Morrison Facilities Services Limited

Financial statements
for the nine months ended 31 December 2012

Registered number SC120550

Morrison Facilities Services Limited
Company Information

Company registration number	SC120550
Registered office	Morrison House Ellismuir Way Tannochside Park Uddingston Glasgow G71 5PW
Directors	D Miles A Smith
Secretary	B Westran
Bankers	Barclays Bank PLC Market Hill Huntingdon Cambridgeshire PE29 3AE
Solicitors	BPE St James' House St James' Square Cheltenham Gloucestershire GL50 3PR
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors Hartwell House 55 – 61 Victoria Street Bristol BS1 6FT

Morrison Facilities Services Limited
Contents

The Directors of Morrison Facilities Services Limited ("Morrison" or "the Company") present their report and the audited financial statements for the nine months ended 31 December 2012.

Principal activities
Morrison is one of the leading providers of social housing repairs in the United Kingdom. The Company principally delivers outsourced property repairs and maintenance, and capital investment services to Housing Associations and Local Authorities.

Morrison currently has around 40 major clients. It manages approximately 300,000 homes and other local authority buildings and provides facilities services to over 200 schools. The Company provides repair and maintenance services along with related activities such as call centre management and tenant liaison. Morrison also manages local authority and housing association capital spending programmes such as kitchen and bathroom replacements.

Morrison's vision is to transform the quality of homes and communities for the Company's customers. That means Morrison does things differently and better by:

- Creating sustainable jobs and apprenticeships
- Engaging in communities
- Being accountable for performance and always trying to improve

Change of ownership
On 7 November 2012 Morrison Facilities Services Limited was sold by Morrison PLC (a subsidiary of Anglian Water Group) to Mears Group PLC ("Mears"), a company listed on the London Stock Exchange. Mears is a provider of a range of outsourced services to the public and private sector and has a large social housing repairs division.

Change of auditors
Following the acquisition of Morrison by Mears, PricewaterhouseCoopers LLP ("PwC") resigned as auditors of the Company on 28 November 2012. The Company has appointed Grant Thornton UK LLP as its statutory auditors under the Companies Act 2006 section 485.

Change of accounting reference date
The Directors have changed the accounting reference date from 31 March to 31 December to be consistent with that of Mears. Therefore, these financial statements have been prepared for the nine months to 31 December 2012.

Business review

Financial results 2012

	Nine months to 31 December 2012 £000	Year to 31 March 2012 £000
Turnover	142,085	214,690
Underlying operating loss	(26,543)	(7,422)
Loss on ordinary activities before taxation	(30,722)	(10,327)
Net cash	7,284	5,051
Net (liabilities) / assets	(8,555)	12,545

Turnover for the nine months ended 31 December 2012 of £142.1m (2011/12: £214.7m) has been impacted by the five net contract closures in the comparative period. In addition, a contract with Birmingham City Council was novated to Morrison PLC (the Company's former parent company) prior to the acquisition by Mears and the Company traded for a short period.

New repairs and maintenance contracts with Woking Borough Council, Home Group Housing Association, Tamworth Gas and Two Castles Housing Association have been mobilised in the nine months to 31 December 2012.

Capital works and planned maintenance revenue streams have performed ahead of the prior year due to Local Authority Councils having better visibility of their funding.

Included in the underlying operating loss of £26.5m (2011/12: £7.4m) are a number of one off costs totalling £22.0m (2011/12: £nil). These costs relate to the write off of obsolete stock, further provision for bad debts and provision for costs which were identified as at the date of acquisition by Mears.

Exceptional items
Operating exceptional items incurred in the period of £7.7m (2011/12: £7.6m) relate to onerous contracts with clients (£5.9m (2011/12: £nil)), onerous property contracts (£1.1m (2011/12: £nil)), staff restructuring (£0.7m (2011/12: £2.0m)) and contract closures (£nil (2011/12: £5.6m)). Provisions have been taken in respect of a number of loss making contracts and a restructuring of the business has taken place resulting in senior management and staff redundancies and the closure of a number of offices. Further restructuring costs are likely to be incurred in the next financial year as Mears complete the integration of the Morrison business.

Net liabilities
At 31 December 2012 the Company had net liabilities of £8.6m (2011/12: net assets of £12.5m). The decrease in net assets since the last year end arose primarily as a result of the one-off costs referred to previously.

Order book
The forward order book is an important measure of the long-term health of the business. The order book at 31 December 2012 was £798m (2011/12: £884m). This represents over 4.2 times the Company's turnover figure (annualised) for the current year (2011/12: 4.1 times). The profile of the order book is also favourable in that a large proportion of this revenue relates to long duration contracts with several years to completion. The Morrison order book consists primarily of Local Authority and Housing Association clients who tend to contract over a five to ten year time frame.

