MEARS

Mears Group PLC / Interim report 2012

Making a positive difference...

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

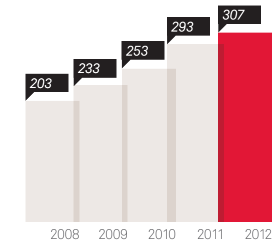
We maintain and improve homes as well as care for the people who live in them.

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

Review of the interim period / Highlights

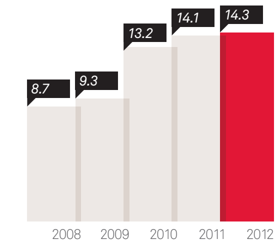
Group Revenue (£m)

£307m



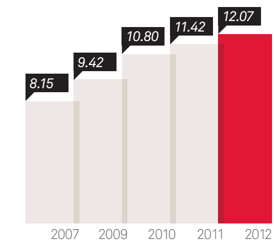
*Group profit before tax (£m)**

£14.3m



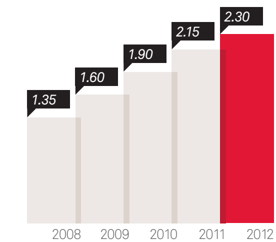
*Diluted earnings per share (p)***

12.07p



Dividend per share (p)

2.30p



In this report

Review of the interim period

Highlights 01
Our business model 02
Business review 04

Financial statements

Half-year condensed consolidated income statement 10
Half-year condensed consolidated statement of comprehensive income 11
Half-year condensed consolidated balance sheet 12
Half-year condensed consolidated cash flow statement 13
Half-year condensed consolidated statement of changes in equity 14
Notes to the half-year condensed consolidated statements 15
Shareholder and corporate information 20

* Before exceptional items and before amortisation of acquisition intangibles

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

How we operate.

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

We focus on people…

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

A developmental approach

Our approach is based on the development of outstanding partnerships with employees, clients, tenants, service users, their families and the wider community. Success enables us to create great opportunities for our employees and sustainable value for our shareholders.

…using an ambitious approach…

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

Thought leadership

The challenges of delivering service improvements at lower costs require innovative thinking and extensive consultation between all stakeholders. Mears is unique in providing a range of services that help address some of the major challenges our country faces: quality social housing, building communities, caring for the vulnerable and sustainability.

…to deliver our expertise…

Mears today employs around 12,000 people in every region of the UK. Health and wellbeing, socialisation and community integration and homes fit for purpose are all key elements in keeping people living happily, safely and securely at home.

Care and repair

Integrating our range of services brings distinct advantages: care-services workers are uniquely placed to identify potential problems or hazards that could cause an accident and giving them direct access to a complete range of services enables preventative measures to be taken quickly.

Repairs made every day

>4,000

Hours of care delivered per year

>8 million

...across key target markets...

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

Social Housing

With several growth drivers in Social Housing, including consolidation of Landlords and Housing Associations, this trend leads to increasing opportunities for organisations such as Mears.

*Social Housing operating profit**

£10.8m

5.0%

Care and Support

The future of care is very positive. Demographic changes mean 1.7m more adults will require care over the next 20 years. A key factor is the increasing role that the NHS is taking in joint commissioning.

*Care and Support operating profit**

£4.5m

8.1%

* Before amortisation of acquisition intangibles.

...creating a seamless, integrated service.

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

Making a positive difference to the communities we serve.

Review of the interim period / Business review

"The first half of 2012 has seen the most intense period of new contract mobilisation in our history with seven significant new contracts commencing in this period with an annual value of in excess of £50m. The quality of these mobilisations and the subsequent service delivery have exceeded our high expectations."

