MEARS

Mears Group PLC
Interim report 2011

Success through partnerships

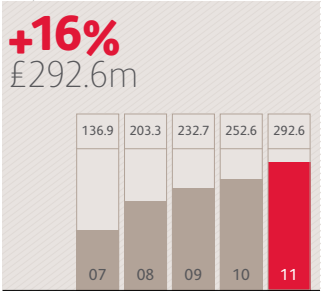
Mears is... a leading provider of integrated social housing maintenance and domiciliary care

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

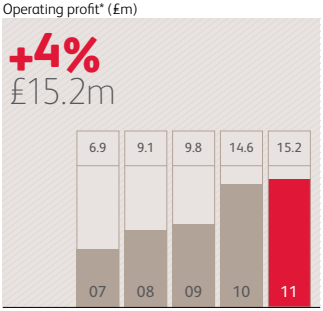
We believe the future requires new partnerships to be built, that link together housing, social care and the NHS. Partnerships that will provide integrated services which improve customer outcomes, as well as helping to meet the financial challenges that exist. Mears is uniquely placed to support this new integration and we welcome the opportunities that this will bring to the benefit of all our partners.

Highlights

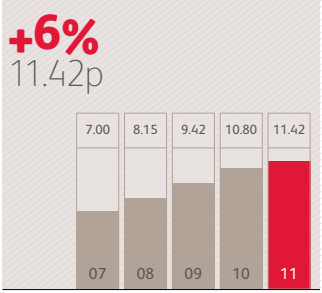
Group revenue (£m)



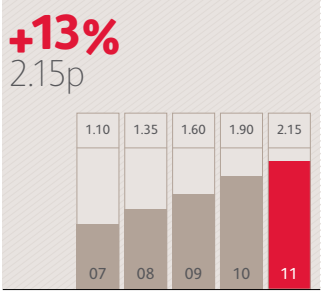
Operating profit* (£m)



Normalised diluted earnings per share** (p)



Dividends per share (p)



* Adjusted measure is stated before amortisation of acquisition intangibles and before exceptional costs.

** Normalised EPS is stated before amortisation of acquisition intangibles and before exceptional costs and is adjusted to reflect a full tax charge.

What's inside

Review of the interim period

Highlights 01
Mears at a glance 02
Business review 04

Financial statements

Half-year condensed consolidated income statement 11
Half-year condensed consolidated statement of comprehensive income 12
Half-year condensed consolidated balance sheet 13
Half-year condensed consolidated cash flow statement 14
Half-year condensed consolidated statement of changes in equity 15
Notes to the half-year condensed consolidated statements 16
Statement of directors' responsibilities 20
Shareholder and corporate information IBC

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Mears is…
the market leader in two growth markets

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

Every day we carry out more than 4,000 repairs to people's homes. We also deliver over 8 million hours of care to people in need. For these people, the things that matter most are that we keep our promises and deliver a quality service.

Social Housing

We provide response and planned maintenance services to Local Authorities and other Registered Social Landlords to a portfolio of over 500,000 homes nationwide. Our work covers everything from small repairs, through to large scale refurbishment, including improving the energy efficiency of the homes that we serve.

We are leaders in terms of the number of repairs that we carry out but more importantly in the quality of service that we deliver and the innovative approach that we take to improving long term value for money through a partnering based approach.

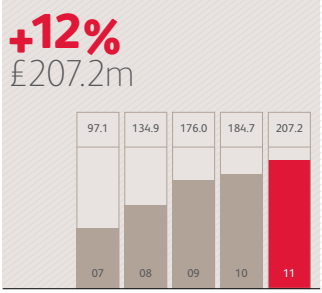
We will continue to lead this sector through:

- Further development of the Mears in-sourcing model to provide support to clients where a fully outsourced solution is not appropriate
- Positioning Mears for emerging environmental opportunities utilising the British Gas partnership, increasing the energy efficiency of the social housing stock and addressing the fuel poverty agenda
- Continued investment in middle management development to build for future business leaders
- Building strength in Scotland and Wales

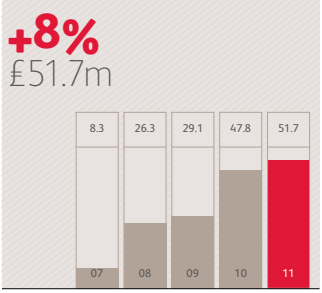
>4,000

Repairs made every day

Social Housing revenue (£m)



Domiciliary Care revenue (£m)



Read more
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Domiciliary Care

We provide care to over 20,000 elderly and vulnerable people in their own homes, largely through contracts with Local Authorities. This is delivered through a highly skilled workforce of over 7,000 care workers. The service is personalised to the needs of individuals and includes support with mobility, hygiene, medication and simply staying connected to the communities in which that person lives.