Financing
As a result of the acquisition by Mears, the Company's banking facilities were terminated and replaced by an intercompany loan with Mears Group PLC. At 31 December 2012, the balance on the intercompany loan was £8.0m.

At 31 December 2012, net cash was £7.3m, compared with £5.1m as at 31 March 2012.

Dividends
The Directors do not recommend the payment of a dividend (2011/12: £nil).

Going concern
As at 31 December 2012, the Company has net liabilities of £8.6m (2011/12: net assets of £12.5m), Mears have provided a letter of support to the Directors of Morrison Facilities Services Ltd. In addition, the inter company loan with Mears referred to above, allows the Company to meet its short and medium term payments. As at the date of approving these financial statements, the Directors consider that there is reasonable expectation that the Company has adequate resources to continue to trade for the foreseeable future. Therefore, the going concern basis has been adopted in preparing these financial statements.

Outlook
The Directors believe the Company has a profitable future going forward and they intend to maintain Morrison as a brand within the Mears Group. Some restructuring of the management of individual contracts has begun and will continue in 2013 as Mears integrates Morrison within its main business and seeks to run individual contracts to established Mears' productivity levels.

The intention is that Morrison will continue to operate the majority of its current contracts, with selective novations to other Mears Group companies. Morrison will continue to bid for a small number of contracts in situations where its market position is influential.

Directors

The Directors who served the Company during the period were as follows:

David Miles	Appointed 7 November 2012
Andrew Smith	Appointed 7 November 2012
Sir Adrian Montague	Resigned 7 November 2012
Guy Wakeley	Resigned 7 November 2012
Nigel Howell	Resigned 7 November 2012
Edward Brown	Resigned 7 November 2012
Scott Longhurst	Resigned 7 November 2012
James Michael Robinson	Resigned 7 November 2012

Directors' qualifying third party indemnity provisions

The Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial period and is currently in force. The Company purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its Directors.

Our employees

The Company values diversity within its workforce and is an equal opportunities employer. All job applications are fully and fairly considered, having regard to the aptitudes and abilities of the applicant. In the event of an employee becoming disabled, every effort is made to ensure that employment continues and appropriate training is given. Career development and the promotion of disabled people are, as far as possible, identical to that of other employees.

Morrison's Corporate Diversity Group actively promotes a culture of equality and diversity throughout the organisation. The Company challenges all working practices and initiatives to ensure they are anti-discriminatory and embrace this ethos fully. The Company also ensures the sharing of best practice and new ideas.

At Morrison, we strive to make our workplace an appealing, positive and engaging environment where our employees feel supported and part of the Morrison team. To help us achieve this, we have a number of engagement initiatives so that we are always talking and listening to our workforce. During the period, these communication methods included the Group intranet 'MINT' and our quarterly in-house magazine, 'CONNECT' which communicates changes and best practice. These will be replaced in 2013 by the Mears equivalent. Staff achievements and successes are communicated to staff in a daily email and incorporated in regular briefings to staff.

Employees are given the opportunity to train and develop to meet their full potential. Mears has a training centre, based in Welwyn Garden City, which delivers basic training to all Mears Group employees across a wide range of trade disciplines and support roles.

Morrison negotiates and communicates with union representatives when necessary and in the interest of staff.

Payment of suppliers

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payments and abide by the terms of payment. The Company's creditor days were 41 as at 31 December 2012 (2011/12: 42).

Health and safety

Morrison's operations are, by their nature, subject to health and safety risks. The potential for accidents and non-compliance with relevant legislation drives a constant focus on safe working practices across all parts of the Company's business.

The accident frequency rate (accidents per 100,000 hours worked by our operatives) for the nine months to 31 December 2012, was 0.14 (2011/12: 0.17).

Corporate social responsibility (CSR)
Engaging effectively with our key stakeholders; customers, employees, supply chain partners, and local communities is the best way for us to deliver upon our social, environment and economic priorities. Morrison's commitment to our vision of transforming the quality of homes and communities for our customers ensures that CSR is at the heart of what we do. Morrison recognises we are in a unique position to help build communities through well maintained homes and public buildings.

The Company's CSR policy is in the process of being aligned with that of Mears, details of which can be found in the annual report of Mears Group PLC.

