RNS Number : 9969N
Mears Group PLC
27 May 2020

27 May 2020

Mears Group PLC
("Mears" or "the Group" or "the Company")

Audited Final Results for the year ended 31 December 2019

Solid full year results with a significant repositioning of the business; managing Covid-19 in the current year

Mears Group PLC, a leading provider of services to the Housing sector in the UK, announces its audited financial results for the year ended 31 December 2019.

Financial Highlights

	2019	2018	Change
Group revenue	**£982.6m**	£869.8m	+13%
Group revenue from continuing activities*	**£905.1m**	£771.9m	+17%
Normalised profit for the year before tax*	**£37.3m**	£36.8m	+1%
Reported profit for the year before tax*	**£25.2m**	£27.4m	(8%)
(Loss) / profit on discontinued activities (including impairment)	**£(87.1m)**	£1.1m	
Diluted EPS	**18.80p**	21.78p	(14%)
Normalised diluted EPS*	**27.26p**	27.70p	(2%)
Average daily net debt	**£114.4m**	£113.2m	

* *On continuing activities, stated before exceptional costs and amortisation of acquisition intangibles. The normalised diluted EPS amount is further adjusted to reflect a full tax charge.*

Strategic highlights

- Successful mobilisation of the Asylum Accommodation and Support contract ('AASC')
- Integration of the MPS Housing business following its acquisition in November 2018
- Exit from UK Domiciliary Care and the repositioning of our Housing with Care offering
- Ongoing exit from Development
- Unwinding and cancellation of the property acquisition facility

David Miles, Chief Executive Officer of Mears, commented:

"I am pleased with the progress of the Group in 2019. We have achieved a solid set of results in a year of political and economic uncertainty, along with delivering a significant repositioning of the business into a more simplified structure as the UK's leading provider of housing solutions.

"2020 has brought challenges that were unforeseeable only a few weeks ago. Mears is committed to maintaining services to its clients and customers, sustaining its high level of employee skills, motivation and experience and being prudent in respect of cash management. The Board will continue to navigate the current difficult circumstances with a concerted focus on short term operational and financial management but also with a determination to preserve sufficient resource with the requisite expertise for the Company to prosper in the medium term when more normal economic conditions return."

For further information, contact:

Mears Group PLC

David Miles, Chief Executive Officer	Tel: +44(0)7778 220 185
Andrew Smith, Finance Director	Tel: +44(0)7712 866 461
Alan Long, Executive Director	Tel: +44(0)7979 966 453

www.mearsgroup.co.uk

Buchanan

Mark Court/Charlotte Slater	Tel: +44(0)20 7466 5000

mears@buchanan.uk.com

About Mears

Mears currently employs around 7,500 people and provides services in every region of the UK. In partnership with our Housing clients, we maintain, repair and upgrade the homes of hundreds of thousands of people in communities from remote rural villages to large inner city estates. Mears has extended its activities to provide broader housing solutions to solve the challenge posed by the lack of affordable housing and to provide accommodation and support for the most vulnerable.

We focus on long-term outcomes for people rather than short-term solutions, and invest in innovations that have a positive impact on people's quality of life and on their communities' social, economic and environmental wellbeing. Our innovative approaches and market leading positions are intended to create value for our customers and the people they serve while also driving sustainable financial returns for our providers of capital, especially our shareholders

For further information, please visit www.mearsgroup.co.uk.

Chairman's Statement

Covid-19

The UK today is unimaginably different from the conditions which prevailed throughout 2019. As at the date of this announcement, the degree and speed with which normal activity can return remains very unclear.

For Mears, the 'lockdown' introduced by the Government some weeks ago has required us to react in a number of ways. We have had detailed discussions with all of our customers about the basis on which we can continue to work and deliver a service to them. Most of our customers have treated Mears as a valued partner, evidence of the close working relationships which we have developed with them. While some of our activities have continued at pre-Covid levels, in others, especially our regular maintenance work, we have agreed with customers to defer much work and undertake only an emergency service. In due course, we would expect to build on those relationships and to agree a path back towards normal levels of service.

In arriving at new ways of working, our primary focus has been the safety and well-being of our staff and of the individual clients to whom we provide housing and care services. We have sought to offer as much support as we can to our workforce. We have regrettably found it necessary to place some staff into the Government's furlough arrangements for a period of time whilst directing top-up payments to support those lowest paid and setting up a staff hardship fund. We understand that the Group's success depends upon the commitment and engagement of our staff. I am pleased to put on record our recognition of that dedication and commitment and our thanks to them all, especially those who have given of their time and effort to support clients and their families through difficult times.

We have also enjoyed the support of other stakeholders. Our banking partners have all agreed to provide additional facilities to the Group should they be needed and we thank them for their flexibility. These arrangements will also be reviewed in due course. We will continue to keep a careful watch on our cash position as the emergency continues and as we proceed to a gradual recovery toward normality. That cash position has been improved by the Board's decision not to declare a final dividend in respect of the 2019 year. It remains the Board's intention to adopt a progressive dividend policy once it is confident that activity levels and the Group's financial position make it prudent so to do.

Once this crisis has passed, there will need to be a major programme of economic restructuring and recovery. Mears is determined that, working closely with our customers, we will be able to play a full and effective part in supporting the communities which we serve across the country.

The culture of our business and the quality and commitment of our staff, has enabled Mears to quickly, responsibly and effectively adapt to today's crisis. The robust nature of our business model and the essential services that we deliver, mean that we can be confident about our future and our contribution to the recovery of the UK as a whole.

Results

The Group reported revenues for the year of £982.6m (2018: £869.8m), an increase of 13%, driven by the acquisition of MPS Housing ('MPS') and revenue from the Asylum Accommodation and Support contract ('AASC'). The Group's continuing revenues for the year (excluding standalone Domiciliary Care which is classified within discontinued activities - see below and the Finance Review) increased by 17% from £771.9m to £905.1m. Profit on continuing activities before tax, exceptional costs and the amortisation of acquisition intangibles increased to £37.3m (2018: £36.8m). Normalised diluted earnings per share reduced very slightly to 27.26p (2018: 27.70p).When including the results from discontinued operations, which included the impairment of intangibles, the Group reported a statutory loss of £66.0m and similarly a diluted loss per share of 59.77p

The Group reported strong cash performance on a spot basis, with EBITDA to operating cash conversion of over 100% resulting in year end net debt reducing to £51.0m (2018: £65.9m). Average daily net debt for the year, excluding the property acquisition facility, was £114.4m, falling short of the target set at the start of the year of £105.0m as a consequence of working capital demands within the development business and timing of payments on the asylum contracts.

Strategy

Late in 2018, just before my appointment to the Board, Mears took two important strategic steps with the acquisition of MPS and the successful award of the three AASC contracts. Much of the focus in 2019 was in ensuring that these new activities were effectively mobilised and integrated into the Group's activities, which required very significant effort across the Group. I am pleased that we were able to start 2020 with much of this work successfully completed with MPS and the asylum contracts progressively becoming part of business as usual at Mears.

An important part of my work during my first year as Chairman has been in understanding, evaluating and debating the Group's strategy with the executive team, with the Board collectively and with shareholders.

Following this assessment, we concluded, in particular, that

- Activities were insufficiently focused and some did not contribute adequately to shareholder value
- Indebtedness was too high and efforts needed to be made to reduce it significantly
- Market forecasts were not always matched by corporate performance
- There was an imbalance on the Board with insufficient representation from the corporate sector

The Board resolved during the course of 2019 to make a number of changes to address these issues. The first of these was the decision to refocus our housing development activity so as to progressively and significantly reduce the amount of our own capital utilised in that area. I am pleased that we have succeeded to reduce our future commitments here although the working capital held within the business remains significant. It is expected to decline during 2020 and 2021, although the pace at which it does so will be determined to some degree by the buoyancy of the UK housing market as a whole. In conjunction with this reduced focus on capital intensive housing activity, the property acquisition facility, which was introduced in 2017 to enable the Group to acquire and build portfolios of properties prior to their disposal to long term funding partners, was paid down during 2019 and has now been cancelled.

Mears takes pride in its ability to provide the housing requirements of a wide range of customers, including many who are vulnerable and some who have long term health needs. The Group has for many years been a major provider of domiciliary care services to public sector customers across Great Britain. Mears should be proud of its achievements of improving service delivery and the pay and conditions of the workforce in this business. Regrettably, however, the sector remains severely structurally underfunded and it has proved impossible for the Group to generate an adequate financial return. Accordingly, the Board resolved progressively to exit our domiciliary care activities and the business in England and Wales was sold in January 2020. We intend to exit our Scottish domiciliary care business when circumstances permit. We shall continue to provide housing with care solutions for our clients where we can do so in a way which creates value for the business and for our customers.

While year-end debt was lower in 2019 than in the previous year, less progress was made in reducing the Group's average net indebtedness during the year. It remains a clear objective for the Group to reduce its debt position. However, one consequence of the current public health emergency will be a delay to the achievement of the desired debt reduction.

The Board is working on the Group's future strategy, based on our vision to be the UK's most respected and trusted provider of housing solutions. We will continue to evaluate our portfolio of businesses to ensure that they fit with that vision and provide a sound basis for sustainable growth in shareholder value.

Board developments

As prefigured in my statement in last year's report, there have been a number of changes to the non-executive composition of the Mears Board during the course of 2019. We were joined in July by Jim Clarke, an experienced non-executive director with a long and successful career as the chief financial officer at a number of listed companies. In September, Chris Loughlin joined the Board. Chris has been Chief Executive Officer at Pennon Group plc since 2016 and was previously CEO of South West Water for 10 years. Both Jim and Chris have made effective contributions to the Board and its committees since their appointment and I look forward to working with them closely during 2020.

At the end of the year, Liz Corrado stood down as a non-executive director to focus on her other work. Jason Burt also stood down from the Board with effect from the end of March 2020. He has taken up a new role within Mears advising on health and safety matters. We thank both Liz and Jason for their work on the Board and look forward to a continuing relationship with Jason in his new role.

Amanda Hillerby, the Board's employee director was on maternity leave for much of 2019. She stood down from the Board in February of this year, consequent on the completion of the sale of the Group's Domiciliary Care business in England and Wales. We thank Amanda for her work on the Board. Preparations are underway to recruit a new employee director during 2020.

With these changes, the Board now has a balance of non-executive directors with experience in both the commercial and not-for-profit sectors, reflecting the balance of our ownership and our customer base. I will continue to keep that balance, and the capabilities around the Board table, under review so as to ensure that the Board continues to have what it needs for effective leadership of the Group.

Relationships with shareholders

I spent a considerable period of time in the first half of 2019 in discussion with the Group's largest shareholders, representing between them over 80% of the Company's share capital by value. I found these discussions very valuable in helping me to appreciate shareholders' views. I shall continue to maintain contact with shareholders during 2020 and as the Group continues to develop.

People

In my first year or so as Chairman, I have made a number of visits to different parts of the business to get to understand in more detail how the operations are run and managed and to talk to staff about their concerns and aspirations. I visited operations in Gloucester, Scotland, Enfield, Rotherham, Lambeth, MIlton Keynes, Birmingham and Northampton and I attended the Group's annual conference. I am very grateful to all those who arranged these visits and to the staff who took the time to talk to me and help me learn what Mears does on the ground across the country. I intend to continue to visit operations as circumstances permit.

When recruiting staff at Mears, we look for people who share our vision and values and who want to make a positive difference to the communities we serve. For the second year running we have been recognised by The Sunday Times as one of the best 25 Big Companies to work for in the UK. This recognises our commitment to training and support for our staff, exemplified by the very large number of apprenticeship schemes that we ran in 2019.

ESG

Mears' commitment to creating Social Value and to making a positive difference to the lives of the people and communities whom we serve has been a consistent feature since the business was formed in 1988. The Group's commitment to Social Value was further underlined in 2019 by the creation of a new body, the Customer Scrutiny Board. This group consists of nine Mears resident customer representatives, is chaired by Terrie Alafat and sponsored by the Centre for Public Scrutiny. This new body will examine Mears' processes and delivery, advising the Group on ways in which it might work more effectively to improve the customer experience. We look forward to stimulating and constructive discussions with this new voice of the customer.

Summary

Mears' focus on housing solutions and its strong social value culture are valuable qualities and mark the Group out from many of its peers. They are exemplified by our staff and their attitude to their jobs and I am grateful to them for all their efforts in 2019.

2020 has brought challenges that were unforeseeable only a few weeks ago. Mears is committed to maintaining services to clients and customers, sustaining its high level of employee skills, motivation and experience and being highly prudent when managing cash. The Board will continue to navigate the current difficult circumstances with a sharp focus on short term operational and financial management but also with a determination to preserve skills and expertise necessary for it to prosper when more normal economic conditions return.

Chief Executive Review

I am pleased with the progress of the Group in 2019. We have achieved a solid set of results in a year of political and economic uncertainty, along with delivering a significant internal and external repositioning of the business into a more simplified structure as the UK's leading provider of housing solutions. We have made excellent progress on all our key projects in the year, notably the mobilisation of the Asylum contract and the integration of MPS. Strategically, we have taken steps to focus the business solely on the UK housing sector, selling our English and Welsh Domiciliary Care businesses in February 2020; the Group is in the process of selling the Scottish Care operation and is winding down, over a sensible time frame, its Development activities. The housing sector will benefit from the numerous Government initiatives to deal with and provide good quality homes and I look forward with optimism to the future, as do our workforce, who once again have rated Mears as one of the top 25 UK Big Companies to work for in The Sunday Times survey.

The issues surrounding the impact of Covid-19 and the Group's responses to date have been covered earlier. I am confident that our approach is solid and that we have the right relationships with employees, suppliers and clients to get the best outcomes possible.

Financial performance

The Group has delivered a solid financial performance. Results for 2019 include the reporting of standalone Domiciliary Care within discontinued activities, whilst the residual Housing with Care business remains within continuing activities. In addition, the adoption of the new accounting standard, IFRS 16 'Leases', has materially changed the shape of the reported figures for the current year, whilst making no adjustments to the comparative figures. The Group is mindful of the requirement to ensure that non-statutory measures do not receive undue prominence, however for the purposes of my review, figures are reported on continuing activities only and before the impact of IFRS 16. This is the format which the Directors believe is most easily understood by the Group's stakeholders and forms the basis upon which the senior team manage the business. The 'Finance Review' provides a detailed reconciliation between statutory and non-statutory measures.

With the planned full exit from standalone Domiciliary Care, the Group will, moving forwards, only report a single operating segment of Housing which is aligned to the Group's strategy to focus only on housing based services. The Housing division is currently sub-divided into three activities: Maintenance, Management and Development. Maintenance and Management are core activities to the Group, while Development is being wound down in line with the Group's strategy. To assist our stakeholders to properly understand the trading results for the current year, an additional category of 'Housing with Care' is included in the analysis. From 2020, this will be absorbed into the Management category. It should be recognised that some opportunities require a full asset management service which does not slot easily into a single category. In such cases, revenue and profit are assigned to the predominant category.

	2019			2018		
	Revenue	**Split of divisional contribution***	**Margin**	Revenue	Split of divisional contribution*	Margin
	£m	**£m**		£m	£m	
Maintenance	**660.7**	**30.5**	**4.6%**	578.7	28.0	4.8%
Management	**186.0**	**11.8**	**6.3%**	135.4	8.5	6.3%
Development	**39.5**	**(2.9)**	**(7.3%)**	39.1	1.1	2.8%
Housing with Care	**18.9**	**2.0**	**10.6%**	18.7	1.5	8.0%
Total	**905.1**	**41.4**	**4.6%**	771.9	39.1	5.1%

**Divisional contribution is defined within Finance Review, and is stated on continuing activities before the impact of IFRS 16.*

The Housing division reported revenues of £905.1m (2018: £771.9m), an increase of 17%. Whilst contribution increased from £39.1m to £41.2m, operating margins reduced from 5.1% to 4.6%, as expected. An explanation of the key movements is detailed below:

Maintenance

- Maintenance includes the acquired MPS business which delivered revenues of £118.7m (2018: £9.0m). The pre-existing Maintenance business saw revenues reduce to £542.0m (2018: £569.7m) following our previously stated decision to exit a small number of contracts. The Group has taken a more robust stance on a number of contractual relationships over the last two years and, as contracts have come up for extension or expiry, the Group reconsidered the balance between risk and reward.
- The Maintenance business, excluding the impact of MPS, maintained its operating margin at 4.8%. This margin falls short of historic norms and management continue to target operating margins of in excess of 5.0%. The MPS business generated an operating margin of 3.6% which is in-line with the expectations at the time of the acquisition. Actions are in place to grow operating margins towards the target of 5.0% in 2020.
- There remain good quality opportunities to grow our core Maintenance revenues with both existing and new customers. We have an excellent track record of securing work at the right margins and we continue our long-term approach to bidding on the right terms, which continues to serve us well. As a result, often opportunities that have been missed in an earlier procurement process re-present themselves to the Group.

Management

- Management revenues reported strong growth, underpinned by the new AASC contract which delivered revenues of £48.8m. The annualised run rate on exiting 2019 was in excess of £100m on AASC. The transition period continued to the end of March 2020, at which point we are expecting to have reached a steady-state. The AASC contract reported a positive contribution in the year.
- The Group's partnership with The Ministry of Housing, Communities and Local Government in running the National Planning Portal reported strong revenue growth, increasing from £3.1m to £7.5m. This service commenced in 2015 and while it generated operating losses for the initial period, the Group is now seeing a positive return on its investment. The National Planning Portal is an excellent business and we continue to evaluate opportunities for its development.
- The Management business, when excluding the good progress made by our flagship Key Worker and National Planning Portal activities, has reported a small revenue reduction, reflecting the increasing focus on large scale contract opportunities and a reduced emphasis on a number of the emergency housing solutions where profitability, working capital and risk are not proportionate with the management time involved. The success of the Asylum and Key Worker contracts improves the quality of the sales mix in this area and encourages the Group to be increasingly selective.

Development

- The Development business experienced a slowdown in private sales in the second half of 2018 and this trend continued in 2019. The Group has communicated its plan to exit from all development work which carries a requirement for the Group to utilise its own Balance Sheet. Development, nonetheless, remains an important in-house capability and the Group is delivering a small amount of new build work within the Maintenance division on a contracting basis. Sales activity in 2019 has remained slow with the sale of 36 units and closing stock of 34 completed units. The senior team anticipates some reduction in the number of unsold completed units during 2020 and would hope that this results in a small unwind in the working capital. The outcome depends in part on external factors outside the Group's control. The Development business delivered an operating loss of £2.9m in 2019 which is marginally worse than our original forecast of a £2.5m loss. The Group will complete the remaining sites whilst maintaining a balance between profitability and managing the working capital absorbed in this part of the business.

Progress on key objectives

I am pleased to report another year of excellent progress, where the business has performed well against its key objectives, notably:

- Successful mobilisation of the Asylum Accommodation and Support contract
- Integration of the MPS Housing business following its acquisition in November 2018
- Exit from Domiciliary Care and the repositioning of our Housing with Care offering
- Ongoing exit from Development
- Unwinding and cancellation of the Property acquisition facility

Mobilisation of AASC

The Group was delighted to be awarded three of the seven regional AASC contracts, being Scotland, Northern Ireland and the North East of England. With a total contract value estimated at £1 billion over a ten year term, this was the largest ever awarded to Mears and exemplifies the progress made by the Group over recent years. The mobilisation of the work commenced in January 2019 and all three contracts were fully operational by September 2019.

Mears has made an immediate impact, transitioning an inherited housing portfolio which included some unresolved legacy issues, towards an improving mix of quality and longevity. Mears has a clear plan to continue this migration over the next two years. Early indications are that volumes may exceed tendered assumptions, which is positive for Mears. The mobilisation has proceeded well. This remains an area of intensive focus. Mears remains on-track to deliver in line with its original plan.

Integration of MPS Housing

2019 saw an intensive period of integration, migrating all operations onto the front-line Mears Contract Management system. Each contract migration brought an alignment of back office processes and controls. The Mears systems provide significantly improved visibility of both operational and financial performance. Further detail on the financial performance of MPS is included in the Financial Review. Good progress has been made to date, although the transaction has absorbed more working capital than originally envisaged. Further improvements in place so the MPS business to deliver its target operating margin of 5% in 2020. A key element of this transaction was to identify and deliver synergies, especially in back office functions. All staff restructuring was concluded within the year, delivering efficiencies in line with our original guidance.