Our unique approach towards integrating services for the home with care for the individual, combined with excellent operational management and increasingly efficient operational delivery, has established Mears as a leader in the sector.

We will continue to lead this sector through:

- Continued focus on achieving service integration
- Engaging with political stakeholders to influence political and policy direction
- Continued investment in middle management development to build for future business leaders
- Development of new Care IT platform generating opportunities for improved efficiencies for us and our clients

>8,000,000

Hours of care delivered per annum

Mears is…
leading the way

"The first half of the year has delivered excellent progress against our strategic objectives. As well as maintaining strong financial performance, we have secured significant work in the emerging environmental improvement space and in the bid room we have benefitted from winning work previously held by Connaught and Rok. This has been achieved during a period of significant Public Sector change."

Summary of the interim period

Revenue
Group revenue increased by 16% to £292.6m.

Order book
Order book stands at £2.7 billion with a sales pipeline in excess of £3 billion of which £1.7 billion of new contract opportunities are available for award within the next twelve months.

Dividend
Interim dividend is increased to 2.15p per share, an increase of 13% reflecting the Board's confidence and strong cash management.

Strong cash generation
Cash generated from operations as a proportion of profit (before tax and exceptional items) amounted to 94% (2010: 94%) with a net debt position at the 30 June of £9.4m.

Bob Holt
Chairman

David Miles
Chief Executive Officer

Read this Chairman's statement online
ir11.mearsgroup.co.uk/businessreview

It is with the greatest pleasure that we announce another set of record interim results for the six months ended 30 June 2011. Revenue was up 16% to £292.6m. Adjusted operating profit was up 4% to £15.2m with the underlying diluted earnings per share up 6% to 11.42p. We have 97% visibility of consensus forecast revenue for the current year and approaching 85% for 2012.

Once again, we are delighted with our strong cash position with the cash generated from operations as a proportion of the profit (before tax and amortisation) amounting to 94% for the rolling 12 month period to 30 June 2011. The Directors are declaring an interim dividend of 2.15p per share payable on 2 November 2011 to shareholders on the register of members on 14 October 2011. This represents an increase of 13% (2010: 1.90p) which is again above the increase in earnings reflecting the Board's confidence and strong cash management.

Acquisition of Choices

On 4 August Mears announced the acquisition of the Supported Living division of Choices Care Community Services Limited ('Choices'), a leading provider of Social Care services in Scotland and the North East of England. This is the first acquisition which enables the Group to implement its strategy to develop a broader care offering to its clients. The main business of Choices is the provision of a Supported Living Service to adults with learning disabilities, autism and mental health needs. Service recipients tend to have much larger care support packages than is seen in the more traditional domiciliary care area.

The Group has acquired the trade and certain assets of the Supported Living division of Choices for a cash consideration of £7.40m. The consideration is being satisfied from Mears' existing debt facilities. The gross assets of the business being acquired are £150,000, and the annualised operating profit associated with the assets being acquired is estimated to be in the region of £1.50m. The consideration includes a refundable deposit of £5.0m dependent upon the successful novation of the acquired contracts.

The Group will look to integrate this acquisition into its Care division which already has a strong presence in Scotland. The principal benefits of the acquisition are anticipated to arise in 2012 and beyond and it is expected to be earnings neutral for the year ending 31 December 2011, after the costs of restructure, and earnings enhancing for the year ending 31 December 2012.

Choices is recognised by both Scottish and English authorities for the quality of care it provides. Mears believes that this acquisition will give the Group the scale and platform to win more contracts of this nature across the rest of the UK.

This acquisition is consistent with Mears' stated strategy of targeting growth in higher need care areas and we will look for further acquisition opportunities in acute care areas going forward, as our expectation is that significant growth opportunities will evolve.

New contract awards

The Group has had a really positive period since we announced our 2010 results in March 2011, winning all the key target contracts bid for.

In social housing we won 56% by value of all contracts bid in the last five months amounting to a total value of £268m. The sales pipeline stands at in excess of £3 billion of which £1.7 billion of new contract opportunities are available for award within the next twelve months.