Risk management

Internal control and risk management
Internal control and risk management is managed by the Mears Group Board across the Mears Group as a whole. A formal risk register is completed every month and is reviewed at Board meetings along with mitigating strategies and the latest status of the risks. The Company also maintains and monitors a set of detailed policy documents across all areas of operations. Key areas in which such policies exist include health and safety, procurement, finance and governance (including competition and bribery).

Financial risk management
Morrison's operations expose it to a variety of financial risks that include the effects of price risk, credit risk and liquidity risk. Morrison has in place controls that seek to limit the adverse effects in the financial performance of the Company by monitoring potential financial risks the Company is subject to.

Financial risk management is monitored by the Board of Mears. The policies set by the Mears Board are implemented by the Mears' Group treasury department which has procedures in place to manage credit risk.

Price risk
Morrison operations are only exposed to minimal price risk on commodities. Given the size of the Company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The Company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit risk
The majority of Morrison's debtors are Local Authorities and Housing Authorities and as such have a very low credit risk. Morrison has policies that require appropriate credit checks on potential customers before sales are made.

Liquidity risk
The Board of Mears manage the liquidity risk for the Mears Group as a whole. Further details are set out in the annual report of Mears Group PLC.

Principal risks and uncertainties
The Company's principal risks and uncertainties are described below.

Contract efficiency gains
The majority of Morrison's contracts are large and last for many years. They often include clauses for efficiency gains over one or several years. These efficiency gains are normally delivered through productivity increases, restructuring of business processes and technology deployment. There is a risk that productivity gains, improvements in business processes and technology deployments do not result in efficiency gains. Therefore, all potential efficiency gains are reviewed as part of the bidding process for new contracts and that process will include ensuring detailed plans exist to ensure relevant benefits can be realised.

Systems dependence and reliability
The Company uses IT and management processes to coordinate a large volume of work, appointments and tradesperson deployment. A significant IT or other system failure would be disruptive resulting in loss of business and revenue. The Company mitigates this risk through IT resilience and disaster recovery plans designed to restore service and a business continuity plan for each operational site.

Legal compliance
Morrison operates within the UK and is as such subject to its legal and compliance regime. To guard against a failure to comply with legislation Morrison employs qualified advisors both internally and externally, while information about new laws and regulations are communicated across the business. Key staff have been trained in the Bribery Act 2010.

Reputation
The Morrison reputation allows the Company to win and retain contracts, attract staff and build relationships with suppliers. Loss of reputation could result in loss of revenue, staff and reliable suppliers. Morrison has a code of conduct for all staff to adhere to and aims to be professional when engaging with all stakeholders. Morrison has a robust health and safety culture and a corporate social responsibility strategy that is embedded throughout the Company.

Government spending
Morrison works for Local Authorities and Housing Associations and so is exposed to local government spending budgets. The majority of the work we do is 'responsive repairs' which are urgent repairs that the client requires to ensure that their home is maintained at a good standard. Some clients are outsourcing their repairs work for the first time to help them to manage their repairs cost, resulting in a stable order book. However, in light of the Government focus on reducing public spending, Morrison is focused on tight cost control whilst still delivering a high quality service to our clients to ensure clients do not leave Morrison for alternative, cheaper suppliers.

Mobilisation risks
Morrison recognises the risk that a poorly mobilised contract can lead to poor customer service, reduced performance and staff demotivation. Therefore, a mobilisation team made up of specialists from around the business and the local region are assigned to each new contract. This team runs mobilisations to an agreed timetable and schedule, regularly reporting progress to senior management. We have also implemented a 'mobilisation hub' on our Company intranet that captures best practice and guides managers through new mobilisations to ensure standardisation across the business.

Contract retention
The majority of Morrison's contracts are with public authorities. Local Government procurement is driven by the requirement to achieve best value for the taxpayer. However, both the funding of social housing programmes and the political support for private involvement may be subject to change. This puts pressure on margins within the Morrison business and influences the level of risk transfer to sub-contractors. It also means that in a competitive environment there is a risk that contracts are only held for one contractual period as the allocation of a contract is often price driven.

Morrison spreads its contractual risk by maintaining a varied client portfolio. When assessing potential contracts, we consider whether they fit with Morrison's core skills and our established supply chain. During the contract we work hard to build strong relationships with the client and to continue to innovate to help reassure the client of our continued commitment to quality and value when the contract is put up for re-tender.

Pensions
The Company contributes to both defined contribution and defined benefit pension schemes. Morrison has membership of a number of defined benefit schemes where changes to actuarial assumptions on, but not limited to, investment returns, longevity and inflation could result in increased funding requirements. The Morrison business involves TUPE of staff within defined benefit schemes. In these cases we seek to limit our liability contractually.

Statement of 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 and 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 then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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.

