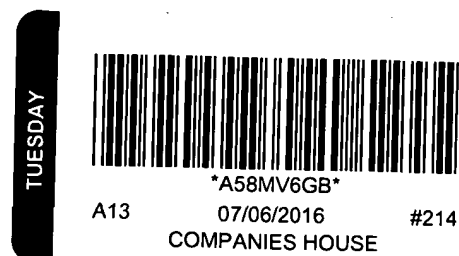




Mears Limited
Financial Statements
For the year ended 31 December 2015



Company No. 02519234

Company information

Company registration number

02519234

Registered office

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Directors

G R Eden
C E Middlemass
D J Miles
D C Pace
A C M Smith
B R Westran
Mears Group PLC

Secretary

B R Westran

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Strategic Report

Business review

Review of the year

The Company has delivered a solid performance with turnover of £504.1m (2014: £505.0m). Whilst the performance at an aggregate level is a small decrease in turnover, the movements within the individual components are important and detailed below:

Revenue stream	Commentary
Day to day, Housing Revenue Account (HRA) funded, non-discretionary, maintenance spend	<p>The changes to Housing finance in 2012 had a positive impact on the level of funding within the ring-fenced Housing Revenue Accounts of Registered Social Landlords (RSLs), providing additional opportunities to generate income. A large proportion of RSLs were reporting large surpluses. Whilst the recent announcement to reduce social rents by 1% per annum for the next four years will have an impact on the income of RSLs, this change should be considered together with earlier changes that provide opportunities to increase income. Overall the changes to Housing finance over the last three years have been positive for RSLs. The recent change will inevitably require RSLs to review their business plans, however, we do not anticipate any overall negative impact to our revenues.</p> <p>As previously reported, these changes to Housing Finance resulted in a short-term delay in bidding opportunities with activity at a low level in both 2014 and the first half of 2015. This resulted in a reduced number of new contract mobilisations during this time. However, as predicted, opportunities began increasing in the second half of 2015 and we enjoyed a particularly successful period of new contract bidding. We expect the bidding opportunities over the long term to remain at historical levels and our organic growth aspiration is 5% per annum.</p>
Capital works, predominantly HRA funded	<p>Whilst our main focus remains maintenance, we look to augment this with selective capital works opportunities. Given there is a higher proportion of discretionary spend from within this category, this spend can be susceptible to budgetary pressures. Our organic growth aspiration in this area is 5% per annum.</p>
Mears in-sourcing solutions	<p>Our in-sourcing offering was developed in anticipation of an increase in the level of outsourced work being taken back in-house by Housing Associations following the VAT rate being increased to 20% and given the restriction they suffer upon the recovery of input VAT. Whilst the sector has seen a number of such transfers, they have typically been contracts of a smaller size. We see any further increase in the number of in-sourced solutions as an opportunity to deliver higher margins with a low revenue and working capital requirement. In addition we provide a stand-alone 24/7 call centre service to a number of RSLs and we have recently extended this white collar offering to income management and planning application administration.</p>

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

Business development

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

Strategic Report - continued

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

Our social housing strategy

We have maintained a consistent strategy over the last fifteen years, which is summarised below.

Strategic focus	Delivery
Differentiate on customer service leadership as the prime driver of sustainable growth	Record level of customer satisfaction maintained in 2015.
Support our clients to obtain maximum benefit from the opportunities presented by Government and funding	Provision of a full asset management capability to ensure appropriate investment in housing stock refurbishment.
Focus on building long-term partnerships.	Retention of key client relationships in 2015, including Eastbourne and Leeds. Successful development and introduction of new partnership models such as our joint ventures with London Borough of Bromley and Milton Keynes.
Drive innovation to provide better outcomes for tenants	Investment in the development of housing management services and further enhancement to our Mears Direct model which provides solutions for clients who wish to insource their maintenance services.
Develop a skilled and motivated workforce.	Creation of the first Mears national training academy in Rotherham.

Safety, health and environment (SHE)

Mears has an excellent record on health and safety and last year was no exception. We have reduced accident rates by more than 10% and have fulfilled the RoSPA Gold Award Standard for the 13th consecutive year. In addition, we were highly commended for our exemplary health and safety performance by RoSPA. In 2015, we achieved full integration of ISO 9001, ISO 14001 and OHSAS 18001, showing our credentials have been verified by an independent third party. Achieving certified status brings tangible business benefits and can unlock doors to new business.

Training and people development

At Mears, we firmly believe that our staff are our most important resource. Our staff numbers have grown significantly over the last decade.

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

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

Strategic Report - continued

Key Performance Indicators (KPIs)

The Company operates a balanced scorecard approach. This ensures that the Company targets its resources around our customers, community, employees, operations and finance. This enables the business to be operated on a balanced basis with due regard for all stakeholders.

We use the following KPIs to monitor our performance. Typically others in the sector measure only customer satisfaction whereas our drive has always been for excellence. Service quality remains our key differentiator. Whilst we are delighted at the strong performance delivered in terms of both new contract bidding and ultimately the financial outputs, it is often forgotten by our stakeholders that it is service quality that has always underpinned our success.