We are particularly pleased to announce a number of new contract awards from former customers of Connaught Partnerships, ('Connaught'). When Connaught went into administration in September 2010, a number of its former clients put in place short-term cover whilst a formal procurement process was undertaken. As anticipated, much of the fall-out and opportunity for Mears in the aftermath of the failure of Connaught is now crystallising. Notable successes include:

* a ten year contract with Barnet Homes. The contract is valued at £69m over the ten year period to provide responsive repairs, void maintenance and cleaning services to approximately 11,100 properties. This is due to commence in October 2011;
* a four to ten year contract with Notting Hill Housing. The contract is valued at £11.2m (£28m with extension) over the initial four year period to provide external maintenance and component renewal. There is an option to extend the contract for up to a maximum period of ten years. This is due to commence in September 2011; and
* a three to ten year contract with Arun District Council. The contract is valued at £7.5m (£25m with extension) over the initial three year period to provide responsive repairs and void maintenance services to approximately 3,400 properties. There is an option to extend the contract for up to a maximum period of ten years. This is due to commence in August 2011.

New contract awards continued

During November 2010, Mears announced that it had entered into a contract to acquire the social housing business assets of the Bristol Social Housing division of Rok. The Group has been impressed with the performance of the pre-existing local management team which has demonstrated both operational strength and strong client relationships. We are delighted therefore to have been awarded a contract with an estimated value of £21m with Neath Port Talbot Homes. The contract relates to Kitchen and Bathroom refurbishment and Central Heating installations and is to be delivered over a six year period and is due to commence in October 2011. Wales is a key geographical target for the Group, and this contract award is of particular importance.

In addition to the contracts previously listed, we have been successful in a further £105m of tendering opportunities in the Social Housing space including:

* a framework contract has been won with Cyntra which has an estimated value of £40m. This was the former London Area Procurement Network (LAPN) framework, but will now operate on a national basis; and
* a ten year contract with Bedfordshire Pilgrims Housing Association (BPHA). The contract is valued at £52m over the ten year period to provide responsive repairs, void and planned maintenance services to approximately 5,200 properties in North Bedfordshire and Cambridgeshire. The contract was mobilised in July 2011.

Within our Care division, our new contract bidding success rate (by value) is 60% of all contracts bid in the last five month period amounting to a total value of £39m. Notable successes include:

* the most significant single award has been with Wirral Council. The contract has an expected value of £14m with a term of five years. Wirral Council is an existing Mears Care client and, having retained our existing business, we added further specialist services, which is representative of our strategy to increase work in the higher end care areas; and
* the award of a new contract to be a main provider of care for Bolton Council, with an estimated value of £2m over the two year period. This is a new client for Mears, with work including caring for people with physical disabilities, learning disabilities, brain injuries, autism and sensory impairment.

Environmental opportunity

In August, the Group was awarded the first major contract for its British Gas partnership by Cross Keys Homes. We believe this will be the biggest Photovoltaic solar panel scheme in the UK, with the works being carried out to in excess of 3,500 homes in Peterborough.

Mears will be carrying out a significant proportion of the installations, as well as all associated works such as scaffolding and electrical components. This scheme will see the first PV panel fitted in September 2011. The Group has valued its share of the contract to be in the region of £20m.

In addition, a number of British Gas funded CESP schemes have been agreed, which support our clients' ability to carry through capital works projects, delivered by Mears.

Operationally under the Microgeneration Certification Scheme, Mears is already accredited to deliver on Solar Thermal, Air Source Heat Pumps, Photovoltaics and Ground Source Heat Pumps. Our aim is clearly to be able to deliver microgeneration benefits to all the Social Housing stock (which for Mears already equates to some 500,000 dwellings) not just those homes whose roofs and position are suitable for photovoltaic solutions.

We have trained key customer facing staff to deliver energy saving advice and will develop these skills further in readiness for the requirements of the Green Deal. This, together with our on-going energy efficiency improvement work, in areas such as internal and external insulation, will mean that Mears can make a real contribution to tackling the rising problems of fuel poverty, that are faced by so many of our tenants and service users.

Whilst the detail of the Green Deal and other Energy Efficiency Government policies are still to be finalised, we see 2011 as the tip of the iceberg in terms of Environmental works. By having such an important reference point established with Cross Keys, together with the British Gas partnership, we believe that we are better placed than anyone in terms of benefiting from the increased investment expected to materialise between 2012 and 2020.

Operations

The social housing business has continued to perform well and reported growth of 12%. The impact of acquisitions completed during the second half of 2010 added in the region of £12m to revenues. As reported previously, 2011 and 2012 will see

a reduction in our capital works revenues as Decent Homes comes to a natural conclusion. This has resulted in an £18m reduction in first half year revenues and it is anticipated to fall in the region of £30m in each of the full years 2011 and 2012. After adjusting for the impact of acquisitions and Decent Homes, it is pleasing to report underlying growth in our core Social Housing operation of around 15%.

