Partners for purpose

Secure. Responsible. Innovative.

Mears Group PLC
Annual Report and Accounts 2019

Mears is a leading Housing with Care provider to both the public and private sector, working with clients in the UK, to help develop and implement their placemaking ambitions.

The business is founded in local communities, where we deliver the highest standards of service to people, their homes and their environment. For many years we have been the leading provider of repairs and maintenance services to the affordable housing sector and also now lead in providing managed and longer-term innovative solutions to Homelessness. Indeed, we have become an important Registered Social Landlord in our own right.

Our clients are Local Authorities, Housing Associations and increasingly Central Government departments such as the Home Office, the Ministry of Homes, Communities and Local Government (MHCLG) and the Ministry of Defence (MOD). In every case though our focus is on providing a quality housing environment, along with many of the services that are needed to ensure a positive experience for the tenant. We take our responsibilities seriously and have always been focused on long-term sustainable propositions.

SECURE

A business with well run long-term partnership contracts, a stable workforce and excellent IT systems

RESPONSIBLE

A business that is a trusted partner to all our stakeholders, that operates to high levels of governance, compliance and social value

INNOVATIVE

A business that works with clients to develop services to increase the availability and condition of decent affordable housing

Read more on pages 08 to 09

Read more on pages 10 to 11

Read more on pages 12 to 13

Specialists in housing and care solutions

OUR PURPOSE

Working together to help people and communities thrive. This is the guiding principle that defines our brand and drives our activities. It is what makes Mears distinctive and is the starting point for all of our visual communications.

OUR VISION

To be regarded as the UK's most trusted and respected provider of housing solutions.

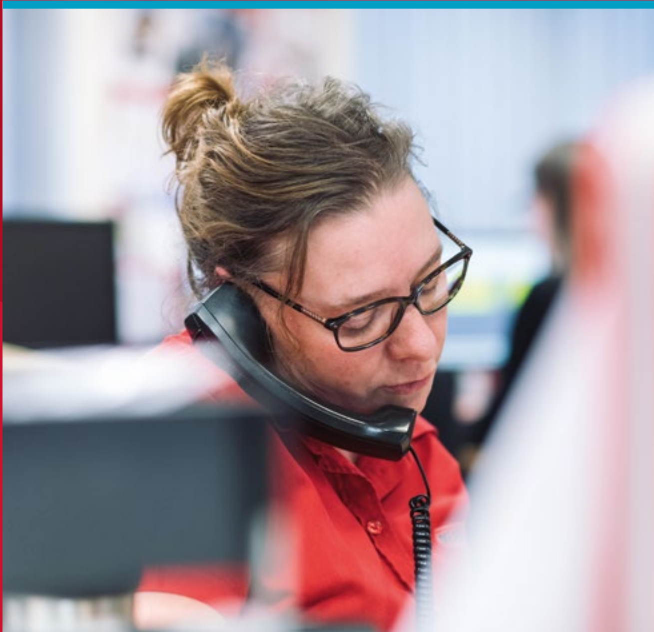
OUR VALUES

- We value our **customers and communities**, putting their needs at the heart of everything we do.
- We value **teamwork**, supporting each other, sharing ideas and never excluding others.
- We value **personal responsibility**, setting consistently high standards for our work and holding ourselves accountable for achieving them.
- We value **innovation**, being inventive in our approach and empowering people to take reasonable action without fear or discrimination.

WHERE WE OPERATE

We operate across the UK through a range of local branches and facilities with a national coverage.

1. **Scotland** – Mears win 10 year contract to provide asylum accommodation and support
2. **North Lanarkshire** – Mears New Homes won a new contract with North Lanarkshire Council, worth £2.8m to build an entire scheme of 16 dwellings
3. **Livingston** – wins Mears Red Thread Branch of the Year continuing to deliver FM service in West Lothian Schools and St. Andrews Community Hospital
4. **North East of England** – Mears win 10 year contract to provide asylum accommodation and support
5. **Northern Ireland** – Mears win 10 year contract to provide asylum accommodation and support
6. **Yorkshire and the Humber** – Mears win 10 year contract to provide asylum accommodation and support
7. **Leeds** – Mears supports our partners in Leeds with repairs and maintenance and new homes by sponsoring Leeds Rhinos
8. **Pontefract** – A £3m contract sees Mears delivering 22 two and three bed houses on another brownfield site that used to be a retirement home
9. **East of England** – Mears partner with Longhurst Group with a contract, worth over £46 million over 10 years
10. **Rotherham** – £250 million repairs and maintenance during a ten year contract period at the borough's 20,000 council properties
11. **Bolsover** – FM winning new contracts to deliver Compliance and Reactive Maintenance service in Bolsover and North Somerset Councils
12. **Milton Keynes** – Mears support the Children's armistice Memorial Day alongside our repairs, maintenance and new homes contracts
13. **London** – MPS, the repairs and maintenance contractor are celebrating the award of a £2million contract for kitchens and bathrooms with A2Dominion on top of its current contract
14. **Crawley Borough Council** has appointed Mears as one of two new contractors to manage the maintenance of council homes around the town
15. **Basingstoke** – Mears to help convert the property into 10 affordable rented flats and a room for the wider community to use
16. **North Somerset** – FM winning new contracts to deliver Compliance and Reactive Maintenance service in Bolsover and North Somerset Councils
17. **Cornwall** – A partnership with Cornwall Council which in 2019 delivered a 15 unit block in Cornwall for use as move on accommodation for former rough sleepers as part of our ongoing work with Cornwall Council



Introduction

WHAT WE DO

Mears has a single minded focus on the housing market and delivering services to the residents of these homes. We operate within the affordable housing sector, which is an area that will see continued investment given the significant housing shortage and the rising number of people who are regarded as statutorily homeless.

