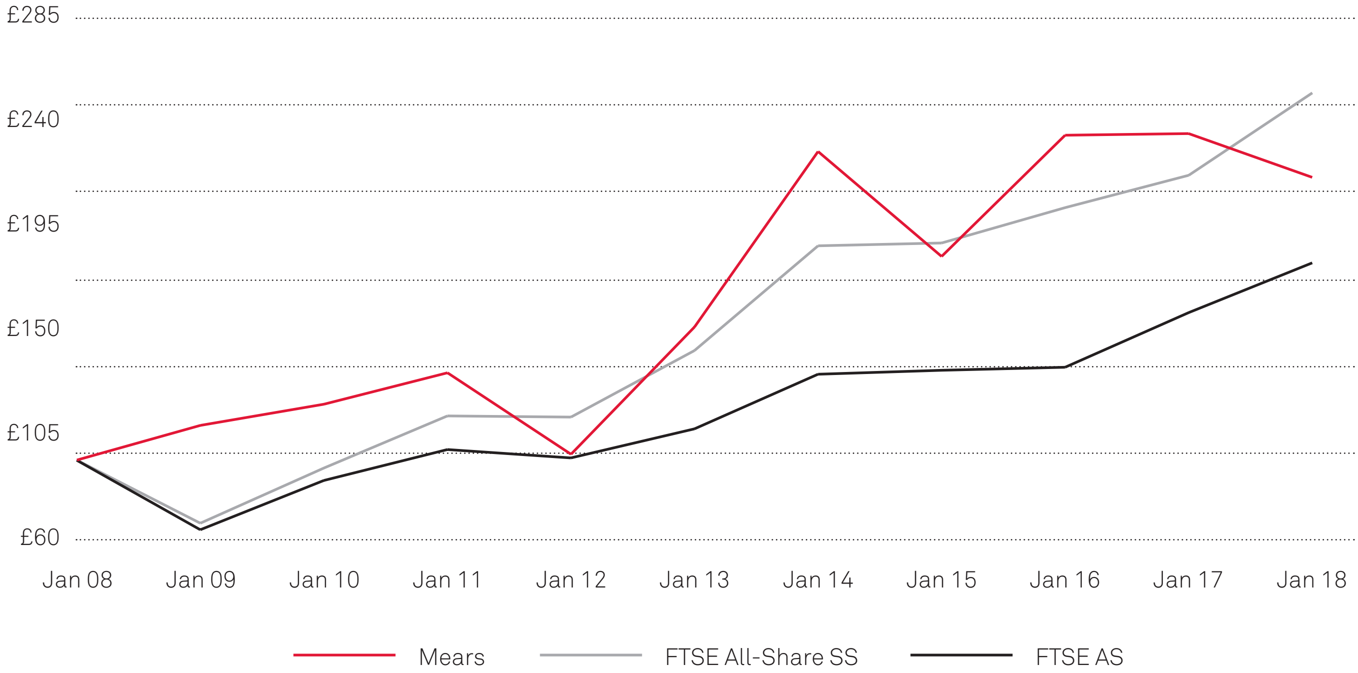
Annual report on remuneration continued

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 (unaudited)

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 nine years. The index is the most relevant to compare the Group's performance against its peers.



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

Year	Name	Single figure of total remuneration (£'000)	Bonus payout (as % maximum opportunity)	Long-term incentive accrual rate (as % maximum opportunity)
2017	D J Miles	443	—	—
2016	D J Miles	436	—	—
2015	D J Miles	436	—	20%
2014	D J Miles	412	—	35%
2013	D J Miles	825	—	100%
2012	D J Miles	409	—	—
2011	D J Miles	384	—	—
2010	D J Miles R Holt	270 600	— —	— —
2009	R Holt	1,095	100%	—

Annual report on remuneration continued

Percentage change in Chief Executive Officer's remuneration (unaudited)

The table below compares the percentage change in the salary of the Chief Executive Officer with that of the wider employee population.

	Remuneration		
	Salary entitlement	Benefits	Bonus/ incentives
Chief Executive Officer	—	—	—
Office salaries	2.1%	—	—

The Chief Executive Officer's basic salary equates to 10.5 times the pay of the average administrative employee. Based upon a 60 hour working week, the Chief Executive Officer's basic pay equates to 16.5 times the lowest paid worker.

Relative importance of spend on pay (unaudited)

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 2017 £'000**	Disbursements from profit in previous financial year 2016 £'000	% change
Total Directors' pay	**1,634**	1,530	+7%
Profit distributed by way of dividend	**12,219**	11,483	+6%
Underlying profit before tax	**37,122**	40,062	-7%

Statement of implementation of remuneration policy in the following financial year

Executive Directors

Salary

The salary entitlements for the forthcoming year are set out below:

Executive Director	**2018 £**	2017 £	% change
D J Miles	**386,817**	386,817	—
A C M Smith	**257,912**	257,912	—
A Long	**211,019**	211,019	—

Pension

Details of pension contributions for the year ended 31 December 2018 are set out below:

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

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

Executive Directors continued

EIP

As set out in the policy table, the EIP is split into two parts: the deferred share award and the performance share award. Set out below is the maximum opportunity of each part for the year ended 31 December 2018:

Part A – Deferred share award (% of salary)	Part B – Performance share award (% of salary)
100%	100%

For the 2018 EIP, the performance share award threshold level of vesting is 20% for each measure. The measures and weightings are set out below:

Condition		Weighting	Payout range (threshold to maximum opportunity)
Earnings per share (EPS)		40%	20%–100%
ROCE		40%	20%–100%
EBITDA cash conversion			20%–100%
Other	Customer satisfaction	20%	20%–100%
	Health and safety		20%–100%

In setting targets, the Committee takes into consideration (amongst other items):

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

Non-Executive Directors

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

	2018	2017	% change
Chairman fee	**250,000**	250,000	—
Base fee	**50,000**	50,000	—
Committee Chairman fee	**15,000**	15,000	—
Committee membership fee	**5,000**	5,000	—

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.

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

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:

- improving the level of openness and transparency in remuneration reporting through a detailed Annual Remuneration Report;
- operating a structured incentive arrangement with clear financial performance targets for each year;
- undertaking 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;
- considering pay policies within the Group as a whole when determining Executive Directors' remuneration packages;
- encouraging 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
- being kept fully aware and informed on developments and best practice in the field of remuneration and corporate governance from external advisers, institutional shareholders and their representative bodies.

Notwithstanding the above, the Committee recognises that the success of the Group is 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 2017, 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 that 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 2017 were £37,000.

Statement of voting at general meeting

The table below shows the historical voting outcomes in respect of the remuneration policy and Annual Remuneration Report.

Item	Votes for	%	Votes against	%	Votes withheld
To approve the Annual Report on Remuneration	82,079,511	93	5,728,474	7	765,978
To approve the remuneration policy	79,068,749	90	8,739,236	10	765,978

The total number of ordinary shares eligible to vote at the 2017 AGM was 102,984,108. Every shareholder has one vote for every ordinary share held.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2017.

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 2016 of 8.40p per share was paid in July 2017. An interim dividend in respect of 2017 of 3.45p was paid to shareholders in November 2017. The Directors recommend a final dividend of 8.55p per share for payment on 5 July 2018 to shareholders on the Register of Members on 15 June 2018. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2017.

Corporate governance

Details of the Group's corporate governance are set out on pages 52 to 57.

Key performance indicators (KPIs)

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

Directors

The present membership of the Board is set out with the biographical detail on pages 50 and 51.

In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the AGM in June 2018. Any person appointed by the Directors must retire at the next AGM but will be eligible for re-election at that meeting.

The beneficial interests of the Directors in the shares of the Company at 31 December 2017 and 31 December 2016 are detailed within the Remuneration Report on page 75.

The process governing the appointment and replacement of Directors is detailed within the Report of the Nomination Committee on pages 58 and 59.

Amendment to Articles of Association

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

Share capital authorisations

The 2017 AGM held in June 2017 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 £343,071 plus an additional one third of issued share capital of £343,071 that can only be used for a rights issue or similar fund raising;
- the Directors to issue shares for cash on a non pre-emptive basis. This authority was limited to 10% of the issued share capital of £102,920 and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and
- 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.

Further details of these authorisations are available in the notes to the 2017 Notice of AGM. Shareholders are also referred to the 2018 Notice of AGM, which contains similar provisions in respect of the Company's equity share capital as detailed below.

AGM

The 2018 AGM will be held on 7 June 2018 at 9.30am and a formal Notice of Meeting and Form of Proxy will be issued in advance. 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 preemptive 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;
- 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 25 and 26. Details of financial risk management and exposure to price risk, credit risk and liquidity risk are given in note 21 on pages 125 to 129.

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 60 days (2016: 63 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 23 to the financial statements. The Company has a single class of shares – ordinary 1p shares – with no right to any fixed income and with each share carrying the right to one vote at the general meetings of the Company. Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the AGM. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution but such dividend cannot exceed the amount recommended by the Board.

Substantial shareholdings

As at 28 February 2018 the Company has been notified of, or is aware of, the shareholders holding 1.5% or more of the issued share capital of the Company, as detailed in the table adjacent.

Fund manager	City	Shares	% IC
PrimeStone Capital	London	13.8	13.3%
Shareholder Value Management	Frankfurt	10.2	9.9%
Majedie Asset Management	London	9.8	9.4%
Heronbridge Investment Management	Bath	7.4	7.2%
Artemis Investment Management	Edinburgh, London	6.1	5.9%
Legal & General Investment Management	London	4.9	4.7%
Schroder Investment Management	London	4.8	4.6%
Fidelity Management & Research	Boston	4.6	4.4%
Franklin Templeton Investments	London	3.2	3.1%
Montanaro Asset Management	London	2.8	2.7%
Columbia Threadneedle Investments	London	2.6	2.6%
Close Asset Management	London	2.0	2.0%
Slater Investments	London	2.0	2.0%
Dimensional Fund Advisors	London	1.7	1.6%

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. The external audit of the Group for 2018 is being tendered and the result of that process will be included in the Notice of the Annual General Meeting, due to be issued in May 2018.

By order of the Board

B Westran
Company Secretary
ben.westran@mearsgroup.co.uk

19 March 2018

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 debt of £41.3m at 31 December 2017. The core debt required to satisfy the day-to-day requirements of the business is in the region of £120m. 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 £60m, maturing in November 2022.

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

19 March 2018

Independent auditor's report

To the members of Mears Group PLC

Our opinion on the financial statements is unmodified

We have audited the financial statements of Mears Group PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statements of Changes in Equity, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 22 to 26 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation, set out on page 24 of 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 Directors' statement, set out on page 82 of the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation, set out on page 27 of 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.

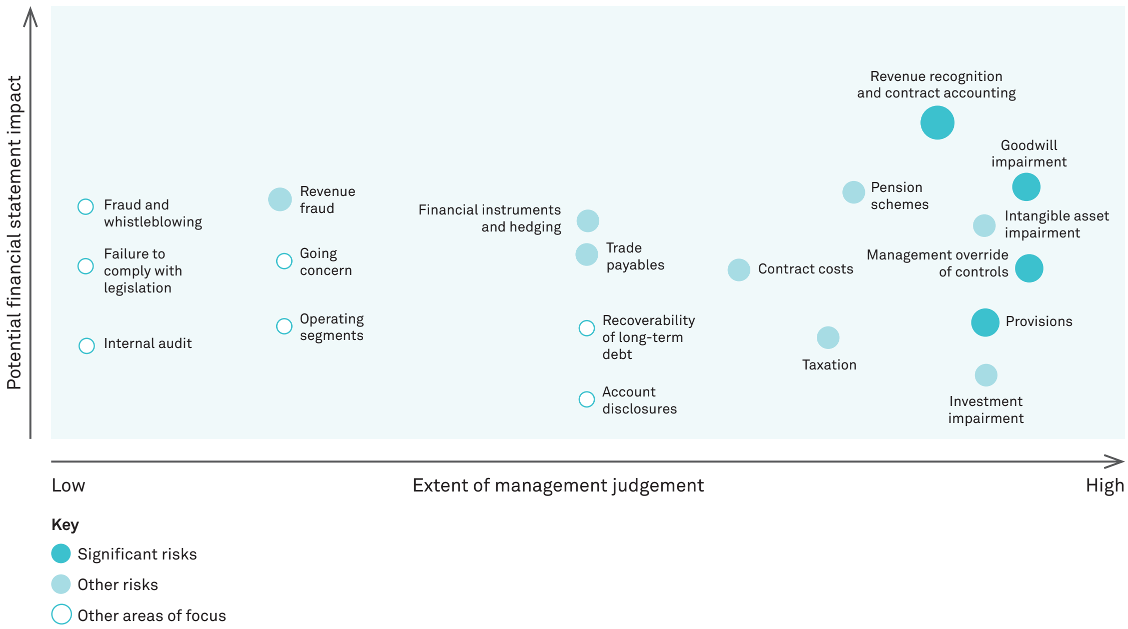
Independent auditor's report continued
To the members of Mears Group PLC