In recent months, there has been significant discussion in our sector around suggested margin pressure. To be clear, we see no underlying margin pressure within the new contract bidding environment. Whilst there have always been competitors with a greater appetite for revenue growth, we remain highly selective, and there is no shortage of opportunities where potential clients are willing to focus on quality and consider not simply the price paid to Mears, but more importantly the overall cost of delivering the outsourced service.

The continuing reduction in works related to Decent Homes, which has been happening for some time and is in line with management's expectations, does inevitably add a challenge to margin in the short term given that these contracts generated a solid margin and are being replaced by revenues that through their early stages will generate a reduced margin. Against this, in the medium term, the opportunities around the Green Agenda are expected to provide scope for margin accretion.

We have always emphasised the importance of investing in our operational infrastructure. In our experience, margin pressure is less to do with macroeconomics but typically poor operational processes and an absence of good old fashioned cost control. In Mears, such underperforming contracts receive a high level of focus with a view to a speedy resolution.

The first half year has seen the successful mobilisation of the new contracts with Tower Hamlets, London Borough of Lambeth and Leeds City Council, on which the quality of service delivered has been good on all new contracts. Across the UK, almost 80% of tenants regard our service as excellent, a level of service delivery that would be leading in any market.

A new modular home solution was launched in June 2011 for customers planning to build new Social Homes, utilising increased Government incentives in this area. Mears homes are initially constructed in an "offsite setting" with heating, plumbing and environmental systems installed prior to moving to site. Once moved to site, the externals of the home are added. These homes are built to the highest environmental standards (Codes 4 and 5) and come with warranties that significantly reduce ongoing maintenance costs. They have the added advantage that the time spent working on site can be reduced significantly. We have built two show homes at the Mears branch in Wakefield and are seeing significant interest from our customers for this concept.

The Board is delighted at the performance of our Care division in terms of both the quality of service delivery together with its strong financial performance. The division is now bedded down after the hectic integration period following the acquisition of Supporta in January 2010.

The Care division has experienced continued success bidding for new contracts with £39m won over the past five months at a conversion rate of 60%. The Care division suffered some loss of revenue on the back of the procurement of the new West London Alliance, however, this has been more than compensated for by the new contract successes.

Mears Other Services predominantly comprises its M&E operation. This division has experienced a significant upturn in activity over the past six months, with revenues increasing by 65%. Whilst it is pleasing to report this significant increase in new works, the M&E environment is currently highly competitive and pricing is keen. Added to this, a number of the new contracts remain in their early stages and as such a reduced margin has been reported within the first half year. The Group remains confident that the divisional result for the full year period will be comparable with that generated in 2010; however, the result for the first half year is significantly lower than that delivered in the first half of 2010 and this does significantly impact upon the Group's margin and EPS measures. Whilst the trading environment remains competitive and is expected to continue in the short-term, the division does have full visibility of forecast revenues for the current year and has a significant element of 2012 already committed.

Sector developments – Social Housing

On 1 April 2012, the Government is set to abolish the Housing Revenue Account (HRA) subsidy system and introduce self-financing for council housing. A joint report by The Smith Institute and PwC was released in June titled 'Making the Most out of HRA Reform'. The main findings of the research are that Councils can look at their housing as a real asset capable of generating substantial additional investment resources. Over the next 30 years councils are forecast to generate more than £300 billion of rental income with efficient operation of the HRA potentially leading to £50 billion of new investment across the country.

The report concludes that by effective management of these resources councils will be able to shape their 'housing business' to deliver against their local service and investment priorities. In the past, meaningful HRA strategic financial planning had not been possible – it will now be essential if the potential benefits are to be realised.

We believe that Mears will be at the forefront in assisting our customers to meet these challenges.

Sector developments – Social Care

Mears has committed to work closely with Local Authorities to find innovative ways to improve their quality of care and to achieve ways of improving efficiency within the market. We are particularly pleased to have reached an agreement with Hertfordshire Council whereby Mears makes upfront investment in preventative telecare technologies in return for sharing in the savings made from the reduced cost of ongoing care provision. Whilst this is a pilot which starts in October, we see this as an important first step in the Group's long-term ambition to partner with Local Authorities to achieve an outcome based solution and provide real change, and are grateful to Hertfordshire for sharing the vision.

The Group is leading the market in joining up service provision, and the acquisition of Home Improvement Agencies at the beginning of 2011 has increased our ability to offer a holistic service to customers across care, telecare adaptations and property services. This unique integrated approach is currently being rolled out across the Mears operations.