OUR SERVICES

Our core services are in the maintenance and management of homes. Increasingly we operate an intelligent approach to maintenance, using technology and experience to operate preventative maintenance programmes that reduce levels of emergency repairs. As regards management, we collect rent and ensure homes are managed and maintained to a decent standard. Our particular focus is on providing sustainable alternatives to homelessness, helping reduce the rising problems created by the housing shortage in the UK. Through our running of the national Planning Portal, we help enable planning decisions to be made based upon ensuring the right information is available for Councils to make an informed decision.

OUR CUSTOMERS

We work predominantly with Central Government and Local Government, in the delivery of housing services. These are typically through long term contracts. We equally recognise that the residents of the homes that we manage and/or maintain, are customers, and we take pride in the high levels of customer satisfaction that we achieve.

LONG-TERM DRIVERS

The shortage of housing in the UK has made investment in housing both a political and an economic priority. More recently, the Social Housing Green Paper and the Grenfell tragedy have put greater focus on tenant engagement and safety. Long-term UK carbon reduction targets will also mean that significant further investment in housing is needed, including the replacement of gas boilers.

As such, we anticipate rising investment in our markets and a greater attention to the quality of delivery.

Demographic change is the key long-term driver, given the ageing population of the UK. This will create opportunity for more specialist housing, where management, maintenance and care provision can be effectively combined through a single partner.

Revenue

Divisional contribution*

Divisional margin*

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

Highlights

FINANCIAL

Group revenue (continuing activities)

+17%

Normalised profit before tax*

+1%

Normalised diluted EPS

-2%

* 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

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

ALTERNATIVE PERFORMANCE MEASURES (APM)

APM	Definition
Normalised profit before tax	Normalised profit before tax is based on continuing activities, and stated before the amortisation of acquisition intangibles and exceptional items. When including the results from discontinued operations, which included the impairment of intangibles, the Group reported a statutory loss of £66.1m.
Normalised diluted earnings per share (EPS)	Normalised EPS utilises an earnings figure based on continuing activities before the amortisation of acquisition intangibles and exceptional items. Earnings are also adjusted to reflect a tax charge of 18%. The headline tax adjustment typically reduces EPS but it is felt that this measure better allows for the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance. When including the results from discontinued operations, and making no normalisation adjustments, the Group reported a statutory diluted loss per share of 59.77p.

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Another strong year for a great British business

At Mears we are proud to have been awarded and accredited by outside bodies through rigorous testing. Our commitment to safety, our staff, to providing social value to the communities we work in, all make us stand out from the crowd.

Customer Service Excellence Accreditation

The Group goes through a rigorous assessment on an annual basis and have successfully achieved this accreditation year on year for the past 6 years. They are assessed on their current service delivery and on how they have made service improvements on the previous years performance. Our Care business has been awarded across all of the 5 CSE standards, 9 Compliance Plus awards. 36 Housing branches have successfully gone through the accreditation and have under taken 3 rolling programmes on all five criteria.

Read more about the award and criteria at www.instituteofcustomerservice.com

Social Value UK 2020 Organisational Leadership

The award is for a public, private or third sector organisation that has led the way in embedding social value into their business culture via processes, systems or their people to ensure the needs of their customers and communities are being met.

Read more about the award and criteria at www.socialvalueuk.org

Royal Society for the Prevention of Accidents

In 2017, Mears was awarded the RoSPA Order of Distinction (that's 15 consecutive Golds) in the prestigious annual scheme run by the Royal Society for the Prevention of Accidents Health and safety is paramount to our business, and the achievement of both of these awards bears testament to the significant commitment that Directors, managers and staff have to the health and safety activities within the group. It gives recognition that Mears Group is one of the leading companies devoted to continually improve safety, health and environment standards in the country. In 2019 Mears were highly commended in the Facilities Management category.

Read more about the award and criteria at www.rospa.com

TPAS Quality Standard Mark

Mears is proud to have maintained its TPAS Quality Standard Mark, passing the 3-yearly assessment every time since 2006. The TPAS accreditation demonstrates Mears' commitment to supporting landlords and encouraging tenant involvement. This Quality Mark for Contractors is an assessment of the standard of resident involvement in responsive repairs, maintenance and capital works contracts which ensures best practice for three consecutive years.

Read more about the award and criteria at www.tpas.org.uk

Best Companies

In 2019 Mears was awarded accreditation from Best Companies, in conjunction with the Sunday Times, coming in the top 25 for the first time. Working on an action plan throughout 2019 to build on our work and implement the strict guidance and criteria Mears is very proud to announce that for the second year running we are in the Top 25 Companies.