Overview of our audit approach

- Overall materiality: £1.62m which represents 4.5% of the Group's preliminary earnings before interest, tax and amortisation.
- Key audit matters were identified as revenue recognition, contract accounting and onerous contract provisions, goodwill impairment and defined benefit pension schemes.
- We performed full scope audits at six 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. We performed analytical procedures over 41 companies.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 1 – Revenue recognition, contract accounting and onerous contract provisions	**Our audit work included, but was not restricted to:**
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. The Directors are also required to make an assessment to determine whether onerous contract provisions are required for loss making contracts. There are a number of contracts which have historically not met expectations and there is a risk that the provisions recognised may not be sufficient. We therefore identified revenue recognition, contract accounting and the completeness of onerous contract provisions as a significant risk, which was one of the most significant assessed risks of material misstatement.	→ Assessing whether the accounting policies adopted by the Directors are in accordance with the requirements of International Accounting Standard (IAS) 11 'Construction contracts', IAS 18 'Revenue' and IFRIC 12 'Service concession arrangements', 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; → judgementally selecting contracts by reference to materiality and other risk factors including loss making contracts, contracts with significant aged work in progress and receivables balances and contracts that fall outside the Group's usual ratio of operating profit to work in progress; → selecting a sample of contract balances, accrued income and revenue transactions, including contract invoicing, care invoicing and rental and rebates income, to ensure coverage across the Group; → assessing, for the selected items and samples, 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, historical performance against forecasts and discussions with key contract accounting personnel; → investigating the recoverability of receivables, accrued income 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, including internal and external legal opinions, expert value reports, correspondence with customers, and examining the Group's historical experience of recovery; → identifying contracts that were at risk of incurring future losses during the remaining life of the contract. This included assessing all potentially onerous contracts in the prior year, but also any that had incurred significant losses during 2017; and → examining such contracts 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 return the contract to profit, forecast models, previous history of turning around loss making contracts and correspondence with clients where appropriate. The Group's accounting policy on revenue recognition is shown in the 'Principal accounting policies – Group' section of the financial statements and related disclosures are included in notes 1, 15 and 16. The Audit Committee identified revenue recognition as a primary area of judgement in its report on page 62 where the Audit Committee also described the action that it has taken to address this issue. **Key observations** Based on our audit work, we did not identify any material misstatement in the revenue recognised in the year to 31 December 2017 or in the onerous contract provision as at that date.

Independent auditor's report continued

To the members of Mears Group PLC

Key audit matters continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Risk 2 – Goodwill impairment	**Our audit work included, but was not restricted to:**
The Directors are required to make an annual assessment to determine whether the carrying value of goodwill of £193.6m is impaired. Past experience has indicated that there is significant headroom in the goodwill balance relating to the Social Housing division cash generating unit ('CGU') but limited headroom in the goodwill balance relating to the Care division CGU, which accounts for £112.3m of the carried goodwill. The process for assessing whether an impairment exists under IAS 36 'Impairment of Assets' is complex. Calculating 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, which was one of the most significant assessed risks of material misstatement.	→ 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; → testing and 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, the rate at which the Group can increase its contracted hours and the discount rates and terminal values used; → considering whether the market level assumptions used were appropriate and where possible, benchmarking 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 investigating the cash flows for exceptional or unusual items or assumptions. The Group's accounting policy on impairment is shown in the 'Principal accounting policies – Group' section of the financial statements and related disclosures are included in note 10. The Audit Committee identified carrying value of goodwill as a primary area of judgement in its report on page 61, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** Based on our audit work, we found the valuation methodologies and assumptions made in management's assessment of goodwill impairment were appropriate. We consider that the Group's disclosure is sufficient and have found no material errors in calculations.
Risk 3 – Defined benefit pension schemes	**Our audit work included, but was not restricted to:**
The Group operates two defined benefit pension schemes and is an admitted body of a number of other defined benefit pension schemes. At 31 December 2017 the defined benefit pension schemes had a combined net surplus of £52m, of which £22m is recognised in the financial statements as recoverable. The gross value of the pension assets and obligations which form the net surplus amounted to £510m and £458m 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 pension schemes obligations as a significant risk, which was one of the most significant assessed risks of material misstatement.	→ utilising the expertise of our actuarial specialists in order to review the appropriateness of the assumptions used in the calculation of the obligations 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 membership to underlying records; and → directly confirming the existence and valuation of pension scheme assets with asset managers for Group schemes and analysing the movements on assets for admitted body schemes. The Group's accounting policy on defined benefit pensions is shown in the 'Principal accounting policies – Group' section of the financial statements and related disclosures are included in note 26. The Audit Committee identified defined benefit pension valuation as a primary area of judgement in its report on page 62, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** Based on our audit work, we found the actuarial assumptions to be within an acceptable spectrum. We consider that the Group's disclosure appropriately describes the significant degree of inherent uncertainty in the assumptions and estimates and the potential impact on future periods of revisions to these estimates. We found no material errors in calculations.

We have no key audit matters to report in relation to the Parent Company.

Our application of materiality

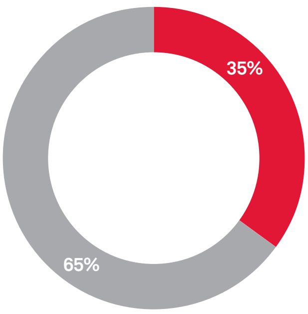
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating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

Materiality was determined as follows:

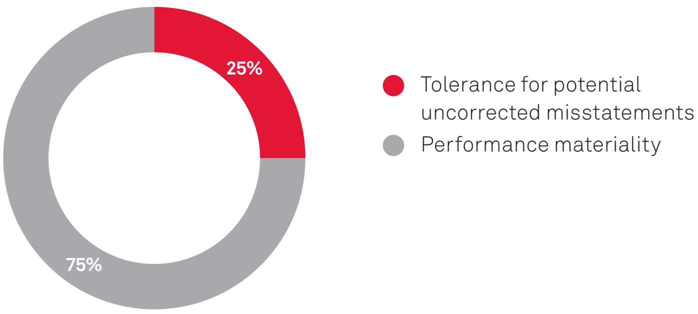
Materiality measure	Group	Parent
Financial statements as a whole	£1.62m which is 4.5% of the Group's preliminary earnings before interest, tax and amortisation. This benchmark is considered the most appropriate because it is the key financial measure by which management assess the performance of the 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 2016 as a result of the decreased earnings before interest, tax and amortisation in the current year.	£0.6m which is 1% of the Company's total assets excluding amounts owed by Group undertakings. This benchmark is considered the most appropriate because the principal activity is that of an investment holding company. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 as a result of the increase in total assets of the Company.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the Group's overall control environment, we determined a performance materiality of 65% of the financial statement materiality. We used a threshold of 75% in the prior year and the decrease is based on an assessment of current year risks.	Based on our risk assessment, including the Company's overall control environment, we determined a performance materiality of 75% of the financial statement materiality. This is consistent with performance materiality in the prior year.
Specific materiality	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	We communicate misstatements exceeding £81,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	We communicate misstatements exceeding £30,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality - Group



Overall materiality - Company



Independent auditor's report continued

To the members of Mears Group PLC

An overview of the scope of our audit

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

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 earnings 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; this approach is in line with our approach used in the prior year.

The Group's companies vary significantly in size. We performed full scope audits at six 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, being full scope and specific procedures, were responsible for 89% of the Group's revenues, 59% of the Group's earnings before, interest, tax and amortisation and 60% of Group's total assets. We performed analytical procedures over 41 companies.

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. 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 financial performance and position after taking into account the risks identified above and the significance of the component to the Group. The charts below summarise the extent of our audit approach in relation to key audit matters:

Revenue recognition, contract accounting and onerous contract provisions

Goodwill impairment

Defined benefit pension schemes

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 1 to 152 other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 82 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 60 to 64 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

Other information continued

- Directors' statement of compliance with the UK Corporate Governance Code set out on page 49 – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 82 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our Audit Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other matters which we are required to address

We were first appointed by Mears Group PLC to audit the financial statements for the year ending 31 December 1996 and subsequent financial periods. The period of total uninterrupted engagement is 22 years, covering the years ending 31 December 1996 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Rebecca Eagle
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
19 March 2018

Financial statements

Group financial statements

Company financial statements

Shareholder information

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 modification of a number of standards with effect from 1 January 2017. Changes include Disclosure Initiative (Amendments to IAS 7), Recognition of Deferred Tax Assets for Unrecognised Losses (Amendments to IAS 12) and Annual Improvements 2014–2016 (which made amendments to IFRS 12 'Disclosure of Interests in Other Entities'). The adoption of these amendments had no material effect on 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 100 to 102.

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 the 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 22 to 26.

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 2017. 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.

Principal accounting policies – Group continued

Business combinations continued

Costs relating to acquisitions in the year have been expensed.

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 Consolidated 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 Consolidated 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 values 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.

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	–	over four to five years, 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 Consolidated 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.

An impairment loss is recognised in the Consolidated 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.

Assets held for sale

Assets held for sale are recognised at the lower of their carrying amount and their fair value less costs to sell and separately presented on the face of the balance sheet. These assets are expected to be held for a limited duration prior to being sold.

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 Consolidated Income Statement, any related tax generated is recognised as a component of tax expense in the Consolidated 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 is also credited or charged to equity.

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 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.

Revenue continued

Housing continued

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 five 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.

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.

Revenue continued

Housing continued

Lump sum contracts continued

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 Consolidated Income Statement on a straight-line basis over the term of the lease.

Where initial costs are required to make good the housing to perform Housing Management activities, a straight-line basis of revenue recognition would not be appropriate. Where there are initial costs, revenue is recognised 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.

Construction income

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. In the absence of a contract for sale, construction revenue is recognised at legal completion of the sale. 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.

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 a minimal requirement for judgement in recognising Care revenue.

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. The 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.

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 to an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

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

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

ii) Defined benefit pensions

The Group contributes to 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 Consolidated Income Statement and to the Consolidated Statement of Comprehensive Income to match the movement in pension assets and liabilities.

Actuarial gains and losses are taken to the Consolidated 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 or deficit are recognised in the Consolidated 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 Consolidated Income Statement. The amount charged to the Consolidated 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 scheme actuary.

Principal accounting policies – Group continued

Employee benefits continued

Share-based employee remuneration

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

The Group operates equity-settled 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 the fair value of the option at the grant date.

All share-based remuneration is ultimately recognised as an expense in the Consolidated 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.

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 upfront 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 Consolidated 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 Consolidated Income Statement.

The Group's financial assets are included in the Consolidated 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 Consolidated 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 Consolidated 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 writedown 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.

Financial instruments continued

Loans and receivables continued

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 liabilities

The Group's financial liabilities are overdrafts, trade and other payables including contingent consideration, and interest rate swaps. They are included in the Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Income Statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Consolidated 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 Consolidated 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 Consolidated 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 94 to 96, certain types of Housing pricing mechanisms and Care revenue require minimal judgement; however, 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

Contract recoverability

Determining future contract profitability requires estimates of future revenues and costs to complete. In making these assessments there is a degree of inherent uncertainty. The Group utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

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 10.

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 26.

Where the Group has a contractual obligation to make good any deficit in its share of an 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

IFRS 15 'Revenue from Contracts with Customers'

On 1 January 2018, IFRS 15 replaces the existing revenue recognition accounting standards – IAS 18 'Revenue' and IAS 11 'Construction Contracts'. 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; this includes the matching of stand-alone selling prices to the satisfaction of performance obligations. The model is not expected to change the timing of revenue recognition for the Care revenue stream.

For Housing revenues, a small portion of the contract portfolio includes non-coterminous contracts which have been combined for the purposes of assessing the stage of completion for that operation as a whole. Under IFRS 15, revenue must be accounted for at the individual contract level. Therefore the contracts will be disaggregated and the assessment of revenue will depend on the performance obligations within the contract. The performance obligations of Housing revenues are categorised as:

(a) a series of distinct services, at the individual works order level, which are satisfied as each job becomes operationally completed; and

(b) a single performance obligation, being the requirement to be available to provide the goods and services stipulated in the contract – this performance obligation is satisfied over time.

For revenue arising from rental income, the accounting methodology for lessor operating lease income will continue to be accounted for in accordance with IAS 17 'Leases'. This accounting standard is superseded by IFRS 16 'Leases' on 1 January 2019. Further information on implementation of IFRS 16 is below. Lessor operating lease rental income will continue to be recognised on a straight-line basis over the term of the lease. Under IAS 18 and IAS 11, revenue was recognised in respect of contracts where initial property upgrade costs are incurred to make good the property to a standard appropriate for let to a tenant. Under IFRS 15, no revenue will be recognised in respect of these initial costs. Under IFRS 15, the performance obligation in this type of contract is the let of each unit of property to a social housing tenant.

IFRS 15 includes a choice on the transitional adjustments on initial application. Management have chosen 'modified retrospective adoption', which is to retrospectively apply the standard with the cumulative effect of applying IFRS 15 to the opening balance of retained earnings on 1 January 2018. Implementation will therefore not result in restatement of comparative period results. The transitional adjustment is a downward adjustment to opening retained earnings and opening trade and other receivables as at 1 January 2018. Management have concluded that the downward adjustment will be in the range of £13m to £20m.

Principal accounting policies – Group continued

New standards and interpretations not yet applied continued

IFRS 16 'Leases'

IFRS 16 replaces the existing leasing accounting guidance, which includes IAS 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. The standard is effective for periods beginning on or after 1 January 2019.