Repositioning of Care

Mears entered the Care market in 2008 and we are extremely proud of our achievements in terms of improving service delivery and workforce pay and conditions. However, the financial returns in standalone Domiciliary Care were insufficient and not reflective of the risks associated with the service delivery. Disappointingly, over the last ten years there has been little change in how Care is procured. The continued underfunding and lack of progress in Central Government policy development has led to short-term decision making which is rarely positive for commissioners, providers or service users.

Following the Group's decision to exit standalone Domiciliary Care, the Group completed the sale of the England and Wales Domiciliary Care business shortly after the 2019 year end. Further details of this transaction are included within the 'Finance Review'. In addition, Mears expects to complete the disposal of its Scotland Domiciliary Care business in the coming months. Full provision for both costs of closure and disposal have been recognised within the 2019 results, in addition to the impairment of the goodwill asset.

The Group will seek to extend its capability for services classified as Housing with Care. Whilst these activities are relatively small, delivering annual revenues of circa £19m, they generate operating margins above the Group's average level. The activities are an important extension to the Housing Management service and an area which offers strong growth. The Group's ability to support vulnerable customers, many of whom have a care requirement, has been central to its success in Housing, as evidenced by our success in securing the Asylum contract. This continued bespoke skill set with a deep understanding of the challenges faced by our service users will underpin future success.

Housing Development

At the start of 2019, the Group made a clear strategic decision to reduce its exposure to new build housing development activities, which had absorbed significant working capital. The stated objective was to oversee the controlled unwinding over the coming three years, whilst seeking opportunities to accelerate that process where appropriate. To maximise working capital efficiency, the timing of the build-out and sales has been aligned where possible although this inevitably pushes out the end date. Whilst Development has reported an increase in working capital absorption in the year, driven by an increase in inventories, the unwinding of this area of the business is a continuing strategic and operational focus.

The Group continues to explore ways in which it can contribute to its clients' housing development needs. This remains an important in-house capability and will place the Group in an advantageous position on a number of forthcoming tender opportunities. As stated previously, the Group will not engage in new build activities which utilise the Group's Balance Sheet.

Property acquisition facility

The property acquisition facility of £30.0m was introduced in 2017 to enable the Group to acquire and build portfolios of properties prior to disposal to a long term funding partner. This provided the Group with an ability to accelerate the flow of properties into its Housing Management operations together with an additional profit opportunity at the point of transfer. The funding requirement is high, relative to our resources, and the flow of profits irregular. Whilst the property acquisition facility has been useful, the Board committed to eliminate this facility as the underlying assets were sold, a course of action which was completed in November 2019.

Strategy and outlook

The housing market will see continued growth given the well-publicised shortage of housing and this Government's commitment to infrastructure development. The forthcoming housing White Paper will tighten standards around compliance, tenant consultation and what constitutes a Decent Home in the 21st Century. Investment in specialist retirement housing and support services is also inevitable and plays very much to our strengths. Mears has already taken steps to be ahead of changes in regulations, through for example the set-up of an independent Customer Scrutiny Board that will report directly into the Group Board. Our track record of excellent governance and compliance means we will benefit from future legislation.

Mears is now a leading Registered Social Landlord. The Group is responsible for the management of over 10,000 homes, helping tackle the major challenges of homelessness and asylum seekers, in addition to providing accommodation for key workers. We see significant opportunity to grow this part of the business sustainably and are investing in management and IT to ensure that happens.

The Group has secured new orders with a contract value of £220m at a bid conversion rate of 39% which is above our target conversion rate of 33% although the total bidding activity of £570m is lower than our expectations for 2019 and the historic norm of around £1.0bn per annum. The Group has an active bid pipeline of new opportunities. The level of bidding was low in 2019 due to the timing of tenders and our selectivity criteria; in 2020 we expected the contract value of bids and rebids to be in excess of £1bn, of which 65% is rebids with which we have a strong track record. The outbreak of Covid-19 may delay a number of these re-bids.

As previously reported, the next two years is to be a particularly important period of tendering for the Group with around £240m of annualised revenues being subject to rebid. Our contracts at Rotherham, Brighton and Crawley have all reached the end of the re-bidding process and it is pleasing that we expect to retain a contractual relationship with all these customers albeit at a lower annual revenue of £35m (2019: £55m). Our contracts at Lambeth, North Lanarkshire, Milton Keynes, Leeds and Tower Hamlets, with an annual value of £155m, are at different stages of the bid process although we remain confident that we will retain these key customer relationships.

The order book is valued at £2.5bn (2018: £2.9bn), adjusted to exclude the secured work attached to standalone Domiciliary Care. The reduction in order book in the year was anticipated given the large increase in the prior year following the success in securing the Asylum contract. The high number of existing contracts expiring and subject to rebid provides an opportunity to increase the order book value during 2020. The impact of Covid-19 may impact on the timing of new bids in 2020.

Finance Review

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

Alternative performance measures ('APM')

APMs used by the Group are detailed below to provide a reconciliation for each non-IFRS measure to its IFRS equivalent and an explanation as to why management considers the APM to provide a better understanding as to the Group's underlying performance. The APMs are used externally to meet both investor and banking requirements and also used when reporting financial performance internally. We ensure however that statutory disclosures get equal prominence in the announcement.

The Group defines normalised results as excluding the amortisation of acquisition intangibles and exceptional costs and adjusted to reflect a full tax charge and these results are used for reporting profit and EPS measures. This aids consistency when comparing to historical results and enables performance to be evaluated before non-recurring items. Investors typically require results to be reported before the amortisation of acquired intangibles and the Group's adjusted earnings measure reflects this. The adjusted results reflect an 18% corporation tax charge. The Directors believe this provides a better reflection of management performance and provides no incentive for the Group to participate in schemes where the primary intention is to reduce the tax charge.

A reconciliation between the normalised results and the statutory measurement is detailed below for both 2019 and 2018.

2019	**Statutory (continuing activities)**	Exceptional costs	Amortisation of acquired intangibles	Full tax charge	**Normalised result for year**
	£'000	£'000	£'000	£'000	**£'000**
Sales revenue	**905,084**	-	-	-	**905,084**
Cost of sales	**(686,874)**	-	-	-	**(686,874)**
Gross profit	**218,210**	-	-	-	**218,210**
Total administrative costs	**(184,772)**	2,018	10,122	-	**(172,632)**
Operating profit	**33,438**	2,018	10,122	-	**45,578**
Share of profits of associates	**895**	-	-	-	**895**
Finance income	**1,097**	-	-	-	**1,097**
Finance costs	**(10,229)**	-	-	-	**(10,229)**
Profit for the year before tax	**25,201**	2,018	10,122	-	**37,341**
Tax expense	**(3,976)**	(363)	-	(2,382)	**(6,721)**
Profit / (loss) for the year	**21,225**	1,655	10,122	(2,382)	**30,620**
Earnings per share					
Basic	**18.90p**	1.50p	9.16p	(2.16)p	**27.40p**
Diluted	**18.80p**	1.49p	9.11p	(2.14)p	**27.26p**

2018

Amortisation of

	Statutory (continuing activities) £'000	Exceptional costs £'000	acquired intangibles £'000	Full tax charge £'000	Normalised result for year £'000
Sales revenue	**771,861**	-	-	-	**771,861**
Cost of sales	**(586,933)**	-	-	-	**(586,933)**
Gross profit	**184,928**	-	-	-	**184,928**
Total administrative costs	**(155,230)**	5,657	3,738	-	**(145,835)**
Operating profit	**29,698**	5,657	3,738	-	**39,093**
Share of profits of associates	**-**	-	-	-	**0**
Finance income	**1,153**	-	-	-	**1,153**
Finance costs	**(3,474)**	-	-	-	**(3,474)**
Profit for the year before tax	**27,377**	5,657	3,738	-	**36,772**
Tax expense	**(3,740)**	(1,315)	-	(1,861)	**(6,916)**
Profit / (loss) for the year	**23,637**	4,342	3,738	(1,861)	**29,856**
Earnings per share					
Basic	**21.91p**	4.16p	3.58p	(1.78)p	**27.87p**
Diluted	**21.78p**	4.13p	3.56p	(1.77)p	**27.70p**

In addition, following the adoption of IFRS 16 'Leases', the Group has reported financial performance both before and after this change. This is considered particularly relevant for 2019 given that the comparative number has not been adjusted for this change, making analytical review between the two years difficult.

	2019			2018
	Statutory (continuing activities) £'000	Impact of IFRS 16 £'000	**Normalised (before the impact of IFRS 16) £'000**	**Statutory (continuing activities) £'000**
Sales revenue	**905,084**	**-**	**905,084**	**771,861**
Cost of sales	**(686,874)**	**(4,404)**	**(691,278)**	**(586,933)**
Gross profit	**218,210**	**(4,404)**	**213,806**	**184,928**
Total administrative costs	**(184,772)**	**(712)**	**(185,484)**	**(155,230)**
Operating profit	**33,438**	**(5,116)**	**28,322**	**29,698**
Share of profits of associates	**895**	**-**	**895**	**-**
Finance income	**1,097**	**-**	**1,097**	**1,153**
Finance costs	**(10,229)**	**6,054**	**(4,175)**	**(3,474)**
Profit for the year before tax	**25,201**	**924**	**26,139**	**27,377**

The divisional performance reported in the Chief Executive Review figures are reported on continuing activities only, and before the impact of IFRS 16. This is the format which is most easily understood by the Group's stakeholders and forms the basis upon which the senior team manage the business. The divisional contribution also includes the share of profit of associates. A reconciliation between this alternative performance measure and the statutory measurement is detailed below:

	2019			2018
	Normalised (before the impact of IFRS 16) £'000	**Impact of IFRS 16 £'000**	**Statutory (continuing activities) £'000**	**Statutory (continuing activities) £'000**
Operating profit	**28,322**	**5,116**	**33,438**	**29,698**
Exceptional costs	2,018		2,018	5,657
Amortisation of acquisition intangibles	10,122		10,122	3,738
Operating profit before exceptional costs and the amortisation of acquisition intangibles	**40,462**	**5,116**	**45,578**	**39,093**
Share of profits of associates	895	-	895	**-**
Divisional contribution as reported in Chief Executive Review	**31,357**	**5,116**	**46,473**	**39,093**

In addition to the alternative performance measures detailed above, and for completeness, the table below details the combined financial performance in respect of both continuing and discontinued activities:

	2019			2018		
	Statutory (continuing activities) £'000	**Statutory (discontinued activities) £'000**	**Statutory (all activities) £'000**	Statutory (continuing activities) £'000	Statutory (discontinued activities) £'000	Statutory (all activities) £'000
Sales revenue	**905,084**	**77,521**	**982,605**	771,861	97,982	869,843
Cost of sales	**(686,874)**	**(61,411)**	**(748,285)**	(586,933)	(75,892)	(662,825)
Gross profit	**218,210**	**16,110**	**234,320**	184,928	22,090	207,018
Total administrative costs	**(184,772)**	**(103,204)**	**(287,976)**	(155,230)	(21,038)	(176,268)
Operating profit	**33,438**	**(87,094)**	**(53,656)**	29,698	1,052	30,750
Share of profits of associates	**895**	**-**	**895**	-	-	-
Finance income	**1,097**	**-**	**1,097**	1,153	1	1,154
Finance costs	**(10,229)**	**(77)**	**(10,306)**	(3,474)	-	(3,474)
Profit for the year before tax	**25,201**	**(87,171)**	**(61,970)**	27,377	1,053	28,430
Tax expense	**(3,976)**	**(100)**	**(4,076)**	(3,740)	135	(3,606)
Profit / (loss) for the year	**21,225**	**(87,271)**	**(66,046)**	23,637	1,188	24,825
Earnings per share						
Basic	**18.90p**	**(78.99)p**	**(60.09)p**	21.91p	1.14p	23.05p

Diluted	**18.80p**	**(78.57)p**	**(59.77)p**	21.78p	1.13p	22.91p

Change in accounting standard; IFRS 16 'Leases'

The new leasing standard, IFRS 16 *Leases*, was effective from 1 January 2019 and has had a significant impact on the Group's Balance Sheet, principally due to the use of leased vehicles and residential property for the operational delivery of Maintenance and Management services. The Group has adopted the modified retrospective transition method. Under this method, the asset is calculated as if IFRS 16 had always been applied, however the liability is calculated as if all leases started on 1 January 2019, which has resulted in no change to comparative numbers but an adjustment to the Reserves of the Group.

Under IFRS 16, a lessee recognises its right to use a leased asset and a lease liability representing its obligation to make lease payments. The depreciation cost of the newly recognised 'right of use' lease asset is charged to profit within cost of sales or administrative costs, whilst the interest cost of the newly recognised lease liability is charged to finance costs. On the basis that depreciation is required to be charged on a straight-line basis, whilst the interest element is charged on a reducing balance basis, this results in a higher charge being applied to the income statement in the early years of a lease, with this impact reversing over the later years.

IFRS 16 has impacted upon a number of commonly used performance metrics including PBT, EBIT and EBITDA. The effect of the application of IFRS 16 on these measures within the results for 2019 is detailed below:

	Year ended 31 December 2019 as reported	**Year ended 31 December 2019 before impact of IFRS 16**	Year ended 31 December 2018 (restated)
	£'000	**£'000**	£'000
Profit for the year before tax	**25,201**	**26,130**	**27,377**
Amortisation of acquisition intangibles	**10,122**	**10,122**	**3,738**
Add net finance charge	**9,132**	**3,087**	**2,321**
EBIT	**44,455**	**39,339**	**33,436**
Add depreciation and amortisation	**43,737**	**8,176**	**8,213**
EBITDA	**88,192**	**47,515**	**41,649**

The change to IFRS 16 has no impact on the lifetime profitability of the contracts and there are no cash flow impacts. The impact of this standard in the year has been to reduce the reported profit before tax for 2019 by £0.93m. Moving forward, it is expected to have a negative impact in respect of operating profit in the short term given the high number of new leases, with a term of five to ten years, being taken on in support of the Asylum contract.

The impact of IFRS 16 on the Group resulted in the recognition of a right of use asset and an associated lease obligation at 1 January 2019, being the point of transition, and movements during 2019 are detailed below:

	Right of use asset	Lease obligation
	£'000	£'000
Lease liability as at 1 January 2019	**-**	**(1,269)**
Impact of IFRS 16	**188,461**	**(191,348)**
Adjusted balance at 1 January 2019	**188,461**	**(192,617)**
New leases	**112,139**	**(112,139)**
Depreciation	(35,561)	**-**
Finance cost	**-**	**(6,072)**
Lease payments	-	**41,483**
Closing balance at 31 December 2019	**265,039**	**(269,345)**

The lease obligation at 31 December 2019 has been categorised into four asset types:

	Lease obligation at 31 December 2019
	£'000
Residential property	(236,910)
Office property	(9,355)
Vehicles	(22,577)
Office equipment	(503)
	(269,345)

In respect of residential property, the Group enjoys nominations and other contractual agreements with its customers which ensures a high level of occupancy. The Group will often retain an option to cancel the lease and the Group follows a disciplined approach to mitigate other associated risks such as indexation, market rent levels, void properties and end of lease obligations. Whilst the commitment is measurable under IFRS 16, it is not considered appropriate to treat these lease obligations in the same way as other debt instruments. Therefore where we make references to net debt, we are not including lease obligations under IFRS 16 within that.

Given the number of new residential property leases being adopted in support of the Asylum contract, the lease obligation attached to residential property is expected to increase significantly from the current level. It is not possible to provide a precise estimate of the Balance Sheet impact given the different mix of leases lengths and the fluctuation in the internal borrowing rate, but an additional lease obligation in the order of £100m is possible.

Importantly, the Group's banking covenants are not affected by this accounting change as these are 'frozen' and are based on accounting standards at the time the facility agreements came into force. The Group's bank facility runs to 2022 which provides ample time for the banking community to properly digest the impact of IFRS 16 on our performance metrics.

Discontinued activities

To provide some context, the Group's Care activities, reported against 2019 revenue, is summarised below:

	Revenue 2019
	£'000
England and Wales Domiciliary Care	55,687
Scotland Domiciliary Care	21,834
Housing with Care	19,273
	96,794

During the year, Mears reviewed its options around Care. Strategically, the Group has taken steps to focus the business on the housing sector. Whilst the ability to care for vulnerable service users is at the heart of the Group's service offering, the majority of the Group's Care operations related to standalone Domiciliary Care which provides the Group with no opportunities beyond the single revenue stream from those service users.

Once the decision was taken to dispose of our stand-alone Domiciliary Care activities, the presentation of the financial performance is different. The Domiciliary Care assets are presented separately in the Balance Sheet as held for sale and are measured at the lower of carrying amount and fair value less costs to sell. As a result, the Group has impaired both the Care goodwill and fixed assets to reflect the recoverable amount. Similarly, liabilities attached to the disposal group are also disclosed separately on the face of the Balance Sheet and where appropriate, provisions made to reflect closure costs and disposal related transaction costs. The carrying value of the Care disposal group at the Balance Sheet date is detailed below:

	2019
	£'000
Assets of disposal group	11,185
Liabilities related to assets classified as held for sale	(5,892)
Net assets of disposal group	5,293

The standalone Care activities have been reported as discontinued in the results for the year and an aggregate loss before tax on discontinued activities, including the impairment of goodwill and fixed assets, is reported of £87.2m and this is detailed in note 10 to the Financial Statements. The impairment of goodwill and fixed assets are non-cash items.

During the fourth quarter of 2019, in preparation for the disposal, the Group completed the closure of a small number of England-based branches, with annual revenues of around £21.0m and typically a low profit contribution.

In January 2020, the Group announced the disposal of the England and Wales Domiciliary Care business for cash consideration of £4.0m payable on completion, and a further £1.0m of deferred consideration receivable over the coming twelve months. In the year ended 31 December 2019, the activities subject to the disposal generated revenues of circa £34.7m. The disposal resulted in around 1,500 employees leaving the Group across 18 branches. The Group is actively seeking a buyer for its Scotland Domiciliary Care business. In the year ended 31 December 2019, these Scotland activities generated revenues of £21.8m with 1,000 employees across a network of 16 branches. The Board expects to complete the disposal of the remaining Domiciliary Care business during 2020.

The Extra Care and Supported Living activities remain core to the Group's Housing with Care strategy and are reported within the Housing segment and continuing activities. The retention of these capabilities is expected to facilitate other value generating opportunities in the future.

Acquisitions

The Group completed one small acquisition during the period, being the acquisition of certain business assets from a property management company for consideration of £1.3m, which provided the Group access to around 125 landlords and 680 properties within the North East region of the Asylum contract. The intangible asset attached to this small bolt-on relates entirely to supplier relationships and will be amortised over the next 20 months.

In late 2018, Mears completed the acquisition of certain business assets and contracts from the property maintenance business of Mitie, with the acquired business branded as MPS Housing. The initial cash consideration was £22.5m and contingent consideration, based upon future profitability during the 24 months following completion, was estimated at £2.0m. Given the proximity of the transaction to the 2018 year end, the Directors had not concluded their assessment of the assets and liabilities acquired and a provisional estimate was included within the 2018 results. During 2019, the assessment of assets and liabilities acquired were finalised, resulting in an increase in the intangible assets recognised of £5.4m. In addition, there is an increase in the value of goodwill of £6.7m.

Having reviewed the profitability of the acquired business in the first year, and the forecast for the remainder of the earn-out period, the Directors believe that no further consideration will become payable in respect of the MPS transaction and the liability has been released.

Acquisition intangibles and amortisation

	2019	2018
	£'000	£'000
Carrying value at 1 January	**28,651**	9,585
Recognised on acquisitions during the year	**1,300**	23,500
Amortisation of acquisition intangibles	**(10,122)**	(4,434)
Carrying value at 31 December	**19,829**	28,651

A charge for amortisation of acquisition intangibles of £10.1m (2018: £3.7m) arose in the year. The charge has increased significantly on the prior year following the acquisition of MPS in late 2018. The remaining unamortised value of £19.8m (2018: £28.6m), relating to order book, customer relationships and supplier relationships will be written off over the period to 2023, being their estimated lives.

Exceptional items

Exceptional items are items which are considered outside normal operations. They are material to the results of the Group either through their size or nature. These items have been disclosed separately on the face of the Income Statement to provide a better understanding as to the underlying performance of the Group.