Read more about the award and criteria at www.b.co.uk

Diversity Network

Mears is very proud to have been awarded Diversity Network Accreditation (DNA).

Achieving DNA is recognition that an organisation has got effective leadership and processes in place and that they are achieving positive outcomes for those who work for them and their customers.

FTSE4Good

Mears Group has been recognised for its outstanding environmental, social and governance practices by gaining a place in the FTSE4Good Index – and places Mears in the top 9% of companies in the index.

Organisations hoping to be included on the list must supply robust and detailed evidence on how they fulfil the index's key indices, which focus on three areas: the environment, human rights and stakeholder relations.

Read more www.ftse4good.com

"THE BOARD IS ACTIVELY WORKING ON THE GROUP'S FUTURE STRATEGY, BASED ON OUR VISION TO BE THE UK'S MOST RESPECTED AND TRUSTED PROVIDER OF HOUSING SOLUTIONS."

KIERAN MURPHY
CHAIRMAN

COVID-19

The UK today is unimaginably different from the conditions which prevailed throughout 2019. As at the date of this annual report, 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.

£905.1m

(2018: £771.9M) – CONTINUING REVENUE

£51.0m

(2018: £65.9M) – NET DEBT AT 31 DECEMBER

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.

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006

The Board of directors of Mears Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole in the decisions taken during the year ended 31 December 2019.

The Board recognises a wide range of stakeholder interests and seeks to create a culture whereby decisions are made with consideration to the wider impact upon the organisation as well as financial performance and strategic objectives.

During the year, the Board reached the difficult decision to withdraw from delivering stand-alone Domiciliary Care. The Care market has been difficult in recent years with low levels of profitability and return on capital employed, compared this to the challenges of staff retention and the reputational and operational risks associated with this sector. The Board has taken a balanced view, recognising its responsibility to both our customers and employees, as well as recognising that having a care operation has helped secure other key strategic work and thus facilitated the long term development of the business. Over a number of challenging years, the Board of Directors are extremely proud of the achievements made in terms of driving improvements in service delivery and workforce pay and conditions but it has not proved possible to generate an adequate financial return. In January 2020, the Board of Directors approved the disposal of the England and Wales business, whilst providing transitional support to the buyer for an extended period to ensure no negative impact upon the service users as a result of the transaction.

The Board regularly reviews the Group's dividend policy to provide a fair return to shareholders whilst looking to maintain a prudent capital structure and retaining the ability to invest in growth. The Board is mindful of the views of our shareholders, debt funders and our wider stakeholders and has a desire to see average net debt reduce. The Board has set challenging targets for debt reduction, but the timing may be impacted by external factors, beyond our control. The Board consider debt reduction to be to the benefit of all stakeholders.

Our employees are fundamental to meeting our strategic priorities. We recognise that we are in an increasingly competitive environment as regards attracting skilled staff and as such have taken a cross Group approach to ensuring that we are an attractive organisation to join and to develop a successful career with. We aim to be a responsible employer in our approach to the pay and benefits that our employees receive and have implemented strong governance to ensure a fair approach is taken across the Group. In 2018, the Company became one of the first companies in the UK to appoint an Employee Director, clearly underlining the Company's commitment to progressive business practice and corporate governance. We recognise the importance of diversity and inclusion and benchmark ourselves against others. We have put particular emphasis on programmes to attract women into the Trades and into management positions. The result of our work here has been to make Mears one of the top 25 big companies to work for in the UK for the last two years, according to the Sunday Times list.

The health, safety and well-being of our employees is our primary consideration in the way we do business. Health, safety and environmental risks are fully embedded in the governance structures of the Group. The emphasis that the Board places on this area is evidenced by the Compliance Committee, which plays an active role in monitoring Group activities, and reports into both Audit Committee and the Board.

As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance. This expectation is cascaded throughout the business. Employee reward and recognition is directed towards delivering high service levels, in a safe and responsible environment.

We have been recognised as an organisation which is delivering strongly on the social responsibility agenda. The Group take a strategic approach to corporate social responsibility and embed it into every area of our business. This is evidenced by our newly appointed Social and Diversity Impact Board. Our Social and Diversity Impact statement within the Strategic Report demonstrates our clear ambition towards improving people's lives and building strong, sustainable communities.

We aim to act responsibly in how we engage with our suppliers. We expect our suppliers to acknowledge the significance of social, environmental and ethical matters in their conduct and demonstrate compliance with legislation. We have a commitment with our customers to increase the number of local SME subcontractors working within our supply chain, ensuring that a significant proportion of the contract spend remains within the local economy.

The Board of Directors acknowledges the importance of good payment practices and is committed to ensuring that suppliers are paid to on a timely basis to agreed terms.

Our Non-financial statement on pages 68 to 69 of the Strategic Report details how the Board decisions impact upon on our employees and the communities we serve.

As the Board of Directors, we endeavour to behave responsibly toward our shareholders and treat them fairly and equally, so that they will benefit from the Group meeting its strategic objectives. The Directors regularly make themselves available for dialogue with shareholders

SECURE

Providing homes and supporting communities

ROTHERHAM – SOCIAL VALUE ACTIVITY MAKES THE DIFFERENCE FOR £60M CONTRACT WIN

Rotherham Council reappointed Mears as the main contractor to provide £250m repairs and maintenance during a ten-year contract period for the North of the Borough from 1 April 2020.