The standard requires lessees to account for most contracts using an on-balance sheet model, with the distinction between operating and finance leases being removed. There is no change to the revenue recognition methodology for lessor operating leases.

The standard provides certain exemptions from recognising leases on the balance sheet, including where the asset is of low value or the lease term is twelve months or less. In addition, the standard makes changes to the definition of a lease to focus on, amongst other things, which party has the right to direct the use of the asset.

Under the new standard, the Group will be required to recognise right of use lease assets and lease liabilities on the balance sheet. The right of use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. Liabilities are measured based on the present value of future lease payments over the lease term. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The recognition of the depreciation of right of use lease assets and interest on lease liabilities over the lease term will have no overall impact on profit before tax over the life of the lease; however, the result in any individual year will be impacted and the change in presentation of costs will likely be material to the Group's key financial metrics. Under IAS 17, the charge is booked in full to operating profit. Metrics which will therefore be affected will include operating profit and operating margin, interest and interest cover, EBITDA and operating cash flow.

Furthermore, the principal amount of cash paid and interest in the cash flow statement will be presented separately as a financing activity. Operating lease payments under IAS 17 would have been presented as operating cash flows. There will be no overall net cash flow impact.

The Group has commenced work to understand the impact of the new standard and the project will complete during 2018. Work will include a detailed review of all lease contracts to establish lease classification, assessment of transition options, the quantification of financial impacts, design of future processes and the related systems changes, the assessment of the related impacts on the Group's regulatory and commercial reporting requirements, and the impact on the Group's long-term incentive schemes. The review is currently ongoing. Using information obtained in preparation of the annual financial statements, the Directors estimate that a right of use asset and the associated lease liability is likely to fall in the range of £80m to £140m at 31 December 2017. This range is wide given uncertainty around primarily the variable lease payments, leases of less than twelve months in length and the application of low asset value exemption.

Information on the undiscounted amount of the Group's operating lease commitments under IAS 17 'Leases', the current leasing standard, is disclosed in the Group's annual financial statements. The leases substantially relate to property leases used to perform Housing activities as an operating lease lessor, and vehicle leases used in performing Housing activities.

Other new standards and amendments

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 but it is not expected to have a material effect on the Group's financial statements.

A number of other standards have been modified. These include Disclosure Initiative (Amendments to IAS 7), Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) and Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2). None of these amendments are expected to have a material effect on the Group's financial statements.

Consolidated income statement

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Continuing operations			
Sales revenue	1	**900,184**	940,100
Cost of sales		**(676,482)**	(695,206)
Gross profit		**223,702**	244,894
Other administrative expenses		**(184,551)**	(203,044)
Amortisation of acquisition intangibles	11	**(10,638)**	(10,690)
Total administrative costs		**(195,189)**	(213,734)
Operating profit before amortisation of acquisition intangibles	1	**39,151**	41,850
Operating profit	1	**28,513**	31,160
Finance income	3	**751**	1,152
Finance costs	3	**(2,780)**	(2,940)
Profit for the year before tax and the amortisation of acquisition intangibles		**37,122**	40,062
Profit for the year before tax		**26,484**	29,372
Tax expense	6	**(4,315)**	(3,676)
Profit for the year from continuing operations		**22,169**	25,696
Discontinued operations			
Exceptional loss from discontinued operations	7	**(16,500)**	—
Tax income from discontinued operations	6	**3,176**	—
Loss for the year after tax from discontinued operations		**(13,324)**	—
Profit for the year from continuing and discontinued operations		**8,845**	25,696
Attributable to:			
Owners of the Parent		**7,582**	21,526
Non-controlling interest		**1,263**	4,170
Profit for the year		**8,845**	25,696
Earnings per share – from continuing operations			
Basic	9	**20.28p**	23.54p
Diluted	9	**20.10p**	23.41p
Earnings per share – from continuing and discontinued operations			
Basic	9	**7.35p**	21.03p
Diluted	9	**7.29p**	20.91p

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 2017

	Note	2017 £'000	2016 £'000
Profit for the year		**8,845**	25,696
Other comprehensive income/(expense):			
Which will be subsequently reclassified to the Consolidated Income Statement:			
Cash flow hedges:			
– losses arising in the year	21	**(54)**	(884)
– reclassification to the Consolidated Income Statement	21	**645**	643
(Decrease)/increase in deferred tax asset in respect of cash flow hedges	22	**(143)**	39
Which will not be subsequently reclassified to the Consolidated Income Statement:			
Actuarial gain/(loss) on defined benefit pension scheme	26	**13,879**	3,676
(Decrease)/increase in deferred tax asset in respect of defined benefit pension schemes	22	**(2,637)**	(804)
Other comprehensive income/(expense) for the year		**11,690**	2,670
Total comprehensive income for the year		**20,535**	28,366
Attributable to:			
Owners of the Parent		**19,272**	24,196
Non-controlling interest		**1,263**	4,170
Total comprehensive income for the year		**20,535**	28,366

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

Consolidated balance sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current			
Goodwill	10	**193,642**	193,712
Intangible assets	11	**17,266**	25,913
Property, plant and equipment	12	**22,037**	20,265
Pension and other employee benefits	26	**27,308**	15,992
Financial assets	19	**—**	677
Deferred tax asset	22	**4,314**	5,704
		264,567	262,263
Current			
Assets classified as held for sale	14	**13,941**	—
Inventories	15	**18,705**	11,234
Trade and other receivables	17	**153,912**	157,181
Financial assets	19	**—**	839
Current tax assets		**111**	—
Cash at bank and in hand	21	**24,770**	52,904
		211,439	222,158
Total assets		**476,006**	484,421
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	23	**1,036**	1,026
Share premium account		**60,204**	58,320
Share-based payment reserve		**1,469**	1,975
Hedging reserve	21	**(326)**	(774)
Merger reserve		**46,214**	46,214
Retained earnings		**100,897**	92,555
Total equity attributable to the shareholders of Mears Group PLC		**209,494**	199,316
Non-controlling interest		**96**	(642)
Total equity		**209,590**	198,674
Liabilities			
Non-current			
Long-term borrowing and overdrafts	21	**50,559**	60,000
Pension and other employee benefits	26	**4,966**	7,498
Deferred tax liabilities	22	**7,098**	7,120
Financial liabilities	19	**79**	612
Other payables	20	**5,036**	15,950
		67,738	91,180
Current			
Borrowings related to assets classified for sale	21	**13,941**	—
Short-term borrowings and overdrafts	21	**—**	5,278
Trade and other payables	18	**184,484**	187,264
Financial liabilities	19	**253**	478
Current tax liabilities		**—**	1,547
Current liabilities		**198,678**	194,567
Total liabilities		**266,416**	285,747
Total equity and liabilities		**476,006**	484,421

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 19 March 2018.

D J Miles
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 2017

	Note	2017 £'000	2016 £'000
Operating activities			
Result for the year before tax		**26,484**	29,372
Adjustments	24	**21,148**	20,438
Change in inventories		**(7,471)**	(2,213)
Change in trade and other receivables		**(109)**	(8,793)
Change in trade and other payables		**(11,381)**	(4,289)
Cash inflow from operating activities of continuing operations before taxation		**28,671**	34,515
Taxes paid		**(3,776)**	(4,877)
Net cash inflow from operating activities of continuing operations		**24,895**	29,638
Net cash outflow from operating activities of discontinued operations		**(9,354)**	(3,925)
Net cash inflow from operating activities		**15,541**	25,713
Investing activities			
Additions to property, plant and equipment		**(5,572)**	(10,029)
Additions to other intangible assets		**(3,661)**	(2,904)
Proceeds from disposals of property, plant and equipment		**204**	2
Acquisition of property for resale		**(13,941)**	—
Acquisition of subsidiary undertakings, net of cash		**(5,000)**	(10,019)
Sale of subsidiary undertaking		**1,582**	—
Net cash disposed of with subsidiary		**(1,234)**	—
Loans made to other entities (non-controlled)		**(232)**	(211)
Interest received		**351**	35
Net cash outflow from investing activities		**(27,503)**	(23,126)
Financing activities			
Proceeds from share issue		**1,894**	202
Receipts from borrowings related to assets classified for sale		**13,941**	—
Discharge of finance lease liability		**(1,954)**	(661)
Interest paid		**(2,591)**	(2,822)
Dividends paid – Mears Group shareholders		**(12,218)**	(11,483)
Dividends paid – non-controlling interests		**(525)**	(1,019)
Net cash outflow from financing activities		**(1,453)**	(15,783)
Cash and cash equivalents, beginning of year		**(12,374)**	822
Net decrease in cash and cash equivalents		**(13,415)**	(13,196)
Cash and cash equivalents, end of year		**(25,789)**	(12,374)
Cash and cash equivalents comprises the following:			
– cash at bank and in hand		**24,770**	52,904
– borrowings and overdrafts		**(50,559)**	(65,278)
Cash and cash equivalents		**(25,789)**	(12,374)
Cash conversion key performance indicator			
Cash inflow from operating activities of continuing operations		**28,671**	34,515
EBITDA for continuing operations		**47,385**	49,260
Conversion		**60.5%**	70.1%

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 2017

	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 2016	1,019	58,124	1,651	(572)	46,214	86,438	(1,246)	191,628
Net result for the year	—	—	—	—	—	21,526	4,170	25,696
Other comprehensive income	—	—	—	(202)	—	2,872	—	2,670
Total comprehensive income for the year	—	—	—	(202)	—	24,398	4,170	28,366
Deferred tax on share-based payments	—	—	—	—	—	(635)	—	(635)
Issue of shares	7	196	—	—	—	—	—	203
Share option charges	—	—	324	—	—	—	—	324
On disposal	—	—	—	—	—	—	(2,570)	(2,570)
Transactions with non-controlling interests	—	—	—	—	—	(6,163)	23	(6,140)
Dividends	—	—	—	—	—	(11,483)	(1,019)	(12,502)
At 1 January 2017	1,026	58,320	1,975	(774)	46,214	92,555	(642)	198,674
Net result for the year	—	—	—	—	—	7,582	1,263	8,845
Other comprehensive income	—	—	—	448	—	11,242	—	11,690
Total comprehensive income for the year	—	—	—	448	—	18,824	1,263	20,535
Deferred tax on share-based payments	—	—	—	—	—	404	—	404
Issue of shares	10	1,884	—	—	—	—	—	1,894
Share option charges	—	—	826	—	—	—	—	826
Share option exercises	—	—	(1,332)	—	—	1,332	—	—
Dividends	—	—	—	—	—	(12,218)	(525)	(12,743)
At 31 December 2017	**1,036**	**60,204**	**1,469**	**(326)**	**46,214**	**100,897**	**96**	**209,590**

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 2017

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 had 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 and costs relating to the long-term incentive plans.

	2017			2016		
Operating segments	Housing £'000	Care £'000	Total £'000	Housing £'000	Care £'000	Total £'000
Revenue	**766,121**	**134,063**	**900,184**	787,530	152,570	940,100
Operating result pre amortisation of acquisition intangibles and long-term incentive plans	**39,478**	**499**	**39,977**	44,057	(1,199)	42,858
Operating margin pre amortisation of acquisition intangibles and long-term incentive plans	**5.15%**	**0.37%**	**4.44%**	5.60%	(0.79%)	4.56%
Long-term incentive plans	**(826)**	**—**	**(826)**	(1,008)	—	(1,008)
Operating result pre amortisation of acquisition intangibles	**38,652**	**499**	**39,151**	43,049	(1,199)	41,850
Amortisation of acquisition intangibles			**(10,638)**			(10,690)
Operating result			**28,513**			31,160
Net finance costs			**(2,029)**			(1,788)
Tax expense			**(4,315)**			(3,676)
Profit for the year from continuing activities			**22,169**			25,696

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 7% of the total revenue reported.