	2019 **£'000**	2018 £'000
Litigation costs	**2,018**	1,549
Costs of restructure	**-**	3,584
Acquisition related cost	**-**	524
	2,018	5,657

The legal costs relate to a dispute in respect of a lease on a property in the course of construction. The property required completion by September 2018. The construction of the property was not completed by the contractual date and the property is not compliant with fire safety regulations leaving the Group no option but to refuse to enter into the lease and defend its position robustly. The Group will not compromise the safety of tenants for any reason. Mears has incurred litigation costs of £1.6m in 2018 and £2.1m in 2019. The Directors are not expecting any further costs to be incurred on this matter and have reached a successful outcome to this litigation, however the claimant has gone into administration and therefore the Group's ability to recover these legal expenses is considered to be at risk. Given the size of this single item, and the unique circumstances of the matter in dispute, the Directors believe it should be accounted for as an exceptional item, which is consistent with the treatment in the prior year.

Net finance charge

	2019	2018
	£'000	£'000
Finance costs on bank loans and overdrafts	**(3,753)**	(3,251)

Other interest income	**261**	316
Interest on lease obligations	**(6,072)**	(81)
Net interest income relating to pension assets	**432**	695
	(9,132)	(2,321)

A net finance charge of £9.1m has been recognised in the year (2018: £2.3m). Following the adoption of IFRS 16, an interest charge of £6.2m has been charged against the newly recognised lease obligation, being applied over time on a reducing balance basis. The finance cost in respect of bank borrowings edged higher to £4.1m (2018: £3.5m), reflecting the associated level of debt. The net finance costs also includes a net credit generated from defined benefit pension accounting of £0.4m (2018: £0.7m).

The Group holds interest rate swaps on a core debt of £70m, fixing the interest rates in the range of 0.84% to 0.96%. The remaining debt is subject to a variable LIBOR rate. The Group pays a margin of 120-220bps over and above these rates, subject to a ratchet mechanism.

Tax expense

	2019	2018
	£'000	£'000
Current tax on continuing activities recognised in income statement	**4,275**	(1,164)
Deferred tax on continuing activities recognised in income statement	**(299)**	4,905
Current tax on discontinued activities recognised in income statement	**100**	(135)
Total tax expenses recognised in income statement	**4,076**	3,606
Profit before tax on continuing activities and before the amortisation of acquired intangibles	**35,323**	31,115
Effective current tax rate on continuing activities	**12.1%**	(3.7%)
Taxes paid / (received)	**2,991**	(691)

The headline UK corporation tax rate for the year was 19.0% (2018: 19.0%). The total tax charge for the year relating to continuing operations was £4.1m (2018: £3.6m) resulting in an effective current tax rate of 12.1% (2018: (3.7%)). The key reconciling items to the headline rate were the utilisation of brought forward losses where the deferred tax impact had not previously been recognised, an annual corporation tax deduction in respect of share options and adjustments in respect of the prior year estimated tax charge. The tax credit reported in 2018 was generated through the impact of IFRS 15, resulting in a large credit, offset against the unwinding of the deferred tax balance recognised on transition to the new standard.

The Group pays Corporation Tax under the Quarterly Instalment Payment regime which has historically resulted in the payment of 50% of the Group's tax liability in the second half of the current year, and then the balancing 50% in the first half of the following year. The Group enjoyed a tax credit in 2018 following the adoption of IFRS 15. This resulted in no corporation tax payable in the first half of 2019. The £3.0m cash outflow in the year reflects half of the estimated tax liability for 2019 with the balance being settled in 2020. The Quarterly Instalment Payment regime is due to change during 2020, and the Group will be required to settle its full liability in the current year. The result of this is that in 2020, the Group is due to pay both the remainder of its tax liability for 2019 and a full payment in respect of 2020.

Mears does not engage in inappropriate or aggressive tax planning arrangements. Where appropriate, the Group takes advantage of available statutory tax reliefs. The tax position in any transaction is aligned with the commercial reality and any tax planning undertaken is consistent with the spirit as well as the letter of tax law. In situations where material uncertainty exists around a given tax position, the Group engages with expert advisers and, where appropriate, advance clearance is sought from HMRC in order to establish the most appropriate treatment. We value our low risk assessment from HMRC and will continue to work to maintain this status through continual review of our controls and processes.

Earnings per share (EPS)

	2019	2018 (as restated)	Change
Diluted earnings per share*	**18.80p**	21.78p	(14%)
Normalised diluted earnings per share*	**27.26p**	27.70p	(2%)

**continuing activities*

The statutory diluted earnings per share shows a reduction of 14% to 18.80p, predominantly due to the increased amortisation of acquisition intangibles charge following the acquisition of MPS. The comparative figure of 21.78p includes the restatement to exclude the discontinued Care activities.

The Group's headline measure is normalised diluted EPS, which showed a reduction of 2% to 27.26p (2018: 27.70p). The adoption of IFRS 16 resulted in a reduction in earnings by £0.8m and a 3% reduction in the normalised diluted EPS. On a pre-IFRS 16 basis, the headline measure would have increased by 1% to 27.98p.

Normalised earnings are based upon continuing activities before the amortisation of acquisition intangibles together with an adjustment to reflect a tax charge of 18.0% (2018: 18.0%). We believe that this normalised diluted EPS measure better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance. Whilst normalised earnings have increased in 2019 compared to 2018, the weighted average number of shares has increased to 111.1m (2018: 105.1m). The increase is due to the issue of 6.8 million shares in November 2018 in relation to the acquisition of MPS, the effect of which is pro-rated for the part-year in 2018, but which impacts upon the full year in 2019.

Cash flow and net debt

	Year to 31 December 2019 as reported	**Year to 31 December 2019 before impact of IFRS 16**	Year to 31 December 2018
	£'000	**£'000**	£'000
EBITDA	**88,192**	**47,515**	41,649
Cash inflow from operating activities before taxes paid	**100,250**	**59,585**	3,290
Cash conversion %	**114%**	**125%**	8%
Total average daily net debt (operating)*	**(114,400)**	**(114,400)**	(113,200)
*Excludes property acquisition facility			
Net debt (operating) at 31 December	**(50,986)**	**(50,986)**	(65,904)
Net debt (property acquisition facility) at 31 December	**-**	**-**	(15,000)
Total net debt at 31 December	**(50,986)**	**(50,986)**	(80,904)

Mears has always fostered a strong 'cash culture', whereby the Group operations understand that invoicing and cash collection are intrinsically linked and that works are not complete until the sales cycle is completed.

The net debt at the year end was £51.0m (2018: £65.9m). The property acquisition utilised at the year end was £nil (2018: £15.0m). Positively, the Group reported an operating cash inflow from operating activities, as a proportion of EBITDA, of 114% (2018: 8%). Whilst this is a pleasing output for a key date in the financial calendar, the focus remains on performance over the 365-day period.

The average daily net debt for the year, excluding the property acquisition facility, was £114.4m (2018: £113.2m), falling short of the £105.0m target set at the start of 2019. The main elements of this shortfall relate to Asylum and Development and discussed in greater detail below. This is reflected in the average daily net debt for the fourth quarter being £126.1m.

The average month end trade receivable and trade payable balance split by Housing sub-division is detailed below which better reflects performance and progression during the year:

	2019			2018		
	Receivables	**Payables**	**Net working capital**	Receivables	Payables	Net working capital
	£m	**£m**	**£m**	£m	£m	£m
Maintenance	**159.3**	**(126.2)**	**33.1**	162.2	(127.7)	34.5
Management	**29.8**	**(24.3)**	**5.5**	21.0	(19.3)	1.7
Development	**33.4**	**(8.7)**	**24.7**	21.2	(5.6)	15.6

**The Maintenance figures for 2018 reflect the single month of December 2018 which is annualised for the purposes of this analysis*

The core activities of Maintenance and Management absorb relatively low levels of working capital when compared to the size of the business and the profit generated. The Maintenance activities delivered a reduction in working capital utilisation, reducing from £34.5m to £33.1m. The MPS activities have now completed their migration onto the Mears operating platform which moving forward will provide excellent visibility and control over working capital management. The MPS activities have been absorbed into the pre-existing Maintenance business. At a contract level, the trade receivables balances attached to the acquired MPS business remain too high and this is an area for focus in 2020. The MPS contract mechanisms are identical to that of the pre-existing Maintenance business, and the MPS working capital position should mirror this.

The average working capital absorbed in Management increased from £1.7m to £5.5m, reflecting the mobilisation of the AASC contract. Whilst this is an increase of £3.8m, the averaging methodology reflects only a part-year impact from Asylum as the contract fully mobilised in September 2019. The full year impact of Asylum results in a permanent increase in working capital absorption by £10.0m, and is a key factor in the average daily net debt for the second half of 2019 being higher than the first half.

The average working capital absorbed within the Development activity increased to £24.7m (2018: £15.6m) driven by the increase in the inventories balance. Much of this deterioration occurred during the fourth quarter of 2018 and therefore the more relevant comparison is against the 2018 year end position which absorbed £21.2m of working capital, indicating that a further £3.5m of working capital has been absorbed during 2019. The majority of the working capital absorbed in Development, based on the current build profile, will unwind 2021.

A summary of the consolidated cash flow is detailed below together with explanations in respect of the major movements.

	2019 Reported £m	**2019 Before the impact of IFRS 16 £m**	2018 Reported £m	Note
Operating profit	**25.2**	**26.1**	27.4	
Net finance costs	**9.1**	**3.1**	2.3	
Amortisation of acquisition intangibles	**10.1**	**10.1**	3.7	
Depreciation and amortisation	**43.8**	**8.2**	8.2	
EBITDA	**88.2**	**47.5**	41.6	1
Other adjustments	**1.0**	**1.0**	0.2	
Change in inventories	**(6.3)**	**(6.3)**	(11.0)	
Change in operating receivables	**5.0**	**5.0**	(15.4)	
Change in operating payables	**12.3**	**11.7**	(12.1)	
Cash inflow from operating activities	**100.3**	**59.0**	3.3	
Taxes paid	**(3.0)**	**(3.0)**	0.7	2
Cash outflow from discontinued operations	**(3.6)**	**(3.6)**	(3.7)	3
Capital expenditure	**(11.5)**	**(11.5)**	(10.2)	4
Cash flows relating to property acquisition activity	**(7.2)**	**(7.2)**	2.6	5
Acquisitions	**(1.3)**	**(1.3)**	(37.9)	6
Issue of shares	**-**	**-**	22.1	
Dividends	**(13.8)**	**(13.8)**	(13.1)	7
Interest paid	**(9.5)**	**(3.4)**	(3.2)	1
Discharge of lease liability	**(35.4)**	**(0.3)**	(0.5)	1
Change in net debt	**14.9**	**14.9**	**(40.1)**	
Opening net debt	**(65.9)**	**(65.9)**	(25.8)	
Closing net debt	**(51.0)**	**(51.0)**	**(65.9)**	8

The major movements in the year are:

1. The significant increase in the reported EBITDA reflects the adoption of the new accounting standard, IFRS 16 'Leases' which has increased depreciation by £35.1m and net finance costs by £6.0m. Whilst IFRS 16 changes the shape of the cash flow statement, it is cash flow neutral. The increase in EBITDA is negated by an increase in interest paid and the discharge of lease liability.

2. The Group pays Corporation Tax under the Quarterly Instalment Payment regime. This means that the Group is required to pay half of the estimated corporation tax liability during 2019 and then the balancing 50% in the first half of 2020. The Group enjoyed a tax credit in 2018 following the adoption of IFRS 15. This resulted in no corporation tax payable in the first half of 2019. The £3.0m cash outflow in the year reflects half of the estimated tax liability for 2019 with the balance being settled in 2020.

3. As reported earlier, the standalone Domiciliary Care activities have been reported as discontinued in the results for the year and an aggregate loss on discontinued activities before tax is reported of £87.2m. However, a significant proportion of this loss relates to the impairment of goodwill and fixed assets, both of which are non-cash items. A cash outflow of £1.4m relates to the discontinued Care activities. In addition, an outflow of £2.2m in legal and other professional costs in relation to the previously discontinued M&E activity based in the UAE.

4. Tangible fixed asset additions were £9.7m (2018: £8.7m) and IT development costs were £3.0m (2018: £3.1m) however the cash flow statement only reports the cash flows attached to this expenditure and therefore a small difference from the balance sheet additions which are recognised on an accruals basis.

5. The Group cancelled its property acquisition facility. During the year, assets to the value of £7.8m were sold and the loan balance of £15.0m was repaid, a net outflow of £7.2m. Deferred consideration was attached to one property asset sale of £4.6m and which is included within other receivables; this is due to be settled in September 2020.

6. The acquisition of £1.3m relates to certain business assets acquired, providing the Group access to circa 125 landlords and 680 properties within the North East region of the Asylum contract. The outflow in 2018 is in respect of the MPS acquisition of £26.7m and the deferred consideration payable in respect of Omega acquisition of £11.1m.

7. The £13.8m dividend outflow for 2019 relates entirely to payments to Mears shareholders comprising the final dividend for 2018 of 8.85p (2017: 8.55p) per share, paid in July 2019, and an interim dividend for 2019 of 3.65p (2018: 3.55p) per share paid in October 2019. The 2018 dividend outflow of £12.5m includes £0.6m paid to third parties in respect of non-controlling interests.

8. The statutory cash flow statement reports a cash balance at 31 December 2019 of £73.1m (2018: £27.9m). Whilst this disclosure complies with accounting standards, it is not a fair reflection of the Group's funding arrangement. The Group has a revolving credit facility to the value of £170m. The Group makes drawdowns against that facility, meaning the cash balance and loan balance are inextricably linked. The closing net debt at 31 December 2019 of £51.0m comprises a cash balance of £73.0m and an associated drawdown of (£124.0m)

Balance Sheet

A summary of the Group Balance Sheet is detailed below together with explanations in respect of the most significant balances and the major movements.

	Reported 2019	Discontinued	**All activities 2019**	2018	Note
	£m	£m	**£m**	£m	
Goodwill and intangible assets	151.8	-	151.8	228.6	1
Property, plant and equipment	26.3	2.8	29.1	25.0	2
Investments	0.5	-	0.5	-	
Right of use asset	264.6	-	264.6	0.0	3
Inventories	36.0	-	36.0	29.8	4
Trade receivables	162.9	7.9	170.8	178.2	4
Assets held for resale - property	-	-	-	12.4	5
Net Assets for resale - Care activities	5.3	(5.3)	-	-	
Trade payables (including provisions)	(202.9)	(3.8)	(206.7)	(186.9)	4
Operating net debt	(51.1)	0.1	(51.0)	(65.9)	
Property acquisition facility	-	-	-	(15.0)	5
Deferred consideration	-	-	-	(2.0)	6
Other payables	(4.9)	-	(4.9)	(5.0)	7
	(269.3)	(2.0)	(271.3)		

Lease obligations				(0.9)	3
Net pension	2.1	-	2.1	13.6	8
Taxation	(2.3)	0.3	(2.0)	(1.6)	
Net assets	119.0	-	119.0	210.3	

The major movements in the year were:

1. The carrying value of goodwill of £123.3m (2018: £203.8m) is not amortised but is reviewed for impairment on an annual basis or more frequently where there is an indication of impairment. Following the decision to exit standalone Domiciliary Care, the goodwill was impaired by £80.5m, reflecting a valuation for Domiciliary Care based on fair value less selling costs rather than the previous 'value in use' basis. A reassessment of the fair value of assets acquired in respect of the MPS acquisition resulted in an increase in goodwill of £6.7m.

   The net carrying value of identifiable acquisition intangibles at 31 December 2019 was £19.8m (2018: £28.7m), which relates to order book, customer relationships and supplier relationships valued on acquisition. Following the reassessment of the fair value of assets acquired in respect of the MPS acquisition, both the 2019 figures and the 2018 comparative reflect an increase of the identifiable intangible by £5.4m which will be amortised over the next four years. In addition, the Group completed the acquisition of certain business assets from a property management company for consideration of £1.3m, which provided the Group access to around 125 landlords and 680 properties within the North East region of the Asylum contract. The intangible identified relates entirely to supplier relationships and will be amortised over the next 20 months. During the year, amortisation of acquired intangibles was charged of £10.1m, reducing the net carrying value to £19.8m.

   Intangible assets also included the capitalisation of expenditure incurred on developing our in-house IT platform. Additions in the year amounted to £3.0m (2018: £3.1m) with a carrying value of £8.8m (2018: £8.4m), which is amortised over five years. The Group has made significant investment in our IT systems over a number of years and we are expecting to see a reduction in our development expenditure moving forwards.

2. Group capital expenditure was higher in the year at £9.7m (2018: £8.7m), reflecting the additional leasehold improvement costs attached to the new Asylum contract. Included within additions during the year is £1.1m (2018: £3.6m) regarding the development of 70 modular homes which are currently under construction and which, upon completion, will be used to deliver a homelessness solution within our Housing Management activities. The homes are expected to be completed in September 2020 at a total cost of £6.0m. Mears is looking for a long term funder to acquire these properties upon completion, to reduce net debt. Other significant capital spend items include IT hardware and other office equipment.

3. The new leasing standard, IFRS 16 Leases, is effective from 1 January 2019 and has had a significant impact on the Group's Balance Sheet. Under IFRS 16, a lessee recognises its right to use a leased asset and a lease liability representing its obligation to make lease payments. Additional detail in respect of this significant change is included earlier and in the notes to the Financial Statements.

4. Trade receivables and inventories decreased to £198.9m (2018: £208.0m). This reduction is predominantly accounted for by the reclassification of the trade receivables attached to the standalone Domiciliary Care activities to 'Assets classified as held for sale'. The balance attached to the continuing activities is broadly consistent between the two years. Trade payables reported an increase to £202.9m (2018: £192.5m). The previous year reported a significant reduction, and part of the increase in 2019 reflects some timing difference with the prior year. The mobilisation of the Asylum contract has also caused an increase in this item.

5. As detailed previously, the Group cancelled its property acquisition facility, resulting in a cash outflow of £15.0m to repay the funding line. The disposal of the assets brought a cash inflow of £7.8m together with a deferred consideration of £4.6m which is due to be received in September 2020 and is included within other receivables.

6. The balance at 31 December 2018 relates to the contingent consideration in respect of the acquisition of MPS. Having reviewed the profitability of the acquired business in the first year, and the forecast for the remainder of the earn-out period, the Directors believe that no further consideration will become payable in respect of this transaction.

7. Other payables predominantly relates to provisions for expected losses in relation to the insurance captive which manages the Group's insurance risks. Insurances losses are settled as claims are agreed which is typically across multiple periods and the provision is therefore showing within non-current liabilities on the Balance Sheet.

8. The Group participates in two principal Group pension schemes (2018: two) together with a further 28 (2018: 28) individual defined benefit schemes where the Group has received Admitted Body status in a Local Government Pension Scheme (LGPS). The accounting treatment for these schemes follows the guidelines set for defined benefit schemes. This treatment does not present the commercial reality for a number of our LGPS arrangements, where the Group holds back-to-back indemnities from its clients in respect of both its exposure to changes in pension contribution rates and to future deficit risk.

   The pension disclosure is split on the face of the Balance Sheet between non-current assets and non-current liabilities. In addition, the pension guarantee assets are reported separately from their associated liabilities which complies with accounting standards but is not reflective of the contractual nature.

   The table below provides an alternative categorisation to assist stakeholders in better understanding the Group's pension risks. Where the Group enjoys a back to back indemnity with its Local Authority and Housing Association clients, it is classed within 'limited-risk'. For other LGPS arrangements, whilst the Group does not benefit from an indemnity, the risks associated with these schemes matches the time horizon of the underlying contract which, whilst not removing all risks, does reduce the period over which a deficit can arise. This second category has been identified in the table below as 'medium-term risk'. The Group schemes are standard defined benefit arrangements where the Group is ultimately responsible for any deficit resulting from movements in discount rates, interest rates, mortality rates and investment performance. This last category has been classified as 'long-term risk'.

	Group schemes (no indemnity) long-term risk	LGPS schemes (no indemnity) medium-term risk	LGPS schemes (indemnified) limited-risk	Total
	2	13	15	30

Number of schemes

Scheme assets £m	163.2	51.7	251.8	466.7
Scheme liabilities £m	(156.4)	(53.4)	(274.0)	(483.8)
Surpluses not recognised £m	-	(2.7)	(1.9)	(4.6)
Guarantee asset £m	-	-	23.8	23.8
Net surplus/(deficit) £m	6.8	(4.4)	(0.3)	2.1

The key actuarial assumptions underpinning the valuations include the discount rate, set at 2.10% (2018: 2.95%) and long-term RPI, estimated at 2.90% (2018: 3.15%). The net discount rate (being the discount rate less inflation), reduced from a negative (0.20%) in December 2018 to a negative (0.80%), resulting in an increase in scheme obligations by circa 15%. Positively, UK equities and gilts increased by a similar proportion in the period, offsetting much of the increase in liabilities.