The team will provide repairs, make empty properties ready to be re-let, provide caretaking services and make adaptations to homes when required.

Mears will also deliver some borough-wide planned work, capital improvement schemes, structural works and repairs to fire-damaged properties.

The awarding of the contracts, which will initially run for five years with the option to extend for a further five years, follows a rigorous retender exercise carried out over the past 18 months. Formal tenders were submitted by five contractors in June and assessed on the basis of 70% quality, 30% price.

Rotherham council said of the award: "We want to work with companies that give back to the communities that they work in, who promote a borough where people can grow, flourish and prosper, and strengthen the skills of the local workforce and support people into jobs".

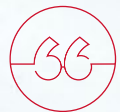
Mears already has a strong presence in the town and has redeveloped three floors of space at New York Stadium to create a new home for Rotherham United Community Sports Trust, which engages local people through sport. The stadium also houses the Mears Academy, which as well as offering training to colleagues, can also support the Council in delivering tenant workshops so that tenants can understand how to effectively use their heating systems and do basic repairs.

Out in the town, we host Local Employment Activity Forum events in Rotherham on an annual basis in partnership with the council and JobCentre Plus, bringing prospective employers and job seekers together. And we're founder members of the Rotherham Pioneers, a group of 80 like-minded businesses that are focused on promoting Rotherham as a place to invest and work in – something we've actively contributed to with the 49 apprentice opportunities we have provided over the last ten years and those we are planning over the new ten-year contract.

We've also contributed to infrastructure projects in the town – refurbishing two premises for a homeless charity, developing bungalows for disabled residents and supporting local charities and stakeholder groups like Age UK.

"YES, WE DELIVER THE CORE CONTRACT ACTIVITY, BUT IT'S THE SOCIAL VALUE WORK THAT WE DO WHICH GIVES US THE EDGE. IT MEANS I CAN GO INTO A BUSINESS MEETING WITH PEOPLE WHO DON'T REALLY KNOW ABOUT REPAIRS AND MAINTENANCE AND HAVE THEM INSTANTLY RECOGNISE MEARS FOR THE WORK WE DO TO SUPPORT THE LOCAL COMMUNITY."

ANDY CHAMBERS
BRANCH MANAGER



"WE'VE BUILT A PRESENCE IN THE TOWN. OUR CLIENTS SEE US AS A COMPANY INVESTING IN ROTHERHAM, WHICH HELPS WHEN THEY WANT TO INVEST IN US."

ANDY CHAMBERS
BRANCH MANAGER

RESPONSIBLE

Helping migrants to be back on their feet

ASYLUM ACCOMMODATION AND SUPPORT CONTRACTS

In 2019, Mears was awarded three new government contracts to provide accommodation and support for asylum seekers. The contracts are to provide accommodation as well as supporting each service user. Mears has been awarded contracts for Scotland, Northern Ireland and the North East, Yorkshire and the Humber.

Worth in excess of £1bn over 10 years, mobilisation began in January and the transition from the previous providers happened in September 2019.

The contracts are part of the way in which the UK Government meets its duty to provide asylum for those seeking international protection in the UK. To deliver the contracts, Mears has drawn on our outstanding 30 year track record of providing housing, housing maintenance and care services all across the UK, with a strong footprint in Scotland, Northern Ireland and the North East and Yorkshire.

The number of asylum seekers requiring housing is consistently high, with some 40,000 new applications each year. circa 50,000 asylum seekers are currently being provided with a home under the AASC contracts; circa 17,000 of these are in Mears' three regions.

THE MEARS APPROACH

Our approach has been to apply our knowledge of housing management and repairs, and supporting and engaging with our tenants and customers. By extending this approach to asylum housing we have successfully demonstrated that our core model is one which our partners increasingly demand.

Mears has worked with the Home Office and service users to make sure that accommodation that is used in the new AASC contract meets the required quality standard. We have established operational teams in each of the areas who are responsible for identifying support needs, managing community cohesion issues, and developing strong partnerships with local authorities and in communities.

Mears is committed to ensuring that asylum accommodation is safe, habitable and fit for purpose and will meet all contractual and regulatory standards. Moreover, Mears understands the importance of supporting each person whilst living in its accommodation and to ensure that as a Company it works with the communities in which it delivers services.

Since August 2019, 2,973 new asylum seekers have been housed by Mears and 1,811 have moved out into more permanent homes. We've successfully housed 24,198 people in this way since then.

GOING FORWARD

Under the contract early indications are that people moves will at least match, and more likely exceed assumptions. If moves continue to increase, as expected, this is positive for Mears under the contract. In Mears regions circa 85,000 asylum seekers will be awarded leave to remain across the life of the contract; they all require a home.

Mears believes there is an opportunity, as a result of its innovative 'partnership model', and its registered provider status, to offer housing to some of those people every year that secure leave to remain and need an affordable home within the Mears regions. This offers revenue upside and was also a key component of the Mears' solution, which resulted in Mears being awarded three of the seven regions.