There was significant activity within the Social Care and Health sectors in the first half of 2011. The key long-term strategic direction of focus on care and support in people's homes and an emphasis on the importance of service integration were reinforced by the Dilnot Commission and the All Party Parliamentary Group, looking at the impact of demographic challenges on housing and care, under the Living Well at Home Inquiry. Mears gave evidence to both of these important reviews.

The main Dilnot Report recommendations being:

- individuals' lifetime contributions towards their social care costs, which are currently potentially unlimited, should be capped at around £35,000. After the cap is reached, individuals would be eligible for full state support;
- the means-tested threshold, above which people are liable for their full care costs, should be increased from £23,250 to £100,000;
- national eligibility criteria and portable assessments should be introduced to ensure greater consistency;
- the report calls for a national standard of access to care, seeking to remove the risk of 'postcode lottery' on what care services you receive being determined by where you live and the size of your local authorities budget;
- people should contribute a standard amount to cover their general living costs, like food and accommodation, in residential care; and
- the Government should develop a major new information and advice strategy to help when care needs arise. It also should increase focus on adaptations and telecare.

The Government has responded positively to the above recommendations and the second half of 2011 will see whether the challenge of finding some £2 billion increased investment will be met.

The Living Well at Home enquiry, published in July 2011, made the following recommendations which may favourably impact upon Mears in the future:

- sustaining advice and information services: that local authorities and service providers should improve the way they produce and convey information for older people about the service options, costs, quality outcomes and sources of further assistance that can both educate and enable older people to plan for their future housing and care needs and aspirations;

* adapting to a more integrated approach:
  that Government should encourage local authorities and the NHS strategically to commission integrated community based support, Home Improvement Agency and handy-person services for older people across housing, health and social care, thereby combatting fuel poverty and reducing excess winter deaths, accidents in the home and longer stays in hospital; and
* strengthening the strategic links between housing, health and social care;
  that Government should use the provisions of the Health and Social Care legislation to ensure that housing matters are covered by Health and Wellbeing Boards.

The National Housing Federation concluded in its recent report that: 'There are considerable advantages to service users, to the public purse, and to meeting the shared objectives of prevention and tackling inequalities, of increased collaboration across health, housing care and support. This is a key moment for public services, and a time at which there are major challenges facing service providers and commissioners in both sectors.'

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

The provision of residential care services to local authorities has been destabilised by the well publicised problems of Southern Cross. We see this as part of the long-term movement away from care in residential settings.

Balance sheet

Strong working capital management has always been and remains a cornerstone of our business. The internally developed IT systems have a strong financial focus and this is a driving force behind efficient cash management. The IT system is also central to the valuation of work in progress and amounts recoverable on contracts and ensures that valuations are robust and are less reliant upon significant estimates or judgements. We maintain a conservative balance sheet. All costs relating to tender, contract set-up and the initial inefficiencies during the period of contract mobilisation are written off as they are incurred.

The period has seen a reduction in the level of core debt and we have sufficient headroom within our existing borrowing facilities. The net debt at 30 June 2011 was £9.3m having converted 94% of profit into cash over the rolling twelve month period to June 2011. The average net debt for the six month period was £59m.

Total shareholders' equity rose from £141.6m to £146.1m at 30 June 2011. The increase in net assets is primarily due to retained profits.

People

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

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

Given the difficult economic climate, we are particularly keen to support Apprenticeships and we have 200 people in such schemes at the present time, the majority of whom derive directly from the Communities in which we work.

We have taken our middle management team through a comprehensive leadership development programme and recruited new people into our Graduate scheme. Development of people at every level is at the heart of Mears, which is one reason the Group has held Investor in People (IIP) accreditation since 1995 and indeed why we successfully retain our key staff.

Our communities

The Group works throughout the UK and our regional offices are dedicated towards helping to improve people's lives. We do work in some of the most socially deprived areas of the country so we feel a strong sense of responsibility towards the wider community. Helping a community to thrive increases the quality of life for residents and supports community cohesion and development.

"The future outlook is also excellent, given the strength of our operational delivery and the move towards greater investment in energy efficiency in housing. Similarly, in Care, Government policy continues to drive investment towards supporting people in their own homes. We have never been better placed to consolidate our leadership position in our sectors."

Board changes

We would like to acknowledge the tremendous contribution made to the Group by Michael Macario who stepped down as a Director at the recent Annual General Meeting. Michael, a Chartered Accountant, headed the Group's audit committee since our original flotation and also played a central role in undertaking due diligence at the time of potential acquisitions. We wish Michael all the best in his retirement. Davida Marston has been appointed to head the Audit Committee and Peter Dicks has been appointed as our Senior Independent Non-Executive Director.