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

	2017			2016		
Operating segments	Housing £'000	Care £'000	Total £'000	Housing £'000	Care £'000	Total £'000
Segment assets	**350,902**	**125,104**	**476,006**	348,066	136,355	484,421
Segment liabilities	**(203,334)**	**(63,082)**	**(266,416)**	(214,339)	(71,408)	(285,747)
Property, plant and equipment additions	**7,517**	**604**	**8,121**	6,553	872	7,425
Depreciation	**5,304**	**801**	**6,105**	4,066	1,507	5,573
Amortisation of acquisition intangibles	**7,606**	**3,032**	**10,638**	6,878	3,812	10,690
Amortisation of other intangibles	**2,130**	**—**	**2,130**	1,837	—	1,837

2. Operating costs

Operating costs, relating to continuing activities, include:

	2017 £'000	2016 £'000
Share-based payments	**826**	324
Long-term incentives	**—**	684
Depreciation	**6,105**	5,573
Amortisation of acquisition intangibles	**10,638**	10,690
Amortisation of other intangibles	**2,130**	1,837
Profit on disposal of subsidiary	**(961)**	—
Loss on disposal of property, plant and equipment	**24**	48
Hire of plant and machinery	**5,266**	5,450
Other operating lease rentals	**110,658**	112,940

Fees payable for audit and non-audit services during the year were as follows:

	2017 £'000	2016 £'000
Fees payable to the auditor for the audit of the Group's financial statements	**65**	60
Other fees payable to the auditor in respect of:		
– auditing of accounts of subsidiary undertakings pursuant to legislation	**265**	331
– taxation advice fees	**—**	—
– other audit related fees	**9**	8
– accreditation related assurance fees	**—**	45
Total auditor's remuneration	**339**	444

3. Finance income and finance costs

	2017 £'000	2016 £'000
Interest charge on overdrafts and short-term loans	**(2,017)**	(2,134)
Interest charge on hedged items (effective hedges)	**(645)**	(643)
Other interest	**(4)**	(26)
Finance costs on bank loans, overdrafts and finance leases	**(2,666)**	(2,803)
Interest charge on defined benefit obligation	**(114)**	(137)
Unwinding of discounting	**—**	—
Total finance costs	**(2,780)**	(2,940)
Interest income resulting from short-term bank deposits	**20**	19
Interest income resulting from defined benefit asset	**440**	1,085
Unwinding of discounting	**40**	40
Other interest income	**251**	8
Finance income	**751**	1,152
Net finance charge	**(2,029)**	(1,788)
Gains and losses on hedged items recognised in other comprehensive income		
Losses arising in the year	**(54)**	(884)
Reclassification to the Consolidated Income Statement	**645**	643
Changes in mark-to-market of interest rate swaps (effective hedges)	**591**	(241)

Notes to the financial statements – Group continued

For the year ended 31 December 2017

4. Employees

Staff costs during the year were as follows:

	2017 £'000	2016 £'000
Wages and salaries	**272,794**	299,684
Social security costs	**23,806**	25,785
Other pension costs	**8,627**	9,292
	305,227	334,761

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

	2017 Number	2016 Number
Site workers	**3,638**	3,897
Carers	**5,980**	8,531
Office and management	**2,962**	3,291
	12,580	15,719

Remuneration in respect of Directors was as follows:

	2017 £'000	2016 £'000
Emoluments	**1,389**	1,334
Gains made on the exercise of share options	**1,148**	1,795
Pension contributions to personal pension schemes	**161**	195
	2,698	3,324

During the year contributions were paid to personal pension schemes for four Directors (2016: four).

During the year four Directors (2016: three) exercised share options.

5. Share-based employee remuneration

As at 31 December 2017 the Group maintained seven share-based payment schemes for employee remuneration.

Details of the share options outstanding are as follows:

	2017		2016	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	**2,555**	**256**	3,664	231
Granted	**1,619**	**317**	—	—
Forfeited/lapsed	**(229)**	**326**	(488)	356
Exercised	**(1,007)**	**193**	(621)	33
Outstanding at 31 December	**2,938**	**287**	2,555	256

The weighted average share price at the date of exercise for share options exercised during the period was 481p.
At 31 December 2017, 0.1m options had vested and were still exercisable at prices between 1p and 266p. These options had a weighted average exercise price of 79p and a weighted average remaining contractual life of 1.7 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 1.6m options granted during the year and 0.2m options that lapsed during the year. The market price at 31 December 2017 was 410p and the range during 2017 was 377p to 530p.

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:

	2017 £'000	2016 £'000
Giving rise to share-based payment reserve:		
– SAYE	**295**	324
– Share Plan	**71**	—
– MIP	**460**	—
Giving rise to liabilities:		
– MIP	**—**	684
	826	1,008

All-employee share incentive plan

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

Unapproved Company Share Option Plan (CSOP)

Options are exercisable at nominal value. 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, Bob 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 remaining options issued under this plan were exercised during 2017.

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, subject to achieving performance conditions. No options have been issued under this plan since 2010 and all options have vested.

Management Incentive Plan (MIP)

The MIP was introduced in 2013 following shareholder approval. The award of options is offered to a small number of key senior management. The MIP is a share-based payment plan which is settled through a combination of cash and shares. No further issues will be made under this plan and the remaining options vest in 2019.

Executive Incentive Plan (EIP)

The EIP was introduced in June 2017 following shareholder approval. The award of options is offered to key senior management subject to performance conditions as detailed on page 67 of the Remuneration Report. No options have been awarded under the EIP.

Notes to the financial statements – Group continued

For the year ended 31 December 2017

6. Tax expense

Tax recognised in the Consolidated Income Statement

	2017 £'000	2016 £'000
United Kingdom corporation tax	**5,341**	5,672
Adjustment in respect of previous periods	**(18)**	(972)
Total current tax recognised in Consolidated Income Statement	**5,323**	4,700
Deferred taxation charge:		
– on defined benefit pension obligations	**(6)**	146
– on share-based payments	**240**	(65)
– on accelerated capital allowances	**(153)**	194
– on amortisation of acquisition intangibles	**(1,888)**	(2,066)
– on short-term temporary timing differences	**247**	277
– on corporate tax losses	**1,122**	617
– impact of change in statutory tax rates	**(168)**	(19)
Adjustment in respect of previous periods	**(402)**	(108)
Total deferred taxation recognised in Consolidated Income Statement	**(1,008)**	(1,024)
Total tax expense recognised in Consolidated Income Statement on continuing operations	**4,315**	3,676
Total tax credit recognised in Consolidated Income Statement on discontinued operations	**(3,176)**	—
Total tax expense recognised in Consolidated Income Statement	**1,139**	3,676

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

	2017 £'000	2016 £'000
Result for the year before tax	**9,984**	29,372
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 19.3% (2016: 20.0%)	**1,922**	5,874
Effect of:		
– expenses not deductible for tax purposes	**167**	563
– income not subject to tax	**(133)**	(885)
– tax relief on exercise of share options	**(170)**	(463)
– statutory tax rate changes	**(168)**	(19)
– temporary timing differences not previously recognised in deferred tax	**(33)**	(15)
– tax losses not previously recognised in deferred tax	**(26)**	(299)
– adjustment in respect of prior periods	**(420)**	(1,080)
Actual tax expense	**1,139**	3,676

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 £1.1m (2016: charge of £0.6m) represents losses associated with previous acquisitions which were utilised in the year.

No deferred tax asset is recognised in respect of losses of £34.2m (2016: £31.3m) 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.

6. Tax expense continued

Tax recognised in the Consolidated Income Statement continued

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:

	2017 £'000	2016 £'000
Deferred tax recognised in other comprehensive income		
– on defined benefit pension obligations	**2,637**	804
– on cash flow hedges	**143**	(39)
Total deferred tax recognised in other comprehensive income	**2,780**	765
Deferred tax recognised directly in equity		
Deferred tax charge:		
– on share-based payments	**(404)**	635
Total deferred tax recognised in equity	**(404)**	635
Total tax		
Total current tax	**2,133**	4,700
Total deferred tax	**1,368**	376

7. Discontinued activities

The Group previously completed the disposal of its Mechanical & Electrical division, which included an entity operating in the United Arab Emirates ('Haydon LLC'). As part of that disposal, the Group ultimately retained the beneficial interest in 1% of the share capital of this UAE company due to the Group still carrying a number of performance guarantees in place at the time of the disposal which unravel as the underlying contracts reach the end of their defects liability period.

At 31 December 2016, a balance of £3.4m was due from Haydon LLC and £13.7m of performance guarantees were outstanding. During the year, further loans of £3.8m were provided to Haydon LLC, to provide working capital funding to the company so as to mitigate the Group's risk in respect of the performance guarantees. In November 2017, a number of performance guarantees to an aggregate value of £5.5m were called, resulting in a total balance of £12.7m due from Haydon LLC to the Group. After assessing the ability of Haydon LLC to settle this debt, the Group provided against the balance in full, as well as providing in full against the £3.8m of performance guarantees still outstanding at the year end.

The total amount provided of £16.5m (2016: £nil) is reported as a loss arising from discontinued operations in the Consolidated Income Statement and the £9.4m of related cash outflows have been reported as arising from discontinued operations in the Consolidated Statement of Cash Flows.

8. Dividends

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

	2017 £'000	2016 £'000
Final 2016 dividend of 8.40p (2016: final 2015 dividend of 7.90p) per share	**8,651**	8,099
Interim 2017 dividend of 3.45p (2016: interim 2016 dividend of 3.30p) per share	**3,567**	3,384
	12,218	11,483

The proposed final 2017 dividend of 8.55p per share has not been included within the consolidated financial statements as no obligation existed at 31 December 2017.

Notes to the financial statements – Group continued

For the year ended 31 December 2017

9. Earnings per share

	Basic (continuing)		Basic (discontinued)		Basic (continuing and discontinued)	
	2017 p	2016 p	**2017 p**	2016 p	**2017 p**	2016 p
Earnings per share	**20.28**	23.54	**(12.93)**	(2.51)	**7.35**	21.03
Effect of amortisation of acquisition intangibles	**10.32**	10.44	**—**	—	**10.32**	10.44
Effect of full tax adjustment	**(2.31)**	(3.45)	**(0.19)**	—	**(2.50)**	(3.45)
Effect of exceptional costs	**—**	—	**13.12**	—	**13.12**	—
Normalised earnings per share	**28.29**	30.53	**—**	(2.51)	**28.29**	28.02

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	2017 p	2016 p	**2017 p**	2016 p	**2017 p**	2016 p
Earnings per share	**20.10**	23.41	**(12.81)**	(2.50)	**7.29**	20.91
Effect of amortisation of acquisition intangibles	**10.23**	10.39	**—**	—	**10.23**	10.39
Effect of full tax adjustment	**(2.28)**	(3.44)	**(0.20)**	—	**(2.48)**	(3.44)
Effect of exceptional costs	**—**	—	**13.01**	—	**13.01**	—
Normalised earnings per share	**28.05**	30.36	**—**	(2.50)	**28.05**	27.86

A normalised EPS is disclosed in order to show performance undistorted by the amortisation of acquisition intangibles and exceptional costs. 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)	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Profit/(loss) attributable to shareholders:	**20,906**	24,096	**(13,324)**	(2,570)	**7,582**	21,526
– amortisation of acquisition intangibles	**10,638**	10,690	**—**	—	**10,638**	10,690
– full tax adjustment	**(2,367)**	(3,535)	**(206)**	—	**(2,573)**	(3,535)
– exceptional costs	**—**	—	**13,530**	—	**13,530**	—
Normalised earnings	**29,177**	31,251	**—**	(2,570)	**29,177**	28,681

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.

	2017 Million	2016 Million
Weighted average number of shares in issue:	**103.10**	102.35
– dilutive effect of share options	**0.93**	0.57
Weighted average number of shares for calculating diluted earnings per share	**104.03**	102.92

10. Goodwill

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2016	192,652	406	193,058
Revisions	654	—	654
At 1 January 2017	193,306	406	193,712
Revisions	—	—	—
Disposal of subsidiary	(70)	—	(70)
At 31 December 2017	**193,236**	**406**	**193,642**
Accumulated impairment losses			
At 1 January 2016, at 1 January 2017 and at 31 December 2017	**—**	**—**	**—**
Carrying amount			
At 31 December 2017	**193,236**	**406**	**193,642**
At 31 December 2016	193,306	406	193,712

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.

Revisions to goodwill additions in prior years relate to liabilities not accrued at the time of the acquisition. These revisions are not considered sufficiently material to warrant restatement of the prior year balances.

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

The carrying value of goodwill is allocated to the following CGUs:

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Housing	93,585	406	93,991
Care	99,651	—	99,651
	193,236	406	193,642

An asset is impaired if its carrying value exceeds the unit's recoverable amount, which is based upon value in use. At 31 December 2017 impairment reviews were performed by comparing the carrying value with the value in use for the CGUs to which goodwill has been allocated.

The Housing 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 8.0% over a five-year period with a terminal value. The impairment reviews incorporated a terminal growth assumption of 1.7%, in line with the UK long-term growth rate.

Notes to the financial statements – Group continued

For the year ended 31 December 2017

10. Goodwill continued

The Care CGU's value in use is calculated from a detailed business plan deriving cash flows over a five-year review period, discounted at a post-tax discount rate of 8.3% over a five-year period with a terminal value. The impairment review incorporated a terminal growth assumption of 2.5%, which, whilst marginally higher than the UK long-term growth rate of 1.7%, is supported by the underlying demographics underpinning strong organic growth in adult social care.

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. 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 function and borrowing arrangements to finance their operations.

The rates used were as follows:

	Post-tax discount rate	Pre-tax discount rate	Volume growth rate (years 1–5)	Terminal growth rate
Housing	8.00%	9.10%	5.00%	1.70%
Care	8.30%	9.47%	2.91%	2.50%

Housing

The contracts awarded within the Housing sector are significant in size and the contract terms typically average six years in duration. In addition, Mears has a good track record in retaining contracts on expiry and typically retains over 80% of expiring contracts.

Budgeted operating profits during the budget period are estimated by reference to the 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 of any anticipated efficiency improvements which have not been formally committed to before the year end.

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

Care

Management recognises that there remain significant difficulties within the homecare market, although the sector has seen improvements over the last 24 months. The introduction of the National Living Wage in April 2016 proved a significant boost for providers, with a large number of Local Authorities materially increasing their charge rates, recognising that too much of the cost increase in recent years had been absorbed by care providers. This trend continued following the subsequent rise in the National Living Wage in April 2017. Providers have typically passed these rate increases on to their carers in full, adding some stability in a sector where recruitment and retention represent a significant constraint. Management is particularly pleased that all Local Authorities in Scotland, which covers around one third of the care activities, who have adopted the Scottish Living Wage, which as at 1 April 2018 increases to £8.75 per hour. This compares to the statutory National Living Wage of £7.83 per hour.