Bob Holt / Chairman

David Miles / Chief Executive Officer

Summary of interim period

Financial

// Revenue increased by 5%, with strong performance anticipated in the second half year
// Profit to cash conversion at 100% (2011: 87%) for the twelve-month period to June 2012
// Strong balance sheet, net debt reduced to £6.2m (December 2011: £13.4m)

Social Housing division

// Core maintenance revenues (after excluding Decent Homes) reported organic growth of 12%
// Operating margin delivered at 5.0% after expensing the costs of a record number of new contract mobilisations in the first half

Care division

// Revenue increased by 8% to £56.1m (2011: £51.7m)
// Operating margin increased to 8.1% (2011: 7.5%)
// White Paper on Health and Social Care tracks Mears' strategic approach

Group outlook

// Order book of £2.7 billion (2011: £2.7 billion)
// Visibility of 99% of consensus forecast revenue for 2012 and approaching 85% for 2013
// Social Housing – bid pipeline in excess of £3.0 billion, of which £1.7 billion of new tender opportunities relate to contracts with a start date up to April 2013

We are pleased to announce another set of solid interim results for the six months ended 30 June 2012. Revenue was up 5% to £307.2m. Profit before tax and amortisation was up 2% to £14.3m with the underlying diluted earnings per share up 6% to 12.07p. We have 99% visibility of consensus forecast revenue for the current year and approaching 85% for 2013.

The first half of 2012 has seen the most intense period of new contract mobilisation in our history with seven significant new contracts commencing in this period with an annual value in excess of £50m. The quality of the mobilisations and the subsequent service delivery have exceeded our high expectations. As anticipated, the large volume of new works has diluted the Social Housing operating margin in the first half, as mobilisation costs are expensed up front, and we expect to see the benefits of these new works as we progress through each contract.

Our cash position continues to improve with cash generated from operations as a proportion of EBITA at 100% for the rolling twelve-month period to 30 June 2012. This is a tremendous achievement given the significant number of new contracts mobilised in the period.

The Directors are declaring an interim dividend of 2.30p per share payable on 5 November 2012 to shareholders on the Register of Members on 19 October 2012. This represents an increase of 7% (2011: 2.15p.).

New contract bidding – Social Housing

We have recently been successful in securing a significant contract with Southwark Council following the early termination with the incumbent contractor. This is for an initial one-year period to provide responsive repairs and void maintenance to over 20,000 properties within the London Borough of Southwark. This contract is valued at £11m and commences in October 2012. Whilst delivering a high quality service necessitates a significant up front investment for the Group given the initial short contract term, the Group anticipates developing a long-term relationship with this key target client.

We have also been successful in securing works with Notting Hill Housing Trust where, similar to Southwark, the opportunity arose as a result of an early termination of a previous contract. Mears had tendered for this contract during the previous twelve months and had been unsuccessful at that time. Mears will deliver responsive repairs and void maintenance to the value of £3m over the coming year. The contract is due to commence during the second half of 2012.

It is a continuing theme over the last two years that we have witnessed a number of early contract terminations for our competitors within the Social Housing sector on the back of poor operational performance. Mears has been, and will continue to be, a major beneficiary of this. In this context also, Mears became the first Social Housing contractor to be awarded Customer Service Excellence Accreditation. This is a Government standard awarded by the Cabinet Office.

We have also made good progress in Mears Scotland with a number of smaller wins worth over £13m in total. The pipeline is strong with our key target opportunities falling in the second half of the year.

Our new contract win rate over the last twelve months was 35% and there is currently over £1.3 billion of new contracts at pre-qualification or tender stage and we remain on target to tender £2.0 billion of new contract opportunities in 2012.

New contract bidding – Care

Mears Care has secured contracts worth approaching £20m in the first half of the year with an average contract term of approaching three years. These include new client wins at Stoke-on-Trent, worth £2.4m over three years, and at Newham, worth £4.1m over two years. We have also more than doubled our existing work in Brighton following a further contract win worth £3.7m over three years. Our new contract win rate over the last twelve months was 60%.

We have continued to develop our partnership thinking into new areas. Our work with Tunstall on the implementation of the largest Telecare project in the UK has gone very well and is attracting interest from other Councils, given the Government's stated intent to drive the use of Assistive Technology.