The success of this procurement was achieved due to the clear alignment between the Home Office's aspirations for the new contract and Mears' core competencies. Mears was also able to influence the structural design of the contract, how services were to be delivered and the commercial approach. Winning three of the seven regions as a new entrant is an achievement that should not be underestimated.

2,973

ASYLUM SEEKERS HAVE BEEN HOUSED BY MEARS SINCE AUGUST 2019

INNOVATIVE

Delivering housing with care

"IT'S ABOUT CREATING A COMMUNITY WHERE PEOPLE CAN FEEL SAFE IN THE KNOWLEDGE THAT THEIR HEALTH IS LOOKED AFTER WHICH ALLOWS THEM TO GET ON WITH THEIR LIVES."

KATE ARLOW
SERVICE MANAGER
BALMORAL PLACE

EXTRA CARE – MEETING THE HOUSING NEEDS OF OUR POPULATION

Mears has been running Balmoral Place in Northamptonshire since 2018. An extra care Housing scheme, the development offers an affordable, positive lifestyle choice for older people in Northampton. The scheme provides a safe, secure and vibrant community for those over 55, who want to live independently with personalised care designed for their needs. This is just one of 21 extra care schemes run by Mears with more in the pipeline.

The Associated Retirement Community Operators (ARCO) says that only about 75,000 or 0.6% of people aged 65 or over in the UK live in what it terms "retirement communities" – which it distinguishes from basic retirement or sheltered housing that does not offer care or support – compared with 6.1% in the US, 5.4% in New Zealand and 4.9% in Australia. If UK numbers roughly tripled to 250,000 by 2030 ARCO claims that cumulative savings of £5.6bn would by then be realised in the health and social care systems.

At Balmoral Place we see a joint partnership between local councils, the CCG and Mears. Four of the flats are reserved for the NHS's Nene clinical commissioning group, which commissions healthcare for most of Northamptonshire and uses the accommodation as 'step-down' beds for older patients discharged from hospital but not yet ready to return home. They stay an average six to eight weeks, with care provided by Mears' team and visiting doctors and therapists. The other properties are available for those on social rent meaning we can work with our partners in council housing and social care departments to genuinely make a difference to local communities.

Mears combines its skills to build, manage, maintain and provide care to specially-adapted homes for elderly and disabled people to help them live independently.

With demographic change upon us our investment in extra care is something we believe is an untapped growth area and one which ultimately allows older people to live genuinely independent lives in a caring and supportive environment.

£5.6bn

CUMULATIVE SAVING THAT WOULD BE REALISED BY 2030 IF UK RETIREMENT COMMUNITIES TRIPLED

Working together to help people and communities thrive

"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."

DAVID MILES
CHIEF EXECUTIVE OFFICER

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 £m	**Split of divisional contribution* £m**	**Margin**	Revenue £m	Split of divisional contribution* £m	Margin £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.

An interview with the Chief Executive Officer

DAVID MILES
CHIEF EXECUTIVE OFFICER

Q: WHAT WILL THE IMPACT OF CORONAVIRUS BE FOR MEARS BUSINESS?

A: Our immediate focus has been the care of our colleagues and our customers and as is always the case at Mears, the response of our staff has been outstanding. At this stage there is of course uncertainty around the precise commercial impact on the business but as a key partner to the public sector and given the nature of the majority of our contracts, we remain confident that the business will remain secure both in the short and the long term.

Q: IS MEARS SHIFTING FOCUS FROM WINNING WORK WITH LOCAL GOVERNMENT TO CENTRAL GOVERNMENT?

A: We are very explicit in the fact that our core competency is in housing solutions and our partners and clients reflect this. If Mears can be on hand to advise Local or Central Government on how to manage or plan for repairs of housing then it is right that we bring our experience, procurement leverage and supply chains to bear. With the Asylum contract we were very pleased to have been able to offer our thoughts on how repairs, management services and resident care should be delivered but a core part of the contracts is our relationship with Local Councils on the ground.

WILL MEARS BE BUILDING ANY NEW HOMES?

The market has been tough for developers but we see an important niche in working as contracting partners to Local Government. We have specific expertise in Local Government and are ready to capitalise on a growth in council building houses. Our developments in 2019 were highly commended and awarded for their quality. This feels like a very natural extension of relationships and draws on our ability to bring to bear our supply chain and our understanding of Local Government to the fore.

THE ASYLUM CONTRACT CARRIES HIGH REPUTATION RISK, BASED ON PREVIOUS CONTRACTORS' EXPERIENCE, HOW ARE YOU MITIGATING THIS?

The Asylum contract is very different to what went before with a specific focus on housing needs and caring for residents. Whilst this will always be an area of interest we firmly believe that by delivering great service, finding new and innovative ways to grow the amount of available properties, and building strong relationships, we can refocus the attention on housing needs rather than community cohesion. A key part of delivery is having a strong and understanding relationship with our Local Authority partners. Understanding the needs of wider communities and any specific issues they have will be key to the success of the contracts and we will continue to place a high priority on this.

WILL WE SEE MEARS TRYING TO SELL ITS REMAINING CARE WORK IN EXTRA CARE AND SUPPORTED LIVING?