Principal accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with IFRS as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and therefore the consolidated financial statements comply with Article 4 of the EU International Accounting Standards (IAS) Regulation. The financial statements are prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and share-based payments.

The most significant change in accounting policies from the previous year was the introduction of IFRS 16 'Leases' for which the impact of introduction has been disclosed in note 3. The accounting policies remain otherwise unchanged from the previous year except for the modification of a number of standards with effect from 1 January 2019. Changes include Amendments to IFRS 9, IAS 28 and IAS 19 as well as Annual Improvements 2015-2017 (which made minor amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23). The adoption of these amendments had no material effect on the Group's financial statements.

The preparation of financial statements in conformity with UK Generally Accepted Accounting Practice (UK GAAP) requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on the Directors' best knowledge of the amounts, actual results may ultimately differ from those estimates. The most significant estimates made by the Directors in these financial statements are set out in 'Use of judgements and estimates'.

Mears Group PLC is incorporated and domiciled in England and Wales (registration number 3232863). Its registered office and principal place of business is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH. Mears Group PLC's shares are listed on the London Stock Exchange.

Impact of COVID-19

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. The Board has completed an assessment as to the impact to the Group in the event of a significant deterioration in revenues and productivity. This extreme downside scenario is currently considered unlikely; however it is difficult to predict the overall outcome and impact of COVID-19 at this stage. The Board believes that in this extreme downside scenario, there is a risk that the Group's funding requirement could exceed its existing committed debt facilities.

Only the specific downside scenario would indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Consolidated Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern. On this basis, the Directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

Basis of consolidation

The Consolidated Balance Sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December

2019. Entities for which the Group has the ability to exercise control over financial and operating policies are accounted for as subsidiaries. Control is achieved where the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

All significant intercompany transactions and balances between Group enterprises, including unrealised profits arising from intra-group transactions, are eliminated on consolidation; no profit is taken on sales between Group companies.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

A joint venture is a joint arrangement whereby the parties that have joint control have the rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method of accounting. Under this method, the Group's share of post-acquisition profits or losses is recognised in the Consolidated Statement of Profit or Loss; the cost of the investment in a given joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included in investments within the Consolidated Balance Sheet.

New accounting standards
IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' for accounting periods commencing on or after 1 January 2019. The adoption of this standard has resulted in the Group recognising a right of use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using a modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

Instead of performing an impairment review on the right of use assets at the date of initial application, the Group has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.26%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Further details of the effects of the transition to IFRS 16 are provided in note 3.

Leased assets

From 1 January 2019, where an asset is subject to a lease, the Group recognises a right of use asset and a lease liability on the balance sheet. The right of use asset is measured at cost, which matches the initial measurement of the lease liability and any costs expected at the end of the lease, such as dilapidations, and then depreciated on a straight-line basis over the lease term.

The lease liability is measured at the present value of the future lease payments discounted using the Group's incremental borrowing rate. Lease payments include fixed payments, variable payments based on an index and payments arising from options reasonably certain to be exercised.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right of use asset and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right of use assets and lease liabilities are presented separately.

Prior to 1 January 2019, the Group applied the requirements of IAS 17 'Leases'. The economic ownership of a leased asset was transferred to the lessee if they bore substantially all the risks and rewards related to the ownership of the leased asset. Where that was the case, the treatment was broadly in line with the new policy above.

All other leases were treated as operating leases. Payment on operating lease agreement was recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, were expensed as incurred.

Revenue

Revenue is recognised in accordance with IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction assets. The detail below sets out the principal types of contract and how the revenue is recognised in accordance with IFRS 15.

The Group's contract portfolio has been assessed by operating segment. The contracts with customers in Housing have a wide variation of goods and services being provided to customers with differing performance obligations and levels of complexity. In Care, there is a single performance obligation within all contracts and the segment follows a single revenue recognition methodology. None of the Group's contracts are considered to have a significant financing component.

Schedule of rates (SOR) contracts

These contracts are primarily for repairs and maintenance services. Revenue is derived using a fixed pricing schedule, which allows each job to be identified and valued. This pricing schedule is referred to as the SOR, which determines the transaction price. Each work order represents a performance obligation and as the customer controls the asset being enhanced through the works, the performance obligation is satisfied over time. The stage of completion of the work order is assessed and an appropriate proportion of the expected transaction price recognised in revenue.

Lump sum contracts

Lump sum contracts may involve delivering a range of goods and services, typically repairs, maintenance and capital works; however, there is a single fixed lump sum payment per period which represents the transaction price. The obligation within a lump sum contract is deemed to be being available to deliver the goods and services in the scope of the contract, not the actual performance of the individual works orders themselves. Therefore revenue will be recognised on a straight-line basis as performance obligations are being met over time.

Contracting

For contracting projects, the contract states the scope and specification of the construction works to be carried out, for a fixed price. Mears is continuously satisfying this single performance obligation as cost is incurred, determining progress against the performance obligation on an input basis. The customer controls the site or output as the work is being performed on it and therefore revenue is recognised over time where there is an enforceable right to payment for works completed to date and the work completed does not create an asset with an alternative use to the Group. An assessment is made of costs incurred to date and the costs required to complete the project. If a project is not deemed to be profitable, the unavoidable costs of fulfilling the contract are provided for immediately. This category also includes construction contracts where an end customer has not yet been identified and the revenue is recognised at the point of sale of the property, rather than over time.

Variable consideration

The Group's Housing revenue includes elements of variable consideration. Where there is uncertainty in the measurement of variable consideration, at both the start of the contract and subsequently, management will consider the facts and circumstances of the contract in determining either the most likely amount of variable consideration when the outcome is binary, or the expected value based on a range of possible considerations. Included within this assessment will be the extent to which there is a high probability that a significant reversal in variable consideration revenues will not occur once the uncertainty is subsequently resolved. This assessment will include consideration of the following factors: the total amount of the variable consideration; the proportion of consideration susceptible to judgements of customers or third parties, for example key performance indicators; the length of time expected before resolution of the uncertainty; and the Group's previous experience of similar contracts.

Property income

Where the Group is acting as principal, lessor operating lease revenue is recognised in revenue on a straight-line basis over the tenancy.

Where the Group is providing a management service, Mears recognises revenue as an agent (the net management fee) on a straight-line basis. Where significant initial costs are required to make good the housing to perform Housing Management activities, the costs directly attributable to the initial upgrade will be recognised as costs incurred to fulfil a contract and held within current assets, to the extent that it is determined that costs are recoverable.

Where the Group is providing an accommodation and support service, revenue is recognised at a point in time for each night that the accommodation is occupied. These types of contracts typically include elements of variable consideration in the form of key performance indicators and revenue arising from these elements is recognised in line with the Group's other variable consideration.

Where the Group enters into arrangements with customers for the provision of housing an assessment is made as to whether this income is recognised under IFRS 15 or IFRS 16. The contract between the Group and the customer is deemed to contain a lease where the contract conveys the right to control an identified asset for a period of time in exchange for consideration. In this instance, the rental income is recognised on a straight line basis over the life of the lease. All such sub-leased residential property leases are classified as operating leases. Revenue in respect of sub-leased residential property is disclosed separately in note 1.

Professional services

Revenue represents amounts recoverable from clients for professional services provided during the year. Revenue is recognised either at a point in time, where the performance obligation is completed instantaneously such as processing a planning application, or over time, where the services are delivered over time. For this latter category, revenue is recognised by reference to the stage of completion of the actual services provided at the reporting date, as a proportion of the total services to be provided.

Care services

The stand-alone selling prices for providing care are overtly stated in the contract, and the method of application of the rate of charge is on a unit of time basis, usually expressed as a rate per visit. Revenue will be recognised in respect of this single performance obligation, by reference to the chargeable rate and time for completed care visits in the period.

From time to time, care contracts with customers include a fixed fee per period for performing a consistent scope of care services. For these contract types, the revenue recognition is consistent with lump sum contracts above.

There is a shift towards rewarding providers of care on the basis of achievement of specific outputs achieved and moving away from the traditional input-based, per-hour measurement. Care outputs are either achieved or not achieved and are determined by service user. Revenue will be recognised when the specific performance obligation has been satisfied.

Mobilisation

Where a contract includes a mobilisation element, consideration is initially given to whether the mobilisation element contains any discrete performance obligations. If this is the case, an element of the total contract price is allocated to those performance obligations and recognised either at a point in time or over time, depending on the nature of the performance obligation. Mobilisation income is included in the revenue category to which the contract relates.

Where amounts are received for mobilisation elements that are not performance obligations, these amounts are allocated to the performance obligations in the contract to which they relate.

Business combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Balance Sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Where applicable, the consideration for an acquisition includes any assets or liabilities arising from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information obtained up to one year from the acquisition date about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IFRS 9 in the Consolidated Statement of Profit or Loss.

Costs relating to acquisitions in the year have been expensed.

For transactions with non-controlling parties that do not result in a change of control, the difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognised in equity.

Any business combinations prior to 1 January 2010 were accounted for in accordance with the standards in place at the time, which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combinations exemption of IFRS 1, goodwill previously written off directly to reserves under UK GAAP is not recycled to the Consolidated Statement of Profit or Loss on calculating a gain or loss on disposal.

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows: cash-generating units (CGUs). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill or CGUs that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Consolidated Statement of Profit or Loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro-rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

For the partial disposal of a CGU, goodwill is allocated proportionately to the branches acquired based on operating profit.

Intangible assets

In accordance with IFRS 3 (Revised) 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the Group are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are amortised over the useful economic life of those assets.

Development costs incurred on software development are capitalised when all the following conditions are satisfied:

- completion of the software module is technically feasible so that it will be available for use;
- the Group intends to complete the development of the module and use it;
- the software will be used in generating probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use the software; and
- the expenditure attributable to the software during its development can be measured reliably.

Costs incurred making intellectual property available for use (including any associated borrowing costs) are capitalised when all of the following conditions are satisfied:

- completion of the data set is technically feasible so that it will be available for use;
- the Group intends to complete the preparation of the data and use it;
- the data will be used in generating probable future economic benefits;
- there are adequate technical, financial and other resources to complete the data set and to use it; and
- the expenditure attributable to the intellectual property during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. Careful judgement by management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software are continually monitored by management.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on software development.

Amortisation commences upon completion of the asset and is shown within other administrative expenses. Until the asset is available for use on completion of the project, the assets are subject to impairment testing only. Development expenditure is amortised over the period expected to benefit.

The identifiable intangible assets and associated periods of amortisation are as follows:

Order book	- over the period of the order book, typically three years
Client relationships	- over the period expected to benefit, typically five years
Supplier relationships	- over the period expected to benefit, typically two years
Development expenditure	- over four to five years, straight line
Intellectual property	- over the period of usefulness of the intellectual property, typically five years

The useful economic life of intangible assets are reviewed annually and amended if appropriate.

Employee benefits

Retirement benefit obligations

The Group operates both defined benefit and defined contribution pension schemes as follows:

i) Defined contribution pensions

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

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

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

ii) Defined benefit pensions

The Group contributes to defined benefit schemes which require contributions to be made to separately administered funds.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Group, even if plan assets for funding the defined benefit plan have been set aside.

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. In accordance with IFRIC 14, the asset that is recognised is restricted to the amount by which the IAS 19 (Revised) service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Where the Group has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme (LGPS) but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that guarantee asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The right to recover costs is also limited to situations where the cap on employer contributions payable by the Group is not set so as to contribute to reducing the deficit in the scheme. Movements in the guarantee asset are taken to the Consolidated Statement of Profit or Loss and to the Consolidated Statement of Comprehensive Income to match the movement in pension assets and liabilities.

In prior years, the Group recognised the guarantee assets within the balance of the overall pension liability. The Group now recognises the pension liability and guarantee assets separately on the face of the Consolidated Balance Sheet. This change has resulted in a restatement of the Consolidated Balance Sheet for the year ended 31 December 2018.

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

Other movements in the net surplus or deficit are recognised in the Consolidated Statement of Profit or Loss, including the current service cost, any past service cost and the effect of curtailments or settlements. The net interest cost is also charged to the Consolidated Statement of Profit or Loss. The amount charged to the Consolidated Statement of Profit or Loss in respect of these plans is included within operating costs.

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

Use of judgements and estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of these consolidated financial statements, estimates and judgements have been made by management concerning the selection of useful lives of property, plant and equipment, provisions necessary for certain liabilities, when to recognise revenue on long-term contracts, actuarial judgements, discount rates used within impairment reviews, the underlying share price volatility for valuing equity-based payments and other similar evaluations. Actual amounts could differ from those estimates.

Critical judgements in applying the Group's accounting policies

Revenue recognition

The estimation techniques used for revenue and profit recognition in respect of contracting and variable consideration contracts require judgements to be made about the stage of completion of certain contracts and the recovery of work in progress, mobilisation costs and contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract.

In particular, judgements have been made in the recognition of revenue in respect of mobilisation under the Group's Asylum Accommodation and Support Contract (AASC). There are a number of contractual requirements for the mobilisation and some of these have been judged to represent performance obligations in accordance with IFRS 15 'Revenue from Contracts with Customers'.

The key judgements have been around whether the customer is able to benefit from the mobilisation element in isolation and this has resulted in the recognition of £4.1m (2018: £nil) of revenue in respect of this particular mobilisation.

Acquisition accounting

In 2018, the Group acquired the entire share capital of MPM Housing Limited and MPS Housing Limited. The Directors included a provisional assessment of the fair value of the net assets acquired in the financial statements for the year ended 31 December 2018. During 2019, management finalised this assessment, making adjustments to the provisional amounts within the measurement period as defined by IFRS 3. Management has made a judgement that the adjustments recognised to assets and liabilities reflect new information about facts and circumstances that were in existence at the acquisition. In making this judgement management considered the nature and timing of the circumstances giving rise to the adjustment. In addition, a judgement has been made to assess the period over which the identifiable intangible assets arising on this acquisition are to be amortised, being the period that management believe the Group will benefit.

Leased assets

Where leased assets are subject to extension or termination options, judgements are required in determining whether it is reasonably certain that these options will be exercised, in order to identify the appropriate lease term at the inception of the lease. Management considers all facts and circumstances including their past practice and business plans in making this judgement on a lease by lease basis.

Key sources of estimation uncertainty

Contract recoverability

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

Acquisition accounting

The acquisition of MPM Housing Limited and MPS Housing Limited has been accounted for in accordance with IFRS 3 'Business Combinations'. The Group has allocated part of the purchase price totalling £22.1m to identifiable intangible assets. On acquisition, intangible assets are valued at fair value using the income method. The valuation process is based on associated cashflows in respect of the order book acquired and is also dependent on assumptions about economic factors and business strategy. The excess of value transferred to the seller in return for control of the acquired business resulted in the recognition of goodwill of £10.7m. This goodwill is allocated and tested for impairment as part of the Housing CGU.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimate of the value in use of the CGUs to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the CGUs and also the selection of appropriate discount rates to calculate present values. Future cash flows are estimated using the current one-year budget forecast, extrapolated for a future growth rate. The estimated growth rates are based on past experience and knowledge of the individual sector's markets. The impairment of goodwill during 2019 was significant and was estimated based on the sale value of the English domiciliary care business which was disposed of after the period end and the Directors' expectation of the sale value relating to the Scottish domiciliary care business.

Leased assets

Estimation is required in calculating the appropriate discount rate to use when recognising the present value of future lease payments as a lease obligation. The Group undertook a synthetic credit rating exercise which determined a credit rating of BB+ for Mears Group PLC by reference to the consolidated results of the Group for the year ended 31 December 2018. Given the cross guarantees in place across the Group, it was considered appropriate to use a single credit rating across all Group entities. Using the Thomson Reuters EIKON database, a yield curve was built that can be used to determine appropriate incremental borrowing rates for the varying lease tenors. In order to build an appropriate yield curve, we have calculated a proxy GBP BB+ yield curve for a range of maturities by interpolating yields at the mid-point between BBB and BB rated GBP corporate bond yields.

The sensitivity of the lease liability to the assumptions used in these estimations is indicated in note 24.

Defined benefit assets

Scheme assets for LGPS have been estimated by rolling forward the published asset position from the previous year using market index returns over the period. This is considered to provide a good estimate of the fair value of the scheme assets and the values will be updated to actuals each time a triennial valuation takes place.

Defined benefit liabilities

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

- inflation rates;

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

Details of the particular estimates used are included in the pensions note. Sensitivity analysis for these key estimates is included in note 32.

Where the Group has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The Directors have made judgements in respect of whether any of the deficit is as a result of such situations.

The right to recover costs is also limited to situations where the cap on employer contributions to be suffered by the Group is not set so as to contribute to reducing the deficit in the scheme. The Directors, in conjunction with the scheme actuaries, have made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost, net of depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated to write down the cost less estimated residual value over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	- 2% p.a., straight line
Leasehold improvements	- over the period of the lease, straight line
Plant and machinery	- 25% p.a., reducing balance
Fixtures, fittings and equipment	- 25% p.a., reducing balance
Motor vehicles	- 25% p.a., reducing balance

Residual values are reviewed annually and updated if appropriate. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the Consolidated Statement of Profit or Loss.

Investment property

Included within right of use assets are certain properties classified as investment properties in accordance with IAS 40. These properties are held primarily in order to earn rentals. The Group has chosen to apply the cost model to all investment property and therefore measurement is in line with IFRS 16 as described in the Leased assets accounting policy.

Properties that generate rents but are primarily held for the provision of social benefits are not considered to meet the definition of investment property.

Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is the actual purchase price of materials.

Work in progress

Work in progress is included in inventories after deducting any foreseeable losses and payments on account not matched with revenue. Work in progress represents costs incurred on speculative construction projects where a customer has not yet been identified. Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and any subcontracted work that has been incurred in bringing the inventories and work in progress to their present location and condition.

Contract assets

Contract assets are included in trade and other receivables and represent revenue recognised in excess of the total of payments on account and amounts invoiced.

Trade receivables

Trade receivables represent amounts due from customers in respect of invoice. They are initially measured at their transaction price and subsequently remeasured at amortised cost.

Retention assets represent amounts held by customers for a period following payment of invoices, to cover any potential defects in the work. Retention assets are included in trade receivables and are therefore initially measured at their transaction price.

Provisions

A provision is recognised where there is uncertainty about the timing or amount of future expenditure required to settle an obligation. The amount recognised is the Directors' best estimate of the expenditure required to settle the obligation.

Financial instruments

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

Financial assets, loans and receivables

Assets generated from goods or services transferred to customers are presented as either receivables or contract assets, in accordance with IFRS 15. The assessment of impairment of receivables or contract assets is in accordance with IFRS 9 'Financial Instruments'.

All of Mears' cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Group's revenue streams are therefore initially measured at their fair value, which is considered to be their transaction price (as defined in IFRS 15) and are subsequently remeasured at amortised cost.

Mears recognises a loss allowance for expected credit losses (ECL) on financial assets subsequently measured at amortised cost using the 'simplified approach'. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are grouped into credit risk categories and reviewed in aggregate.

Trade receivables, contract assets and cash at bank and in hand are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables and contract assets are initially recorded at fair value net of transaction costs, being invoiced value less any provisional estimate for impairment should this be necessary due to a loss event. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Consolidated Statement of Profit or Loss.

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. The Group considers its revolving credit facility to be an integral part of its cash management.

Following initial recognition, financial assets are subsequently remeasured at amortised cost using the effective interest rate method.

Financial liabilities

The Group's financial liabilities are overdrafts, trade and other payables including contingent consideration, and interest rate swaps. They are included in the Consolidated Balance Sheet line items 'Short-term borrowings and overdrafts', 'Trade and other payables', 'Financial liabilities' and 'Other liabilities'.

All interest related charges are recognised as an expense in 'Finance costs' in the Consolidated Statement of Profit or Loss with the exception of those that are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Bank and other borrowings are initially recognised at fair value net of transaction costs. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in finance income and finance costs. Borrowing costs are recognised as an expense in the period in which they are incurred with the exception of those which are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Trade payables on normal terms are not interest bearing and are stated at their fair value on initial recognition and subsequently at amortised cost.

Contingent consideration is initially recognised at fair value and is subsequently measured at fair value through the Consolidated Statement of Profit or Loss.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational and financing activities.