Measure	Why we measure it and how we performed	Outcome	
		2015	2014
Service delivery			
Percentage of people rating our service as excellent	<p>The sector in general collects customer satisfaction data and reports on the percentage of customers who rate the service as satisfactory. Given that we are service leaders, it is not sufficient to benchmark ourselves by these standards. Our measurement is based on the percentage of people who rate the service as excellent. We conduct around 80,000 surveys per year by telephone and directly with our customers via our operatives' hand-held device (PDAs).</p> <p>This is an excellent outcome. We continue to focus upon training and development of our staff and we work closely with customers and tenants to achieve this.</p>	91%	91%
Complaints as a percentage of jobs	<p>Whilst we achieve high levels of service excellence, it is important that we monitor carefully the number of poor service incidents, that we deal with each individual complaint and that we learn from underlying trends. We measure the number of complaints as a percentage of repair jobs delivered in the period.</p>	0.30%	0.30%
Jobs completed on time	<p>Delivering to our promises is at the heart of Mears. Each of our contracts has specific targets around job completion time based on the nature of the work. Emergency jobs are typically undertaken the same day whilst routine work will be scheduled into overall work plans. Having agreed the standards by type of work, it is obviously important that we stick to them.</p> <p>To maintain this performance measure at a consistently high level is a positive outcome for the year.</p>	92%	91%
Contract bidding			
New contract success rate	<p>We tender £1 – 2bn of new opportunities each year. The average contract is six years in length. In order to achieve our organic growth forecasts, we monitor the proportion of new contracts secured as a proportion of total tendered works.</p> <p>The opportunities available to the Company over the longer term remain at historical levels. The Social Housing order intake was impacted temporarily from a quieter period of new bidding opportunities, our conversion of new bidding opportunities reported an increase to 49%. Whilst we are delighted to report such a 'purple- patch' in new bidding success, the conversion rate has been skewed given our success in being awarded two particularly large contract opportunities with Milton Keynes and Key Worker Housing. We will endeavour to maintain this high win rate but believe that a success rate of one in three (by value) is a better indication of our future bidding success and more aligned with our historical trend.</p>	49%	35%

Strategic Report - continued

Financial output

Turnover growth	Turnover represents the amounts due for goods and services provided during the year. Whilst growth is below target, the results of other strategic KPIs lay a good foundation for 2016.	0%	10%
Operating margin	Operating margin gives a strong indication of profitability. We continually monitor our operating margins and manage our costs base to ensure that our services are delivered efficiently.	3.8%	4.9%
	The novation of a number of Morrison contracts which were loss making at the time has resulted in some margin dilution.		

The Company has continued to develop its contract management system. Some secondary KPIs are monitored on a real time basis through what is known internally as the Digital Dashboard.

Risk management objectives and policies

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

- **Macro economy**

Our primary market is subject to government legislation and is dependent on the political environment, local or national, including public sector, policy and funding. Any changes in policy or legislation that reduces expenditure during the life of contracts could have a detrimental effect on the Company's business. Having an awareness of, and being responsive to, market developments by, for example, developing managed insourcing and Joint Venture products to give choice to clients, is essential to mitigate these risks.

- **Reputation**

The ultimate success of Mears relies upon maintaining a positive reputation in the public and amongst all stakeholders. Negative actions, behaviour, service and results will damage the business reputation and will affect the future of our Company. This includes risk of negative publicity from actions of employees and suppliers. We are dependent on our strong management team and a skilled and motivated workforce, to deliver business objectives.

- **Liquidity**

There is a noticeable increase in client and market focus on the financial strength of our trading due to a number of main peer contractors going into administration. Various stakeholders require reassurance that the Company has strong liquidity risk management including access to the Group's long term funding facility agreement and the generation of sufficient cash from trading.

Risks arise from short term cash flow movements and renewal risk on maturity of facilities. The Company is part of a Group banking facility. Our bank funding facility was recently extended to service the Group's needs until 2018.

Both short term and long term liquidity are monitored through the use of various tools including cashflow forecasts and proactive response to variances identified.

- **Business retention and new business**

A strong bid pipeline and order book are essential to the success of the business. Risk management planning is needed to ensure new tenders are won and existing contracts are retained. Successful re-tendering requires a combination of competitive pricing and client confidence in quality proposals based on evidence of historical delivery.

- **Integrity, ethics, anti-bribery and corruption**

There are inherent risks of bribery, fraud and corruption in some of the sectors we work in. It is important that we have an internal control framework and means of communication to be pro-active where any risks materialise.

This report was approved by the Board on 24 March 2016 and signed on its behalf.



B R Westran
Director

Report of the Directors

The Directors present their report and the financial statements of the Company for the year ended 31 December 2015.

Principal activities

The principal activity of the Company during the year continued to be the provision of a full housing management service, predominately to Local Authorities and other Registered Providers of Social Housing.

Results and dividends

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements and discussed in the strategic review. The Company made a profit for the year of £18,659,000 (2014: £20,701,000).

The directors have recommended a dividend of £20,000,000 for 2015 (2014: £14,000,000). Particulars of dividends paid and proposed are detailed in note 8 to the financial statements.

Directors

The directors who served the Company during the year were as follows:

G R Eden
C E Middlemass (appointed 7 January 2015)
D J Miles
D C Pace
A C M Smith
B R Westran
Mears Group PLC

Policy on the payment of creditors

It is the Company's policy to settle terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

Trade creditors at the year-end amounted to 61 days of average supplies for the year (2014: 64 days).

Disabled employees

Applications for employment by disabled employees are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities.

In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Company may continue.

It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

Employee involvement

The Company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Company.

This is achieved through consultations with employee representatives and a Company newsletter.

The Company has received recognition under the Investors in People scheme and continues to involve its staff in the future development of the business.

Report of the Directors - continued

Directors' responsibilities

The Directors are responsible for preparing the Directors' 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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (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 of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards has been followed, subject to any material departures disclosed and explained in the financial statements; and

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

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

Going concern consideration

Mears Group PLC, the parent company, has a centralised treasury arrangement and so shares banking arrangements with its subsidiaries.

After making enquiries, the directors believe that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, and they have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern or its ability to continue with the current banking arrangements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with s489 of the Companies Act 2006.

This report was approved by the Board on 24 March 2016 and signed on its behalf.