No. Extra care will be a key part of the UK's housing future and we will be capitalising on our expertise in this area. Our experience has shown that well-built, well managed extra care schemes can reduce costs to the NHS, decrease loneliness and its associated health problems and create really special communities. We also know that our staff retention is much higher in extra care schemes so it has multiple benefits. Independent research commissioned by

Mears has shown that there is a national gap of an estimated 400,000 extra care places. With our ability to select sites through the Planning Portal, build, manage, maintain and work with the public sector we are well-placed to grow as a significant provider of extra care.

DO YOU SEE THE FUTURE OF OUTSOURCING BEING UNDER THREAT?

Outsourcing has a cyclical nature but even with a move to insourcing there are opportunities to partner with the clients. At Mears we are very focused on demonstrating that service providers can be ethical and responsible. As one of the first UK companies to appoint an Employee Director to our PLC Board, in 2020 we will be launching a residents' Scrutiny Board as part of a new housing resident engagement model, named Your Voice, to ensure that Mears' customers and residents are empowered to comment directly to Mears' PLC Board and to publish independent reports. I firmly believe that we can demonstrate to the market that we are a very different provider who will take a lead on issues such as transparency, accountability and engagement with our residents and customers.

WHAT DO YOU SEE AS THE BIGGEST OPPORTUNITIES FOR MEARS?

I think this is a very exciting time for our Company. There is consensus that our national infrastructure needs replacing and a 'levelling up' across the country. With low borrowing costs for Government and a clearer national direction on the horizon there is no reason that Mears can't capitalise on this. We have firm opportunities to extend our social housing provision to new customers and to deliver services that address homelessness and the challenges of demographic change.

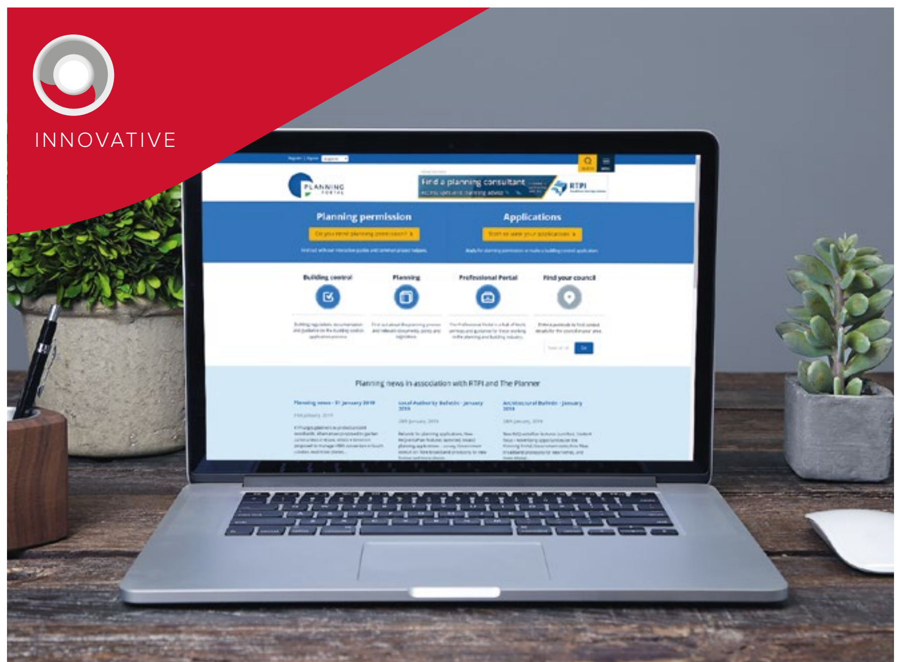
As we move to a low carbon economy, this will also mean significant housing investment such as replacing all gas boilers. The social housing green paper initiated a conversation about an updated decent homes programme and what new standards could look like. We see a future where the 'internet of things', a greener low carbon economy and the idea of lifetime homes and communities will play a significant role in helping people to have a more fulfilling and interconnected life. And we are ready to play our part – so we can help communities to thrive.

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.



Case study: Planning Portal

INNOVATING TO HELP OUR PUBLIC SECTOR PARTNERS

The national Planning Portal is run by Mears Group subsidiary, Terraquest. The Planning Portal has helped to transform the planning process, making information and services simpler and more accessible for those involved in the process, be they applicants, agents or Local Authorities.

In 2018, we made a number of significant service improvements, for which we now make a small charge to each application.

By working in partnership with every Local Authority across England and Wales and focusing on delivering a quality service to our customers, we will continue to be the national home of planning and building regulations information and the national planning application service.

"WE ARE HERE TO SUPPORT COUNCILS TO MAKE THE PLANNING SYSTEM MORE STREAMLINED AND STRAIGHTFORWARD. WE ARE THE NATIONAL HOME OF PLANNING AND BUILDING REGULATIONS INFORMATION AND THE NATIONAL PLANNING APPLICATION SERVICE."

GEOFF KEAL
TERRAQUEST

£2.5bn

(2018: £2.9BN) – SECURED ORDER BOOK

39%

(2018: 16%) – NEW BID CONVERSION RATE

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 provider. Mears Group now has over 10,000 homes in management, with 3,000 properties held by our Registered Providers, 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.