We have also secured a contract with Allianz Global Assistance who are looking to add Personal Care at Home onto Personal Accident Plans, so in the event of an accident not only will the customer receive a cash pay-out, they will also receive physical support with a Personal Care at Home package to support them through their rehabilitation period. Whilst we have not placed a value upon this within our order book, it is potentially a very significant new opportunity for our Care division.

Review of the interim period / Business review continued

"The launch of Mears Energy in June 2012 gives us a solid platform to benefit from the carbon reduction/fuel poverty tenders that are now entering the pipeline."

Environmental opportunity

The Government continues to look for solutions to tackle fuel poverty and carbon reduction challenges in housing. Their flagship policy for this is the Green Deal, which will include a new Energy Company Obligation (ECO), to replace the existing CESP and CERT schemes. Mears is looking closely at developing opportunities that flow from this.

The launch of Mears Energy in June 2012 gives us a solid platform to benefit from the carbon reduction/fuel poverty tenders that are now entering the pipeline. Mears Energy provides an end to end service, able to assist clients to access funding, survey stock, install measures and carry out aftercare and maintenance programmes. Mears Energy will deliver some CESP work for clients prior to this scheme being replaced by the ECO at the end of 2012. Our strategy is not linked to any one specific product type but to being able to provide an energy solution for every home.

Operations

Since 1 January 2012, we have seen the most intense period of new contract mobilisation in the Group's history with the commencement of seven new Social Housing contracts. These had the additional challenge of all being new customer relationships. These new contracts have started well, and as stated in the March preliminary announcement, they generated additional costs in the early mobilisation phase which were all expensed in the period. The impact of the cost of new contract starts in the six months to June, compared to the comparable period in 2011, is to reduce profits by circa £1.5m. As a result, operating margin has reduced in line with our expectations to 5.0% (2011: 5.5%). Adding back the £1.5 million of costs associated with the new contracts would have seen an operating margin in line with historical levels. The second half of 2012 is likely to see a reduced number of new contract starts and as such margins are expected to normalise. The quality of service delivered by Mears has been exceptionally good in respect of the new contracts. Across the UK, almost 80% of tenants regard our service as excellent, a statistic that would be leading in most markets.

The Social Housing business has continued to perform well. The current financial year will see the final material reduction in our capital works revenues as the Decent Homes programme comes to a natural conclusion. This has resulted in a £14m reduction in first half-year revenues and it is anticipated to be in the region of £30m for the full year. Mears has seen approximately £90m of annualised Decent Homes revenues drop away over the last three years. Our forward planning has ensured that this revenue reduction has been more than replaced by new maintenance revenues. After adjusting for the impact of Decent Homes, it is pleasing to report organic growth of 12% in our core Social Housing maintenance operations.

The Board is delighted at the performance of our Care division in terms of both the quality of service delivery and its strong financial performance. The Care division has successfully mobilised a number of new contracts during the first six months of 2012. The operating margin has once

"The long-term opportunities for Mears within Care and Support continue to look excellent. The ageing population and the fundamental desire of people to stay in their own home remain the foundations for this sector."

again increased, fuelled by the delivery of higher acuity services on the back of the acquisition of Choices. The underlying margin of the core Domiciliary Care activities remains unchanged and at a market leading level, which is a tremendous achievement in what is a challenging environment but one in which our market leading approach to service quality and innovation through the application of technology puts us in a strong position in this market.

Other Services predominantly comprises the M&E operation. As reported previously, the M&E environment is currently highly competitive and pricing is keen. The division reported an operating loss of £0.4m during the first six months (2011: profit £0.3m). The division is likely to see further cost reductions during the second half of the year. We do not anticipate a profit contribution from this division in the current year.

Sector developments

Social Housing has several key growth drivers including the continued consolidation both in terms of the number of contractors and in the number of Registered Social Landlords. These factors are recognised within Housing Associations and Councils and in turn lead to increasing opportunities for organisations such as Mears who operate at a local level but who bring the economies of a national player. In addition, there is a clear flight to quality by those procuring our services, which can only benefit Mears and its high levels of service quality.