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.

Statement of disclosure of information to auditors
Each person who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director has taken all steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The auditors, Grant Thornton LLP, are deemed to be re-appointed as auditors in accordance with the Companies Act 2006.

By order of the Board,

Andrew Smith
Director
Morrison Facilities Services Limited

9 April 2013

Registered Office
Morrison House
Ellismuir Way
Tannochside Park
Uddingston
Glasgow
G71 5QA

Registered in Scotland (number SC120550)

Morrison Facilities Services Limited

Independent auditors' report to the members of Morrison Facilities Services Limited

We have audited the financial statements of Morrison Facilities Services Limited for the period ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes to the financial statements. 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).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and 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 auditors
As explained more fully in the statement of Directors' responsibilities set out on page 6, 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 Auditing Practices Board's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on 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 2012 and of the Company's loss for the period 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 matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial period 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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.

Simon Lowe
(Senior Statutory Auditor)

For and on behalf of Grant Thornton UK LLP
Chartered Accountants and Statutory Auditors
Bristol
9 April 2013

Morrison Facilities Services Limited
Profit and loss account for the nine months ended 31 December 2012

Note		Nine months ended 31 December 2012 Before Exceptional Items £000	Exceptional Items £000	Total £000	Year ended 31 March 2012 Before Exceptional Items £000	Exceptional Items £000	Total £000
2	Turnover	142,085	-	142,085	214,690	-	214,690
	Cost of sales	(143,971)	(1,781)	(145,752)	(206,885)	(7,210)	(214,095)
	Gross loss	(1,886)	(1,781)	(3,667)	7,805	(7,210)	595
	Administrative expenses	(24,657)	(5,878)	(30,535)	(15,227)	(431)	(15,658)
3	**Operating loss**	**(26,543)**	**(7,659)**	**(34,202)**	**(7,422)**	**(7,641)**	**(15,063)**
	Income from shares in undertakings	2,000	-	2,000	4,322	-	4,322
4	Interest payable	(95)	-	(95)	(56)	-	(56)
4	Other finance income	1,575	-	1,575	470	-	470
	Loss on ordinary activities before taxation	**(23,063)**	**(7,659)**	**(30,722)**	**(2,686)**	**(7,641)**	**(10,327)**
5	Tax on loss on ordinary activities	8,504	1,779	10,283	1,727	1,987	3,714
17	**Loss for the financial year**	**(14,559)**	**(5,880)**	**(20,439)**	**(959)**	**(5,654)**	**(6,613)**

There was no difference between the loss on ordinary activities before taxation and the loss for the financial period stated above, and their historical cost equivalents.

The activities in both accounting periods relate to continuing operations.

Statement of total recognised gains and losses for the nine months ended 31 December 2012

Note		Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
	Loss for the financial period	(20,439)	(6,613)
19	Actuarial loss on pension scheme	(859)	(1,120)
14	Deferred tax relating to actuarial loss on pension scheme	198	97
	Current tax relating to actuarial loss on pension scheme	-	133
	Total recognised loss for the period	**(21,100)**	**(7,503)**

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

Morrison Facilities Services Limited

Balance sheet at 31 December 2012

Note		31 December 2012 £000	31 March 2012 £000
	Fixed assets		
7	Tangible fixed assets	2,875	3,650
8	Investment in subsidiary undertakings	1	1
		2,876	3,651
	Current assets		
9	Stock	671	914
10	Debtors	47,310	54,380
	Cash at bank and in hand	7,284	5,051
		55,265	60,345
11	Creditors: amounts falling due within one year	(60,789)	(49,467)
	Net current (liabilities) / assets	**(5,524)**	**10,878**
	Total assets less current liabilities	(2,648)	14,529
12	Creditors: amounts falling due after more than one year	-	(46)
13	Provisions for liabilities	(4,661)	(372)
	Net (liabilities) / assets excluding net pension asset	**(7,309)**	**14,111**
19	Pension liability	(1,246)	(1,566)
	Net (liabilities) / assets	**(8,555)**	**12,545**
18	**Capital and reserves**		
16	Called up share capital	10,000	10,000
17	Profit and loss reserve	(18,555)	2,545
		(8,555)	**12,545**

The financial statements were approved and authorised for issue by the Directors and are signed on their behalf on 9 April 2013

Andrew Smith
Director

Morrison Facilities Services Limited
Registered in Scotland (number SC120550)

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

1 Accounting policies

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006. A summary of the Company's principal accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period.

a) Turnover

Turnover represents the income received and receivable (excluding value added tax) in the ordinary course of business for goods and services provided. Revenue is recognised on service contracts based upon the percentage completion of work undertaken. Revenue is recognised in respect of claims against customers only when, in the opinion of the Directors, the outcome is probable and can be estimated.

b) Tangible fixed assets and depreciation

Fixed assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation of assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets over their estimated economic lives, which are principally as follows:

Buildings	30 - 60 years
Fixed plant	3 - 8 years
Vehicles, plant and equipment	3 - 8 years

Assets in the course of construction are not depreciated until they are commissioned.

c) Leased assets

Rental costs arising under operating leases are expensed over the term of the lease.

Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

d) Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

e) Stocks and work in progress

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred to complete and deliver the goods or services.

f) Pension costs

The Company operates various defined benefit and defined contribution pension schemes administered by trustees. The schemes are generally funded through contributions, determined by actuarial calculations. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company in a trustee administered fund. Pension scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset / liability, net of the related deferred tax, is presented separately on the face of the balance sheet.

The amounts charged to operating loss are current service costs, past service costs, settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. The interest cost and expected return on assets are shown net within other finance income/costs. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The cost of defined contribution schemes is charged to the profit and loss account in the period in which the contributions become payable. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

g) Deferred taxation

Deferred taxation is provided on timing differences arising from the different treatment for accounts and taxation purposes, of events and transactions recognised in the financial statements of the current and previous years. Deferred taxation is calculated at rates at which it is estimated that taxation will arise.

Deferred taxation is not provided in respect of timing differences arising from the sale or revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recovered in future periods.
Deferred taxation is not discounted.

h) **Pre-contract costs**
The Company's policy is to write off pre-contract costs as an expense in line with UITF 34: *Pre-contract costs.*

i) **Cash flow statement and related party disclosures**
The Company is a wholly owned subsidiary of Mears Group PLC (Mears) and its results are included in the consolidated financial statements of Mears which are publicly available. Consequently, under FRS 1: *Cash flow statements* and FRS 8: *Related party transactions* the Company is exempt from producing a cash flow statement and disclosing related party transactions respectively.

j) **Company accounts**
The company has opted under section 400 of the Companies Act 2006 to prepare Company only accounts. Morrison is a wholly owned subsidiary of Mears Group PLC, a UK listed Group. The results of Morrison Facilities Services Ltd and all subsidiaries are consolidated within the Group accounts of Mears Group PLC.

2 Segmental analysis
All results are derived from a single class of business within the United Kingdom. Turnover includes sales to other Mears Group companies of £nil (2011/12: £nil).

3 Operating loss

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Operating loss is stated after charging:		
Depreciation (see note 8)	1,502	1,955
Impairment (see note 8)	83	-
Operating lease rentals- Plant and machinery	17	-
Operating lease rentals- Other	3,345	6,378
Exceptional costs:		
- Onerous contract provisions	6,954	-
- Restructuring of staff	705	2,005
- Contract closure	-	5,636
Total operating exceptional	7,659	7,641
Fees paid to the auditors:		
- for audit work	65	103
- for non-audit services	-	-

The audit fee of £100k (2011/12: £103k) was incurred by a parent Company and subsequently recharged to Morrison Facilities Services Ltd. Audit costs incurred in the period relate to Grant Thornton, while the comparative period relates to PwC. During the prior year PwC provided non-audit services relating to pension valuations, with the costs borne by the ultimate parent company and not recharged.

The Company incurred exceptional items relating to redundancies (£705k (2011/12: £2,005k)), onerous contracts with clients (£5,909k (2011/12: £nil)) and rental properties (£1,045k (2011/12: £nil)). The prior year results included a redundancy programme and the closure of a small number of contracts (£5,636k).

4 Interest payable and other finance income

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Interest payable and similar charges		
Bank interest payable	(45)	(56)
Interest payable to parent company	(50)	-
Total interest payable	**(95)**	**(56)**
Other finance income – interest on retirement benefits		
Net interest on pension fund obligations	1,575	470
	1,575	**470**

5 Tax on loss on ordinary activities

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Analysis of (credit) / charge in the period		
Current tax		
UK corporation tax		
- current year	(360)	(3,167)
- adjustment in respect of prior years	-	(122)
Total UK tax	**(360)**	**(3,289)**
Deferred tax		
Charge for timing differences arising in period	(9,983)	(432)
Effective tax rate change	60	56
Adjustment in respect of prior years	-	(49)
Total deferred tax	**(9,923)**	**(425)**
Tax on loss on ordinary activities	**(10,283)**	**(3,714)**

Adjustments in respect of prior years arise from the agreement of open tax computations.