Notwithstanding these improvements, market conditions remain challenging. The Directors note that, given these pressures, a number of competitors are withdrawing from the homecare market, which reflects the difficult conditions but could in part also provide some opportunity. The Group remains highly selective in bidding new contract opportunities but the pipeline for new contract bidding remains healthy. Management will only bid where the contract pricing provides good visibility of profitability, including a clear mechanism for future price increases and where there lies a strategic opportunity to provide Housing services to the Local Authority client. Whilst there are still examples of poor commissioning practices, the Directors are confident there are sufficient new bidding opportunities to deliver against the Group's growth forecast.

As part of the annual impairment testing, management performed 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 allowed management to appraise the performance of branches against objectives set, and further increased understanding of the main drivers behind financial performance at a contract level. A key driver around the operational and financial success of each contract continues to be the recruitment and retention of care workers. Carer pay rates continue to be the principal barrier to successful recruitment and retention, but in addition there are a number of factors around culture, working practices and recognition which impact upon maintaining a stable workforce.

10. Goodwill continued

Care continued

The business plan identified a number of key factors, which are built in to the value-in-use calculation:

- Mears has continued to be highly selective, targeting those contracts where the pricing, longevity and spend certainty allow Mears to deliver a high quality service at sustainable margins. During the year, Mears was successful in maintaining its historical contract win rates, whilst securing an average charge rate which matched increases on the underlying cost base. As a result, management has made what is considered to be a conservative assumption, modelling an annual increase of 5,600 hours per week, which will be achieved through new contract bidding. This is well below the actual outcome achieved in recent years.
- Recruitment and retention of quality care workers continue to be challenging. The churn rate of care workers varies at a branch level, depending on non-financial factors such as culture, working practices and recognition. Management has identified best practices and will focus efforts in this area during 2018. However, recruitment remains challenging and this is expected to continue during the short term. Mears recognises that traditional localised recruitment plays a vital role, aiding recruitment from the existing carer workforce pool. In an attempt to encourage new talent to the care at home market, Mears is utilising innovative recruitment tools to ensure breadth of coverage in attracting new care workers to the sector. Mears' internal recruitment plan anticipates modest growth during the medium and long term which, on average, equates to three additional carers per year per branch; this represents an increase of 300 carers per year on an existing workforce of 6,000 carers, which is considered realistic. However, conservatively, the business plan underpinning the impairment review has stripped out this expected increase and assumes no growth as a result of improved recruitment and retention practices.
- Mears is committed to leading the way with carer pay rates; the increase in the National Living Wage in April will further increase direct costs from 1 April 2018. Management will look to maintain a significant differential between Mears pay rates and the National Living Wage to ensure it remains the employer of choice in the homecare sector. The process of branch closures which ensued following the introduction of the National Living Wage in April 2016 has resulted in a live contract portfolio that allows Mears to comfortably meet National Living Wage requirements, whilst having clear margin visibility. Given that the Government has provided a clear indication of its intention to increase the National Living Wage to £9.00 per hour in 2020, management has assumed an increase in carer pay rates of 4.0% per annum, despite the recent rise of 4.4% in the National Living Wage from 1 April 2018. Management is confident that charge rate increases will be received from clients to match the increase in the cost base. The percentage increase assumed for charge rates matches that of carer pay rates in each year throughout the business plan.

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.

	Discount rate						
Long-term growth rate	7.1%	7.5%	7.9%	8.3%	8.7%	9.1%	9.5%
1.3%	30.6	20.8	12.3	4.7	(2.1)	(8.1)	(13.6)
1.7%	38.6	27.6	18.1	9.7	2.3	(4.3)	(10.2)
2.1%	49.3	36.8	25.9	16.5	8.3	1.0	(5.6)
2.5%	60.3	45.9	33.7	**23.1**	13.9	5.8	(1.3)
2.9%	75.2	58.2	44.0	31.9	21.5	12.4	4.4
3.3%	91.2	71.2	54.6	40.7	28.9	18.7	9.9
3.7%	113.2	88.8	69.0	52.6	38.9	27.2	17.2

Notes to the financial statements – Group continued

For the year ended 31 December 2017

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 2016	72,138	24,632	96,770	10,333	224	10,557	107,327
Revisions	—	3,685	3,685	—	—	—	3,685
Additions	—	—	—	2,904	—	2,904	2,904
At 1 January 2017	72,138	28,317	100,455	13,237	224	13,461	113,916
Revisions	459	—	459	—	—	—	459
Additions	—	—	—	3,662	—	3,662	3,662
Disposals	—	(350)	(350)	—	—	—	(350)
At 31 December 2017	**72,597**	**27,967**	**100,564**	**16,899**	**224**	**17,123**	**117,687**
Accumulated amortisation							
At 1 January 2016	49,031	20,970	70,001	5,251	224	5,475	75,476
Amortisation charge for period	7,313	3,377	10,690	1,837	—	1,837	12,527
At 1 January 2017	56,344	24,347	80,691	7,088	224	7,312	88,003
Amortisation charge for period	7,363	3,275	10,638	2,130	—	2,130	12,768
Disposals	—	(350)	(350)	—	—	—	(350)
At 31 December 2017	**63,707**	**27,272**	**90,979**	**9,218**	**224**	**9,442**	**100,421**
Carrying amount							
At 31 December 2017	**8,890**	**695**	**9,585**	**7,681**	**—**	**7,681**	**17,266**
At 31 December 2016	15,794	3,970	19,764	6,149	—	6,149	25,913

Revisions to acquisition intangibles additions in prior years relate to liabilities not accrued at the time of the acquisition. These revisions are not considered sufficiently material to warrant restatement of the prior year balances.

Development expenditure is an internally developed intangible asset and relates largely to the development of the Group's 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 5.0 years. The weighted average remaining economic life of the asset is 3.7 years (2016: 3.0 years).

Intellectual property is amortised over its useful economic life, typically 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 in 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 historical trends.

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 2016	788	12,258	2,981	44,451	1,389	61,867
Acquired on acquisition	—	—	—	54	—	54
Additions	—	1,777	113	5,535	—	7,425
Disposals	—	(82)	(204)	(3,370)	(94)	(3,750)
At 1 January 2017	788	13,953	2,890	46,670	1,295	65,596
Additions	—	2,107	99	5,915	—	8,121
Disposals	—	—	—	(2,472)	(20)	(2,492)
Disposal of subsidiary	—	—	—	(159)	—	(159)
At 31 December 2017	**788**	**16,060**	**2,989**	**49,954**	**1,275**	**71,066**
Depreciation						
At 1 January 2016	—	7,757	1,819	32,541	1,314	43,431
Acquired on acquisition	—	—	—	26	—	26
Provided in the year	—	1,202	310	4,040	21	5,573
Eliminated on disposals	—	(82)	(204)	(3,319)	(94)	(3,699)
At 1 January 2017	—	8,877	1,925	33,288	1,241	45,331
Provided in the year	20	1,188	280	4,606	11	6,105
Eliminated on disposals	—	—	—	(2,244)	(20)	(2,264)
Disposal of subsidiary	—	—	—	(143)	—	(143)
At 31 December 2017	**20**	**10,065**	**2,205**	**35,507**	**1,232**	**49,029**
Carrying amount						
At 31 December 2017	**768**	**5,995**	**784**	**14,447**	**43**	**22,037**
At 31 December 2016	788	5,076	965	13,382	54	20,265

Notes to the financial statements – Group continued

For the year ended 31 December 2017

13. Investments

The subsidiary undertakings within the Group at 31 December 2017 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited	100%	England and Wales	Maintenance services
Careforce Group Plc	100%	England and Wales	Dormant
Careforce Services Limited	100%	England and Wales	Dormant
Coulter Estates Limited	100%	Scotland	Provision of care
Electrical Contracting Services (UK) Limited	100%	England and Wales	Dormant
Evolve Housing Limited	50%	England and Wales	Dormant
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
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 24/7 LLP	50%	England and Wales	Call centre services
Mears Care (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Care (Northern Ireland) Limited	100%	Northern Ireland	Dormant
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
Mears Facility Management Limited	100%	England and Wales	Dormant
Mears Home Improvement Limited	100%	England and Wales	Maintenance services
Mears Homecare Limited	100%	England and Wales	Provision of care
Mears Homes Limited	100%	England and Wales	Dormant
Mears Housing Management Limited	100%	England and Wales	Housing management services
Mears Housing Management (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (London) Limited	100%	England and Wales	Property acquisition
Mears Housing Portfolio 1 Limited	100%	England and Wales	Property acquisition
Mears Housing Portfolio 2 Limited	100%	England and Wales	Property acquisition
Mears Housing Portfolio 3 Limited	100%	England and Wales	Property acquisition

13. Investments continued

	Proportion held	Country of registration	Nature of business
Mears Housing Portfolio 4 Limited	100%	England and Wales	Dormant
Mears Insurance Company Limited	99.99%	Guernsey	Insurance services
Mears Learning Limited	90%	England and Wales	Training provider
Mears Lifetime Homes Limited	100%	England and Wales	Dormant
Mears Limited	100%	England and Wales	Maintenance services
Mears Modular Homes Limited	100%	England and Wales	Dormant
Mears New Homes Limited	90%	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
MHM Property Services Limited	100%	England and Wales	Maintenance services
Morrison Facilities Services Limited	100%	Scotland	Maintenance services
Nurseplus Limited	100%	Scotland	Dormant
O&T Developments Limited	75%	England and Wales	Housing management services
Omega Housing Limited	100%	England and Wales	Housing registered provider
Planning Portal Limited	75%	England and Wales	Dormant
Plexus UK (First Project) Limited	100%	England and Wales	Housing registered provider
PortalPlanQuest Limited	75%	England and Wales	Professional services
Potton Road Management Company Limited	90%	England and Wales	Dormant
PS Business Services Limited	100%	Scotland	Dormant
PS Payroll Services 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 Limited	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
West Haddon Management Company Limited	90%	England and Wales	Dormant

All subsidiary undertakings with the exception of Evolve Housing Limited and Manchester Working Limited prepare accounts to 31 December. Evolve Housing Limited prepares accounts to 30 June in line with its historical accounting reference date. Manchester Working Limited prepares accounts to 31 March in line with the minority shareholder.

Notes to the financial statements – Group continued

For the year ended 31 December 2017

13. Investments continued

On 30 November 2017, the Group disposed of one of its 100% subsidiary undertakings, Energy Insurance Services Limited. Further details of this disposal are provided in note 24.

The Group includes the following nine trading subsidiaries with non-controlling interests: O&T Developments Limited, Manchester Working Limited, Mears 24/7 LLP, Mears Learning Limited, Mears New Homes Limited, Mears Scotland LLP, PortalPlanQuest Limited, Tando Homes Limited and Tando Property Services Limited. The table below sets out selected financial information in respect of those subsidiaries:

	2017 £'000	2016 £'000
Revenue and profits		
Revenue	**121,392**	119,213
Expenses and taxation	**(117,185)**	(114,303)
Profit for the year	**4,207**	4,910
Other comprehensive expense	**—**	—
Total comprehensive income	**4,207**	4,910
Profit for the year allocated to non-controlling interests	**1,263**	4,170
Total comprehensive expense allocated to non-controlling interests	**—**	—
Net assets		
Non-current assets	**1,469**	1,813
Current assets	**41,019**	45,565
Current liabilities	**(18,254)**	(29,196)
Non-current liabilities	**(22,337)**	(20,474)
Total assets less total liabilities	**1,897**	(2,292)
Equity shareholders' funds	**1,801**	(1,650)
Non-controlling interests	**96**	(642)
Total equity	**1,897**	(2,292)

The Group held investments in the following joint ventures at 31 December 2017:

	Proportion held	Country of registration	Nature of business
Asert LLP	50%	England and Wales	Dormant
Sapphire Homes London Limited	50%	England and Wales	Property acquisition
Sapphire Homes London No. 1 Limited	50%	England and Wales	Property acquisition
Sapphire Homes London No. 2 Limited	50%	England and Wales	Dormant
Sapphire Homes London No. 3 Limited	50%	England and Wales	Dormant
Sapphire Homes London No. 4 Limited	50%	England and Wales	Dormant
YourMK LLP	50%	England and Wales	Maintenance services

The carrying amount of the above joint ventures was £nil (2016: £nil).

The Group is committed to providing further funding of £0.1m (2016: £0.3m) to YourMK LLP. The Group's share of the loss of YourMK LLP for the year was £0.1m (2016: £0.1m).

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 2017:

	Registration number
3c Asset Management Limited	02859913
Let to Birmingham Limited	08757503
Mears Care (Northern Ireland) Limited	NI035273
Mears Estates Limited	03720903
Mears Home Improvement Limited	03716517
Mears Housing Management (Holdings) Limited	04726480
Mears Housing Portfolio (Holdings) Limited	10908305
Mears Housing Portfolio (London) Limited	10953521
Mears Housing Portfolio 2 Limited	10952666
MHM Property Services Limited	07448134
Scion Group Limited	03905442
Scion Technical Services Limited	03671450

14. Assets held for sale

	2017 £'000	2016 £'000
Property held for sale	**13,941**	—

During the year, the Group acquired property assets that are classified as held for sale prior to their disposal to long-term funding partners. These acquisitions were funded by a £30m rolling credit facility which is separate from the Group's main facility.