Derivative financial instruments are recognised initially and subsequently at fair value, with mark-to-market movements recognised in the Consolidated Statement of Profit or Loss except where cash flow hedge accounting is applied.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Hedge accounting for interest rate swaps

Where an interest rate swap is designated as a hedge of the variability in cash flows of an existing or highly probable forecast loan interest payment, the effective part of any valuation gain or loss on the swap instrument is recognised in 'Other comprehensive income' in the hedging reserve. The cumulative gain or loss is removed from equity and recognised in the Consolidated Statement of Profit or Loss at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the Consolidated Statement of Profit or Loss immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the Consolidated Statement of Profit or Loss immediately.

Accounting for taxes

Income tax comprises current and deferred taxation.

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the accounting periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the Consolidated Statement of Profit or Loss, any related tax generated is recognised as a component of tax expense in the Consolidated Statement of Profit or Loss. Where an item is recognised directly to equity or presented within the Consolidated Statement of Comprehensive Income, any related tax generated is treated similarly.

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences in full with no discounting. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred taxation is calculated using the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to either the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income or equity to the extent that it relates to items charged or credited. Deferred tax relating to items charged or credited directly to equity is also credited or charged to equity.

Exceptional costs

Exceptional costs are disclosed on the face of the Consolidated Statement of Profit or Loss where these are material and considered necessary to explain the underlying financial performance of the Group. They are either one-off in nature or necessary elements of expenditure to derive future benefits for the Group which have not been capitalised in the Consolidated Balance Sheet.

Costs of restructure are only considered to be exceptional where the restructure is transformational and the resultant cost is significant.

Acquisition costs are only considered to be exceptional where the acquisition and the resultant cost are significant.

Share-based employee remuneration

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

The Group operates equity-settled and cash-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value (excluding the effect of non-market-based vesting conditions) of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Black Scholes option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period. For Save As You Earn (SAYE) plans, employees are required to contribute towards the plan. This non-vesting condition is taken into account in calculating the fair value of the option at the grant date.

All share-based remuneration is ultimately recognised as an expense in the Consolidated Statement of Profit or Loss. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve; for cash-settled share-based payments the Group recognises a liability at the balance sheet date.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital, with any excess being recorded as share premium.

Dividends

Dividend distributions payable to equity shareholders are included in 'Current financial liabilities' when the dividends are approved in a general meeting prior to the balance sheet date.

Nature and purpose of each reserve in equity

Share capital is determined using the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Equity-settled shared-based employee remuneration is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The hedging reserve represents the effective part of any gain or loss on a cash flow hedge which has not been removed from equity and recognised in the Consolidated Statement of Profit or Loss.

The merger reserve relates to the unrealised element of the difference between the nominal value and total consideration in respect of the acquisition of Supporta plc and Morrison Facilities Services Limited where the Company was entitled to the merger relief offered by the Companies Act 2006.

Segment reporting

Segment information is presented in respect of the Group's operating segments based on the format that the Group reports to its chief operating decision maker.

The Group considers that the chief operating decision maker comprises the Executive Directors of the business.

New standards and interpretations not yet applied

A number of standards have been modified with effect for accounting periods commencing on or after 1 January 2020. These include Amendments to IFRS 3 - definition of a business, Amendments to IAS 1 and IAS 8 on the definition of material and Amendments to IFRS 9, IAS 39 and IFRS 7 - interest rate benchmark reform. None of these amendments are expected to have a material effect on the Group's financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Continuing operations			
Sales revenue	1	905,084	771,861
Cost of sales		(686,874)	(586,933)
Gross profit		218,210	184,928
Other administrative expenses		(172,632)	(145,835)
Exceptional costs	8	(2,018)	(5,657)
Amortisation of acquisition intangibles	14	(10,122)	(3,738)
Total administrative costs		(184,772)	(155,230)
Operating profit before exceptional costs and amortisation of acquisition intangibles	2	45,578	39,093
Operating profit	2	33,438	29,698
Share of profits of associates		895	-
Finance income	5	1,097	1,153
Finance costs	5	(10,229)	(3,474)
Profit for the year before tax, exceptional costs and amortisation of acquisition intangibles		37,341	36,772
Profit for the year before tax		25,201	27,377
Tax expense	9	(3,976)	(3,740)
Profit for the year from continuing operations		21,225	23,637
Discontinued operations			
(Loss)/profit from discontinued operations	10	(87,171)	1,053
Tax (charge)/credit on discontinued operations	9	(100)	135
(Loss)/profit for the year after tax from discontinued operations		(87,271)	1,188
(Loss)/profit for the year from continuing and discontinued operations		(66,046)	24,825
Attributable to:			

Owners of Mears Group PLC		(66,388)	24,064
Non-controlling interest		342	761
(Loss)/profit for the year		(66,046)	24,825
Earnings per share - from continuing operations			
Basic	12	18.90p	21.91p
Diluted	12	18.80p	21.78p
Earnings per share - from continuing and discontinued operations			
Basic	12	(60.09)p	23.05p
Diluted	12	(59.77)p	22.91p

The accompanying accounting policies and notes form an integral part of this preliminary announcement.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
(Loss)/profit for the year		(66,046)	24,825
Other comprehensive expense:			
Which will be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Cash flow hedges:			
• losses arising in the year	27	(145)	-
• reclassification to the Consolidated Statement of Profit or Loss	27	49	325
Increase/(decrease) in deferred tax asset in respect of cash flow hedges	28	18	(45)
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Actuarial loss on defined benefit pension scheme	32	(11,288)	(9,431)

Increase in deferred tax asset in respect of defined benefit pension schemes	28	2,145	1,792
Other comprehensive expense for the year		(9,221)	(7,359)
Total comprehensive (expense)/income for the year		(75,267)	17,466
Attributable to:			
Owners of Mears Group PLC		(75,609)	16,705
Non-controlling interest		342	761
Total comprehensive (expense)/income for the year		(75,267)	17,466
Total comprehensive (expense)/income for the year attributable to owners of Mears Group PLC arises from:			
Continuing operations		11,677	15,516
Discontinued operations		(87,286)	1,189
Total comprehensive (expense)/income for the year attributable to owners of Mears Group PLC		(75,609)	16,705

The accompanying accounting policies and notes form an integral part of this preliminary announcement

Consolidated balance sheet

As at 31 December 2019

	Note	2019	2018 (restated)	2017 (restated)
		£'000	£'000	£'000
Assets				
Non-current				
Goodwill	13	123,204	203,766	193,642
Intangible assets	14	28,642	37,012	17,266
Property, plant and equipment	15	26,326	24,956	22,037
Right of use assets	16	264,576	-	-

Investments accounted for using the equity method	17	536	-	-
Pension and other employee benefits	32	6,871	17,368	27,308
Pension guarantee assets	32	23,810	16,947	7,026
Deferred tax asset	28	3,310	4,500	4,314
		477,275	304,549	264,567
Current				
Assets classified as held for sale	18	11,185	12,442	13,941
Inventories	19	36,045	29,751	18,705
Trade and other receivables	21	162,838	170,854	153,912
Current tax assets		-	609	111
Cash and cash equivalents	27	72,909	27,876	24,770
		282,977	241,532	211,439
Total assets		760,252	546,081	476,006
Equity				
Equity attributable to the shareholders of Mears Group PLC				
Called up share capital	29	1,105	1,105	1,036
Share premium account		82,224	82,224	60,204
Share-based payment reserve		2,421	2,021	1,469
Hedging reserve	27	(124)	(46)	(326)
Merger reserve		12,956	46,214	46,214
Retained earnings		20,496	79,189	100,897
Total equity attributable to the shareholders of Mears Group PLC		119,078	210,707	209,494
Non-controlling interest		(85)	(427)	96
Total equity		118,993	210,280	209,590
Liabilities				

Non-current				
Long-term borrowing and overdrafts	27	124,047	78,780	50,559
Pension and other employee benefits	32	28,593	20,749	11,992
Deferred tax liabilities	28	4,995	8,610	7,098
Financial liabilities	23	39	15	79
Lease liabilities	24	228,588	892	-
Other payables	26	4,700	6,586	5,036
		390,962	115,632	67,738
Current				
Borrowings related to assets classified as held for sale	27	-	15,000	13,941
Short-term borrowing and overdrafts	27	-	15,000	-
Trade and other payables	22	202,366	185,813	184,484
Financial liabilities	23	119	41	253
Lease liabilities	24	40,757	377	-
Provisions	25	504	3,938	-
Current tax liabilities		659	-	-
Liabilities related to assets classified as held for sale	10	5,892	-	-
Current liabilities		250,297	220,169	198,678
Total liabilities		641,259	335,801	266,416
Total equity and liabilities		760,252	546,081	476,006

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 6 May 2020.

D J Miles A C M Smith

Director Director

Company number: 03232863

The accompanying accounting policies and notes form an integral part of this preliminary announcement

Consolidated cash flow statement

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Operating activities			
Result for the year before tax		25,201	27,377
Adjustments	30	64,032	14,519
Change in inventories		(6,294)	(11,045)
Change in trade and other receivables		4,971	(15,426)
Change in trade, other payables and provisions		12,340	(12,135)
Cash inflow from operating activities of continuing operations before taxation		100,250	3,290
Taxes paid		(2,991)	691
Net cash inflow from operating activities of continuing operations		97,259	3,981
Net cash outflow from operating activities of discontinued operations		(1,943)	(3,337)
Net cash inflow from operating activities		95,316	644
Investing activities			
Additions to property, plant and equipment		(8,513)	(7,282)
Additions to other intangible assets		(3,011)	(3,089)
Proceeds from disposals of property, plant and equipment		46	144
Net cash inflow in respect of property for resale		7,824	1,499
Payments on acquisitions, net of cash acquired		(1,300)	(31,685)
Net cash disposed of with subsidiary		-	(26)
Loans made to other entities (non-controlled)		(48)	(139)
Interest received		363	389

Net cash outflow from investing activities of continuing operations	(4,639)	(40,189)
Net cash outflow from investing activities of discontinued operations	(841)	(385)
Net cash outflow from investing activities	(5,480)	(40,574)
Financing activities		
Proceeds from share issue	1	22,089
(Repayment of)/receipts from borrowings related to assets classified as held for sale	(15,000)	1,059
Acquisition of non-controlling interests	-	(6,163)
Net movement in revolving credit facility	30,267	43,221
Discharge of lease liabilities	(35,411)	(479)
Interest paid	(9,843)	(3,602)
Dividends paid - Mears Group shareholders	(13,811)	(12,539)
Dividends paid - non-controlling interests	-	(550)
Net cash (outflow)/inflow from financing activities of continuing operations	(43,797)	43,036
Net cash outflow from financing activities of discontinued operations	(854)	-
Net cash (outflow)/inflow from financing activities	(44,651)	43,036
Cash and cash equivalents, beginning of year	27,876	24,770
Net increase in cash and cash equivalents	45,185	3,106
Cash and cash equivalents, end of year (including discontinued)	73,061	27,876
The Group considers its revolving credit facility to be an integral part of its cash management:		
• cash and cash equivalents	73,061	27,876
• revolving credit facility	(124,047)	(93,780)
Cash and cash equivalents, including revolving credit facility	(50,986)	(65,904)

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

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Attributable to equity shareholders of the Company							
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2018	1,036	60,204	1,469	(326)	46,214	100,897	96	209,590
Impact of change in accounting policies	-	-	-	-	-	(26,342)	-	(26,342)
Adjusted balance at 1 January 2018	1,036	60,204	1,469	(326)	46,214	74,555	96	183,248
Net result for the year	-	-	-	-	-	24,064	761	24,825
Other comprehensive income	-	-	-	280	-	(7,639)	-	(7,359)
Total comprehensive income for the year	-	-	-	280	-	16,425	761	17,466
Deferred tax on share-based payments	-	-	-	-	-	14	-	14
Issue of shares	69	22,020	-	-	-	-	-	22,089
Share option charges	-	-	552	-	-	-	-	552
Changes in non controlling interests	-	-	-	-	-	734	(734)	-
Dividends	-	-	-	-	-	(12,539)	(550)	(13,089)
At 1 January 2019	1,105	82,224	2,021	(46)	46,214	79,189	(427)	210,280
Impact of change in accounting policies	-	-	-	-	-	(2,418)	-	(2,418)
Adjusted balance at 1 January 2019	1,105	82,224	2,021	(46)	46,214	76,771	(427)	207,862
Net result for the year	-	-	-	-	-	(66,388)	342	(66,046)
Other comprehensive								

income	-	-	-	(78)	-	(9,143)	-	(9,221)
Total comprehensive income for the year	-	-	-	(78)	-	(75,531)	342	(75,267)
Deferred tax on share-based payments	-	-	-	-	-	(191)	-	(191)
Share option charges	-	-	400	-	-	-	-	400
Transfer of realised profits	-	-	-	-	(33,258)	33,258		- -
Dividends	-	-	-	-	-	(13,811)		(13,811) -
At 31 December 2019	1,105	82,224	2,421	(124)	12,956	20,496	(85)	118,993

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

Notes to the preliminary announcement

For the year ended 31 December 2019

1. Revenue

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2019	2018
	£'000	£'000
Revenue from contracts with customers		
Schedule of rates contracts	421,564	304,536
Contracting and variable consideration	176,720	226,175
Lump sum contracts	134,660	107,156
Rental income	98,012	62,192
Professional services	21,524	13,325
Care services	19,237	18,631
Other	916	409
	872,633	732,424

Lease income	32451	39,437
	905,084	771,861

All of the above categories fall exclusively within the Housing segment.

A total of £0.6m of revenue was recognised in respect of the balance of contract liabilities at the start of the year (2018: £0.3m).

Schedule of rates and care service revenue is typically invoiced between one and 30 days from completion of the performance obligation. Contracting and variable consideration revenue is typically invoiced based on the stage of completion of the overall contract. Lump sum revenue is typically invoiced monthly in arrears. Rental income is typically invoiced monthly in advance. Professional services revenue is typically invoiced monthly in arrears. Payment terms for revenue invoiced are typically 30 to 60 days from the date of invoice.

2. Segment reporting

Segment information is presented in respect of the Group's operating segments. Segments are determined by reference to the internal reports reviewed by the Executive Directors.

The Group had two operating segments during the year:

- Housing - services within this sector comprise a full housing management service predominantly to Local Authorities and other Registered Social Landlords as well as Care services directly related to Housing provision; and

- Care - services within this sector comprise personal care services to people in their own homes. This segment was classified as discontinued during the year.

All of the Group's activities are carried out within the United Kingdom and the Group's principal reporting to its chief operating decision maker is not segmented by geography.

The principal financial measures used by the chief operating decision maker to review the performance of the Group are those of revenue growth and operating margin in the core division of Housing. The operating result utilised within the key performance measures is stated before amortisation of acquisition intangibles and costs relating to the long-term incentive plans. Whilst the Strategic Review includes reference to a number of subcategories of activities, this has been included to assist stakeholders in understanding the Group's business model. The key decision around the allocation of resources is made at the Housing segment level.

There was an element of Housing with Care revenue disclosed within the Care segment in 2018 which, following changes in the business structure has been reclassified as within the Housing segment in 2019.

	2019		2018	
	Housing (continuing)	Care (discontinued)	Housing (continuing)	Care (discontinued)
Operating segments	£'000	**£'000**	£'000	£'000
Revenue	905,084	**77,521**	771,861	97,982
Operating result before exceptional costs, amortisation of acquisition intangibles and long-term incentive plans	45,978	**(6,532)**	39,645	1,748
Operating margin before exceptional costs amortisation of acquisition intangibles and long-term incentive plans	5.08%	**(8.43)%**	5.14%	1.78%
Long-term incentive plans	(400)	**-**	(552)	**-**
Operating result before exceptional costs and amortisation of acquisition intangibles	45,578	**(6,532)**	39,093	1,748

Exceptional costs	(2,018)	**(80,562)**	(5,657)	-
Amortisation of acquisition intangibles	(10,122)	-	(3,738)	(696)
Operating profit/(loss)	33,438	**(87,094)**	29,698	1,052
Net finance (costs)/income	(8,237)	**(77)**	(2,321)	1
Tax (expense)/credit	(3,976)	**(100)**	(3,740)	135
Profit/(loss) for the year	21,225	**(87,271)**	23,637	1,188

All revenue and all non-current assets arise within the United Kingdom. All of the revenue reported is external to the Group. No revenue in respect of a single customer comprises more than 8% of the total revenue reported.

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

	2019			2018		
	Housing	Care	Total	Housing	Care	Total
Operating segments	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	749,424	10,828	760,252	422,890	123,191	546,081
Segment liabilities	(635,724)	(5,535)	(641,259)	(298,362)	(37,439)	(335,801)
Property, plant and equipment additions	9,032	382	9,414	8,059	642	8,701
Depreciation	41,011	2,796	43,807	5,146	658	5,804
Amortisation of acquisition intangibles	10,122	-	10,122	3,738	696	4,434
Amortisation of other intangibles	2,570	-	2,570	2,409	-	2,409
Profit/(loss) before tax	25,201	(87,171)	(61,970)	27,377	1,053	28,430

3. Changes in accounting policies

As detailed in the principal accounting policies, IFRS 16 'Leases' has been adopted from 1 January 2019. The impact to retained earnings as a result of this change is detailed below:

	Retained earnings £'000
Retained earnings as previously stated at 31 December 2018	79,189
Impact of recognition of right of use assets	190,242
Impact of recognition of operating lease liabilities	(193,193)
Impact of restatement on Deferred tax asset	533

Retained earnings as restated at 1 January 2019	76,771

The change to IFRS 16 has no impact on the lifetime expenditure on leased assets and there are no cash flow impacts. The impact of this standard has been to decrease the operating result for 2019 by £0.9m. Moving forward, it is expected to have a neutral impact in respect of operating profit.

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019 (all activities):

	£'000
Total operating lease commitments disclosed at 31 December 2018	184,172
Discounted using incremental borrowing rate of 3.26%	(8,282)
Discounted operating lease commitments	175,890
Recognition exemptions:	
- Present value of leases with remaining lease term of less than 12 months	(29,264)
	146,626
Present value of lease excluded from operating lease commitments at 31 December 2018	37,496
Impact of indexation on leases	9,071
Operating lease liabilities	193,193
Finance lease obligations	1,269
Total lease liabilities recognised under IFRS 16 at 1 January 2019	**194,462**

4. Operating costs

Operating costs, relating to continuing activities, include the following:

	2019 £'000	2018 £'000
Share-based payments	400	552
Depreciation	41,011	5,379
Amortisation of acquisition intangibles	10,122	3,738
Amortisation of other intangibles	2,547	2,409
Loss on disposal of subsidiary	-	44
Loss on disposal of property, plant and equipment	179	37

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

	2019	2018
	£'000	£'000
Fees payable to the auditor for the audit of the Group's financial statements	71	55
Other fees payable to the auditor in respect of:		
• auditing of accounts of subsidiary undertakings pursuant to legislation	315	325
• other audit related fees	9	9
Total auditor's remuneration	395	389

5. Finance income and finance costs

	2019	2018
	£'000	£'000
Interest charge on overdrafts and short-term loans	(3,541)	(2,958)
Interest charge on hedged items (effective hedges)	(49)	(325)
Interest on lease obligations	(6,072)	(81)
Other interest	(211)	(2)
Finance costs on bank loans, overdrafts and finance leases	(9,873)	(3,366)
Interest charge on defined benefit obligation	(356)	(78)
Unwinding of discounting	-	(30)
Total finance costs	(10,229)	(3,474)
Interest income resulting from short-term bank deposits	48	34
Interest income resulting from defined benefit asset	788	773
Other interest income	261	346
Finance income	1,097	1,153
Net finance charge	(9,132)	(2,321)

Gains and losses on hedged items recognised in other comprehensive income

Losses arising in the year	(145)	-
Reclassification to the Consolidated Statement of Profit or Loss	49	325
Changes in mark-to-market of interest rate swaps (effective hedges)	(96)	325

6. Employees

Staff costs during the year were as follows:

	2019	2018
	£'000	£'000
Wages and salaries	203,576	170,752
Social security costs	20,123	16,587
Other pension costs	9,120	9,497
	232,819	196,836

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

	2019	2018
Site workers	3,796	3,382
Carers	724	726
Office and management	2,370	2,181
	6,890	6,289

Remuneration in respect of Directors was as follows:

	2019	2018
	£'000	£'000
Emoluments	1,499	1,507
Gains made on the exercise of share options	-	-
Pension contributions to personal pension schemes	130	121

	1,629	1,628

During the year contributions were paid to personal pension schemes for four Directors (2018: three).