Factors affecting tax charge for the period (including exceptional items)
The effective tax rate for the period is higher (2011/12: higher) than the standard rate of corporation tax in the UK for the nine month period ended 31 December 2012 of 24% (2011/12: 26%). The differences are explained below:

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Loss on ordinary activities before taxation	**(30,722)**	**(10,327)**
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011/12: 26%)	(7,527)	(2,685)
Effects of:		
Items not deductible for tax purposes	7	141
Accounting depreciation in excess of capital allowances for the year	35	146
Short-term timing differences	135	286
Tax losses carried forward	(1,136)	(1,055)
Group relief surrendered for nil consideration	8,126	-
Adjustment in respect of prior year	-	(122)
Total current tax	**(360)**	**(3,289)**

During the period, as a result of the change in the UK corporation tax rate from 24% to 23% that was effective from 1 April 2012, all relevant deferred tax balances have been re-measured. Further changes to the UK corporation tax rate have been announced which propose to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes, which are expected to be enacted separately each year, had not been substantively enacted at the balance sheet date and therefore have not been recognised in these financial statements.

6 Employees and directors

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Staff costs during the period were:		
Wages and salaries	47,752	81,077
Social security costs	4,502	4,413
Pension costs (note 19)	3,562	3,443
	55,816	**88,933**

Average monthly number of full time equivalent persons including executive directors employed by the Company:

	Nine months ended 31 December 2012 Number	Year ended 31 March 2012 Number
Morrison Facilities Services	**2,087**	**2,491**

Directors	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Aggregate emoluments	437	494
Company contributions to defined contribution pension schemes	33	86
	470	**580**

No directors (2011/12: no directors) are accruing benefits under a defined benefit pension scheme.

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Highest paid director		
Aggregate emoluments	239	277
Company contributions to defined contribution pension schemes	33	49
	272	**326**

7 Tangible fixed assets

	Land and buildings £000	Vehicles, plant and equipment £000	Total £000
Cost			
At 1 April 2012	1,047	10,992	12,039
Additions	12	810	822
Disposal	-	(63)	(63)
At 31 December 2012	**1,059**	**11,739**	**12,798**
Depreciation			
At 1 April 2012	575	7,814	8,389
Charge for the year	78	1,424	1,502
Impairment	-	83	83
Disposal	-	(51)	(51)
At 31 December 2012	**653**	**9,270**	**9,923**
Net book value			
At 31 December 2012	**406**	**2,469**	**2,875**
At 31 March 2012	472	3,178	3,650

8 Investments in subsidiary undertakings

	31 December 2012 £000	31 March 2012 £000
At 1 April 2012 and 31 December 2012	**1**	**1**

Subsidiary undertaking	Country of Incorporation	Principal activity	Proportion of ordinary £1 shares held
Morrison Scotland (Services) Limited	Scotland	Maintenance and repair services	67%
Manchester Working Limited	England	Maintenance and repair services	80%
Morrision Scotland LLP	Scotland	Maintenance and repair services	67%

All subsidiaries have a year end of 31 March. The voting rights in respect of each subsidiary are in the same proportion as the ordinary shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation.

9 Stock

	31 December 2012 £000	31 March 2012 £000
Raw materials and consumables	**671**	**914**

In the Directors' opinion, there is no material difference between the replacement cost of stock and its historical cost as stated above.

10 Debtors

	31 December 2012 £000	31 March 2012 £000
Amounts falling due within one year:		
Trade debtors	10,382	11,406
Amounts recoverable on contracts	13,459	28,668
Amounts owed by Group undertakings	10,844	11,691
Corporation tax recoverable	-	529
Deferred tax (see note 16)	-	944
Prepayments and accrued income	729	949
Other debtors	609	193
	36,023	**54,380**
Amounts falling due after more than one year:		
Trade debtors	100	-
Deferred tax (note 14)	11,187	-
	47,310	**54,380**

11 Creditors: amounts falling due within one year

	31 December 2012 £000	31 March 2012 £000
Trade creditors	18,005	15,934
Accruals and deferred income	26,176	21,952
Other taxation and social security	4,860	1,190
Payments in advance	275	-
Corporation tax	57	-
Amounts owed to Group undertakings	10,003	3,989
Other creditors	1,413	6,402
	60,789	**49,467**

Amounts owed to Group undertakings are unsecured and are repayable on demand.