15. Inventories

	2017 £'000	2016 £'000
Materials and consumables	**5,559**	5,243
Work in progress	**13,146**	5,991
	18,705	11,234

The Group consumed inventories totalling £676.5m during the year (2016: £695.2m). No items are being carried at fair value less costs to sell (2016: £nil).

16. Construction contracts

Revenue of £26.1m (2016: £13.0m) relating to construction contracts has been included in the Consolidated Income Statement.

	2017 £'000	2016 £'000
Contract costs incurred	**22,953**	11,149
Recognised gross profits	**3,130**	1,832
Recognised gross losses	**—**	—
	26,083	12,981
Balances outstanding comprise:		
– due from customers for construction contract work	**1,332**	—

Notes to the financial statements – Group continued

For the year ended 31 December 2017

17. Trade and other receivables

	2017 £'000	2016 £'000
Current assets:		
– trade receivables	**51,602**	49,086
– amounts recoverable on non-construction contracts	**88,948**	98,405
– prepayments and accrued income	**13,362**	9,690
Total trade and other receivables	**153,912**	157,181

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. Housing customers are typically Local Authorities and Housing Associations where credit risk is minimal. Care customers are typically Local Authorities and NHS Trusts where credit risk is minimal.

The ageing analysis of trade receivables is as follows:

	2017 £'000	2016 £'000
Neither impaired nor past due	**44,717**	46,032
Less than three months past due but not impaired	**2,323**	1,904
More than three months past due but not impaired	**4,562**	1,150
Total trade and other receivables	**51,602**	49,086

18. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**103,432**	111,490
Accruals and deferred income	**45,905**	45,571
Social security and other taxes	**18,425**	20,896
Payments on account for non-construction contract work	**326**	19
Finance lease liabilities	**304**	113
Other creditors	**16,092**	9,175
	184,484	187,264

Due to the short duration of trade payables, management considers the carrying amounts recognised in the Consolidated Balance Sheet to be a reasonable approximation of their fair value.

Included in other creditors is £5.0m (2016: £5.0m) relating to contingent consideration on acquisitions and £6.2m (2016: £nil) relating to a forward purchase agreement in respect of 25% of Tando Property Services Limited, Tando Homes Limited and O&T Developments Limited.

19. Financial assets and liabilities

	2017 £'000	2016 £'000
Current assets:		
– diesel hedge	**—**	839
Non-current assets:		
– diesel hedge	**—**	677
Total financial assets	**—**	1,516
Current liabilities:		
– interest rate swaps	**253**	478
Non-current liabilities:		
– interest rate swaps	**79**	612
Total financial liabilities	**332**	1,090

20. Long-term other liabilities

	2017 £'000	2016 £'000
Finance lease liabilities	**540**	—
Other creditors	**4,496**	15,950

Included in other creditors is £nil (2016: £5.3m) relating to contingent consideration on acquisitions and £nil (2016: £6.2m) relating to a forward purchase agreement in respect of 25% of Tando Property Services Limited, Tando Homes Limited and O&T Developments Limited.

21. 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.

Categories of financial instruments

	2017 £'000	2016 £'000
Financial assets		
Fair value (level 2)		
Diesel hedge – ineffective	**—**	1,516
Amortised cost		
Trade receivables	**51,602**	49,086
Amounts recoverable on contracts	**88,948**	98,405
Cash at bank and in hand	**24,770**	52,904
	165,320	201,911
Financial liabilities		
Fair value (level 2)		
Interest rate swaps – effective	**(332)**	(1,090)
Fair value (level 3)		
Deferred and contingent consideration in respect of acquisitions	**(11,163)**	(16,457)
Amortised cost		
Borrowings related to assets held for sale	**(13,941)**	—
Bank borrowings and overdrafts	**(50,559)**	(65,278)
Trade payables	**(103,432)**	(111,490)
Accruals and deferred income	**(45,905)**	(44,055)
Other creditors	**(21,128)**	(8,668)
	(246,460)	(247,038)
	(81,140)	(45,127)

The IFRS 13 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 diesel hedges and 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 and the wholesale price of diesel (level 2).

Notes to the financial statements – Group continued

For the year ended 31 December 2017

21. Financial instruments continued

Categories of financial instruments continued

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. The contingent consideration payable was settled shortly after the year end at the carrying value and therefore the Directors have not disclosed a sensitivity analysis.

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.

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 £170m with Barclays Bank PLC and HSBC Bank plc, of which £64.5m was utilised at 31 December 2017.

The facilities comprise a committed four-year £130.0m revolving credit facility and an unsecured overdraft facility of £10.0m. The undrawn amounts at 31 December 2017 were an £80.0m revolving credit facility and an overdraft facility of £10.0m. In addition, the Group benefits from a £30.0m revolving credit facility to fund the acquisition and build of property portfolios prior to their disposal to long-term funding partners. The undrawn amount at 31 December 2017 was £15.5m.

During the year, the Group completed an 'amend and extend' to its revolving capital facility, which extended the expiry date from July 2020 to November 2022.

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 2017 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities – 2017	**64,500**	**—**	**11,163**	**75,663**
Financial liabilities – 2016	30,000	35,278	16,457	81,735

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, at 31 December 2017 the Group had hedged the first £70.0m of the £140.0m total borrowing facilities by entering into interest rate swap arrangements with Barclays Bank PLC and HSBC Bank PLC. The arrangement with Barclays Bank PLC consists of one £30.0m swap contract expiring in August 2018, with quarterly maturity, matching the underlying facility. The arrangement with HSBC Bank PLC consists of three swap contracts totalling £40.0m expiring in December 2020, with quarterly maturity, matching the underlying facility.

21. Financial instruments continued

Interest rate risk management continued

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

	2017		2016	
	Nominal amount hedged £'000	Average applicable interest rates %	Nominal amount hedged £'000	Average applicable interest rates %
Within one year	**30,000**	**1.85%**	—	—
One to two years	**—**	**—**	30,000	1.85%
Two to five years	**40,000**	**0.84%**	—	—
More than five years	**—**	**—**	—	—

The Group has also entered into a further two interest rate swap arrangements with Barclays Bank PLC, comprising two £15.0m swap contracts with a deferred start date of August 2018 expiring August 2021 at an applicable interest rate of 0.96%.

Effective interest rates

Interest rate swaps with fair value liabilities of £0.3m (2016: £1.1m) and average remaining lives of two years and five months have been accounted for in financial liabilities.

The Group's overall average cost of debt, including effective interest rate swaps, is 2.3% as at 31 December 2017 (2016: 2.6%). Excluding these swaps the average is 1.6% (2016: 1.9%).

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, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Income Statement when the hedged item affects the Consolidated Income Statement.

Movements during the year were:

	£'000
At 1 January 2016	(572)
Amounts transferred to the Consolidated Income Statement	643
Revaluations during the year	(884)
Deferred tax movement	39
At 1 January 2017	(774)
Amounts transferred to the Consolidated Income Statement	645
Revaluations during the year	(54)
Deferred tax movement	(143)
At 31 December 2017	**(326)**

At 31 December 2017 the Group had minimal exposure to movements 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 2017 and reserves would decrease or increase, respectively, by £0.3m (2016: £0.2m).

Notes to the financial statements – Group continued

For the year ended 31 December 2017

21. Financial instruments continued

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 the 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
2017					
Non-derivative financial liabilities					
Borrowings related to assets held for sale	**13,941**	**—**	**—**	**—**	**13,941**
Bank borrowings	**—**	**—**	**50,559**	**—**	**50,559**
Trade and other payables	**154,606**	**4,155**	**—**	**—**	**158,761**
Deferred and contingent consideration in respect of acquisitions	**11,163**	**—**	**—**	**—**	**11,163**
Derivative financial liabilities					
Interest rate swaps – effective	**253**	**65**	**14**	**—**	**332**
2016					
Non-derivative financial liabilities					
Bank borrowings	5,278	—	60,000	—	65,278
Trade and other payables	159,720	4,493	—	—	164,213
Deferred and contingent consideration in respect of acquisitions	5,000	11,457	—	—	16,457
Derivative financial liabilities					
Interest rate swaps – effective	478	375	226	11	1,090

The Group has disclosed core bank borrowings of £50.0m 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 Consolidated 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.

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 17.

21. Financial instruments continued

Deferred and contingent consideration

The table below shows the movements in deferred and contingent consideration:

	Total £'000
At 1 January 2016	20,861
Increase due to forward purchase agreement	6,163
Paid in respect of acquisitions	(10,019)
Released on reassessment	(548)
At 1 January 2017	16,457
Increase due to forward purchase agreement	—
Paid in respect of acquisitions	(5,000)
Released on reassessment	(294)
At 31 December 2017	**11,163**

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.

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.

	2017 £'000	2016 £'000
Cash and cash equivalents is comprised as follows:		
– cash at bank and in hand	**24,770**	52,904
– bank borrowings and overdrafts	**(50,559)**	(65,278)
Cash and cash equivalents	**(25,789)**	(12,374)

Notes to the financial statements – Group continued

For the year ended 31 December 2017

22. 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 2017:

	Pension scheme £'000	Share-based payments £'000	Cash flow hedges £'000	Tax losses £'000	Short-term temporary differences £'000	Total £'000
At 1 January 2016	845	910	160	2,760	1,909	6,584
Credit/(debit) to Consolidated Income Statement	72	65	—	(588)	(230)	(681)
Debit to Consolidated Statement of Changes in Equity	—	(635)	—	—	—	(635)
Credit/(debit) to Consolidated Statement of Comprehensive Income	596	—	(160)	—	—	436
At 1 January 2017	1,513	340	—	2,172	1,679	5,704
(Debit)/credit to Consolidated Income Statement	(84)	(267)	199	(1,015)	(87)	(1,254)
Debit to Consolidated Statement of Changes in Equity	—	404	—	—	—	404
(Debit)/credit to Consolidated Statement of Comprehensive Income	(397)	—	(143)	—	—	(540)
At 31 December 2017	**1,032**	**477**	**56**	**1,157**	**1,592**	**4,314**

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

The cumulative amount credited to the 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, unused tax losses totalling £34.2m (2016: £31.3m) 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 2017:

Deferred tax liabilities

	Pension scheme £'000	Acquisition intangibles £'000	Cash flow hedges £'000	Total £'000
At 1 January 2016	1,654	5,316	—	6,970
Acquired on acquisition	—	654	—	654
(Credit)/debit to Consolidated Income Statement	73	(2,066)	—	(1,993)
Debit to Consolidated Statement of Comprehensive Income	1,400	—	89	1,489
At 1 January 2017	3,127	3,904	89	7,120
(Credit)/debit to Consolidated Income Statement	(90)	(2,083)	(89)	(2,262)
Debit to Consolidated Statement of Comprehensive Income	2,240	—	—	2,240
At 31 December 2017	**5,277**	**1,821**	**—**	**7,098**

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

23. Share capital and reserves

Classes of reserves

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, accounted for through the Consolidated Statement of Comprehensive Income and 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.

Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
At 1 January 102,559,799 (2016: 101,938,335) ordinary shares of 1p each	**1,026**	1,019
Issue of 1,007,292 (2016: 621,464) shares on exercise of share options	**10**	7
At 31 December 103,567,091 (2016: 102,559,799) ordinary shares of 1p each	**1,036**	1,026

During the year 1,007,292 (2016: 621,464) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.01m and the total consideration of £1.89m has been credited to the share premium account.

24. 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:

	2017 £'000	2016 £'000
Depreciation	**6,105**	5,573
Loss on disposal of property, plant and equipment	**24**	48
Profit on disposal of subsidiary	**(961)**	—
Amortisation	**12,768**	12,527
Share-based payments	**826**	324
IAS 19 pension movement	**31**	(770)
Finance income	**(351)**	(67)
Finance cost	**2,706**	2,803
Total	**21,148**	20,438

Notes to the financial statements – Group continued

For the year ended 31 December 2017

24. Notes to the Consolidated Cash Flow Statement continued

Movements in financing liabilities during the year are as follows:

	Borrowings relating to assets held for resale	Finance leases	Total
At 1 January 2016	—	386	386
Inception of new finance leases	—	388	388
Cash outflows	—	(661)	(661)
At 1 January 2017	—	113	113
Inception of new finance leases	—	2,685	2,685
Cash inflows/(outflows)	13,941	(1,954)	11,987
At 31 December 2017	**13,941**	**844**	**14,785**

25. Acquisitions and disposals

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

	Total £'000
Cash payments in respect of prior year acquisitions	5,000

On 30 November 2017 the Group entered into a sale agreement to dispose of Energy Insurance Services Limited, which undertook maintenance related insurance services. The effect of the disposal on the Group's assets was as follows:

	Total £'000
Assets	
Non-current	
Goodwill	69
Property, plant and equipment	16
Current	
Other receivables	24
Cash at bank and in hand	1,234
Total assets	1,343
Liabilities	
Current	
Trade and other payables	(722)
Total liabilities	(722)
Net assets disposed	621
Profit on disposal	961

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

	Total £'000
Proceeds of sale	1,582
Cash at bank and in hand disposed of	(1,234)
Total	348

26. Pensions

Defined contribution schemes

The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £3.0m (2016: £2.3m) to these schemes.