Outlook

We are delivering on our strategy today, a strategy that will consolidate our leadership within the growth markets of Social Housing and Care. Mears leads on quality, innovation and long term value for money. Our approach to focus on sustainable margins has been ratified time and time again. The Public Sector is seeing significant change and we will continue to support our clients to achieve their goals through this difficult period.

We see real opportunities in the next decade. Our housing leadership has never been stronger and we have established what we believe to be the highest quality, most efficient national care company in the UK. Our growth markets have significant opportunities for organic growth and for acquisitions.

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

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

Half-year condensed consolidated income statement

for the six months ended 30 June 2011

	Note	Six months ended 30 June 2011 £'000	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000	Six months ended 30 June 2010 £'000
Sales revenue	3		**292,639**		252,637
Cost of sales			**(208,448)**		(180,102)
Gross profit			**84,191**		72,535
Other administration expenses		**(68,969)**		(57,960)	
Operating result before exceptional items and intangible amortisation	3	**15,222**		14,575	
Intangible amortisation		**(3,179)**		(3,738)	
Total administration expenses			**(72,148)**		(61,698)
Operating result before exceptional costs			**12,043**		10,837
Costs of the acquisition and integration of Supporta			**—**		(2,447)
Operating profit	3		**12,043**		8,390
Finance income	4		**2**		23
Finance costs	4		**(1,162)**		(1,396)
Profit for the period before tax			**10,883**		7,017
Tax expense	5		**(2,765)**		(1,977)
Net profit for the period			**8,118**		5,040
Attributable to:					
Equity holders of the parent			**8,118**		5,040
Earnings per share					
Basic	7		**9.56p**		6.13p
Diluted	7		**8.97p**		5.73p

Half-year condensed consolidated statement of comprehensive income

for the six months ended 30 June 2011

	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000
Net result for the period	**8,118**	5,040
Other comprehensive:		
– actuarial losses on defined benefit pension schemes	**—**	—
– increase in deferred tax asset	**—**	—
Other comprehensive income for the period	**—**	—
Total comprehensive income for the period	**8,118**	5,040
Attributable to:		
– equity holders of the parent	**8,118**	5,040

Half-year condensed consolidated balance sheet

as at 30 June 2011
Company number: 3232863

	As at 30 June 2011 £'000	As at 31 December 2010 £'000	As at 30 June 2010 £'000
Assets			
Non-current			
Goodwill	**97,675**	97,405	94,291
Intangible assets	**24,635**	27,136	24,141
Property, plant and equipment	**12,213**	12,113	12,909
Deferred tax asset	**8,056**	8,056	7,483
Trade and other receivables	**2,105**	1,929	2,036
	144,684	146,639	140,860
Current			
Inventories	**13,110**	12,147	23,094
Trade and other receivables	**120,097**	109,765	92,975
Cash at bank and in hand	**45,609**	21,757	31,485
	178,816	143,669	147,554
Total assets	**323,500**	290,308	288,414
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	**850**	848	846
Share premium account	**33,382**	33,243	33,032
Share-based payment reserve	**3,355**	2,905	2,989
Merger reserve	**38,243**	38,243	38,243
Retained earnings	**70,310**	66,315	60,053
Total equity	**146,140**	141,554	135,163
Liabilities			
Non-current			
Pension and other employee benefits	**7,693**	7,693	8,149
Deferred tax liabilities	**6,099**	6,983	6,590
Other liabilities	**879**	959	1,230
	14,671	15,635	15,969
Current			
Short-term borrowings and overdrafts	**55,000**	34,000	45,000
Trade and other payables	**99,386**	97,879	84,382
Current tax liabilities	**4,180**	1,240	4,431
Dividend payable	**4,123**	—	3,469
	162,689	133,119	137,282
Total liabilities	**177,360**	148,754	153,251
Total equity and liabilities	**323,500**	290,308	288,414