The long-term opportunities for Mears within Care and Support continue to look excellent. The ageing population and the fundamental desire of people to stay in their own home, remain the foundations for this sector. Economic necessity is of course the third driver, which has led to significant political activity culminating in the publication in the spring of 2012 of the Government's White Paper on the future of Health and Social Care.

We are pleased with the direction of the White Paper, which reflects the fundamental aspects of the strategic approach being taken by Mears. Indeed it is a great testament to the services we provide that the Bill refers to the Mears approach to Care and Repair as an example of best practice. The following elements are of particular importance to Mears:

- // the further transfer of £300m of NHS funds into Social Services;
- // the continued drive towards greater use of Assistive Technology which will benefit our Tunstall partnership;
- // the overall focus on quality, as typified by the ruling out of 'contracting by the minute' and a new code of conduct and minimum training standards for care workers;
- // the improved information that will be provided to Service users to enable them to distinguish one care provider from another; and
- // the specific endorsement of the role of Home Improvement Agencies in undertaking home adaptation work.

Review of the interim period / Business review continued

"The net debt at 30 June 2012 was £6.2m following conversion of 100% of EBITA into cash over the rolling twelve-month period to June 2012."

Sector Developments continued

In summary, the Care and Support system as well as the whole Healthcare system, is going through a period of change, the likes of which have never been seen before. This does of course present short-term challenges to Mears but we have strategically built a capability that is unique in the market and one that is very well placed to meet the longer-term opportunities.

Balance sheet

Strong working capital management has always been and remains a cornerstone of our business. Our 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. Consistent with past practice, 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, reflecting our prudent accounting policies.

The net debt at 30 June 2012 was £6.2m following conversion of 100% of EBITA into cash over the rolling twelve-month period to June 2012. The average net debt for the six month period was £65.5m (2011: £59.5m).

Total shareholders' equity rose from £151.8m to £156.8m at 30 June 2012. The increase in net assets is primarily driven by 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. Given the difficult economic climate, we are particularly keen to support apprenticeships and have 200 people in such schemes at the present time, the majority of whom come from the communities in which we work.

The management team has been further strengthened in the period. Our customer service levels reached new heights of excellence and we have seen further reductions in accident rates, complemented with improved training and a committed management team. This has once again been recognised by RoSPA with 2012 being the tenth consecutive year in which Mears has been awarded the Gold Award and the achievement of the 18001 accreditation.

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. Once again, the first half of 2012 has seen Mears undertake hundreds of projects designed to help tackle key issues such as unemployment and social isolation.

"Our Social Housing business has long been recognised as the market leader in terms of operational performance and tenant satisfaction. Our differentiated offering focused on value for money and on higher quality of service is accelerating and reinforcing our leadership position."

This is an investment we are happy to make as a key part of building long-term relationships. Our excellent Contract retention rate is a testament to our approach.

Risk Management

We have continued to invest resource towards our corporate governance with particular focus upon further enhancing our risk management process. Over the last twelve months there has been a significant increase in the awareness from our senior management team of the key risks and the controls in place for mitigation. The key risks of the Group as at 30 June 2012 remain unchanged to those detailed within the Annual Report and Accounts for the year to December 2011.

Outlook

Our Social Housing business has long been recognised as the market leader in terms of operational performance and tenant satisfaction. Our differentiated offering focused on value for money and on higher quality of service is accelerating and reinforcing our leadership position.

I am proud of our achievements in the care sector. Our commitment and ability to meet the needs of some of society's most vulnerable people has been second to none. Moreover, we are achieving solid margins in what remains a complex politically-led market. I remain positive of our ability to shape and prosper in this market.

It is pleasing to see in the release of the Health and Social Care White Paper that the Government's thinking on how the wider care sector can be transformed mirrors our thoughts. However, it is clear that a significant funding increase will be required to deliver high quality care; consequently, we look forward to some equally clear thinking on the scale and sources of the necessary additional future funding.

We continue to seek acquisitions to increase the depth and breadth of our social care offering where we can make a difference, particularly as the care market evolves in line with the thrust of the Government's ambitions.