During the year no Directors (2018: none) exercised share options.

7. Share-based employee remuneration

As at 31 December 2019 the Group maintained six share-based payment schemes for employee remuneration.

Details of the share options outstanding are as follows:

	2019		2018	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	2,752	265	2,938	287
Granted	1,704	216	530	237
Forfeited/lapsed	(1,128)	333	(583)	323
Exercised	(3)	26	(133)	297
Outstanding at 31 December	3,325	217	2,752	265

The weighted average share price at the date of exercise for share options exercised during the period was 358p. At 31 December 2019, 0.3m options had vested and were still exercisable at prices between 1p and 266p. These options had a weighted average exercise price of 1p and a weighted average remaining contractual life of 2.6 years.

The fair values of options granted were determined using the Black Scholes option pricing model. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and the risk-free interest rate.

The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon Government bond at the date of grant. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions. In the case of the SAYE scheme, the expected forfeitures take account of the requirement to save throughout the life of the scheme. There were 1.7m options granted during the year and 1.1m options that lapsed during the year. The market price at 31 December 2019 was 294p and the range during 2019 was 223p to 365p.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

The Group recognised the following expenses related to share-based payments:

	2019 £'000	2018 £'000
Giving rise to share-based payment reserve:		

• SAYE	93	307
• Share Plan	307	245
• MIP	-	-
Giving rise to liabilities:		
• MIP	-	-
	400	552

All-employee share incentive plan

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

Unapproved Company Share Option Plan (CSOP)

Options are exercisable at nominal value. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves Mears before the options vest. With the introduction of the LTIP in 2008, the Remuneration Committee has decided that no further awards will be made under the unapproved CSOP. All options issued under this plan have vested or were forfeited.

Save As You Earn (SAYE) scheme

Options are available to all employees. Options are granted for a period of three years. Options are exercisable at a price based on the quoted market price of the Company's shares at the time of invitation, discounted by up to 20%. Options are forfeited if the employee leaves Mears Group before the options vest, which impacts on the number of options expected to vest. If an employee stops saving but continues in employment, this is treated as a cancellation, which results in an acceleration of the share-based payment charge.

Management Incentive Plan (MIP)

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

Executive Incentive Plan (EIP)

The EIP was introduced in June 2018 following shareholder approval. The award of options is offered to key senior management subject to performance conditions as detailed each year in the Remuneration Report of the Company's Annual Reports & Accounts.

8. Exceptional costs

Exceptional costs incurred in the period which are considered non-trading or non-recurring in nature are detailed below:

	2019 £'000	2018 £'000
Costs of restructure	-	3,584
Costs of acquisition	-	524
Exceptional legal costs	2,018	1,549
	2,018	5,657

The costs of restructure relate to the rationalisation of the Group's central services and largely comprise non-recurring staff costs.

The costs of acquisition relate to the acquisition of MPM Housing Limited and MPS Housing Limited, as detailed in note 31.

Exceptional legal costs were incurred in respect of a property lease. Given the size of this item and unique circumstance of the dispute, the Directors believe this should be treated as an exceptional item to better reflect the underlying financial performance.

9. Tax expense

Tax recognised in the Consolidated Statement of Profit or Loss

	2019	2018
	£'000	£'000
United Kingdom corporation tax	4,204	(894)
Adjustment in respect of previous periods	71	(270)
Total current tax recognised in Consolidated Statement of Profit or Loss	4,275	(1,164)
Deferred taxation charge:		
• on defined benefit pension obligations	(40)	125
• on share-based payments	46	(116)
• on accelerated capital allowances	233	38
• on amortisation of acquisition intangibles	(1,882)	(710)
• on short-term temporary timing differences	(52)	(167)
• on corporate tax losses	1,770	(60)
• impact of change in statutory tax rates	-	-
• impact of transition to new accounting standards	53	5,985
Adjustment in respect of previous periods	(427)	(190)
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	(299)	4,905
Total tax expense recognised in Consolidated Statement of Profit or Loss on continuing operations	3,976	3,740
Total tax credit recognised in Consolidated Statement of Profit or Loss on discontinued operations	100	(135)
Total tax expense recognised in Consolidated Statement of Profit or Loss	4,076	3,606

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

	2019	2018
	£'000	£'000
Profit for the year on continuing operations before tax	25,201	27,377
(Loss)/profit for the year on discontinued operations before tax	(87,171)	1,053
Result for the year before tax	(61,970)	28,430
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 19.0% (2018: 19.0%)	(11,774)	5,402
Effect of:		
• expenses not deductible for tax purposes	496	260
• goodwill impairment	15,658	-
• income not subject to tax	(135)	(159)
• tax relief on exercise of share options	120	(24)
• temporary timing differences not recognised in deferred tax	67	203
• tax losses not previously recognised in deferred tax	-	(1,616)
• adjustment in respect of prior periods	(356)	(460)
Actual tax expense	4,076	3,606

Deferred tax is recognised on both temporary and permanent differences between the treatment of items for tax and accounting purposes. Deferred tax on the amortisation of acquisition intangibles is a permanent difference and arises because no tax relief is due on this kind of amortisation.

Tax losses generated in previous years which are expected to be utilised against future profits are recognised as a deferred tax asset and a subsequent charge arises as those losses are utilised. No deferred tax asset is recognised in respect of losses of £28.9m (2018: £29.0m) across several entities in the Group as it is not expected that they will be eligible to be utilised against profits in the future.

Deferred tax is also recognised on short-term temporary timing differences, primarily relating to provisions. These differences are expected to reverse in the following year and arise because tax relief is only available when the costs are incurred.

Capital allowances represent tax relief on the acquisition of property, plant and equipment and are spread over several years at rates set by legislation. These differ from depreciation, which is an estimate of the use of an item of property, plant and equipment over its useful life. Deferred tax is recognised on the difference between the remaining value of such an asset for tax purposes and its carrying value in the accounts.

The following tax has been charged to other comprehensive income or equity during the year:

	2019	2018
	£'000	£'000
Deferred tax (credit)/charge recognised in other comprehensive income		

• on defined benefit pension obligations	(2,145)	(1,792)
• on cash flow hedges	(18)	45
Total deferred tax credit recognised in other comprehensive income	(2,163)	(1,747)
Deferred tax recognised directly in equity		
Deferred tax credit:		
• on share-based payments	191	(14)
Total deferred tax recognised in equity	191	(14)
Total tax		
Total current tax	4,275	(1,163)
Total deferred tax	(2,171)	3,008

10. Discontinued activities

During the year, the Group classified its Domiciliary Care business as a disposal group in accordance with IFRS 5. The assets of the Domiciliary Care business are presented separately on the face of the Statement of Financial Position and are measured at the lower of carrying amount and fair value less costs to sell. As a result, the Group has impaired both the Care goodwill and fixed assets to reflect the recoverable amount.

Part of the disposal group, in the form of one of the Group's subsidiaries, Mears Care Limited, was subsequently sold on 31 January 2020. The remainder of the disposal group, in the form of another subsidiary, Mears Care (Scotland) Limited, is expected to be sold during 2020.

The results of the operations which have been included in the Consolidated Financial Statements are as follows:

	2019 £'000	2018 £'000
Revenue and profits		
Sales revenue	77,521	97,982
Cost of sales	(61,411)	(75,892)
Administrative expenses	(22,642)	(21,038)
Impairment of intangibles	(80,562)	-
Finance (costs)/income	(77)	1
(Loss)/profit for the year before tax on discontinued operations	(87,171)	1,053
Tax on discontinued operations	(100)	135
Loss for the year after tax on discontinued operations	(87,271)	1,188

	2019 £'000	2018 £'000
Statement of Financial Position		
Assets of disposal group	11,185	-
Liabilities related to assets classified as held for sale	(5,892)	-
Net assets of disposal group	5,293	-

The major classes of assets and liabilities classified as held for sale at 31 December 2019 are as follows:

	£'000
Property, plant and equipment	2,824
Pension guarantee assets	57
Deferred tax asset	280
Trade and other receivables	7,872
Cash and cash equivalents	152
Trade and other payables	(3,756)
Pension and other employee benefits	(57)
Lease liabilities	(2,064)
Current tax liabilities	(15)
Net assets held for sale	5,293

11. Dividends

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

	2019 £'000	2018 £'000
Final 2018 dividend of 8.85p (2018: final 2017 dividend of 8.55p) per share	9,778	8,860
Interim 2019 dividend of 3.65p (2018: interim 2018 dividend of 3.55p) per share	4,033	3,679
	13,811	12,539

Following the uncertainty surrounding COVID-19, the Board believes that it is not appropriate to declare a final dividend in respect of the 2019 year.

12. Earnings per share

	Basic (continuing)		Basic (discontinued)		Basic (continuing and discontinued)	
	2019	2018	2019	2018	2019	2018
	p	p	p	p	p	p
Earnings per share	18.90	21.91	(78.99)	1.14	(60.09)	23.05
Effect of amortisation of acquisition intangibles	9.16	3.58	-	0.67	9.16	4.25
Effect of full tax adjustment	(2.16)	(1.78)	1.17	(0.31)	(0.99)	(2.22)
Effect of exceptional costs	1.50	4.16	-	-	1.50	4.16
Normalised earnings per share	27.40	27.87	(77.82)	1.37	(50.42)	29.24

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	2019	2018	2019	2018	2019	2018
	p	p	p	p	p	p
Earnings per share	18.80	21.78	(78.57)	1.13	(59.77)	22.91
Effect of amortisation of acquisition intangibles	9.11	3.56	-	0.66	9.11	4.22
Effect of full tax adjustment	(2.14)	(1.77)	1.16	(0.43)	(0.98)	(2.20)
Effect of exceptional costs	1.49	4.13	-	-	1.49	4.13
Normalised earnings per share	27.26	27.70	(77.41)	1.36	(50.15)	29.06

A normalised EPS is disclosed in order to show performance undistorted by the amortisation of acquisition intangibles and exceptional costs. The Group defines normalised earnings as excluding the amortisation of acquisition intangibles and exceptional costs and adjusted to reflect a full tax charge. The profit attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	Normalised (continuing)		Normalised (discontinued)		Normalised (continuing and discontinued)	
	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Profit/(loss) attributable to shareholders:	20,883	22,877	(87,271)	1,187	(66,388)	24,064
• amortisation of acquisition intangibles	10,122	3,738	-	696	10,122	4,434
• full tax adjustment	(2,382)	(1,861)	1,289	(449)	(1,093)	(2,310)

• exceptional costs	1,655	4,342	-	-	1,655	4,342
Normalised earnings	30,278	29,096	(85,982)	1,434	(55,704)	30,530

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

	2019 Million	2018 Million
Weighted average number of shares in issue:	110.49	104.40
• dilutive effect of share options	0.58	0.65
Weighted average number of shares for calculating diluted earnings per share	111.07	105.05

13. Goodwill

	Goodwill arising on consolidation (restated) £'000	Purchased Goodwill (restated) £'000	Total (restated) £'000
Gross carrying amount			
At 1 January 2018	193,236	406	193,642
Additions on acquisition	2,916	515	3,431
Reassessment of fair value of assets acquired	(636)	7,329	6,693
At 1 January 2019	195,516	8,250	203,766
Assets classified as held for sale	(80,562)	-	(80,562)
At 31 December 2019	114,954	8,250	123,204
Accumulated impairment losses			
At 1 January 2018, at 1 January 2019 and at 31 December 2019	-	-	-
Carrying amount			
At 31 December 2019	114,954	8,250	123,204
At 31 December 2018	195,516	8,250	203,766

Goodwill on consolidation arises on the excess of cost of acquisition over the fair value of the net assets acquired on purchase of a company.

In the prior year, the Group acquired certain business assets and contracts from the Mitie property services division. During the current year, the Group reassessed the fair value of the net assets acquired. The table below provides a summary of the movements on reassessment:

	£'000
Intangible assets recognised	5,442
Trade receivables and contract assets	(4,946)
Other receivables	(2,394)
Trade and other payables	67
Provisions	(2,962)
Deferred tax recognised in respect of provisions	(1,000)
Deferred tax recognised in respect of intangible assets	(900)
Reassessment of fair value of assets acquired	(6,693)
Goodwill	6,693

The increase to intangible assets acquired represents an increase to the assessment of the value of the order book acquired. The adjustment to trade receivables represents the write down of invoices and retentions not recoverable. The adjustment to other receivables represents a re-assessment of amounts owed by the vendor in respect of certain contracts managed on their behalf. The adjustment to other payables represents accruals and provision for costs not previously provided in respect of contractual obligations. The reduction in the deferred tax asset results from the change in nature of certain provisions.

Goodwill of £6.7m has been recognised on reassessment of the fair value of the net assets acquired. An acquisition intangible asset of £5.4m has also been recognised as disclosed in note 14.

Purchased goodwill arises on the excess of cost of acquisition over the fair value of the net assets acquired on the purchase of the trade and assets of a business by the Group.

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

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

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Housing	95,865	8,250	104,115

Care	19,089	-	19,089
	114,954	8,250	123,204

An asset is impaired if its carrying value exceeds the unit's recoverable amount, which is based on value in use. At 31 December 2019 impairment reviews were performed by comparing the carrying value with the value in use for the CGUs to which goodwill has been allocated.

The Housing CGU's value in use is calculated from the Board-approved one-year budgeted cash flows and extrapolated cash flows for the next four years discounted at a post-tax discount rate of 8.5% over a five-year period with a terminal value. The impairment reviews incorporated a terminal growth assumption of 1.7%, in line with the UK long-term growth rate.

The Care CGU's value in use is calculated from a detailed business plan deriving cash flows over a five-year review period, discounted at a post-tax discount rate of 8.5% over a five-year period with a terminal value. The impairment review incorporated a terminal growth assumption of 2.5%, which, whilst marginally higher than the UK long-term growth rate of 1.7%, is supported by the underlying demographics underpinning strong organic growth in adult social care.

The estimated growth rates are based on knowledge of the individual CGU's sector and market and represent the Directors' base level expectations for future growth. Changes to revenue and direct costs are based on past experience and expectation of future changes within the markets of the CGUs. All CGUs have the same access to the Group's treasury function and borrowing arrangements to finance their operations.

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

The rates used were as follows:

	Post-tax discount rate	Pre-tax discount rate	Volume growth rate (years 1-5)	Terminal growth rate
Housing	8.50%	10.36%	-	1.70%
Care	8.50%	10.36%	2.00%	2.50%

14. Other intangible assets

	Acquisition intangibles				Other intangibles			
	Client relationships £'000	Order book (restated) £'000	Supplier relationships £'000	Total acquisition intangibles (restated) £'000	Development expenditure £'000	Intellectual property £'000	Total other intangibles £'000	Total intangibles (restated) £'000
Gross carrying amount								
At 1 January 2018	72,597	27,967	-	100,564	16,899	224	17,123	117,687
Additions	-	18,058	-	18,058	3,089	-	3,089	21,147
Reassessment	10,841	(5,399)	-	5,442	-	-	-	5,442
Disposals	-	-	-	-	(12)	-	(12)	(12)

At 1 January 2019	83,438	40,626	-	124,064	19,976	224	20,200	144,264
Additions	-	-	1,300	1,300	3,022	-	3,022	4,322
Reclassification	(460)	(412)	872	-	-	-	-	-
Disposals	-	-	-	-	-	(224)	(224)	(224)
Assets classified as held for sale	(16,991)	(22,444)	-	(39,435)	-	-	-	(39,435)
At 31 December 2019	65,987	17,770	2,172	85,929	22,998	-	22,998	108,927
Accumulated amortisation								
At 1 January 2018	63,707	27,272	-	90,979	9,218	224	9,442	100,421
Amortisation charge for period	3,227	1,207	-	4,434	2,409	-	2,409	6,843
Reassessment	57	(57)	-	-	-	-	-	-
Disposals	-	-	-	-	(12)	-	(12)	(12)
At 1 January 2019	66,991	28,422	-	95,413	11,615	224	11,839	107,252
Amortisation charge for period	5,270	4,635	217	10,122	2,570	-	2,570	12,692
Reclassification	(460)	(412)	872	-				
Disposals	-	-	-	-	-	(224)	(224)	(224)
Assets classified as held for sale	(16,991)	(22,444)	-	(39,435)	-	-	-	(39,435)
At 31 December 2019	54,810	10,201	1,089	66,100	14,185	-	14,185	80,285
Carrying amount								
At 31 December 2019	11,177	7,569	1,083	19,829	8,813	-	8,813	28,642
At 31 December 2018	16,447	12,204	-	28,651	8,361	-	8,361	37,012

During the year, the fair value of the assets acquired from the Mitie property services division in the prior year were reassessed resulting in an increase to acquisition intangibles of £5.4m.

Development expenditure is an internally developed intangible asset and relates largely to the development of the Group's Housing job management system and the national Planning Portal website. Development expenditure is amortised over its useful economic life of 5.0 years. The weighted average remaining economic life of the asset is 3.4 years (2018: 3.6 years).

Intellectual property is amortised over its useful economic life, typically 5.0 years.

Amortisation of development expenditure is included within other administrative expenses. Amortisation of acquisition intangibles is presented separately.

15. Property, plant and equipment

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
Gross carrying amount							
At 1 January 2018	788	16,060	2,989	49,954	1,275	-	71,066
Additions	-	2,366	286	2,456	-	3,593	8,701
Acquisition of subsidiary	254	-	-	-	-	-	254
Disposals	(110)	-	(170)	(1,770)	(274)	-	(2,324)
Disposal of subsidiary	-	(2)	-	(91)	-	-	(93)
At 1 January 2019	932	18,424	3,105	50,549	1,001	3,593	77,604
Additions	-	5,050	253	2,962	16	1,133	9,414
Disposals	-	(383)	(425)	(5,091)	(9)	-	(5,908)
Transferred to disposal group	(110)	(594)	-	(980)	-	-	(1,684)
At 31 December 2019	822	22,497	2,933	47,440	1,008	4,726	79,426
Depreciation							
At 1 January 2018	20	10,065	2,205	35,507	1,232	-	49,029
Provided in the year	5	1,170	229	4,388	12	-	5,804
Acquisition of subsidiary	7	-	-	-	-	-	7
Eliminated on disposals	(5)	-	(170)	(1,713)	(256)	-	(2,144)
Disposal of subsidiary	-	-	-	(48)	-	-	(48)
At 1 January 2019	27	11,235	2,264	38,134	988	-	52,648
Provided in the year	19	2,077	222	4,683	3	-	7,004
Eliminated on disposals	-	(353)	(373)	(4,959)	(9)	-	(5,694)

Transferred to disposal group	-	(135)	-	(723)	-	-	(858)
At 31 December 2019	46	12,824	2,113	37,135	982	-	53,100
Carrying amount							
At 31 December 2019	776	9,673	820	10,305	26	4,726	26,326
At 31 December 2018	905	7,189	841	12,415	13	3,593	24,956

16. Right of use asset

	Investment property £'000	Property £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Gross carrying amount					
At 1 January 2018	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At 1 January 2019	-	-	-	-	-
Recognised on transition to IFRS 16	24,293	142,251	23,402	295	190,241
Additions	-	101,053	11,693	388	113,134
Disposals	-	-	-	-	-
Transferred to disposal group	-	(2,450)	(194)	(131)	(2,775)
At 31 December 2019	24,293	240,854	34,901	552	300,600
Depreciation					
At 1 January 2018	-	-	-	-	-
Provided in the year	-	-	-	-	-
Eliminated on disposals	-	-	-	-	-
At 1 January 2019	-	-	-	-	-
Provided in the year	1,517	22,302	12,795	189	36,803
Eliminated on disposals	-	-	-	-	-

Transferred to disposal group	-	(634)	(95)	(50)	(779)
At 31 December 2019	1,517	21,668	12,700	139	36,024
Carrying amount					
At 31 December 2019	22,776	219,186	22,201	413	264,576
At 31 December 2018		-	-	-	-

Investment property included above represents properties held by the Group primarily to earn rentals, rather than for use in the Group's other activities. The amount included in 'lease income' in note 1 in respect of these properties is £3.0m (2018: £3.1m). Direct operating expenses arising from investment property that generated rental income during the period was £3.2m (2018: £4.3m). The carrying value of the right of use asset in respect of investment property is considered to be approximately equal to its fair value.