Half-year condensed consolidated cash flow statement

for the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 £'000**	Year ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000
Operating activities				
Result for the period before tax		**10,883**	20,218	7,017
Adjustments	8	**6,721**	16,735	7,785
Change in inventories and operating receivables		**(11,679)**	(11,850)	(8,077)
Change in operating payables		**1,600**	2,729	(698)
Cash inflow from operating activities before taxes paid		**7,525**	27,832	6,027
Taxes paid		**(716)**	(4,512)	(2,803)
Net cash inflow from operating activities		**6,809**	23,320	3,224
Investing activities				
Additions to property, plant and equipment		**(1,820)**	(3,161)	(1,593)
Additions to other intangible assets		**(524)**	(1,119)	(325)
Proceeds from disposals of property, plant and equipment		**—**	179	65
Acquisition of subsidiary undertaking, net of cash		**(329)**	(8,230)	(20,223)
Disposal of business activities, net of cash		**—**	986	—
Interest received		**2**	3	23
Net cash outflow from investing activities		**(2,671)**	(11,342)	(22,053)
Financing activities				
Proceeds from share issue		**142**	354	530
Discharge of finance lease liability		**(54)**	(102)	(508)
Interest paid		**(1,374)**	(3,027)	(1,219)
Dividends paid		**—**	(5,079)	—
Net cash outflow from financing activities		**(1,286)**	(7,854)	(1,197)
Cash and cash equivalents at beginning of period		**(12,243)**	(13,515)	6,511
Net increase/(decrease) in cash and cash equivalents		**2,852**	4,124	(20,026)
Cash and cash equivalents at end of period		**(9,391)**	(9,391)	(13,515)
Cash and cash equivalents is comprised as follows:				
– cash at bank and in hand		**45,609**	45,609	31,485
– short-term borrowings and overdrafts		**(55,000)**	(55,000)	(45,000)
Cash and cash equivalents		**(9,391)**	(9,391)	(13,515)

Half-year condensed consolidated statement of changes in equity

for the six months ended 30 June 2011

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010	744	32,505	2,649	11,548	58,482	105,928
Net result for the period	—	—	—	—	5,040	5,040
Increase in deferred tax asset	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	5,040	5,040
Issue of shares	102	527	—	26,695	—	27,324
Share option charges	—	—	340	—	—	340
Equity dividends declared	—	—	—	—	(3,469)	(3,469)
Transactions with owners	102	527	340	26,695	(3,469)	24,195
At 30 June 2010	846	33,032	2,989	38,243	60,053	135,163
At 1 January 2011	848	33,243	2,905	38,243	66,315	141,554
Net result for the period	—	—	—	—	8,118	8,118
Increase in deferred tax asset	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	8,118	8,118
Issue of shares	2	139	—	—	—	141
Share option charges	—	—	450	—	—	450
Equity dividends declared	—	—	—	—	(4,123)	(4,123)
Transactions with owners	2	139	450	—	(4,123)	(3,532)
At 30 June 2011	**850**	**33,382**	**3,355**	**38,243**	**70,310**	**146,140**

Notes to the half-year condensed consolidated statements
for the six months ended 30 June 2011

1. Corporate information
Mears Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded. The half-year condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2011 were authorised for issue in accordance with a resolution of the Directors on 15 August 2011.

2. Basis of preparation and accounting principles
(a) Basis of preparation
The half-year condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and with IAS 34 'Interim Financial Reporting'. The half-year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2010, which have been prepared in accordance with IFRS as adopted by the European Union.

This condensed consolidated half-year financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2010 were approved by the Board of Directors on 15 April 2011. These accounts, which contained an unqualified audit report under Section 495 of the Companies Act 2006 and which did not make any statements under Section 498 of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

The half-year condensed consolidated financial statements for the six months ended 30 June 2011 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

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

(b) Significant accounting policies
The accounting policies adopted in the preparation of the half-year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

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

The Group operated three business segments during the year:

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

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

3. Segment reporting continued

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Revenue £'000	**Operating result £'000**	Revenue £'000	Operating result £'000
Social Housing	**207,221**	**11,495**	184,697	9,994
Domiciliary Care	**51,688**	**3,883**	47,796	3,565
Other Services	**33,730**	**294**	20,144	1,356
	292,639	**15,672**	252,637	14,915
Share option costs	**—**	**(450)**	—	(340)
Costs relating to the acquisition and integration of Supporta	**—**	**—**	—	(2,447)
Amortisation of acquisition intangible	**—**	**(3,179)**	—	(3,738)
	292,639	**12,043**	252,637	8,390

Reconciliation to the Half-year Condensed Consolidated Income Statement:

	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000
Operating result	**12,043**	8,390
Finance costs, net	**(1,160)**	(1,373)
Tax expense	**(2,765)**	(1,977)
Net result for the period	**8,118**	5,040

4. Finance income and finance costs

	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000
Interest charge on overdrafts and short-term loans	**(1,055)**	(882)
Fair value losses on interest rate swap	**(92)**	(464)
Finance charges in respect of finance leases	**(15)**	(50)
Interest charge on defined benefit obligation	**—**	—
Unwinding of discounting in deferred consideration	**—**	—
Finance costs	**(1,162)**	(1,396)
Interest income resulting from short-term bank deposits	**2**	23
Interest income resulting from defined benefit obligation	**—**	—
Net finance charge	**(1,160)**	(1,373)

Notes to the half-year condensed consolidated statements

for the six months ended 30 June 2011
continued

5. Tax expense

The tax charge for the six months ended 30 June 2011 has been based on the estimated tax rate for the full year. The estimated effective rate of tax for the current year is 26.0% (2010: 14.3%).