B R Westran
Director

Report of the independent auditor to the member of Mears Limited

We have audited the financial statements of Mears Limited for the year ended 31 December 2015 which comprise the Balance sheet, the Profit and loss account, the Statement of other comprehensive income, the Statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities Statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.



Mark Bishop

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Bristol

24 March 2016

Principal accounting policies

Statement of compliance

Mears Limited is a limited liability company incorporated in the United Kingdom. Its registered office is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 December 2015.

The Company transitioned from the previously extant UK GAAP to FRS 102 as at 1 January 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in the Notes to the accounts.

Basis of accounting

The financial statements of Mears Limited have been prepared in accordance with applicable accounting standards, including FRS 102, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis and are presented in Sterling.

Summary of disclosure exemptions

The Company has taken advantage of the reduced disclosures for subsidiary entities provided for in FRS 102 and has therefore not provided a Statement of Cash Flows or certain disclosures in respect of share based payments. The Company has also taken advantage of the exemption from disclosing key management personnel compensation.

Name of parent of group

These financial statements are consolidated in the financial statements of Mears Group PLC.

The financial statements of Mears Group PLC may be obtained from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH.

Exemption from preparing group accounts

The financial statements contain information about Mears Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Mears Group PLC, a company incorporated in the United Kingdom.

Judgements

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

Principal accounting policies - continued

Key sources of estimation uncertainty

Defined benefit pension scheme

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

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

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

Where the Company has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme but also has the right to recover the costs of making good any deficit from the Company'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 Company 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 Company 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. Movements in the guarantee asset are taken to profit and loss and to other comprehensive income to match the movement in pension assets and liabilities.

Business combinations

Business combinations are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

Turnover is recognised when the outcome of a job or contract can be estimated reliably; turnover 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 turnover can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Whilst all Social Housing contracts can fit within the guidelines laid down for turnover recognition as detailed above, the alternative contractual pricing mechanisms do result in different methods of assessing the stage of completion.

There are some contracts where the Company is 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 turnover is recognised. All costs relating to pre-commencement and mobilisation are written off as they are incurred.

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

Principal accounting policies - continued

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 turnover to be recognised with a high degree of accuracy. Typically, reactive maintenance works are invoiced within a month of completion, hence the majority of turnover recognised has already been valued at the individual work ticket level and the significant majority has been subsequently settled. The only element of turnover 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, turnover 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 turnover 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 turnover 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 turnover recognition. The Group considers that the recognition of the anticipated profit for the individual job within turnover 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. Turnover 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, turnover 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, turnover 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 turnover is split evenly across the twelve monthly reporting periods. No element of turnover is either advanced or deferred.

Principal accounting policies - continued

There are a small number of lump sum contracts where recognising turnover 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 Company has historically reverted to recognising turnover 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.

Investments

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

Intangible assets

Development expenditure relating to computer software is capitalised when all of the following criteria are demonstrated:

- The technical feasibility of completing the software so that it will be available for use;
- The intention to complete the software and use it;
- The availability of adequate technical, financial and other resources to complete the development and to use the software;
- How the software will generate probable future economic benefits; and
- The ability to measure reliably the expenditure attributable to the software during its development.

Development expenditure is written off over the period expected to benefit. All development expenditure that does not meet these criteria is expensed as incurred.

The period of amortisation is as follows:

Software Development expenditure	-	20% per annum, straight line
Software	-	25% per annum, reducing balance
Other intangibles	-	20% per annum, straight line

Goodwill

Purchased goodwill, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life. The period of amortisation is assessed on an acquisition by acquisition basis and is set based on the expected period that the assets acquired will contribute to the Company's results. The period of amortisation is five years. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

Tangible assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property improvements	-	over the period of the lease
Plant and machinery	-	25% per annum, reducing balance
Motor vehicles	-	25% per annum, reducing balance
Fixtures, fittings and equipment	-	25% per annum, reducing balance

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials and direct labour. Provision is made for any impairment when appropriate.

Costs associated with long-term contracts are included within stock to the extent that they cannot be matched with contract work accounted for as turnover.

Full provision is made for losses on any contracts in the period that a loss is first foreseen.

Principal accounting policies - continued

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Retirement Benefits

Defined contribution pension schemes

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account.

Defined benefit pension schemes

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 Company, 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.

Where the Company has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme but also has the right to recover the costs of making good any deficit from the Company'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 Company causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Company is not set so as to contribute to reducing the deficit in the scheme. Movements in the guarantee asset are taken to profit and loss and to other comprehensive income to match the movement in pension assets and liabilities.

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

Other movements in the net surplus 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 is also charged to the Profit and loss account. The amount charged to the Profit and loss account in respect of these plans is included within operating costs.

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

Principal accounting policies - continued

Share based payment

An expense is recognised for all share based payment arrangements that were granted after 7 November 2002 in the financial statements.

The Company participates in equity-settled share based remuneration plans operated by its parent undertaking, Mears Group PLC, 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 to satisfy service conditions.

Share based remuneration is recharged by the parent undertaking and recognised as an expense in the profit and loss account.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only where it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Principal accounting policies - continued

Financial instruments

Financial assets and liabilities are recognised in the Balance Sheet when the Company becomes party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Company are as follows:

Financial assets

Basic financial assets, including trade and other debtors, amounts owed by Group companies, cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who 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 liabilities

Basic financial liabilities, including trade and other creditors, accrued expenses, and amounts owed 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.

Contingent consideration is not a basic financial instrument. Contingent consideration is initially recognised at fair value on the date the agreement is entered into and is subsequently re-measured at fair value. Changes in the fair value of contingent consideration are recognised in profit or loss.