Morrison Facilities Services Limited

Notes to the financial statements for the nine months ended 31 December 2012 (continued)

12 Creditors: amounts falling due after more than one year

	31 December 2012 £000	31 March 2012 £000
Payments in advance	-	**46**

13 Provisions for liabilities

	Claims £000
At 1 April 2012	372
Release of provision to profit and loss account	(1,589)
Charge to profit and loss account	5,878
At 31 December 2012	**4,661**

The provision represents the Company's obligations in relation to onerous contracts with clients.

14 Deferred taxation

Deferred taxation asset excluding deferred tax on pension assets	**£000**
At 1 April 2012	944
Credit for period	10,243
At 31 December 2012	**11,187**

The deferred tax asset is shown in debtors note 10

	31 December 2012 £000	31 March 2012 £000
Accelerated capital allowances	699	592
Other timing differences	3,355	352
Tax losses carried forward	7,133	-
Undiscounted deferred tax asset	**11,187**	**944**

The deferred tax asset of 372k (2011/12: liability of £494k) has been deducted in arriving in the net pension deficit on the balance sheet (note 19).

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Deferred tax asset relating to the pension liability		
At 1 April	494	377
Deferred tax (charge) / credit to the profit and loss account	(320)	20
Deferred tax credit to the statement of total recognised gains and losses: actuarial loss	198	97
At 31 December or 31 March	**372**	**494**

15 Commitments under operating leases

	Nine months ended 31 December 2012		Year ended 31 March 2012	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Annual charge falling due:				
In one year	174	27	244	2
Between two and five years	386	2,161	421	346
Over five years	318	-	541	-
	878	**2,188**	**1,206**	**348**

16 Called up share capital

	31 December 2012 £000	31 March 2012 £000
Allotted, called up and fully paid		
10,000,000 ordinary shares of £1 each	**10,000**	**10,000**

17 Profit and loss reserve

	£000
At 1 April 2012	2,545
Loss for the period	(20,439)
Actuarial loss on pension scheme (note 19)	(859)
Movement on deferred tax relating to net pension deficit	198
At 31 December 2012	**(18,555)**

18 Reconciliation of movements in shareholder's funds

	31 December 2012 £000	31 March 2012 £000
Loss for the period	(20,439)	(6,613)
Other recognised losses relating to the period	(661)	(890)
Net change in shareholder's (deficit)/ funds	(21,100)	(7,503)
Opening shareholder's funds	12,545	20,048
Closing shareholder's (deficit)/funds	**(8,555)**	**12,545**

19 Pension commitments

The Company operates a Group defined contribution pension scheme for employees to which it contributed £1,295k (2011/12: £1,703k) in the period.

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 of the Company. Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2012 by a qualified independent actuary using the projected unit method.

The Company participates in a multi-employer pension scheme arrangement where it is currently unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the Company has taken advantage of the exemption in FRS17 – Retirement benefits, and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The surplus in the total scheme as at 31 December 2012 was £10,798k.

The Company contributes to 10 (2011/12: 5) defined benefit pensions schemes which all have admitted body status within the Local Government Pension Scheme. The Company will contribute for a finite period, until the termination of the particular contract. The Company is required in most cases to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases, these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Pension Scheme has a contractual right to recover the costs of making good any deficit in the scheme from the Company's client, the fair value of the asset has been recognised within the Company's share of scheme assets.

Whilst defined benefit pension scheme liabilities are recognised in full in accordance with FRS17 on the balance sheet, short term volatility and changes in valuation assumptions may cause the value of the liabilities to be materially different at the point at which they crystallise.

The Company expects to contribute £1,100k to its defined benefit pension plans in 2013.

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

Summary of pension scheme	31 December 2012 £000	31 March 2012 £000
Total assets	156,169	41,110
Fair value of scheme liabilities	(150,679)	(45,000)
Surplus / (deficit) in the schemes	5,490	(3,890)
Impact of limit on recognition of surplus	(7,108)	1,830
Deficit recognised in the financial statements	(1,618)	(2,060)
Related deferred tax asset	372	494
Net pension deficit recognised in the financial statements	**(1,246)**	**(1,566)**

19 Pension commitments (continued)

Assumptions

The liabilities of the schemes have been valued using the projected unit method and using the following assumptions:

	31 December 2012 % pa	31 March 2012 % pa
Discount rate	4.7	4.8
Inflation rate RPI / CPI	2.9/2.2	2.5
Increase to deferred benefits during deferment	2.9/2.2	2.5
Increases to inflation related pension in payment	2.9/2.2	2.5
General salary increases	2.8	4.3
Expected return on assets at year end	6.1	5.0

	31 December 2012	31 March 2012
Longevity at age 65 for current pensioners		
- Men	21.0	20.6
- Women	23.4	22.8
Longevity at age 65 for future pensioners		
- Men	23.1	22.0
- Women	25.7	24.3

The liabilities for the Local Government Pension Schemes are adjusted to use mortality improvements consistent with those adopted by Morrison Facilities Services Limited.