IAS 19 'Employee Benefits'

The Group contributes to 30 (2016: 35) 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 134. 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 (2016: two) Group defined benefit schemes and the 28 (2016: 33) 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 2017 by qualified independent actuaries using the projected unit method.

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

	2017	2016
Rate of increase of salaries – first year	**2.00%**	1.00%
Rate of increase of salaries – second year	**2.00%**	1.00%
Rate of increase of salaries – long term	**3.10%**	3.35%
Rate of increase for pensions in payment – based on CPI with a cap of 5%	**2.25%**	2.45%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	**3.05%**	3.25%
Rate of increase for pensions in payment – based on CPI with a cap of 3%	**1.95%**	2.10%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	**2.45%**	2.55%
Discount rate	**2.70%**	3.05%
Retail prices inflation	**3.10%**	3.35%
Consumer prices inflation	**2.20%**	2.45%
Life expectancy for a 65-year-old male	**22.4 years**	22.5 years
Life expectancy for a 65-year-old female	**24.7 years**	24.8 years

Notes to the financial statements – Group continued

For the year ended 31 December 2017

26. Pensions continued

IAS 19 'Employee Benefits' continued

The amounts recognised in the Consolidated Balance Sheet and major categories of plan assets are:

	2017			2016		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Equities – quoted	**54,481**	**202,333**	**256,814**	36,470	236,932	273,402
Equities – unquoted	**—**	**21,669**	**21,669**	—	20,368	20,368
Bonds – quoted	**74,412**	**67,850**	**142,262**	88,412	77,900	166,312
Bonds – unquoted	**—**	**2,418**	**2,418**	—	7,932	7,932
Guarantee	**—**	**7,026**	**7,026**	—	18,587	18,587
Property – quoted	**4,258**	**6,258**	**10,516**	2,004	10,201	12,205
Property – unquoted	**—**	**13,562**	**13,562**	—	15,884	15,884
Cash	**24,174**	**31,437**	**55,611**	22,643	34,887	57,530
Group's estimated asset share	**157,325**	**352,553**	**509,878**	149,529	422,691	572,220
Present value of funded scheme liabilities	**(132,591)**	**(324,920)**	**(457,511)**	(137,721)	(410,258)	(547,979)
Funded status	**24,734**	**27,633**	**52,367**	11,808	12,433	24,241
Scheme surpluses not recognised as assets	**—**	**(30,025)**	**(30,025)**	—	(15,747)	(15,747)
Pension asset/(liability)	**24,734**	**(2,392)**	**22,342**	11,808	(3,314)	8,494

The amounts recognised in the Consolidated Income Statement are as follows:

	2017			2016		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Current service cost	**2,826**	**3,252**	**6,078**	2,062	4,370	6,432
Past service cost	**—**	**199**	**199**	—	70	70
Settlement and curtailment	**—**	**—**	**—**	—	169	169
Administration costs	**142**	**72**	**214**	196	114	310
Total operating charge	**2,968**	**3,523**	**6,491**	2,258	4,723	6,981
Net interest	**(246)**	**25**	**(221)**	(697)	(251)	(948)
Total charged to the result for the year	**2,722**	**3,548**	**6,270**	1,561	4,472	6,033

26. Pensions continued

IAS 19 'Employee Benefits' continued

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

	2017			2016		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
On TUPE transfer of employees	—	(373)	(373)	—	—	—
Return on plan assets in excess of that recorded in net interest	3,942	(6,918)	(2,976)	27,129	59,020	86,149
Actuarial gain/(loss) arising from changes in demographic assumptions	15,686	1,082	16,768	1,355	—	1,355
Actuarial (loss)/gain arising from changes in financial assumptions	(7,064)	(9,617)	(16,681)	(24,475)	(66,308)	(90,783)
Actuarial gain arising from liability experience	(28)	31,447	31,419	1,000	1,714	2,714
Effects of limitation of recognisable surplus	—	(14,278)	(14,278)	—	4,241	4,241
Total gains and losses recognised in equity	12,536	1,343	13,879	5,009	(1,333)	3,676
At 1 January	(5,729)	(6,935)	(12,664)	(10,738)	(5,602)	(16,340)
Total at 31 December	6,807	(5,592)	1,215	(5,729)	(6,935)	(12,664)

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

	2017			2016		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Present value of obligations at 1 January	137,721	410,258	547,979	111,327	333,839	445,166
Current service cost	2,826	3,252	6,078	2,062	4,370	6,432
Past service cost	—	199	199	—	70	70
Scheme administration costs	—	22	22	—	45	45
Interest on obligations	4,148	9,052	13,200	4,355	13,152	17,507
Plan participants' contributions	374	1,136	1,510	392	1,608	2,000
Benefits paid	(3,884)	(6,107)	(9,991)	(2,535)	(7,202)	(9,737)
Contract transfer	—	(72,584)	(72,584)	—	—	—
Settlements	—	—	—	—	(218)	(218)
Actuarial gain arising from changes in demographic assumptions	(15,686)	(1,082)	(16,768)	(1,355)	—	(1,355)
Actuarial loss arising from changes in financial assumptions	7,064	12,221	19,285	24,475	66,308	90,783
Actuarial loss/(gain) arising from liability experience	28	(31,447)	(31,419)	(1,000)	(1,714)	(2,714)
Present value of obligations at 31 December	132,591	324,920	457,511	137,721	410,258	547,979

Notes to the financial statements – Group continued

For the year ended 31 December 2017

26. Pensions continued

IAS 19 'Employee Benefits' continued

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

	2017			2016		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Fair value of plan assets at 1 January	**149,529**	**422,691**	**572,220**	116,512	352,690	469,202
Expected return on plan assets	**4,394**	**9,027**	**13,421**	5,052	13,403	18,455
Employer's contributions	**3,112**	**3,127**	**6,239**	3,175	3,628	6,803
Plan participants' contributions	**374**	**1,136**	**1,510**	392	1,608	2,000
Benefits paid	**(3,884)**	**(6,107)**	**(9,991)**	(2,535)	(7,202)	(9,737)
Scheme administration costs	**(142)**	**(50)**	**(192)**	(196)	(69)	(265)
Contract transfer	**—**	**(72,957)**	**(72,957)**	—	—	—
Settlements	**—**	**—**	**—**	—	(387)	(387)
Return on plan assets above/(below) that recorded in net interest	**3,942**	**(4,314)**	**(372)**	27,129	59,020	86,149
Fair value of plan assets at 31 December	**157,325**	**352,553**	**509,878**	149,529	422,691	572,220

History of experience gains and losses is as follows:

	Group schemes				
	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Fair value of scheme assets	**157,325**	149,529	116,512	115,818	98,910
Net present value of defined benefit obligations	**(132,591)**	(137,721)	(111,327)	(106,710)	(88,195)
Net surplus	**24,734**	11,808	5,185	9,108	10,715
Experience adjustments arising on scheme assets					
Amount	**3,942**	27,129	(4,984)	10,624	3,796
Percentage of scheme assets	**2.5%**	18.1%	(4.3%)	9.2%	3.8%
Experience adjustments arising on scheme liabilities					
Amount	**28**	(1,000)	(5,193)	(910)	(932)
Percentage of scheme liabilities	**0.0%**	(0.7%)	(4.7%)	(0.9%)	(1.1%)

	Other schemes				
	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Fair value of scheme assets	**352,553**	422,691	352,690	347,034	324,723
Net present value of defined benefit obligations	**(324,920)**	(410,258)	(333,839)	(331,666)	(295,641)
Net surplus	**27,633**	12,433	18,851	15,368	29,082
Asset value not recognised as surplus	**(30,025)**	(15,747)	(19,988)	(17,717)	(31,173)
Net deficit	**(2,392)**	(3,314)	(1,137)	(2,349)	(2,091)
Experience adjustments arising on scheme assets					
Amount	**(4,314)**	59,020	(7,406)	22,125	25,805
Percentage of scheme assets	**(1.2%)**	14.0%	(2.1%)	6.4%	7.9%
Experience adjustments arising on scheme liabilities					
Amount	**(31,447)**	(1,714)	(819)	(9,828)	(518)
Percentage of scheme liabilities	**(9.7%)**	(0.4%)	(0.2%)	(3.0%)	(0.2%)

26. 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 employer's contributions expected to be paid during the financial year ending 31 December 2018 amount to £5.4m.

Each of the schemes manages 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 2017.

	Decrease £'000	Increase £'000
Rate of inflation – decrease/increase by 0.1%	(1,918)	2,035
Rate of increase in salaries – decrease/increase by 0.1%	(144)	133
Discount rate – decrease/increase by 0.1%	3,182	(2,998)
Life expectancy – decrease/increase by 1 year	(5,985)	6,549

27. Operating lease commitments

Non-cancellable operating lease rentals payable were as follows:

	Land and buildings		Other	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Payable				
Within one year	**42,520**	44,917	**14,038**	15,456
Between two and five years	**29,829**	22,404	**14,511**	28,249
After more than five years	**44,051**	11,541	**—**	—
	116,400	78,862	**29,600**	43,705

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

28. Capital commitments

The Group had no capital commitments at 31 December 2017 or at 31 December 2016.

29. Contingent liabilities

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2017 these guarantees amounted to £21.7m (2016: £25.4m).

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 2017, guarantees amounted to £3.8m (2016: £13.7m) and these were provided for in full during 2017.

The Group had no other contingent liabilities at 31 December 2017 or at 31 December 2016.

Notes to the financial statements – Group continued

For the year ended 31 December 2017

30. 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 26 to the financial statements.

Subsidiaries

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

Transactions with key management personnel

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

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

	2017 %	2016 %
Directors	**0.4**	0.4

Key management personnel's compensation is as follows:

	2017 £'000	2016 £'000
Salaries including social security costs	**1,765**	1,762
Contributions to defined contribution pension schemes	**161**	195
Share-based payments	**150**	150
	2,076	2,107

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

Dividends totalling £0.04m (2016: £0.05m) were paid to Directors during the year.

Transactions with other related parties

During the year the Group made additional loans to YourMK LLP, an entity in which the Group is a 50% member, totalling £0.2m (2016: £0.2m). At 31 December 2017, the Group was owed £0.4m (2016: £0.2m) by YourMK LLP.

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.

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 Company has taken advantage of the reduced disclosures for subsidiaries and the ultimate parent provided for in FRS 102 and has therefore not provided a cash flow statement or certain disclosures in respect of share-based payments.

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 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.

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.

Principal accounting policies – Company continued

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 Consolidated 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 or 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 are also charged to the Consolidated Income Statement. The amount charged to the Consolidated Income Statement in respect of these plans is included within operating costs.

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

Investments

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment. Dividends on equity securities are recognised in income when receivable.

Financial instruments

Financial assets and liabilities are recognised in the Consolidated 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; (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.

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 Consolidated Income Statement.

The gain or loss recognised in other comprehensive income is reclassified to the Consolidated Income Statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires or 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.

Critical judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty are disclosed in the Group's accounting policies on page 100 and 101.

Parent Company balance sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Intangible assets: goodwill	5	**—**	—
Investments	6	**58,123**	58,467
		58,123	58,467
Current assets			
Debtors	7	**143,944**	139,155
Cash at bank and in hand		**2,276**	—
		146,220	139,155
Creditors: amounts falling due within one year	8	**(5,141)**	(27,021)
Net current assets		**141,079**	112,134
Total assets less current liabilities		**199,202**	170,601
Creditors: amounts falling due after more than one year	9	**(50,079)**	(60,686)
Provisions for liabilities			
Pension liability	14	**(2,574)**	(4,184)
		146,549	105,731
Capital and reserves			
Called up share capital	11	**1,036**	1,026
Share premium account		**60,204**	58,320
Share-based payment reserve		**1,469**	1,975
Hedging reserve		**(326)**	(774)
Profit and loss account		**84,166**	45,184
Shareholders' funds		**146,549**	105,731

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 £49.3m (2016: £18.2m) which is dealt with in the financial statements of the Company.

The financial statements were approved by the Board of Directors on 19 March 2018.

D J Miles
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 statement of changes in equity

For the year ended 31 December 2017

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	1,019	58,124	1,651	(572)	40,145	100,367
Net result for the year	—	—	—	—	18,238	18,238
Other comprehensive expense	—	—	—	(202)	(1,716)	(1,918)
Total comprehensive (expense)/income for the year	—	—	—	(202)	16,522	16,320
Issue of shares	7	196	—	—	—	203
Share option charges	—	—	324	—	—	324
Dividends	—	—	—	—	(11,483)	(11,483)
At 1 January 2017	1,026	58,320	1,975	(774)	45,184	105,731
Net result for the year	—	—	—	—	49,263	49,263
Other comprehensive expense	—	—	—	448	605	1,053
Total comprehensive (expense)/income for the year	—	—	—	448	49,868	50,316
Issue of shares	10	1,884	—	—	—	1,894
Share option charges	—	—	826	—	—	826
Share option exercises	—	—	(1,332)	—	1,332	—
Dividends	—	—	—	—	(12,218)	(12,218)
At 31 December 2017	**1,036**	**60,204**	**1,469**	**(326)**	**84,166**	**146,549**

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

Notes to the financial statements – Company

For the year ended 31 December 2017

1. Result for the financial year

This result for the year is stated after charging auditor's remuneration of £65,000 (2016: £60,000) relating to audit services.