Financial liabilities are derecognised when the liability is extinguished; that is, when the contractual obligation is discharged, 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.

Shares

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Profit and loss account

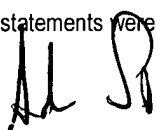
	Note	2015 £ 000	2014 £ 000
Turnover	1	504,132	504,978
Cost of sales		<u>(371,852)</u>	<u>(376,594)</u>
Gross profit		132,280	128,384
Other operating charges	2	<u>(113,177)</u>	<u>(103,780)</u>
Operating profit	3	19,103	24,604
Net interest	6	<u>(78)</u>	<u>1,264</u>
Profit on ordinary activities before tax		19,025	25,868
Tax on profit on ordinary activities	7	<u>(366)</u>	<u>(5,167)</u>
Profit for the financial year		<u>18,659</u>	<u>20,701</u>

All of the activities of the Company are classed as continuing.

Balance sheet

	Note	2015 £ 000	2014 £ 000
Fixed assets			
Intangible assets	9		
Development expenditure		3,801	3,307
Goodwill		2,518	37
Software		1,717	1,585
Tangible assets	10	8,440	9,041
Investments	11	887	4,034
		<u>17,363</u>	<u>18,004</u>
Current assets			
Stocks	12	7,176	6,965
Debtors	13	135,484	120,820
Cash at bank and in hand		46,540	40,802
		<u>189,200</u>	<u>168,587</u>
Creditors: amounts falling due within one year	14	(115,817)	(119,767)
Net current assets		<u>73,383</u>	<u>48,820</u>
Total assets less current liabilities		90,746	66,824
Creditors due after more than one year	15	(49,123)	(24,186)
Provisions for liabilities and charges			
Pension liability	18	(520)	(660)
		<u>41,103</u>	<u>41,978</u>
Capital and reserves			
Called up share capital	22	-	-
Profit and loss account		41,103	41,978
Shareholders' funds		<u>41,103</u>	<u>41,978</u>

The financial statements were approved and authorised for issue by the Directors and are signed on their behalf on 24 March 2016.



A C M Smith
Director

Other primary statements

Statement of other comprehensive income

	Note	2015 £ 000	2014 £ 000
Profit for the financial year		18,659	20,701
Adjustments in respect of defined benefit pension schemes			
Actuarial gains/(losses)	18	582	416
Deferred tax	17	(116)	(143)
		<u>466</u>	<u>273</u>
Total recognised gains and losses relating to the year		<u>19,125</u>	<u>20,974</u>

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

Statement of changes in equity

	Profit and loss account £ 000
At 1 January 2014	<u>35,004</u>
Profit for the year	20,701
Other comprehensive income	<u>273</u>
Total comprehensive income	20,974
Dividends	<u>(14,000)</u>
At 31 December 2014	<u>41,978</u>
	Profit and loss account £ 000
At 1 January 2015	<u>41,978</u>
Profit for the year	18,659
Other comprehensive income	<u>466</u>
Total comprehensive income	19,125
Dividends	<u>(20,000)</u>
At 31 December 2015	<u>41,103</u>

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the Company. All turnover is derived from within the United Kingdom.

2 Other operating charges

	2015 £ 000	2014 £ 000
Administrative expenses	<u>113,177</u>	<u>103,780</u>

3 Operating profit

Operating profit is stated after charging:

	2015 £ 000	2014 £ 000
Amortisation	2,532	1,569
Depreciation of tangible fixed assets	2,454	2,531
Share based payments	771	670
Loss on disposal of fixed assets	-	6
Hire of plant and equipment	2,788	2,775
Operating lease rentals:		
- land and buildings	1,947	1,818
- motor vehicles	<u>15,160</u>	<u>14,758</u>

4 Auditors' remuneration

Fees payable to the auditor for the period:

	2015 £ 000	2014 £ 000
For the audit of the Company's financial statements	41	37
For taxation compliance services	<u>-</u>	<u>19</u>

5 Employees

The average number of staff employed by the Company, including directors, during the financial year amounted to:

	2015 No.	2014 No.
Administrative staff	1,506	1,520
Operatives	<u>2,470</u>	<u>2,652</u>
	<u>3,976</u>	<u>4,172</u>

Notes to the financial statements (continued)

5 Employees (continued)

The aggregate payroll costs of the above were:

	2015 £ 000	2014 £ 000
Wages and salaries	123,950	120,547
Social security costs	11,404	11,727
Other pension costs	5,701	5,938
	<u>141,055</u>	<u>138,212</u>

Included in the above is remuneration in respect of Directors, as follows:

	2015 £ 000	2014 £ 000
Emoluments receivable	697	468
Value of Company pension contributions to money purchase schemes	51	48
	<u>748</u>	<u>516</u>

Emoluments of highest paid Director:

	£ 000	£ 000
Total emoluments (excluding pension contributions)	256	181
Value of Company pension contributions to money purchase schemes	23	23
	<u>279</u>	<u>204</u>

The number of Directors who accrued benefits under Company pension schemes was as follows:

	No.	No.
Money purchase schemes	<u>3</u>	<u>3</u>

The number of Directors who exercised share options during the year was as follows:

	No.	No.
Directors who exercised share options	<u>2</u>	<u>1</u>

The Company participates in share based payment schemes operated by its parent undertaking, Mears Group PLC. Mears Group PLC recharged a total of £771,000 (2014: £670,000) to the Company in respect of these schemes.