The long-term expected rate of return of the pension scheme assets:

	31 December 2012		31 March 2012	
	Expected rate of return	Fair value of scheme assets	Expected rate of return	Fair value of scheme assets
	% pa	£000	%pa	£000
Equities	7.6	101,026	6.3	22,330
Bonds	3.7	35,172	3.8	15,290
Property	7.0	9,131	3.3	2,640
Guarantees	-	2,730	-	-
Other	2.9	8,110	5.0	850
Total Assets		**156,169**		**41,110**

Analysis of amounts charged to the profit and loss account

	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Current service cost	(2,267)	(2,400)
Past service cost	-	660
Charge to operating profit	**(2,267)**	**(1,740)**
Expected return on pension scheme assets	7,070	5,390
Impact of restriction of surplus	-	(260)
Interest charged on pension scheme liabilities	(5,495)	(4,660)
Amount credited to other finance income	**1,575**	**470**
Net charge on ordinary activities before taxation	**(692)**	**(1,270)**

19 Pension commitments (continued)

Analysis of amounts recognised in the statement of total recognised gains and losses	Nine months ended 31 December 2012 £000	Year ended 31 March 2012 £000
Difference between expected and actual returns on scheme assets	846	(2,850)
Changes in assumptions underlying the present value of the schemes' liabilities	4,338	(8,950)
Actuarial gains / (losses) in schemes	**5,184**	**(11,800)**
Bulk transfer from scheme	2,895	5,570
Adjustment to gains and losses in relation to recognition of (deficit)/surplus	(8,938)	5,110
Actuarial losses and losses recognised	**(859)**	**(1,120)**

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses is £13,749k

Reconciliation of fair value of scheme assets

	31 December 2012 £000	31 March 2012 £000
At 1 April	41,110	85,670
Expected return on scheme assets	7,070	5,390
Employers' contributions	1,993	1,780
Members' contributions	851	760
Benefits paid	(2,725)	(1,930)
Bulk transfer	107,024	(47,710)
Indemnity asset	2,730	-
Actuarial loss	(1,884)	(2,850)
At 31 December / March	**156,169**	**41,110**

Reconciliation of scheme liabilities

	31 December 2012 £000	31 March 2012 £000
At 1 April	45,000	84,100
Current service costs	2,267	2,400
Past service cost	-	(660)
Members' contributions	851	760
Interest cost	5,495	4,660
Benefits paid	(2,725)	(1,930)
Bulk transfer	104,129	(53,280)
Actuarial (loss) / gain	(4,338)	8,950
At 31 December / March	**150,679**	**45,000**

Morrison Facilities Services Limited

Notes to the financial statements for the nine months ended 31 December 2012 (continued)

19 Pension commitments (continued)

History of schemes	31 December 2012 £000	31 March 2012 £000	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Deficit at 31 March					
Fair value of scheme assets	156,169	41,110	85,670	77,540	48,370
Present value of scheme liabilities	(150,679)	(45,000)	(84,100)	(85,880)	(59,460)
Amount not recognised	(7,108)	1,830	(3,020)	3,510	5,700
Deficit in the scheme	(1,618)	(2,060)	(1,450)	(4,830)	(5,390)
Related deferred tax asset	372	494	377	1,352	1,509
Deficit recognised at 31 December / March	**(1,246)**	**(1,566)**	**(1,073)**	**(3,478)**	**(3,881)**
History of schemes					
Actual return on pension scheme assets less expected return	846	(2,850)	740	16,100	(11,310)
Experience gains and losses arising on scheme liabilities	-	-	3,090	40	(30)
Change in assumptions underlying the present value of the scheme liabilities	4,338	(8,950)	5,180	(15,430)	870
Movement on unrecognised asset	(8,938)	5,110	(6,530)	(2,190)	5,516
Bulk transfer of scheme	2,895	5,570	-	-	-
Amount recognised in the statement of total recognised gains and losses	**(859)**	**(1,120)**	**2,480**	**(1,480)**	**(4,954)**

20 Ultimate and immediate parent company

The Directors consider the Company's immediate parent undertaking is Mears Group PLC, a Company registered in England and Wales.

Mears Group PLC is the parent Company of the largest Group to consolidate the financial statements of the Company. The Directors regard Mears Group PLC as the ultimate controlling party. Copies of the accounts for Mears Group PLC can be obtained from the Company Secretary, 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester,GL3 4AH.