2. Directors and employees

Employee benefits expense

Staff costs during the year were as follows:

	2017 £'000	2016 £'000
Wages and salaries	**17,891**	1,334
Social security costs	**2,477**	428
Other pension costs	**795**	182
	21,163	1,944

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

	2017 Number	2016 Number
Management	**411**	9

During the year the Group transferred its central support staff from its main trading subsidiary to the Company.

Remuneration in respect of Directors was as follows:

	2017 £'000	2016 £'000
Emoluments	**1,389**	1,334
Gains made on the exercise of share options	**1,148**	1,795
Pension contributions to personal pension schemes	**161**	195
	2,698	3,324

During the year contributions were paid to personal pension schemes for four Directors (2016: four).

During the year three Directors (2016: three) exercised share options.

3. Share-based employee remuneration

As at 31 December 2017 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 2017 (2016: £0.2m), which gave rise to additional paid-in capital.

4. Dividends

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

	2017 £'000	2016 £'000
Final 2016 dividend of 8.40p (2016: final 2015 dividend of 7.90p) per share	**8,651**	8,099
Interim 2017 dividend of 3.45p (2016: interim 2016 dividend of 3.30p) per share	**3,567**	3,384
	12,218	11,483

The proposed final 2017 dividend of 8.55p per share has not been included within the financial statements as no obligation existed at 31 December 2017.

5. Goodwill

	Goodwill £'000
Cost	
At 1 January 2017	6,196
Disposals	(6,196)
At 31 December 2017	**—**
Amortisation	
At 1 January 2017	6,196
Eliminated on disposal	(6,196)
At 1 January 2017 and at 31 December 2017	**—**
Net book value	
At 31 December 2017	**—**
At 31 December 2016	—

During the year, the Company disposed of historical goodwill that had been fully amortised.

6. Fixed asset investments

	Investment in subsidiary undertakings £'000
Cost	
At 1 January 2017	58,467
Disposal of subsidiary	(344)
At 31 December 2017	**58,123**

Details of the subsidiary undertakings of the Company are shown in note 13 to the consolidated financial statements.

7. Debtors

	2017 £'000	2016 £'000
Amounts owed by Group undertakings	**142,531**	135,620
Prepayments and accrued income	**—**	1,073
Other receivables	**868**	—
Deferred tax asset	**545**	946
Diesel hedge	**—**	1,516
	143,944	139,155

The deferred tax asset above of £0.5m (2016: £0.9m) 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.

Notes to the financial statements – Company continued

For the year ended 31 December 2017

8. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Bank loan	—	5,000
Bank overdraft	—	19,146
Interest rate swaps	**253**	478
Accruals	**4,061**	1,623
Corporation tax	**347**	708
Other payables	**480**	66
	5,141	27,021

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

	2017 £'000	2016 £'000
Bank borrowings	**50,000**	60,000
Contingent consideration	—	74
Interest rate swaps	**79**	612
	50,079	60,686

The Company has disclosed core bank borrowings of £50.0m 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 £nil (2016: £0.1m) relating to deferred consideration on acquisitions.

10. Financial instruments

The Company has the following financial instruments:

	2017 £'000	2016 £'000
Financial assets that are debt instruments measured at amortised cost:		
– other receivables	**868**	—
Financial assets that are measured at fair value through profit and loss:		
– diesel hedge	—	1,516
Financial liabilities that are measured at fair value through other comprehensive income:		
– interest rate swaps	**(332)**	(1,090)
Financial liabilities that are measured at amortised cost:		
– bank borrowings	**(50,000)**	(65,000)
– accruals	**(4,061)**	(1,623)
– other payables	**(480)**	(66)
	(54,541)	(66,689)
Other financial liabilities that are measured at fair value:		
– contingent consideration	—	(74)

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.

10. Financial instruments continued

The Company pays a margin over and above LIBOR on bank borrowings. The margin is based on the ratio of Group consolidated net borrowings to Group consolidated adjusted EBITDA and could have varied between 1.2% and 2.2% during the year.

The Company has entered into interest rate swaps to receive interest at LIBOR and pay interest at fixed rates. At 31 December 2017, these consist of one £30.0m swap contract expiring in August 2018 with a fixed interest rate of 1.85%, one £20.0m swap contract expiring in December 2020 with a fixed interest rate of 0.84% and two £10.0m swap contracts expiring in December 2020 with fixed interest rates of 0.84%. The swaps have quarterly maturity matching the underlying debt.

These instruments are used to mitigate the Company's exposure to any interest rate movements. The fair value of the interest rate swaps is a liability of £0.3m (2016: £1.1m).

During 2017, a hedging loss of £0.1m (2016: £0.9m) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £0.6m (2016: £0.6m) was reclassified from the hedge reserve to profit and loss.

The Company has also entered into a further two interest rate swap arrangements with Barclays Bank PLC, comprising two £15.0m swap contracts with a deferred start date of August 2018 expiring August 2021 at an applicable interest rate of 0.96%.

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.

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 utilise bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

11. Share capital and reserves

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
At 1 January 102,559,799 (2016: 101,938,335) ordinary shares of 1p each	**1,026**	1,019
Issue of 1,007,292 (2016: 621,464) shares on exercise of share options	**10**	7
At 31 December 103,567,091 (2016: 102,559,799) ordinary shares of 1p each	**1,036**	1,026

During the year, 1,007,292 (2016: 621,464) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.01m and the total consideration of £1.89m 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, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Income Statement when the hedged item affects the Consolidated Income Statement.

Notes to the financial statements – Company continued

For the year ended 31 December 2017

12. Capital commitments

The Company had no capital commitments at 31 December 2017 or at 31 December 2016.

13. Contingent liabilities

The Company has guaranteed that it will complete certain Group contracts that its subsidiaries have commenced. At 31 December 2017 these guarantees amounted to £21.7m (2016: £25.4m).

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 2017, guarantees amounted to £3.8m (2016: £13.7m).

The Company had no other contingent liabilities at 31 December 2017 or at 31 December 2016.

14. Pensions

Defined contribution schemes

The Company contributes to personal pension schemes of the Directors.

Defined benefit scheme

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

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed and updated to 31 December 2017 by a qualified independent actuary using the projected unit method.

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

	2017	2016
Rate of increase of salaries – first year	**2.00%**	1.00%
Rate of increase of salaries – second year	**2.00%**	1.00%
Rate of increase of salaries – long term	**3.10%**	3.35%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	**3.05%**	3.25%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	**2.45%**	2.55%
Discount rate	**2.80%**	3.05%
Retail prices inflation	**3.10%**	3.35%
Consumer prices inflation	**2.20%**	2.45%
Life expectancy for a 65-year-old male	**21.9 years**	22.4 years
Life expectancy for a 65-year-old female	**23.7 years**	24.5 years

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

	2017 £'000	2016 £'000
Equities	**9,860**	5,004
Bonds	**7,718**	9,470
Cash	**840**	2,679
Group's estimated asset share	**18,418**	17,153
Present value of funded scheme liabilities	**(20,992)**	(21,337)
Funded status	**(2,574)**	(4,184)
Related deferred tax asset	**489**	795
Pension liability	**(2,085)**	(3,389)

14. Pensions continued

Defined benefit scheme continued

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

	2017 £'000	2016 £'000
Current service cost	**75**	67
Administration cost	**—**	(42)
Total operating charge	**75**	25
Net interest	**112**	101
Total charged to the result for the year	**187**	126

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

	2017 £'000	2016 £'000
Present value of obligations at 1 January	**21,337**	17,923
Current service cost	**75**	67
Interest on obligations	**643**	700
Plan participants' contributions	**10**	12
Benefits paid	**(517)**	(412)
Actuarial gain arising from changes in demographic assumptions	**(822)**	(232)
Actuarial gain/(loss) arising from changes in financial assumptions	**355**	3,509
Actuarial loss arising from liability experience	**(89)**	(230)
Present value of obligations at 31 December	**20,992**	21,337

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

	2017 £'000	2016 £'000
Fair value of plan assets at 1 January	**17,153**	14,836
Expected return on plan assets	**531**	599
Administration costs	**—**	42
Employer's contributions	**1,050**	1,057
Plan participants' contributions	**10**	12
Benefits paid	**(517)**	(412)
Return on plan assets above that recorded in net interest	**191**	1,019
Fair value of plan assets at 31 December	**18,418**	17,153

Notes to the financial statements – Company continued
For the year ended 31 December 2017

14. Pensions continued
Defined benefit scheme continued

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

	2017 £'000	2016 £'000
Deficit in schemes at 1 January	**(4,184)**	(3,087)
Current service cost	**(75)**	(67)
Administration costs	**—**	42
Contributions	**1,050**	1,057
Other finance income	**(112)**	(101)
Actuarial gain arising from changes in demographic assumptions	**822**	232
Actuarial (loss)/gain arising from changes in financial assumptions	**(355)**	(3,509)
Actuarial loss arising from liability experience	**89**	230
Return on plan assets above that recorded in net interest	**191**	1,019
Deficit in schemes at 31 December	**(2,574)**	(4,184)

The employer's contributions expected to be paid during the financial year ending 31 December 2018 amount to £0.7m.

15. 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 14 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 30 to the consolidated financial statements.

Five-year record (unaudited)

Consolidated Income Statement (continuing activities)

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Revenue by business segment					
Housing	**766,121**	787,530	735,129	714,733	742,479
Care	**134,063**	152,570	146,010	124,007	123,095
Continuing activities	**900,184**	940,100	881,139	838,740	865,574
Gross profit	**223,702**	244,894	232,132	225,041	224,459
Operating profit before acquisition intangible amortisation and exceptional costs	**39,151**	41,850	38,662	42,995	41,115
Exceptional items	**—**	—	—	—	(6,663)
Operating profit	**28,513**	31,160	27,825	30,667	23,592
Profit for the year before tax	**26,484**	29,372	25,920	29,677	21,745
PBT before acquisition intangible amortisation and exceptional costs	**37,122**	40,062	36,757	42,005	39,268
Earnings per share					
Basic	**20.28p**	23.54p	20.31p	25.03p	17.50p
Diluted	**20.10p**	23.41p	20.10p	24.65p	16.96p
Normalised	**28.05p**	30.36p	27.94p	32.20p	30.08p
Dividends per share	**12.00p**	11.70p	11.00p	10.00p	8.80p

Consolidated Balance Sheet

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Non-current assets	**264,567**	262,263	258,201	268,818	233,960
Current assets	**211,439**	222,158	237,767	217,718	241,697
Current liabilities	**(198,678)**	(194,567)	(219,882)	(190,040)	(222,506)
Non-current liabilities	**(67,738)**	(91,180)	(84,458)	(102,034)	(72,850)
Total equity	**209,590**	198,674	191,628	194,462	180,301
Cash and cash equivalents, end of year	**(25,789)**	(12,374)	822	3,834	(448)

Shareholder and corporate information

Financial calendar

Annual General Meeting

7 June 2018

Record date for final dividend

15 June 2018

Dividend warrants posted to shareholders

5 July 2018

Interim results announced

14 August 2018

Registered office

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH

Tel: 01452 634600
www.mearsgroup.co.uk

Company registration number

03232863

Company Secretary

Ben Westran

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH

Tel: 01452 634600

Bankers

Barclays Bank PLC

Wales and South West
Corporate Banking
4th Floor, Bridgewater House
Counterslip
Finzels Reach
Bristol BS1 6BX

Tel: 0800 285 1152

HSBC Bank plc

West & Wales
Corporate Banking Centre
3 Rivergate
Temple Quay
Bristol BS1 6ER

Tel: 0845 583 9796

Solicitors

BPE

St James' House
St James' Square
Cheltenham GL50 3PR

Tel: 01242 224433

Mishcon de Reya LLP

Africa House
70 Kingsway
London WC2B 6AH

Tel: 020 3321 7000

Travers Smith

10 Snow Hill
London EC1A 2AL

Tel: 020 7295 3000

Auditor

Grant Thornton UK LLP

Registered Auditor
Chartered Accountants
The Colmore Building
20 Colmore Circus
Birmingham B4 6AT

Tel: 0117 305 7600

Financial adviser

Investec Bank PLC

2 Gresham Street
London EC2V 7QP

Tel: 020 7597 2000

Registrar

Neville Registrars Ltd

Neville House
18 Laurel Lane
Halesowen
West Midlands B63 3DA

Tel: 0121 585 1131

Joint corporate brokers

Liberum Capital Limited

Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY

Tel: 020 7418 8900

Peel Hunt

Moor House
20 London Wall
London EC2Y 5ET

Tel: 020 7418 8900

Investor relations

Buchanan

107 Cheapside
London EC2V 6DN

Tel: 020 7466 5000

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.

RECYCLED
Paper made from recycled material
FSC® C022913
www.fsc.org

CERTIFIED CARBON NEUTRAL® publication
CarbonNeutral.com

The Group's commitment to environmental issues is reflected in this annual report which has been printed on Arcoprint, made from an FSC® certified and ECF (Process Chlorine Free) material. Printed in the UK by Pureprint Group using their environmental printing technology. Both manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

Produced by
designportfolio

Mears Group PLC
1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH

Tel: 01452 634 600

www.mearsgroup.co.uk