17. Investments

The subsidiary undertakings within the Group at 31 December 2019 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited	100%	England and Wales	Dormant
Careforce Group Plc	100%	England and Wales	Dormant
Coulter Estates Limited	100%	Scotland	Dormant
Evolve Housing Limited	50%	England and Wales	Dormant
Heatherpark Community Services Limited	100%	Scotland	Dormant
Helcim Group Limited	100%	England and Wales	Dormant
Helcim Homes Limited	100%	England and Wales	Dormant
ILS Group Limited	100%	Scotland	Dormant
ILS Trustees Limited	100%	Scotland	Dormant
Independent Living Services (ILS) Limited	100%	Scotland	Dormant
Jackson Lloyd Limited	100%	England and Wales	Dormant
Laidlaw Scott Limited	100%	Scotland	Dormant
Let to Birmingham Limited	100%	England and Wales	Housing management services
Manchester Working Limited	80%	England and Wales	Maintenance services
Mears Extra Care Limited	100%	England and Wales	Provision of care
Mears Care (Northern Ireland) Limited	100%	Northern Ireland	Dormant
Mears Care (Scotland) Limited	100%	Scotland	Provision of care

Mears Care Limited	100%	England and Wales	Provision of care
Mears Community Care Agency Limited	100%	England and Wales	Dormant
Mears Decorating Services Limited	100%	England and Wales	Dormant
Mears Direct Limited	80%	England and Wales	Dormant
Mears Energy Limited	100%	England and Wales	Dormant
Mears Estates Limited	100%	England and Wales	Grounds maintenance
Mears Facility Management Limited	100%	England and Wales	Dormant
Mears Home Improvement Limited	100%	England and Wales	Maintenance services
Mears Homecare Limited	100%	England and Wales	Provision of care
Mears Homes Limited	100%	England and Wales	Dormant
Mears Housing Management Limited	100%	England and Wales	Housing management services
Mears Housing Management (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (London) Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 1 Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 3 Limited	100%	England and Wales	Dormant
Mears Housing Portfolio 4 Limited	100%	England and Wales	Property acquisition
Mears Insurance Company Limited	99.99%	Guernsey	Insurance services
Mears Learning Limited	90%	England and Wales	Non-trading
Mears Limited	100%	England and Wales	Maintenance services
Mears Modular Homes Limited	100%	England and Wales	Dormant
Mears New Homes Limited	90%	England and Wales	House building
Mears Scotland (Housing) Limited	100%	Scotland	Dormant
Mears Scotland (Services) Limited	66.67%	Scotland	Dormant
Mears Scotland LLP	66.67%	Scotland	Maintenance services
Mears Social Housing Limited	100%	England and Wales	Dormant

Mears Wales Limited	100%	England and Wales	Dormant
MHM Property Services Limited	100%	England and Wales	Maintenance services
Morrison Facilities Services Limited	100%	Scotland	Maintenance services
MPM Housing Limited	100%	England and Wales	Dormant
MPS Housing Limited	100%	England and Wales	Maintenance services
Nurseplus Limited	100%	Scotland	Dormant
O&T Developments Limited	100%	England and Wales	Housing management services
Omega Housing Limited	100%	England and Wales	Housing registered provider
Planning Portal Limited	75%	England and Wales	Dormant
Plexus UK (First Project) Limited	100%	England and Wales	Housing registered provider
PortalPlanQuest Limited	75%	England and Wales	Professional services
PS Business Services Limited	100%	Scotland	Dormant
PS Payroll Services Limited	100%	England and Wales	Dormant
Scion Group Limited	100%	England and Wales	Dormant
Scion Property Services Limited	100%	England and Wales	Dormant
Scion Technical Services Limited	100%	England and Wales	Maintenance services
Supporta Limited	100%	England and Wales	Dormant
Tando Homes Limited	100%	England and Wales	Housing management services
Tando Property Services Limited	100%	England and Wales	Housing management services
Terraquest Solutions Limited	100%	England and Wales	Professional services

All subsidiary undertakings with the exception of Evolve Housing Limited, Manchester Working Limited and MPM Housing Limited prepare accounts to 31 December. Evolve Housing Limited prepares accounts to 30 June in line with its historical accounting reference date. Manchester Working Limited prepares accounts to 31 March in line with the minority shareholder. MPM Housing Limited prepares accounts to 30 September as it is expected to be dissolved shortly.

The Group includes the following five trading subsidiaries with non-controlling interests: Manchester Working Limited, Mears Learning Limited, Mears New Homes Limited, Mears Scotland LLP and PortalPlanQuest Limited. The table below sets out selected financial information in respect of those subsidiaries:

	2019	2018
	£'000	£'000

Revenue and profits		
Revenue	111,622	112,612
Expenses and taxation	(112,780)	(108,835)
Profit for the year	(1,158)	3,777
Other comprehensive expense	-	-
Total comprehensive income	(1,158)	3,777
Profit for the year allocated to non-controlling interests	342	761
Total comprehensive expense allocated to non-controlling interests	-	-
Net assets		
Non-current assets	1,918	314
Current assets	53,641	58,633
Current liabilities	(20,914)	(24,825)
Non-current liabilities	(36,221)	(33,887)
Total assets less total liabilities	(1,576)	235
Equity shareholders' funds	(1,491)	662
Non-controlling interests	(85)	(427)
Total equity	(1,576)	235

The Group held investments in the following joint ventures and associates at 31 December 2019:

	Proportion held	Country of registration	Nature of business
Asert LLP	50%	England and Wales	Dormant
Pyramid Plus South LLP	30%	England and Wales	Maintenance services
Sapphire Homes London Limited	50%	England and Wales	Property acquisition
Sapphire Homes London No. 1 Limited	50%	England and Wales	Property acquisition
Sapphire Homes London No. 2 Limited	50%	England and Wales	Property acquisition

Sapphire Homes London No. 3 Limited	50%	England and Wales	Dormant
Sapphire Homes London No. 4 Limited	50%	England and Wales	Dormant
Sapphire Homes London No. 5 Limited	50%	England and Wales	Dormant
Sapphire Homes London No. 6 Limited	50%	England and Wales	Dormant
Talking Assets Limited	50%	England and Wales	Dormant
YourMK LLP	50%	England and Wales	Maintenance services

The carrying amount of the above joint ventures and associates was £0.5m (2018: £nil).

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 31 December 2019, except MPM Housing Limited, which will take the same exemption for the period ended 30 September 2020:

	Registration number
3c Asset Management Limited	02859913
Careforce Group PLC	05201238
Let to Birmingham Limited	08757503
Mears Estates Limited	03720903
Mears Home Improvement Limited	03716517
Mears Housing Management (Holdings) Limited	04726480
Mears Housing Portfolio (Holdings) Limited	10908305
Mears Housing Portfolio (London) Limited	10953521
Mears Housing Portfolio 1 Limited	10953330
Mears Housing Portfolio 3 Limited	10953300
Mears Housing Portfolio 4 Limited	10952906
MHM Property Services Limited	07448134
MPM Housing Limited	03528320
O&T Developments Limited	05692853
Scion Group Limited	03905442

Scion Technical Services Limited	03671450
Tando Homes Limited	09260353
Tando Property Services Limited	07405761

18. Assets classified as held for sale

	2019 £'000	2018 £'000
Property held for sale	-	12,442
Assets of disposal group	10,828	-
	10,828	12,442

During the year, the Group disposed of its remaining property held for sale and did not renew the separate rolling credit facility in respect of these properties.

During the year, the Directors made a decision to sell the Group's domiciliary care business. As such, the assets of the business are classified as part of a disposal group held for sale. The related liabilities of the disposal group are also presented separately on the face of the statement of financial position. Further detail of the major classes of assets and liabilities are provided in note 10.

19. Inventories

	2019 £'000	2018 £'000
Materials and consumables	7,068	5,951
Work in progress	28,977	23,800
	36,045	29,751

The Group consumed inventories totalling £686.9m during the year (2018: £586.9m). No items are being carried at fair value less costs to sell (2018: £nil).

20. Construction contracts

Revenue of £60.6m (2018: £39.1m) relating to construction contracts has been included in the Consolidated Statement of Profit or Loss.

	2019 £'000	2018 £'000
Contract costs incurred	58,544	34,557
Recognised gross profits	1,377	4,542
Recognised gross losses	-	-
	59,921	39,099

Balances outstanding comprise:		
due from customers for construction contract work	6,849	3,907

21. Trade and other receivables

	2019 £'000	2018 £'000
Current assets:		
• trade receivables	36,749	59,481
• contract assets on non-construction contracts	110,263	94,801
• prepayments and accrued income	6,111	8,315
• other debtors	9,715	8,257
Total trade and other receivables	162,838	170,854

Included in other debtors is £4.6m (2018: £nil) relating to deferred consideration on disposal of a subsidiary.

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables and accrued income are subject to credit risk exposure. Housing customers are typically Local Authorities and Housing Associations where credit risk is minimal.

The ageing analysis of trade receivables is as follows:

	2019 £'000	2018 £'000
Neither impaired nor past due	30,364	48,573
Less than three months past due but not impaired	4,237	5,826
More than three months past due but not impaired	2,148	5,082
Total trade and other receivables	36,749	59,481

22. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	125,054	100,663
Accruals and contract liabilities	48,582	58,330
Social security and other taxes	21,989	20,348

Contract liabilities for non-construction contract work	-	613
Other creditors	6,741	5,859
	202,366	185,813

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

Included in other creditors is £nil (2018: £2.0m) relating to contingent consideration on acquisitions.

23. Financial liabilities

	2019 £'000	2018 £'000
Current liabilities:		
• interest rate swaps	119	41
Non-current liabilities:		
• interest rate swaps	39	15
Total financial liabilities	158	56

24. Lease liabilities

Following the introduction of IFRS 16 'Leases', as described in the accounting policies, lease liabilities are now separately presented on the face of the statement of financial position as shown below:

	2019 £'000	2018 £'000
Current	40,757	377
Non-current	228,588	892
	269,345	1,269

The Group had not committed to any leases which had not commenced at 31 December 2019.

The Group has elected not to recognise a lease liability for short term leases. Payments made under such leases are expensed on a straight-line basis. The expense relating to payments not included in the measurement of the lease liability is as follows:

	2019 £'000	2018 £'000
Short-term leases	39,582	30,247

The portfolio of short-term leases to which the Group is committed at the end of the reporting period is not dissimilar to the portfolio to which the above disclosure relates.

The reconciliation between the opening and closing lease liabilities is as shown below:

	2019 £'000	2018 £'000
Lease liability as at 1 January	1,269	663
Impact of IFRS 16	191,348	-
Adjusted balance at 1 January	192,617	663
Inception of new leases	112,139	1,085
Interest on lease liabilities	6,072	81
Lease payments	(41,483)	(560)
Lease liability as at 31 December	269,345	1,269

The Group's lease liabilities are subject to changes in certain key assumptions in estimating the incremental borrowing rates (IBR) used to calculate the liabilities. The impact of an increase in all IBRs by 0.1% is a £2.7m reduction in the lease liability and a £0.1m reduction in profit before tax.

25. Provisions

A summary of the movement in provisions during the year is shown below:

	Onerous contract provisions £'000	Other provisions £'000	Total £'000
At 1 January 2019	-	-	-
Reassessment arising from adjustments to fair value of assets acquired	2,778	184	2,962
Revised balance at 1 January 2019	2,778	184	2,962
Utilised during the year	(2,458)	-	(2,458)
At 31 December 2019	320	184	504

All provisions arise as a result of the acquisition of MPS Housing Limited on 30 November 2018. During the year, a reassessment of the fair value of assets acquired was undertaken, resulting in changes to the amounts of provisions provided in the prior year. The utilisation of provisions in the year resulted from the expected liabilities being settled.

Onerous contract provisions relate to contracts where a future loss is anticipated as a result of contractual obligations entered into by MPS Housing Limited. The amounts are uncertain as they depend on the timing and extent of managements' cost reduction plans for each of these contracts.

Debt and income provisions relate to both billed and unbilled income recognised up to the balance sheet date, where there remains significant uncertainty about the amount that will ultimately be collected from customers. The amounts are inherently uncertain and depend on a range of factors for each customer.

Other provisions relate to a variety of matters including provisions for dilapidations of leased offices and late costs. Management have provided based on best estimates of the expected costs to be incurred.

In all cases, the provisions at 31 December 2019 are expected to be utilised within one year.

26. Long-term other liabilities

	2019 £'000	2018 £'000
Other creditors	4,700	6,586

27. Financial instruments

The Group uses a limited number of financial instruments comprising cash and liquid resources, borrowings, interest rate swaps and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group seeks to finance its operations through a combination of retained earnings and borrowings and investing surplus cash on deposit. The Group uses financial instruments to manage the interest rate risks arising from its operations and sources of finance but has no interests in the trade of financial instruments.

Categories of financial instruments

	2019 £'000	2018 £'000
Financial assets		
Amortised cost		
Trade receivables	36,749	59,481
Other debtors	9,715	8,257
Cash at bank and in hand	72,909	27,876
	119,373	95,614
Financial liabilities		
Fair value (level 2)		
Interest rate swaps - effective	(158)	(56)
Fair value (level 3)		
Contingent consideration in respect of acquisitions	-	(2,000)
Amortised cost		
Borrowings related to assets held for sale	-	(15,000)
Bank borrowings and overdrafts	(124,047)	(93,780)
Trade payables	(125,054)	(100,663)

Lease liabilities	(269,345)	(1,269)
Other creditors	(11,441)	(10,445)
	(530,045)	(223,213)
	(410,672)	(127,599)

The IFRS 13 hierarchy level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1, where instruments are quoted on an active market, through to level 3, where the assumptions used to arrive at fair value do not have comparable market data.

The fair values of interest rate swaps have been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates (level 2).

The amount of contingent consideration payable is generally determined by future expected profits of the acquired businesses. The fair values of contingent consideration have been calculated by the Directors by reference to expected future income and expenditure in respect of the acquired businesses.

There have been no transfers between levels during the year.

Fair value information

The fair value of the Group's financial assets and liabilities is as disclosed above and approximates to the book value.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk); credit risk; and liquidity risk. The main risks faced by the Group relate to the availability of funds to meet business needs and the risk of credit default by customers. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies and guidelines approved by the Board of Directors.

Borrowing facilities

The Group's borrowing facilities are drawn on as required to manage its cash needs. Banking facilities are reviewed regularly and extended and replaced in advance of their expiry.

The Group had total borrowing facilities of £170.0m with Barclays Bank PLC, HSBC Bank PLC and the Bank of Ireland, of which £125.0m was utilised at 31 December 2019.

The facilities comprise a committed four-year £160.0m revolving credit facility and an unsecured overdraft facility of £10.0m. The undrawn amounts at 31 December 2019 were a £35.0m revolving credit facility and an overdraft facility of £10.0m. During the year, the Group elected not to renew its property acquisition credit facility of £30.0m which had previously been utilised to acquire and build portfolios for resale.

Interest rate risk management

The Group finances its operations through a mixture of retained profits and bank borrowings from major banking institutions at floating rates of interest based on LIBOR. The Group's exposure to interest rate fluctuations on borrowings is managed through the use of interest rate swaps; hence the fixed rate borrowings relate to floating rate loans where the interest rate has been fixed by a hedging arrangement. The fair value of interest rate exposure on financial liabilities of the Group as at 31 December 2019 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities - 2019	70,000	55,000	-	125,000
Financial liabilities - 2018	70,000	40,000	-	110,000

The Group's policy is to accept a degree of interest rate risk, provided the effects of the various potential changes in rates remain within certain prescribed parameters.

Accordingly, at 31 December 2019 the Group had hedged the first £70.0m of the £170.0m total borrowing facilities by entering into interest rate swap arrangements with Barclays Bank PLC and HSBC Bank PLC. The arrangement with Barclays Bank PLC consists of two £15.0m swap contracts expiring in August 2021, with quarterly maturity, matching the underlying facility. The arrangement with HSBC Bank PLC consists of three swap contracts totalling £40.0m expiring in December 2020, with quarterly maturity, matching the underlying facility.

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

	2019		2018	
	Nominal amount hedged £'000	Average applicable interest rates %	Nominal amount hedged £'000	Average applicable interest rates %
Within one year	40,000	0.84%	-	-
One to two years	30,000	0.96%	**40,000**	**0.84%**
Two to five years	-	-	**30,000**	**0.96%**
More than five years	-	-	-	-

Effective interest rates

Interest rate swaps with fair value liabilities of £0.2m (2018: £0.1m) and average remaining lives of one year and five months have been accounted for in financial liabilities.

The Group's overall average cost of debt, including effective interest rate swaps, is 2.6% as at 31 December 2019 (2018: 2.5%). Excluding these swaps the average is 2.6% (2018: 2.3%).

Cash flow hedging reserve

The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Statement of Profit or Loss when the hedged item affects the Consolidated Statement of Profit or Loss.

Movements during the year were:

	£'000
At 1 January 2018	(326)
Amounts transferred to the Consolidated Statement of Profit or Loss	325
Revaluations during the year	-
Deferred tax movement	(45)
At 1 January 2019	(46)

Amounts transferred to the Consolidated Statement of Profit or Loss	49
Revaluations during the year	(145)
Deferred tax movement	18
At 31 December 2019	(124)

At 31 December 2019 the Group had minimal exposure to movements in interest rates as the remaining interest rate risk was offset by the Group's cash and short-term deposits.

If the interest rates had been 0.5% higher or lower and all other variables were held constant, the Group's profit before taxation for the year ended 31 December 2019 and reserves would decrease or increase, respectively, by £0.4m (2018: £0.4m).

Liquidity risk management

The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with the practice and limits set by the Group. These limits vary by location and take into account the liquidity and nature of the market in which the entity operates.

The quantum of committed borrowing facilities of the Group is regularly reviewed and is designed to exceed forecast peak gross debt levels. For short-term working capital purposes, the Group utilises bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

The table below shows the maturity profile of the Group's financial liabilities:

	Within 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
2019					
Non-derivative financial liabilities					
Bank borrowings	54,047	-	70,000	-	124,047
Trade and other payables	131,795	4,700	-	-	136,495
Lease liabilities	40,757	33,054	50,565	144,969	269,345
Derivative financial liabilities					
Interest rate swaps - effective	119	39	-	-	158
2018					
Non-derivative financial liabilities					
Borrowings related to assets held for sale	15,000	-	-	-	15,000
Bank borrowings	23,780	-	70,000	-	93,780

Trade and other payables	104,522	6,586	-	-	111,108
Lease liabilities	377	892			1,269
Deferred and contingent consideration in respect of acquisitions	2,000	-	-	-	2,000
Derivative financial liabilities					
Interest rate swaps - effective	41	15	-	-	56

The Group has disclosed core bank borrowings of £70.0m as due in two to five years. Whilst the amounts borrowed could be repaid each quarter, the Group's intention is to align core bank borrowings with its interest rate swaps.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables, contract assets and work in progress.

Trade receivables are normally due within 30 to 60 days. Trade and other receivables included in the Consolidated Balance Sheet are stated net of a bad debt provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

Housing customers are typically Local Authorities and Housing Associations. The nature of both of these customers means that credit risk is minimal. Other trade receivables contain no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

The Group continually monitors the position of major customers and incorporates this information into its credit risk controls. External credit ratings are obtained where appropriate.

Details of the ageing of trade receivables are shown in note 21.

Deferred and contingent consideration

The table below shows the movements in deferred consideration receivable:

	Total £'000
At 1 January 2018 and 1 January 2019	-
Increase due to disposals in the year	4,618
At 31 December 2019	4,618

The entire balance above is expected to be received within one year.

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

	Deferred £'000	Contingent £'000	Total £'000
At 1 January 2018	11,163	-	11,163
Increase due to new acquisitions in the year	-	2,000	2,000

Paid in respect of acquisitions	(11,163)	-	(11,163)
At 1 January 2019	-	2,000	2,000
Released on reassessment	-	(2,000)	(2,000)
At 31 December 2019	-	-	-

Contingent consideration represents an estimate of future consideration likely to be payable in respect of acquisitions. Contingent consideration is discounted for the likelihood of payment and for the time value of money. Contingent consideration becomes payable based on the profitability of acquired businesses or, in the case of one specific acquisition, the utilisation of certain timing differences in respect of corporation tax. The fair value of contingent consideration is estimated by forecasting future profits and utilising the forecast to determine the likely contingent consideration payable.

Capital management

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- to maintain an optimal capital structure to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of net debt as disclosed below and equity as disclosed in the Consolidated Statement of Changes in Equity.