6. Dividends

The interim dividend of 2.15p (2010: 1.90p) per share is not recognised as liability at 30 June 2011 and will be payable on 2 November 2011 to shareholders on the register at the close of business on 14 October 2011. The dividend disclosed within the half-year Condensed Consolidated Statement of Changes in Equity represents the final dividend of 4.85p (2010: 4.10p) per share proposed in the 31 December 2010 financial statements and approved at the Group's Annual General Meeting (not recognised as a liability at 31 December 2010).

7. Earnings per share

	Basic		Diluted	
	Six months ended 30 June 2011 p	Six months ended 30 June 2010 p	**Six months ended 30 June 2011 p**	Six months ended 30 June 2010 p
Earnings per share	**9.56**	6.13	**8.97**	5.73
Effect of amortisation of acquisition intangibles	**3.74**	4.55	**3.51**	4.25
Effect of the cost of acquisition and integration of Supporta	**—**	2.14	**—**	2.00
Effect of full tax adjustment	**(1.13)**	(1.25)	**(1.06)**	(1.18)
Normalised earnings per share	**12.17**	11.57	**11.42**	10.80

Normalised earnings exclude amortisation of acquisition intangibles and, for the prior year, the costs relating to the acquisition and integration of Supporta. A further adjustment is made to reflect a full tax charge. This normalised measure better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance. The profit attributable to shareholders before and after adjustments for both basic and diluted earnings per share is:

	Six months ended 30 June 2011 £'000	Six months ended 30 June 2010 £'000
Profit attributable to shareholders:	**8,118**	5,040
– amortisation of acquisition intangibles	**3,179**	3,738
– effect of the cost of acquisition and integration of Supporta (post tax)	**—**	1,767
– full tax adjustment	**(961)**	(1,034)
Adjusted profit attributable to shareholders	**10,336**	9,511

7. Earnings per share continued

The calculation of earnings per share is based on a weighted average number of ordinary shares in issue during the period. The diluted earnings per share is based on a weighted average number of ordinary shares calculated in accordance with IAS 33 'Earnings per Share', which assumes that all dilutive options will be exercised. The additional normalised basic and diluted earnings per share use the same weighted average number of shares as the basic and diluted earnings per share.

	Six months ended 30 June 2011 Millions	Six months ended 30 June 2010 Millions
Weighted average number of shares in issue:	**84.93**	82.23
– dilutive effect of share options	**5.54**	5.77
Weighted average number of share for calculating diluted earnings per share	**90.47**	88.00

8. Notes to the half-year condensed consolidated cash flow statement

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

	Six months ended 30 June 2011 £'000	Year ended 30 June 2011 £'000	Six months ended to 30 June 2010 £'000
Depreciation	**1,719**	3,558	1,345
Loss on disposal of property, plant and equipment	**—**	124	45
Intangible amortisation	**3,392**	9,967	3,935
Share-based payment charges	**450**	900	340
Finance income	**(2)**	(3)	(23)
Finance cost	**1,162**	2,189	1,396
Costs associated with acquisitions recorded as expenses	**—**	—	747
Total	**6,721**	16,735	7,785

9. Half-year condensed consolidated financial statements

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

10. Principal risks and uncertainties

The nature of the principal risks and uncertainties faced by the Group have not changed significantly since the 2010 Annual Report and Accounts was published.

11. Forward-looking statements

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

Statement of directors' responsibilities

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

The names and functions of the Directors of Mears Group PLC are as listed in the Group's Annual Report for 2010.

By order of the Board

D Miles
Chief Executive
16 August 2011

A C M Smith
Finance Director
16 August 2011

Shareholder and corporate information

Bob Holt
Chairman

David J Miles
Chief Executive Officer

Andrew C M Smith
Finance Director

Alan Long
Executive Director

Peter F Dicks
Non-Executive Deputy Chairman

Michael G Rogers
Non-Executive Director

David L Hosein
Non-Executive Director

Davida Marston
Non-Executive Director

Rory Macnamara
Non-Executive Director

Reginald B Pomphrett
Company Secretary

Internet
The Group operates a website which can be found at www.mearsgroup.co.uk. This site is regularly updated to provide information about the Group. In particular all of the Group's press releases and announcements can be found on the site.

Registrar
Any enquiries concerning your shareholding should be addressed to the Company's Registrar. The Registrar should be notified promptly of any change in a shareholder's address or other details.

Investor relations
Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the registered office.

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