Notes to the financial statements (continued)

6 Net interest

	2015 £ 000	2014 £ 000
Interest payable on bank borrowing	(3)	(2)
Unwinding of discount	-	(682)
Other interest paid	(3)	(74)
Interest payable on loans from group undertakings	<u>(1,686)</u>	<u>-</u>
	(1,692)	(758)
Interest receivable on loans to group undertakings	1,309	-
Unwinding of discount	-	202
Other interest receivable	173	925
Net income from defined benefit pension schemes	132	895
Net interest (payable)/receivable	<u>(78)</u>	<u>1,264</u>

7 Taxation on ordinary activities

	2015 £ 000	2014 £ 000
Analysis of charge in the year		
Current tax:		
UK Corporation tax based on the results for the year	2,669	5,629
Adjustment in respect of prior periods	<u>(1,885)</u>	<u>(831)</u>
Total current tax	784	4,798
Deferred tax:		
Change in tax rate	-	(53)
On pension schemes	(88)	(78)
Accelerated capital allowances	(110)	(50)
Other short term timing differences	-	550
Adjustments in respect of prior periods	<u>(220)</u>	<u>-</u>
Total deferred tax	<u>(418)</u>	<u>369</u>
Tax on profit on ordinary activities	<u>366</u>	<u>5,167</u>

Notes to the financial statements (continued)

7 Taxation on ordinary activities (continued)

Factors affecting tax charge for the year

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK. During the period the average corporation tax rate was 20.25% (2014: 21.5%).

	2015 £ 000	2014 £ 000
Profit on ordinary activities before taxation	<u>19,025</u>	<u>25,868</u>
Profit on ordinary activities multiplied by standard rate of tax	<u>3,853</u>	<u>5,562</u>
Effects of:		
Expenses not deductible for tax purposes	195	366
Deferred tax expense/(credit) relating to changes in tax rates or laws	-	(53)
Tax increase/(decrease) arising from group relief	(1,722)	-
Timing differences on pension payments	1	6
Timing differences on provisions	279	93
Timing differences on exercise of share options	(33)	111
Adjustment to tax in respect of prior periods	<u>(2,105)</u>	<u>(831)</u>
Total tax charge for the year	<u>468</u>	<u>5,254</u>

8 Dividends on ordinary shares classed as equity

	2015 £ 000	2014 £ 000
Declared at the year-end:		
Equity dividends of £200,000 per share	<u>20,000</u>	<u>14,000</u>

9 Intangible fixed assets

	Development expenditure £ 000	Software £ 000	Other intangibles £ 000	Goodwill £ 000
Cost				
At 1 January 2015	7,383	2,129	224	4,970
Additions	<u>1,775</u>	<u>717</u>	<u>-</u>	<u>3,147</u>
At 31 December 2015	<u>9,158</u>	<u>2,846</u>	<u>224</u>	<u>8,117</u>
Amortisation				
At 1 January 2015	4,076	544	224	4,933
Charge for the year	<u>1,281</u>	<u>585</u>	<u>-</u>	<u>666</u>
At 31 December 2015	<u>5,357</u>	<u>1,129</u>	<u>224</u>	<u>5,599</u>
Carrying amount				
At 31 December 2015	<u>3,801</u>	<u>1,717</u>	<u>-</u>	<u>2,518</u>
At 31 December 2014	<u>3,307</u>	<u>1,585</u>	<u>-</u>	<u>37</u>

Notes to the financial statements (continued)

9 Intangible fixed assets (continued)

Additions to Goodwill represent the transfer of the investment in Jackson Lloyd Limited following the hive up of the trade and assets to the Company.

Development expenditure is internally generated and relates to the development of the Company's job management system, which is amortised over its useful economic life of five years.

Software, other intangibles and goodwill are separately acquired. Goodwill represents the excess of purchase price over net assets in respect of the acquisition of a number of social housing businesses. Other intangibles represent intellectual property.

Amortisation of intangible assets is included within other operating charges.

10 Tangible fixed assets

	Leasehold property improvements £ 000	Plant and machinery £ 000	Motor vehicles £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation					
At 1 January 2015	8,190	1,918	507	17,892	28,507
Additions	354	12	-	1,487	1,853
At 31 December 2015	8,544	1,930	507	19,379	30,360
Depreciation					
At 1 January 2015	5,569	916	480	12,501	19,466
Charge for the year	666	251	7	1,530	2,454
At 31 December 2015	6,235	1,167	487	14,031	21,920
Carrying amount					
At 31 December 2015	2,309	763	20	5,348	8,440
At 31 December 2014	2,621	1,002	27	5,391	9,041

11 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2015	4,034
Disposals	(3,147)
At 31 December 2015	887
Carrying amount	
At 31 December 2015	887
At 31 December 2014	4,034

Notes to the financial statements (continued)

11 Investments (continued)

Details of undertakings

Subsidiary	Nature of business	Holding %	Net assets/ (liabilities) £ 000	Profit/(loss) for the period £ 000
Mears New Homes Limited	Building contractor, social housing	90	(1,356)	(882)
Plexus UK (First Project) Limited	Housing management services	100	234	(234)
Mears Learning Limited	Training provider	90	(39)	(39)

All of the above subsidiaries have a year end of 31 December.

At 31 December 2015, the Company also held the entire issued ordinary share capital of the following dormant companies: Mears Building Services Limited, Mears Scotland (Housing) Limited, Mears Wales Limited, Mears Social Housing Limited, Mears Building Contractors Limited, Mears Energy Limited, Laidlaw Scott Limited, Mears Window and Door Maintenance Limited, Helcim Group Limited, Helcim Homes Limited, Plexus UK (Systems) Limited and Mears Mechanical & Electrical Limited. All subsidiaries are incorporated in the United Kingdom.

Disposals represent the transfer of the investment in Jackson Lloyd Limited to goodwill following the hive up of the trade and assets to the Company.