	2019 £'000	2018 £'000
The Group considers its revolving credit facility to be an integral part of its cash management:		
• cash at bank and in hand	73,061	27,876
• revolving credit facility	(124,047)	(93,780)
Cash and cash equivalents, including revolving credit facility	(50,986)	(65,904)

28. Deferred taxation

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

Deferred tax assets

The following deferred tax assets were recognised by the Group as at 31 December 2019:

	Pension scheme £'000	Share-based payments £'000	Cash flow hedges £'000	Tax losses £'000	Short-term temporary differences £'000	Total £'000
At 1 January 2018	1,032	477	56	1,157	1,592	4,314

Impact of change in accounting policies	-	-	-	-	6,013	6,013
Adjusted balance at 1 January 2018	1,032	477	56	1,157	7,605	10,327
(Debit)/credit to Consolidated Statement of Profit or Loss	(66)	116	-	250	(5,853)	(5,553)
Debit to Consolidated Statement of Changes in Equity	-	14	-	-	-	14
(Debit)/credit to Consolidated Statement of Comprehensive Income	(243)	-	(45)	-	-	(288)
At 1 January 2019	723	607	11	1,407	1,752	4,500
Impact of change in accounting policies	-	-	-	-	533	533
Adjusted balance at 1 January 2019	723	607	11	1,407	2,285	5,033
(Debit)/credit to Consolidated Statement of Profit or Loss	92	(45)	-	(1,343)	(330)	(1,626)
Debit to Consolidated Statement of Changes in Equity	-	(191)	-	-	-	(191)
(Debit)/credit to Consolidated Statement of Comprehensive Income	356	-	18	-	-	374
Assets classified as held for sale	-	-	-	-	(280)	(280)
At 31 December 2019	1,171	371	29	64	1,675	3,310

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

The cumulative amount credited to the Consolidated Statement of Profit or Loss is limited to the tax effect of the associated cumulative share-based payment expense. The excess has been credited directly to equity. This is presented in the Consolidated Statement of Comprehensive Income.

In addition to those recognised, unused tax losses totalling £28.9m (2018: £29.0m) have not been recognised as the Directors do not consider that it is probable that they will be recovered.

Deferred tax liabilities

The following deferred tax liabilities were recognised by the Group as at 31 December 2019:

	Pension scheme £'000	Acquisition intangibles £'000	Cash flow hedges £'000	Total £'000
At 1 January 2018	5,277	1,821	-	7,098
(Credit)/debit to Consolidated Statement of Profit or Loss	58	(842)	-	(784)

Debit to Consolidated Statement of Comprehensive Income	(2,035)	-	-	(2,035)
Resulting from business combinations	-	4,331	-	4,331
At 1 January 2019	3,300	5,310	-	8610
(Credit)/debit to Consolidated Statement of Profit or Loss	56	(1,882)	-	(1,826)
Debit to Consolidated Statement of Comprehensive Income	(1,789)	-	-	(1,394)
At 31 December 2019	1,567	3,428	-	4,995

Intangible assets acquired as part of a business combination are capitalised at fair value at the date of the acquisition and amortised over their useful economic lives. The UK tax regime calculates tax using the individual financial statements of the members of the Group and not the consolidated accounts. Hence, the tax base of acquisition intangible assets arising on consolidation is £nil. Furthermore, no UK tax relief is available on the majority of acquisition intangibles within individual entities, so the tax base of these assets is also £nil. The estimated tax effect of this £nil tax base is accounted for as a deferred tax liability which is released over the period of amortisation of the associated acquisition intangible asset.

29. Share capital and reserves

Classes of reserves

Share capital represents the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Share-based payment reserve represents employee remuneration which is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The cash flow hedging reserve comprises all gains and losses arising from the valuation of interest swap contracts which are effective hedges and mature after the year end. These are valued on a mark-to-market basis, accounted for through the Consolidated Statement of Comprehensive Income and recycled through the Consolidated Statement of Profit or Loss when the hedged item affects the Consolidated Statement of Profit or Loss.

The merger reserve relates to the difference between the nominal value and total consideration in respect of acquisitions, where the Company was entitled to the merger relief offered by the Companies Act 2006. During the year, £33.3m (2018: £nil) of this reserve was transferred to retained earnings following the impairment of the goodwill associated with the original merger reserve.

Share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
At 1 January 110,487,586 (2018: 103,567,091) ordinary shares of 1p each	1,105	1,036
Issue of 2,873 (2018: 133,164) shares on exercise of share options	-	1
Issue of nil (2018: 6,787,331) shares as a placement	-	68
At 31 December 110,490,459 (2018: 110,487,586) ordinary shares of 1p each	1,105	1,105

During the year 2,873 (2018: 133,164) ordinary 1p shares were issued in respect of share options exercised. In addition, the Group raised funds through a placement of nil (2018: 6,787,331) ordinary 1p shares.

30. Notes to the Consolidated Cash Flow Statement

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

	2019 £'000	2018 £'000
Depreciation	41,011	5,379
Loss on disposal of property, plant and equipment	179	37
Profit on disposal of subsidiary	-	44
Amortisation	12,669	6,147
Share-based payments	400	552
IAS 19 pension movement	209	(656)
Finance income	(363)	(389)
Finance cost	9,927	3,405
Total	64,032	14,519

Movements in financing liabilities during the year are as follows:

	Revolving credit facility	Borrowings relating to assets held for resale	Finance leases	Operating leases	Total
At 1 January 2018	50,559	13,941	844	-	65,344
Inception of new leases	-	-	903	-	903
Cash inflows/(outflows)	43,221	1,059	(479)	-	43,801
At 1 January 2019	93,780	15,000	1,268	-	110,048
Impact of change in accounting policies	-	-	-	191,348	191,348
Adjusted balance at 1 January 2019	93,780	15,000	1,268	191,348	301,396
Inception of new leases	-	-	-	112,139	112,139
Cash inflows/(outflows)	30,267	(15,000)	(179)	(35,231)	(20,143)
At 31 December 2019	124,047	-	1,089	268,256	393,392

31. Acquisitions and disposals

On 13 September 2019 the Group disposed of Mears Housing Portfolio 2 Limited ('MHP 2'), a subsidiary that had been part of the Group's property acquisition business. MHP 2's sole asset was a development site with a carrying value of £12.0m. The company was sold for £6.9m of cash plus £4.6m of deferred consideration, payable twelve months following the sale.

In addition, on 8 August 2019, the Group completed the acquisition of certain business assets from Live Estates Limited, a property management company for consideration of £1.3m in cash, which provided the Group access to around 125 landlords and 680 properties within the North East region of the Asylum Accommodation and Support contract. As a result of this transaction, an intangible asset of £1.3m was recognised in respect of the supplier relationships acquired. This intangible asset is being amortised over two years from acquisition.

32. Pensions

Defined contribution schemes

The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £5.7m (2018: £4.0m) to these schemes.

IAS 19 'Employee Benefits'

The Group contributes to 30 (2018: 30) principal defined benefit schemes on behalf of a number of employees which require contributions to be made to separately administered funds.

These pension schemes are operated on behalf of Mears Limited, Mears Care Limited, Morrison Facilities Services Limited and their subsidiary undertakings. The assets of the schemes are administered by trustees in funds independent from the assets of the Group.

In certain cases, the Group will participate under Admitted Body status in the Local Government Pension Scheme. The Group will contribute for a finite period up until the end of the particular contract. The Group is required to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases, these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Group has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised as a separate pension guarantee asset. Certain judgements around the value of this asset have been made and are discussed in the judgements and estimates disclosure within the accounting policies.

The disclosures in respect of the two (2018: two) Group defined benefit schemes and the 28 (2018: 28) other defined benefit schemes in this note have been aggregated.

Costs and liabilities of the schemes are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2019 by qualified independent actuaries using the projected unit funding method.

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

	2019	2018
Rate of increase of salaries - first year	2.90%	2.00%
Rate of increase of salaries - second year	2.90%	3.15%
Rate of increase of salaries - long term	2.90%	3.15%
Rate of increase for pensions in payment - based on CPI with a cap of 5%	1.95%	2.20%
Rate of increase for pensions in payment - based on RPI with a cap of 5%	2.85%	3.05%
Rate of increase for pensions in payment - based on CPI with a cap of 3%	1.75%	1.90%
Rate of increase for pensions in payment - based on RPI with a cap of 3%	2.35%	2.45%
Discount rate	2.10%	2.95%
Retail prices inflation	2.90%	3.15%

Consumer prices inflation	1.90%	2.15%
Life expectancy for a 65-year-old male	22.4 years	22.3 years
Life expectancy for a 65-year-old female	24.6 years	24.5 years

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

	2019			2018		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Equities - quoted	47,745	178,526	226,271	29,567	153,190	182,757
Equities - unquoted	-	14,924	14,924	-	13,927	13,927
Bonds - quoted	92,763	65,003	159,846	93,562	58,113	151,675
Bonds - unquoted	-	1,836	1,836	-	2,106	2,106
Property - quoted	3,783	7,934	11,717	4,352	6,215	10,567
Property - unquoted	-	6,853	6,853	-	5,875	5,875
Cash	18,959	28,388	47,347	25,391	29,348	54,739
Group's estimated asset share	163,250	303,464	466,714	152,872	268,774	421,646
Present value of funded scheme liabilities	(156,379)	(327,460)	(483,839)	(136,548)	(282,368)	(418,916)
Funded status	6,871	(23,996)	(17,125)	16,324	(13,594)	2,730
Scheme surpluses not recognised as assets	-	(4,597)	(4,597)	-	(6,111)	(6,111)
Pension asset/(liability)	6,871	(28,593)	(21,722)	16,324	(19,705)	3,381
Pension guarantee assets	-	23,810	23,810	-	16,947	16,947

The amounts recognised in the Consolidated Statement of Profit or Loss are as follows:

	2019			2018		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Current service cost	1,989	2,391	4,380	2,091	3,483	5,574
Past service cost	-	150	150	150	-	150

Settlement and curtailment	-	-	-	-	(234)	(234)
Administration costs	277	-	277	121	-	121
Total operating charge	2,266	2,541	4,807	2,362	3,249	5,611
Net interest	(512)	80	(432)	(730)	34	(696)
Total charged to the result for the year	1,754	2,621	4,375	1,632	3,283	4,915

Past service cost above includes a charge of £150,000 (2018: £nil) in respect of the Group's estimate of the impact on Local Government Pension Schemes of the recent 'McCloud' judgement in respect of historical age discrimination.

Past service cost above includes a charge of £nil (2018: £150,000) in respect of the Group's estimate of the impact of GMP equalisation, following the recent Lloyds Banking Group ruling.

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

	2019			2018		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
On TUPE transfer of employees	-	-	-	-	(21,303)	(21,303)
Return on plan assets in excess of that recorded in net interest	8,623	37,766	46,389	(7,270)	(19,427)	(26,697)
Actuarial gain/(loss) arising from changes in demographic assumptions	717	-	717	(5,601)	221	(5,380)
Actuarial (loss)/gain arising from changes in financial assumptions	(18,481)	(40,329)	(58,810)	7,197	17,293	24,490
Actuarial gain arising from liability experience	(957)	(1)	(958)	(3,967)	(676)	(4,643)
Effects of limitation of recognisable surplus	-	1,393	1,393	-	24,102	24,102
Total gains and losses recognised in equity	(10,098)	(1,171)	(11,269)	(9,641)	210	(9,431)

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

	2019			2018		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Present value of obligations at 1 January	136,548	282,368	418,916	132,591	324,920	457,511
Liabilities related to assets classified as held for						

sale	-	(3,105)	(3,105)	-	-	-
Current service cost	1,989	2,391	4,380	2,241	3,483	5,724
Past service cost	-	150	150	-	-	-
Scheme administration costs	-	-	-	-	-	-
Interest on obligations	3,958	7,812	11,770	3,560	7,499	11,059
Plan participants' contributions	301	894	1,195	321	1,064	1,385
Benefits paid	(5,138)	(5,505)	(10,643)	(4,536)	(5,751)	(10,287)
Contract transfer	-	(79)	(79)	-	(31,907)	(31,907)
Settlements	-	-	-	-	(2,062)	(2,062)
Actuarial gain arising from changes in demographic assumptions	(717)	-	(717)	5,601	(221)	5,380
Actuarial loss arising from changes in financial assumptions	18,481	42,533	61,014	(7,197)	(15,333)	(22,530)
Actuarial loss/(gain) arising from liability experience	957	1	958	3,967	676	4,643
Present value of obligations at 31 December	156,379	327,460	483,839	136,548	282,368	418,916

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

	2019			2018		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Fair value of plan assets at 1 January	152,872	285,721	438,593	157,325	352,553	509,878
Assets classified as held for sale	-	(3,171)	(3,171)	-	-	-
Expected return on plan assets	4,470	7,851	12,321	4,290	7,653	11,943
Employer's contributions	2,399	1,767	4,166	2,863	2,707	5,570
Plan participants' contributions	301	894	1,195	321	1,064	1,385
Benefits paid	(5,138)	(5,505)	(10,643)	(4,536)	(5,751)	(10,287)
Scheme administration costs	(277)	-	(277)	(121)	-	(121)

Contract transfer	-	(253)	(253)	-	(53,210)	(53,210)
Settlements	-	-	-	-	(1,828)	(1,828)
Return on plan assets above/(below) that recorded in net interest	8,623	39,970	48,593	(7,270)	(17,467)	(24,737)
Fair value of plan assets at 31 December	163,250	327,274	490,524	152,872	285,721	438,593

History of experience gains and losses is as follows:

	Group schemes				
	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Fair value of scheme assets	163,250	152,872	157,325	149,529	116,512
Net present value of defined benefit obligations	(156,379)	(136,548)	(132,591)	(137,721)	(111,327)
Net surplus	6,871	16,324	24,734	11,808	5,185
Experience adjustments arising on scheme assets					
Amount	8,623	(7,270)	3,942	27,129	(4,984)
Percentage of scheme assets	5.3%	(4.8%)	2.5%	18.1%	(4.3%)
Experience adjustments arising on scheme liabilities					
Amount	957	3,967	28	(1,000)	(5,193)
Percentage of scheme liabilities	0.6%	2.9%	0.0%	(0.7%)	(4.7%)

	Other schemes				
	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Fair value of scheme assets	327,274	285,721	352,553	422,691	352,690
Net present value of defined benefit obligations	(327,460)	(282,368)	(324,920)	(410,258)	(333,839)
Net (deficit)/surplus	(186)	3,353	27,633	12,433	18,851
Asset value not recognised as surplus	(4,597)	(6,111)	(30,025)	(15,747)	(19,988)
Net deficit	(4,783)	(2,758)	(2,392)	(3,314)	(1,137)

Experience adjustments arising on scheme assets					
Amount	39,970	(17,467)	(4,314)	59,020	(7,406)
Percentage of scheme assets	12.2%	(6.1%)	(1.2%)	14.0%	(2.1%)
Experience adjustments arising on scheme liabilities					
Amount	1	676	(31,447)	(1,714)	(819)
Percentage of scheme liabilities	0.0%	0.2%	(9.7%)	(0.4%)	(0.2%)

Funding arrangements are agreed for each of the Group's defined benefit pension schemes with their respective trustees. The employer's contributions expected to be paid during the financial year ending 31 December 2019 amount to £4.0m.

Each of the schemes manages risks through a variety of methods and strategies to limit downside in falls in equity markets, movement in inflation and movement in interest rates.

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below shows how a reasonably possible increase or decrease in a particular assumption, in isolation, results in an increase or decrease in the present value of the defined benefit obligation as at 31 December 2019.

	Decrease £'000	Increase £'000
Rate of inflation - decrease/increase by 0.1%	(10,508)	10,724
Rate of increase in salaries - decrease/increase by 0.1%	(3,944)	4,000
Discount rate - decrease/increase by 0.1%	10,084	(10,303)
Life expectancy - decrease/increase by 1 year	(18,257)	18,283

33. Capital commitments

The Group had no capital commitments at 31 December 2019 or at 31 December 2018.

34. Contingent liabilities

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2019 these guarantees amounted to £19.3m (2018: £18.7m).

The Group has a legacy guarantee in place in respect of the performance of an M&E project delivered by a former subsidiary, Haydon Mechanical and Electrical Company LLC ('Haydon LLC'). The guarantee, with a limit of £2.8m (£3.9m), will fall away once the final account is agreed at which point the associated guarantee will be released.

The Group had no other contingent liabilities at 31 December 2019 or at 31 December 2018.

35. Events after the reporting period

As described in note 10, the Group disposed of Mears Care Limited, one of its subsidiaries for £4m cash including £1m of deferred consideration, on 30 January 2020. The assets and liabilities of this entity were classified as held for sale at the year end and included in the disposal group.

Over the first three months of 2020, the Covid-19 outbreak has increasingly impacted on businesses across the world.

36. Related party transactions

Identity of related parties

The Group has a related party relationship with its pension schemes, its subsidiaries and its Directors.

Pension schemes

Details of contributions to pension schemes are set out in note 32 to this preliminary announcement.

Subsidiaries

The Group has a central treasury arrangement in which all subsidiaries participate. The Directors do not consider it meaningful to set out details of transfers made in respect of this treasury arrangement between companies, nor do they consider it meaningful to set out details of interest or dividend payments made within the Group.

Transactions with key management personnel

The Group has identified key management personnel as the Directors of Mears Group PLC.

Key management personnel held the following percentage of voting shares in Mears Group PLC:

	2019 %	2018 %
Directors	0.3	0.3

Key management personnel's compensation is as follows:

	2019 £'000	2018 £'000
Salaries including social security costs	1,634	1,778
Contributions to defined contribution pension schemes	130	121
Share-based payments	-	100
	1,764	1,999

Further details of Directors' remuneration are disclosed within the Remuneration Report.

Dividends totalling £0.04m (2018: £0.04m) were paid to Directors during the year.

Transactions with other related parties

During the year the Group made additional loans to YourMK LLP, an entity in which the Group is a 50% member, totalling £0.1m (2018: £0.1m). At 31 December 2019, the Group was owed £0.5m (2018: £0.5m) by YourMK LLP.

During the year the Group provided maintenance services to Pyramid Plus South LLP, an entity in which the Group is a 30% member, totalling £6.5m (2018: £0.5m). At 31 December 2019, £0.8m (2018: £0.5m) was due to the Group in respect of these transactions.

37. Restatement of prior year Consolidated Balance Sheet

The Group has made a minor amendment to the presentation of its net pension liabilities in the current year. Previously, where a guarantee was in place for some or all of any deficit on each scheme, the guarantee asset was offset with the pension liability in the Consolidated Balance Sheet.

The guarantee asset is now presented separately in non-current assets while the pension deficit before any guarantee asset is shown in non-current liabilities. This change is shown in the table below:

As originally

	As restated £'000	As originally presented £'000
Consolidated balance sheet as at 31 December 2018		
Non-current assets		
Pension and other employee benefits	17,368	17,368
Pension guarantee assets	16,947	-
Non-current liabilities		
Pension and other employee benefits	(20,749)	(3,802)
Net pension assets	13,566	13,566

The Group has also made a minor amendment to the presentation of its provisions. These arise as a result of the acquisition of MPS Housing Limited on 30 November 2018 and are now disclosed separately in the Consolidated Balance Sheet, rather than aggregated with other accruals. This change is shown in the table below:

	As restated £'000	As originally presented £'000
Consolidated balance sheet as at 31 December 2018		
Current liabilities		
Trade and other payables	188,553	192,491
Provisions	3,938	-
	192,491	192,491

31. Publication of Non Statutory Accounts

The results have been extracted from the audited financial statements of the Group for the year ended 31 December 2019. The results do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with the principles of International Financial Reporting Standards ("IFRS") as adopted by the EU, IFRIC interpretations and Companies Act 2006 that applies to companies reporting under IFRS, this announcement does not of itself contain sufficient information to comply with IFRS. The Group will publish full financial statements that comply with IFRS. The audited financial statements incorporate an unqualified audit report. The Auditor's report on these accounts does contain an emphasis of matter in relation to the fact that a material uncertainty in respect of the impact of Covid-19 and which is detailed within the Basis of preparation at the beginning of the Principal Accounting Policies section earlier in this document.

Statutory accounts for the year ended 31 December 2018, which incorporated an unqualified auditor's report, have been filed with the Registrar of Companies. The Auditor's report on these accounts did not draw attention to any matters by way of emphasis and did not contain statements under S498(2) or (3) Companies Act 2006.

END

FR ZZGZKRVGGGZM