David Miles
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Chief Executive Officer

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

Financial statements / Half-year condensed consolidated income statement / for the six months ended 30 June 2012

		Six months ended 30 June 2012		Six months ended 30 June 2011	
	Note	**£'000**	**£'000**	£'000	£'000
Sales revenue	3		**307,238**		292,639
Cost of sales			**(227,279)**		(208,448)
Gross profit			**79,959**		84,191
Other administration expenses		**(65,049)**		(68,969)	
Operating result before intangible amortisation	3	**14,910**		15,222	
Intangible amortisation		**(3,190)**		(3,179)	
Total administration expenses			**(68,239)**		(72,148)
Operating profit	3		**11,720**		12,043
Net finance charge	4		**(627)**		(1,160)
Profit for the period before tax			**11,093**		10,883
Tax expense	5		**(1,777)**		(2,765)
Net profit for the period			**9,316**		8,118
Attributable to:					
Equity holders of the parent			**9,316**		8,118
Earnings per share					
Basic	7		**10.73p**		9.56p
Diluted	7		**10.42p**		8.97p

Financial statements / Half-year condensed consolidated statement of comprehensive income / for the six months ended 30 June 2012

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000
Net result and total comprehensive income for the period	**9,316**	8,118
Attributable to:		
– equity holders of the parent	**9,316**	8,118

Financial statements / Half-year condensed consolidated balance sheet / as at 30 June 2012 / Company number: 3232863

	Note	**As at 30 June 2012 £'000**	As at 31 December 2011 £'000	As at 30 June 2011 £'000
Assets				
Non-current				
Goodwill		**100,806**	101,030	97,675
Intangible assets		**23,820**	26,449	24,635
Property, plant and equipment		**13,447**	12,681	12,213
Deferred tax asset		**7,469**	7,379	8,056
Trade and other receivables		**2,275**	2,384	2,105
		147,817	149,923	144,684
Current				
Inventories		**12,337**	12,541	13,110
Trade and other receivables		**134,937**	125,095	120,097
Cash at bank and in hand		**58,793**	46,571	45,609
		206,067	184,207	178,816
Total assets		**353,884**	334,130	323,500
Equity				
Equity attributable to the shareholders of Mears Group PLC				
Called up share capital	8	**881**	857	850
Share premium account		**34,340**	33,554	33,382
Share-based payment reserve		**3,015**	2,965	3,355
Hedging reserve		**(1,709)**	(1,259)	—
Merger reserve		**38,243**	38,243	38,243
Retained earnings		**82,043**	77,425	70,310
Total equity		**156,813**	151,785	146,140
Liabilities				
Non-current				
Pension and other employee benefits		**5,840**	5,840	7,693
Deferred tax liabilities		**4,324**	5,297	6,099
Financing liabilities		**1,697**	1,325	—
Other liabilities		**879**	879	879
		12,740	13,341	14,671
Current				
Short-term borrowings and overdrafts		**65,000**	60,000	55,000
Trade and other payables		**109,668**	105,916	99,386
Financing liabilities		**572**	403	—
Current tax liabilities		**4,393**	2,685	4,180
Dividend payable		**4,698**	—	4,123
		184,331	169,004	162,689
Total liabilities		**197,071**	182,345	177,360
Total equity and liabilities		**353,884**	334,130	323,500

Financial statements / Half-year condensed consolidated cash flow statement / for the six months ended 30 June 2012