12 Stocks

	2015 £ 000	2014 £ 000
Raw materials and consumables	4,324	4,374
Work in progress	2,852	2,591
	<u>7,176</u>	<u>6,965</u>

13 Debtors

	2015 £ 000	2014 £ 000
Trade debtors	20,021	22,842
Other debtors	2,107	893
Amounts recoverable on contracts	61,039	68,732
Prepayments and accrued income	2,412	3,712
Corporation tax	1,076	-
Amounts owed by group undertakings	48,525	24,639
Deferred tax liabilities	304	2
	<u>135,484</u>	<u>120,820</u>

The debtors above include the following amounts falling due after more than one year:

Amounts owed by group undertakings	48,525	24,639
Deferred tax liabilities	304	2
	<u>48,829</u>	<u>24,641</u>

Notes to the financial statements (continued)

14 Creditors: amounts falling due within one year

	2015 £ 000	2014 £ 000
Trade creditors	70,176	74,058
Corporation tax	-	2,271
Other taxation and social security	15,529	14,909
Other creditors	994	2,509
Accrued expenses	29,113	22,004
Due to customers for non-construction contract work	5	4,016
	<u>115,817</u>	<u>119,767</u>

15 Creditors: amounts falling due after more than one year

	2015 £ 000	2014 £ 000
Amounts owed to group undertakings	48,798	23,861
Other creditors	325	325
	<u>49,123</u>	<u>24,186</u>

16 Financial instruments

The Company has the following financial instruments:

	2015 £ 000	2014 £ 000
Financial assets that are debt instruments measured at amortised cost		
Trade debtors	20,021	22,842
Amounts owed by group undertakings	48,525	24,639
Other debtors	2,107	893
	<u>70,653</u>	<u>48,374</u>
Financial liabilities measured at amortised cost		
Trade creditors	70,176	74,058
Accrued expenses	29,113	22,004
Amounts owed to group undertakings	48,798	23,861
Other creditors	894	2,409
	<u>148,981</u>	<u>122,332</u>
Other financial liabilities measured at fair value		
Contingent consideration	<u>425</u>	<u>425</u>

The Company uses financial instruments, other than derivatives, comprising borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the Company's operations. The Company has no interests in the trade of financial instruments, interest rate swaps or forward interest rate agreements.

Notes to the financial statements (continued)

16 Financial instruments (continued)

The Company charges or pays interest at market rate on intragroup loans classified as financing transactions.

Contingent consideration represents an estimate of future consideration likely to be payable in respect of acquisitions and is recognised at fair value through the profit and loss account. Contingent consideration becomes payable based upon the profitability of acquired businesses and the fair value is estimated by forecasting future profits to determine the likely contingent consideration payable.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk.

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. The Company has no overdraft.

Trade debtors are normally due within 30 to 60 days. All trade debtors are subject to credit risk exposure. However there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

17 Deferred tax

Deferred tax assets and liabilities

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	Pension scheme £ 000	Total £ 000
At 1 January 2014	(180)	-	144	(36)
Deferred tax charge in profit and loss account				
- Change in tax rate	-	-	53	53
- On origination and reversal of timing differences	50	(550)	78	(422)
Deferred tax charge in other comprehensive income				
- Change in tax rate	-	-	(60)	(60)
- On origination and reversal of timing differences	-	-	(83)	(83)
At 1 January 2015	(130)	(550)	132	(548)
Transferred in with liabilities	-	550	-	550
Deferred tax charge in profit and loss account				
- On origination and reversal of timing differences	110	-	88	198
- Adjustments in respect of prior periods	220	-	-	220
Deferred tax charge in other comprehensive income				
- On origination and reversal of timing differences	-	-	(116)	(116)
At 31 December 2015	200	-	104	304

Deferred tax is calculated on temporary differences under the liability method.

Notes to the financial statements (continued)

18 Pension commitments

The Company participates in a number of multi-employer defined benefit pension schemes for the benefit of certain employees within the Company. The assets of the schemes are administered by trustees in a fund independent from the assets for the Company.

When a new contract is taken on, generally the defined benefit schemes are fully funded. Once the Company has gained administration status of a scheme, it will recognise the deficits or surpluses (subject to the limits defined within FRS 102). The amount of surplus recognised as an asset is limited to the amount that the Company can use to generate future economic benefits.

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2015 by a qualified independent actuary using the projected unit method.

The Company participates in a multi-employer pension scheme arrangement where the Company's parent, Mears Group PLC, is the principle employer and where the Company is currently unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the Company has accounted for its contributions to the scheme as if it were a defined contribution scheme. The total deficit in the multi-employer scheme as at 31 December 2015 was £3,087,000.00 (31 December 2014: £6,023,000.00).

The Company expects to contribute £2,130,000 to its defined benefit pension plans in 2016.

The following disclosures are aggregated results of the remaining defined benefit schemes.

Principal actuarial assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2015 %	2014 %
Discount rate	3.95	4.00
Future salary increases - first year	1.00	1.00
Future salary increases - second year	1.00	2.20
Future salary increases - long term	3.20	3.15
Future pension increases - capped at 5% based on RPI	3.30	3.25
Future pension increases - capped at 3% based on RPI	2.40	2.35
Future pension increases - capped at 5% based on CPI	2.10	2.05
Future pension increases - capped at 3% based on CPI	2.40	2.35
RPI Inflationary growth	2.55	2.50
CPI Inflationary growth	3.30	3.25

Notes to the financial statements (continued)

18 Pension commitments (continued)

The mortality assumptions used were as follows:

	2015 years	2014 years
Longevity at age 65 for current pensioners		
- Males	22.5	22.5
- Females	24.8	24.9
Longevity at age 65 for future pensioners		
- Males	24.6	24.6
- Females	<u>27.3</u>	<u>27.2</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2015 £ 000	2014 £ 000
Equity	111,312	108,161
Bonds	38,931	36,678
Property	13,280	12,959
Guarantees	5,798	6,776
Other	<u>17,739</u>	<u>16,779</u>
Total market value of assets	187,060	181,353
Present value of scheme liabilities	<u>(172,233)</u>	<u>(169,104)</u>
Surplus in scheme	14,827	12,249
Scheme surpluses not recognised	<u>15,347</u>	<u>12,909</u>
Pension liability	(520)	(660)
Related deferred tax asset	<u>104</u>	<u>132</u>
Net pension liability	<u>(416)</u>	<u>(528)</u>

Defined benefit obligation

Reconciliation of the present value of the defined benefit obligation:

	2015 £ 000	2014 £ 000
Opening defined benefit obligation	169,104	125,638
Service cost	2,802	3,885
Past service cost	-	101
Interest cost	6,511	6,692
Actuarial loss	(4,135)	14,229
Contributions by scheme participants	1,104	1,195
Liabilities assumed on TUPE transfers	676	20,241
Benefits paid	<u>(3,829)</u>	<u>(2,877)</u>
Closing defined benefit obligation	<u>172,233</u>	<u>169,104</u>

Notes to the financial statements (continued)

18 Pension commitments (continued)

Fair value of scheme assets

Reconciliation of fair value of scheme assets:

	2015 £ 000	2014 £ 000
Opening fair value of plan assets	181,353	148,024
Expected return	6,643	7,587
Actuarial gain	(1,095)	4,482
Contributions by employer	2,279	2,751
Contributions by scheme participants	1,104	1,195
Assets acquired on TUPE transfers	656	20,241
Benefits paid	(3,880)	(2,927)
Closing fair value of plan assets	187,060	181,353

The amounts recognised in profit or loss are as follows:

	2015 £ 000	2014 £ 000
<i>Analysis of the amount charged to operating profit:</i>		
Current service cost	2,853	3,935
Past service cost	-	101
<i>Analysis of the amount credited to finance income:</i>		
Expected return on plan assets	6,643	7,587
Interest on obligation	(6,511)	(6,692)
Total	2,721	3,141

The amounts recognised in statement of recognised gains and losses are as follows:

	2015 £ 000	2014 £ 000
Actuarial (loss)/gain on pension scheme assets	(439)	4,482
Actuarial gain/(loss) on pension scheme liabilities	3,459	(14,229)
	3,020	(9,747)
Effect of limitation on surplus recognition	(15,347)	(12,909)
Reversal of previously unrecognised surplus	12,909	23,072
Actuarial gains/(losses)	582	416
Cumulative actuarial losses recognised	6,583	7,165

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the company.

Notes to the financial statements (continued)

19 Leasing commitments

Operating leases

The total of future minimum lease payments is as follows:

	2015 £ 000	2014 £ 000
Not later than one year	9,169	11,518
Later than one year and not later than five years	13,380	11,871
Later than five years	-	928
	<u>22,549</u>	<u>24,317</u>

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

20 Contingent liabilities

Mears Limited and the other companies in the group headed by Mears Group PLC have entered into a Composite Accounting Agreement with the Bank, whereby each Company has provided a guarantee to the Bank and, under the terms of the guarantees, the Bank is authorised to allow set-off for interest purposes and in certain circumstances to set-off debit and credit balances within the Composite Accounting System. The Bank has a fixed and floating charge over the assets of Mears Limited in respect of this arrangement.

The Company has made guarantees that it will complete certain contracts. The value of these commitments at 31 December 2015 was £11.5m (2014: £17.2m).

21 Related party transactions

The Group of which the Company is a member has a central treasury arrangement in which all Group companies participate and procures a number of goods and services centrally which are recharged to its subsidiaries at cost. The Directors do not consider it meaningful to set out details of transfers made in respect of this treasury arrangement, nor the recharge of centrally procured goods and services, nor do they consider it meaningful to set out details of interest or dividend payments made within the Group.

Summary of transactions with subsidiaries

The Company made purchases of £367,000 from Mears Learning Limited, a 90% subsidiary, incorporated on 10 February 2015. At 31 December 2015, a net balance of £168,000 was owed to the Company by Mears Learning Limited in respect of these purchases and other transactions as described above.

At 31 December 2015, £4,245,000 (2014: £nil) was owed by Mears New Homes Limited an entity in which the Company has a 90% beneficial holding.

Summary of transactions with joint ventures

During the year, the Company made purchases of call centre related services from Mears 24/7 LLP, an entity in which the Company is a 50% partner, totalling £1,648,000 (2014: £1,699,000). During the year the Company provided support services and shared property costs of £211,000 (2014: £756,000), and loans of £460,000 (2014: £620,000). At 31 December 2015, the Company owed £187,357 (2014: £59,000) to Mears 24/7 LLP.

Notes to the financial statements (continued)

21 Related party transactions (continued)

Transactions with other related parties

During the year, the Company made sales of £16,000 (2014: £526,000) to Mears Scotland LLP an entity in which Mears Group PLC has a 67% beneficial holding. The Company also made purchases of £nil (2014: £13,000) by Mears Scotland LLP. At 31 December 2015, £2,317,000 (2014: £3,755,000) was owed from Mears Scotland LLP to the Company in respect of sales, purchases and other transactions, as described above.

During the year, the Company made sales of £9,000 (2014: £1,105,000) to Manchester Working Limited, an entity in which Mears Group PLC has an 80% beneficial holding. The Company also made purchases of £nil (2014: £356,000) from Manchester Working Limited. At 31 December 2015, £876,000 (2014: £616,000) was owed by Manchester Working Limited to the Company in respect of sales, purchases and other transactions, as described above.