Stakeholder engagement is central to our strategy. We are focused on delivering positive outcomes for all our stakeholders

Drivers	How we engage	Stakeholder expectations
Clients	Our clients are from Central Government, Local Government and Housing Associations. Our model has always been based on establishing long-term partnerships that address the significant challenges and opportunities faced by our clients. Transparency and responsibility are at the heart of our approach and we focus on solutions that establish sustainable solutions, rather than quick fixes.	The partners we work with expect a trusted partner that can contribute to strategic thinking as well as deliver innovative operational solutions that improve service and lower long-term cost. Increasingly partners are looking for good governance, a responsible financial position and high levels of social responsibility.
Tenants and customers	We have a long track record of listening to the needs of our end customers and having service solutions that address their needs effectively. Centrally, we have strengthened our tenant engagement with an independent scrutiny board, made up of tenants from across the UK and chaired by sector expert Terrie Alafat. The board looks at strategic service issues and supports improvement. At a local level we have developed a new system to engage customers as soon as they interact with Mears, should they wish to do so. This enables us to create a network of our customers via feedback and on line forums which can feed into our scrutiny board to create a genuinely resident-designed service.	Our tenants and service users expect to be part of developing solutions rather than to be simply a recipient. Expectations for engagement are rising, given issues identified post Grenfell and this is likely to lead to greater requirements from Government going forward, which we will fully support. Rather than wait for Government action we have developed our new engagement strategy in line with the principles of the social housing white paper and we have shared our ambitious changes with Government.
Communities	In terms of community commitment, every branch is tasked with developing a social value plan for their area, which demonstrates where we will add value to the community, often over and above any contract commitments. This might be working with local schools to encourage and support young women, thinking of an apprenticeship, or working with local charities to support people who have become socially isolated. The detail of our work is shown in the Social value section of this report.	Stakeholders expect, given their long-term commitment, that we contribute positively to the communities in which they live. They want us to help local people into work, to upskill people and to work with them to address local issues where we can.

Relevance to business model and strategy	Key issues	Action we are taking
We operate as trusted long-term partner to the public sector. As partners we have to demonstrate that our values complement their own. We are not like many other outsource organisations, in that both the focused nature of our services and the cultural fit with our clients continues to position us to win major new contracts, such as with the Home Office, and to retain long-standing contracts in the way that we do. We also try to lead the sector in good practice, as demonstrated by our thorough independent scrutiny arrangements which take the best of public sector scrutiny.	Clients want us to demonstrate a strong set of financial, cultural and community-led values. Outsourcers have a growing need to provide a snapshot of how a contract is being delivered and innovations to prove transparency and effectiveness.	We already have established successful routes for client engagement as evidenced by our excellent contract retention performance. We will strengthen this further in 2020 through the creation of a Voice of Client programme – a bespoke service to measure our performance, that will take feedback from different levels within our client organisations and action accordingly.
As an organisation with a clear objective to be the leader in terms of customer service, wherever we operate, this cannot be done without good engagement. Our outstanding customer service performance is a testament to our success.	Government accepts that engagement is not good enough in the sector and we need to create resident-designed services. Residents need to be listened to in order to properly provide a service that is safe, responsive and caring.	An independent resident-led scrutiny board with right to roam and publish an independent annual report, feedback and engagement from all customers which is fed into service development.
Being a socially responsible organisation with a firm commitment to supporting communities is essential to being a valued partner to our clients. Establishing strong community links also helps us attract the right people into our workforce and to establish links with other community-based organisations, which can contribute to our service offer.	What do providers give back once a contract has been won? When contractors bid for contracts how do communities know what they will be getting, and will it be relevant for them?	The creation of a social value app and insight mapper to highlight areas of community need and lobbying Government for a more transparent measure of social value for all bidders in a contract. More information can be found in the Social Value section.

Listening to our stakeholders continued

Drivers	How we engage	Stakeholder expectations
	We are proud to be on the list of the Sunday Times 25 Best Big Companies to Work For, being listed for the second year in a row and ranked 36th in the UK for our commitment to social mobility. We have a national Workforce Group that is responsible for setting the approach to staff engagement and each local branch has a People plan, which sets out what it will do in each year. We have an Employee Director who sits on the Mears Group Board, which also helps ensure that the views of the workforce are listened to and actioned.	Our staff want to work for an organisation that values them and the communities in which they live. They want an organisation that treats people fairly and gives them the opportunity for personal development. Our staff really appreciate the fact that when they do a good job, they do help make a difference to society as a whole, given that better housing and care can make such a difference to the wellbeing of so many people.
	We work in partnership with clients and we reflect this way of working with our suppliers. We focus on keeping our promises to them, be that how we pay them or the commitments we make in terms of helping them grow their business. We challenge them to operate to the same social value approaches that we do and have a clear supplier charter that sets out our expectations from them. We recognise that all suppliers cannot be at the same level as ourselves but will support them where we can to improve. As you would expect, we set appropriate controls to ensure work quality and compliance standards are delivered to our expectations. We also have an established approach to setting up new supplier arrangements, to ensure that both parties are clear on responsibilities and risks.	The most important thing for our suppliers is that we keep the promises that we make to them. This means that we set out clearly what is expected in conjunction with our supply partners and that we keep our part of the arrangement in a fair and transparent way.
	The Company is committed to maintaining good communications with investors. There is an active programme of communication with existing and potential shareholders. There is increased dialogue with institutional investors following the publication of final and interim results, which is facilitated through a series of formal presentations. The Company has also looked to hold additional investor days during the year to ensure that they are better informed of market and Company developments. The Group regularly receives and responds to questions raised by small private shareholders through the investor enquiry portal on the Group's website. The Group holds regular meetings with its funding partners.	Our shareholders and bankers expect the Group to maintain a high standard of corporate governance. Mears recently achieved a very high rating from FTSE4Good, which assesses listed company policies and procedures on social impact, environmental impact and governance. Our shareholders require Mears to deliver sustainable profitable growth, with good generation of free cash flow and dividend growth.