	Note	**Six months ended 30 June 2012 £'000**	Year ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000
Operating activities				
Result for the period before tax		**11,093**	20,793	10,883
Adjustments	9	**5,942**	13,266	6,721
Change in inventories and operating receivables		**(8,727)**	(10,784)	(11,679)
Change in operating payables		**3,684**	7,112	1,600
Cash inflow from operating activities before taxes paid before effect of acquired contracts		**11,992**	30,387	7,525
Change in working capital from acquired contracts		**—**	(2,810)	—
Cash inflow from operating activities before taxes paid		**11,992**	27,577	7,525
Taxes paid		**(1,041)**	(4,949)	(716)
Net cash inflow from operating activities		**10,951**	22,628	6,809
Investing activities				
Additions to property, plant and equipment		**(2,382)**	(4,554)	(1,820)
Additions to other intangible assets		**(649)**	(1,544)	(524)
Proceeds from disposals of property, plant and equipment		**14**	222	—
Acquisition of subsidiary undertaking, net of cash		**(60)**	(5,502)	(329)
Interest received		**—**	482	2
Net cash outflow from investing activities		**(3,077)**	(10,896)	(2,671)
Financing activities				
Proceeds from share issue		**810**	989	142
Discharge of finance lease liability		**(33)**	(65)	(54)
Interest paid		**(1,429)**	(3,510)	(1,374)
Dividends paid		**—**	(5,962)	—
Net cash outflow from financing activities		**(652)**	(8,548)	(1,286)
Cash and cash equivalents at beginning of period		**(13,429)**	(9,391)	(12,243)
Net increase in cash and cash equivalents		**7,222**	3,184	2,852
Cash and cash equivalents at end of period		**(6,207)**	(6,207)	(9,391)
Cash and cash equivalents is comprised as follows:				
– cash at bank and in hand		**58,793**	58,793	45,609
– short-term borrowings and overdrafts		**(65,000)**	(65,000)	(55,000)
Cash and cash equivalents		**(6,207)**	(6,207)	(9,391)

Cash conversion key performance indicator			
Cash inflow from operating activities	**11,992**	30,387	7,525
EBITA	**14,910**	30,281	15,222
Conversion (%)	**80%**	100%	49%

Financial statements / Half-year condensed consolidated statement of changes in equity / for the six months ended 30 June 2012

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
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
At 1 January 2012	857	33,554	2,965	38,243	(1,259)	77,425	151,785
Net result for the period	—	—	—	—	—	9,316	9,316
Cash flow hedge	—	—	—	—	(450)	—	(450)
Increase in deferred tax asset	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	(450)	9,316	8,866
Issue of shares	24	786	—	—	—	—	810
Share option charges	—	—	50	—	—	—	50
Equity dividends declared	—	—	—	—	—	(4,698)	(4,698)
Transactions with owners	24	786	50	—	—	(4,698)	(3,838)
At 30 June 2012	**881**	**34,340**	**3,015**	**38,243**	**(1,709)**	**82,043**	**156,813**

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 2012 were authorised for issue in accordance with a resolution of the Directors on 13 August 2012.

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 2012 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 2011, 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 2011 were approved by the Board of Directors on 27 March 2012. 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 2012 have not been audited or reviewed by an auditor 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 2011.

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 period:

- 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.

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 operating segments is that of revenue growth and operating margins in both core divisions of Social Housing and Care. The operating result utilised within the key performance measures is stated before amortisation of acquisition intangibles, exceptional items and share-based payments. 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.

Financial statements / Notes to the half-year condensed consolidated statements continued / for the six months ended 30 June 2012

3. Segment reporting continued

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Revenue £'000	**Operating result £'000**	Revenue £'000	Operating result £'000
Social Housing	**215,035**	**10,781**	207,221	11,495
Domiciliary Care	**56,065**	**4,540**	51,688	3,883
Other Services	**36,138**	**(361)**	33,730	294
	307,238	**14,960**	292,639	15,672
Share option costs	**—**	**(50)**	—	(450)
Amortisation of acquisition intangible	**—**	**(3,190)**	—	(3,179)
	307,238	**11,720**	292,639	12,043

Reconciliation to the half-year condensed consolidated income statement:

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000
Operating result	**11,720**	12,043
Finance costs, net	**(627)**	(1,160)
Tax expense	**(1,777)**	(2,765)
Net result for the period	**9,316**	8,118

4. Net finance charge

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000
Interest charge on overdrafts and short-term loans	**(1,441)**	(1,055)
Fair value losses on interest rate swap	**—**	(92)
Finance charges in respect of finance leases	**—**	(15)
Interest charge on defined benefit obligation	**(2,029)**	—
Finance costs	**(3,470)**	(1,162)
Interest income resulting from short-term bank deposits	**12**	2
Interest income resulting from defined benefit obligation	**2,831**	—
Net finance charge	**(627)**	(1,160)

5. Tax expense

The tax charge for the six months ended 30 June 2012 has been based on the estimated tax rate for the full year.