22 Share capital

Allotted, called up and fully paid share capital

	2015	2014
	£	£
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

23 Ultimate parent company

The Directors consider that the ultimate parent undertaking and controlling related party of this Company is its parent undertaking Mears Group PLC by virtue of its 100% shareholding.

The largest and smallest group of undertakings for which Group accounts have been drawn up is that headed by Mears Group PLC. The accounts are available from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH.

24 Transition to FRS 102

The Company transitioned to FRS 102 as at 1 January 2014. The impact of the transition is as follows:

Defined benefit pension scheme

Under previous UK GAAP the Company recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 1 January 2014 or 31 December 2014. There has been no effect on the results presented as the previously reported expected return on investments approximated the discount rate used.

Under previous UK GAAP, the Company presented the defined benefit pension liability net of deferred tax. Under FRS 102 the defined benefit pension liability and deferred tax asset are presented separately on the balance sheet.

Interest free intragroup loans

Historically the Company made intragroup loans on an interest free basis. Under previous UK GAAP these were carried at the amount of the proceeds of the loan. Under FRS 102 intragroup financing transactions are recognised initially at fair value, being the present value of future payments discounted at a market rate of interest for a similar debt instrument. The effect of this change has been to credit brought forward profit and loss reserve at 1 January 2014 by £863,000 and to debit profit and loss in the year to 31 December 2014 by £883,000. The Group has elected to charge interest at market rate on intra group financing transactions with effect from 1 January 2015.

Notes to the financial statements (continued)

24 Transition to FRS 102 (continued)

Software

Under previous UK GAAP, software could be classified as either a tangible or intangible fixed asset, depending on its nature. Under FRS 102 all software must be classified as an intangible asset. The effect of this change has been to reclassify software from tangible fixed assets to intangible fixed assets as at 1 January 2014.

Balance sheet at 1 January 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
Fixed assets				
Intangible assets	3,321	351	-	3,672
Tangible assets	9,838	(351)	-	9,487
Investments	4,034	-	-	4,034
	<u>17,193</u>	<u>-</u>	<u>-</u>	<u>17,193</u>
Current assets				
Stocks	7,975	-	-	7,975
Debtors	103,196	-	-	103,196
Cash at bank and in hand	42,945	-	-	42,945
	<u>154,116</u>	<u>-</u>	<u>-</u>	<u>154,116</u>
Creditors: Amounts falling due within one year	(108,934)	-	-	(108,934)
Net current assets	<u>45,182</u>	<u>-</u>	<u>-</u>	<u>45,182</u>
Total assets less current liabilities	62,375	-	-	62,375
Creditors: Amounts falling due after more than one year	(27,129)	-	480	(26,649)
Provisions for liabilities	(180)	144	-	(36)
Net assets excluding pension asset/(liability)	35,066	144	480	35,690
Pension liability	(542)	(144)	-	(686)
Net assets	<u>34,524</u>	<u>-</u>	<u>480</u>	<u>35,004</u>
Capital and reserves				
Profit and loss account	34,524	-	480	35,004
Total equity	<u>34,524</u>	<u>-</u>	<u>480</u>	<u>35,004</u>

Notes to the financial statements (continued)

24 Transition to FRS 102 (continued)

Balance sheet at 31 December 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
Fixed assets				
Intangible assets	3,344	1,585	-	4,929
Tangible assets	10,626	(1,585)	-	9,041
Investments	4,034	-	-	4,034
	<u>18,004</u>	<u>-</u>	<u>-</u>	<u>18,004</u>
Current assets				
Stocks	6,965	-	-	6,965
Debtors	120,818	2	-	120,820
Cash at bank and in hand	40,802	-	-	40,802
	<u>168,585</u>	<u>2</u>	<u>-</u>	<u>168,587</u>
Creditors: Amounts falling due within one year	<u>(119,767)</u>	<u>-</u>	<u>-</u>	<u>(119,767)</u>
Net current assets	<u>48,818</u>	<u>2</u>	<u>-</u>	<u>48,820</u>
Total assets less current liabilities	66,822	2	-	66,824
Creditors: Amounts falling due after more than one year	(24,186)	-	-	(24,186)
Provisions for liabilities	<u>(130)</u>	<u>130</u>	<u>-</u>	<u>-</u>
Net assets excluding pension asset/(liability)	42,506	132	-	42,638
Pension liability	<u>(528)</u>	<u>(132)</u>	<u>-</u>	<u>(660)</u>
Net assets	<u>41,978</u>	<u>-</u>	<u>-</u>	<u>41,978</u>
Capital and reserves				
Profit and loss account	<u>41,978</u>	<u>-</u>	<u>-</u>	<u>41,978</u>
Total equity	<u>41,978</u>	<u>-</u>	<u>-</u>	<u>41,978</u>

Notes to the financial statements (continued)

24 Transition to FRS 102 (continued)

Profit and loss account for the year ended 31 December 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
Turnover	504,978	-	-	504,978
Cost of sales	<u>(376,594)</u>	<u>-</u>	<u>-</u>	<u>(376,594)</u>
Gross profit	128,384	-	-	128,384
Administrative expenses	<u>(103,780)</u>	<u>-</u>	<u>-</u>	<u>(103,780)</u>
Operating profit	24,604	-	-	24,604
Interest payable and similar charges	<u>1,744</u>	<u>-</u>	<u>(480)</u>	<u>1,264</u>
Profit/(loss) before tax	26,348	-	(480)	25,868
Taxation	<u>(5,167)</u>	<u>-</u>	<u>-</u>	<u>(5,167)</u>
Profit/(loss) for the financial year	<u>21,181</u>	<u>-</u>	<u>(480)</u>	<u>20,701</u>