Tax recognised in the Income Statement:

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000
United Kingdom corporation tax effective rate 19% (2011: 26%) and total current tax recognised in Income Statement	**2,750**	3,655
Adjustment in respect of previous periods	**—**	—
Total current tax recognised in Income Statement	**2,750**	3,655
Total deferred taxation recognised in Income Statement	**(973)**	(890)
Total tax expense recognised in Income Statement	**1,777**	2,765

6. Dividends

The interim dividend of 2.30p (2011: 2.15p) per share is not recognised as liability at 30 June 2012 and will be payable on 5 November 2012 to shareholders on the register at the close of business on 19 October 2012. The dividend disclosed within the Half-year condensed consolidated statement of changes in equity represents the final dividend of 5.35p (2011: 4.85p) per share proposed in the 31 December 2011 financial statements and approved at the Group's Annual General Meeting (not recognised as a liability at 31 December 2011).

7. Earnings per share

	Basic		Diluted	
	Six months ended 30 June 2012 p	Six months ended 30 June 2011 p	**Six months ended 30 June 2012 p**	Six months ended 30 June 2011 p
Earnings per share	**10.73**	9.56	**10.42**	8.97
Effect of amortisation of acquisition intangibles	**3.67**	3.74	**3.57**	3.51
Effect of full tax adjustment	**(1.98)**	(1.13)	**(1.92)**	(1.06)
Normalised earnings per share	**12.42**	12.17	**12.07**	11.42

Normalised earnings exclude amortisation of acquisition intangibles. A further adjustment is made to reflect a full tax charge, being the headline rate of corporation tax for the period. 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 2012 £'000	Six months ended 30 June 2011 £'000
Profit attributable to shareholders:	**9,316**	8,118
– amortisation of acquisition intangibles	**3,190**	3,179
– full tax adjustment	**(1,722)**	(961)
Adjusted profit attributable to shareholders	**10,784**	10,336

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 2012 Millions	Six months ended 30 June 2011 Millions
Weighted average number of shares in issue:	**86.86**	84.93
– dilutive effect of share options	**2.51**	5.54
Weighted average number of shares for calculating diluted earnings per share	**89.37**	90.47

8. Share capital

	Six months ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000
Allotted, called up and fully paid		
At 1 January 85,658,763 (2011: 84,815,470) ordinary shares of 1p each	**857**	848
Issue of 2,477,885 (2011: 196,228 ordinary shares of 1p each on exercise of share options	**24**	2
At 30 June 2012 88,136,648 (2011: 85,011,698) ordinary shares of 1p each	**881**	850

2,477,885 (2011: 196,228) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value of £0.02m and the total consideration of £0.81m has been credited to the share premium account.

9. 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 2012 £'000	Year ended 30 June 2012 £'000	Six months ended 30 June 2011 £'000
Depreciation	**1,603**	3,097	1,719
Intangible amortisation	**3,662**	8,674	3,392
Share-based payment charges	**50**	(200)	450
Net finance charge	**627**	1,616	1,160
Costs associated with acquisitions recorded as expenses	**—**	79	—
Total	**5,942**	13,266	6,721

10. 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.

11. Principal risks and uncertainties

The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 26 and 27 of the 2011 Annual report and accounts. Those risk and uncertainties are separated into nine categories: macroeconomy; people; reputation; liquidity; health and safety; business retention and new business; business continuity; legal and regulatory; and integrity.

12. 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.

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 2011.

By order of the Board

D J Miles
Chief Executive Officer
14 August 2012

A C M Smith
Finance Director
14 August 2012

Financial statements / 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

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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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