Relevance to business model and strategy	Key issues	Action we are taking
Our workforce engagement is built around the Mears 'Red Thread' model, which works to establish the type and culture of workforce that we know will lead to both customer and financial success.	Security in the workplace during a time of political and financial fluctuation. A focus on mental health, wellbeing, and encouraging hard to reach groups into our workforce. Creating a more diverse workforce.	Improving how we communicate to our colleagues the benefits of working for Mears and to share our successes. We have invested in our insight via our Say What You See survey which forms our HR direction for the next year. We have committed to providing accredited mental health awareness training on how to recognise the signs and support their people, to all our managers, more than 1,000 people. We are promoting diversity at every level of the organisation.
Our supply chain is fundamental to the success of our business, both in the provision of materials and in the delivery of services under our leadership.	Meeting payment promises, partnership working, good communication and governance.	We apply partnership working principles to our suppliers and have robust processes to ensure that we select the right suppliers for our business and that they are managed in a fair and appropriate manner. We are reviewing our approach with large and smaller suppliers, in line with new Government thinking on payment arrangements.
Our funders are fundamental to the Group's success, ensuring we can meet both immediate and longer-term financial requirements.	Provision of information, high standards of governance, and responsible approaches to debt, especially as a provider to the public sector.	We have focused the business on housing-based services and are taking action to reduce debt, in line with stakeholder feedback.

Responding to a changing environment

Housing market

The market for our housing services is secure with significant potential for growth. The Government has committed to bringing forward a housing White Paper on housing which will aim to empower tenants and support the continued supply of social homes. This includes measures to provide greater redress, better regulation and improve the quality of social housing. With a Government committed to a new affordable housing programme and taking forward legislation to improve social housing we anticipate that demand from local Government partners and housing associations will grow.

As the UK's largest private registered provider of social housing Mears will be at the forefront of policy discussions on tenant engagement, legislative changes to safety standards and fulfilling the expectation of what affordable homes should look and feel like in 21st Century Britain. Rather than wait for legislative change Mears will be leading on tenant engagement in 2020 with new models of engagement. We are well placed in all parts of the UK to establish ourselves as the go to registered provider, demonstrating that our place-based approach involving build, repair, maintenance and management plus our highly developed understanding of social value and impact will make Mears the go to choice for our public sector partners.

Our market is also expected to benefit from the new Government commitment to end austerity and to 'level up' the regions of the UK. An end to political paralysis with a majority Government and more clarity over Brexit will make our partners' future investment decisions much easier. We are here to help them plan for the future under much less difficult circumstances.

Mears has taken our core disciplines and have successfully applied them to other housing solutions. 2019 saw Mears win 3 Home Office contracts to accommodate asylum seekers in three regions of the UK. At the same time we are the country's largest provider of temporary accommodation and also holding contracts with the Ministry of Defence for accommodation services.

On 31 March 2019 the number of households in temporary accommodation was 84,740, up 1.4% from 83,610 on 31 December 2018. This is a problem which is not going away and is not dealt with in the government's plans for new build stock.

Whether it is housing asylum seekers, those in social housing, people who are retiring, servicemen or those who need temporary accommodation Mears are able to provide solutions to all of these issues which are growing rather than going away.

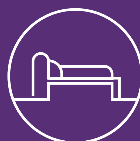
We are also using our experience of the care market to find new solutions for housing people in older age which enables them to live independently for longer. We believe that extra care improves the quality of life for our workforce. This includes training, job satisfaction, motivation and health. The social care workforce faces a huge gap in recruitment with people leaving the sector due to low wages, lack of training and support.

Mears successfully operate 21 extra care schemes and are currently in the bidding for more. Our experience of running homes such as Balmoral Place in Northamptonshire has shown that working in partnership with local authorities and health commissioners can have positive outcomes for communities.

Mears' market position

Best placed to deliver housing growth and repairs: Being a strategic partner to the public sector, we are uniquely placed to advise local authorities on planning, maintaining, managing and building social housing and extra care. With a majority Government committed to ending austerity and targeting the building of 300,000 homes per year whilst legislating on social housing, Mears is ready to support our partners in this delivery.

Best placed partner for repairs: Mears is the clear leader with a market share of circa 10% and growing following our acquisition of MPS. Mears has shown that an approach which mixes a genuine provision of social impact and support for communities with innovative and timely repairs means we form client relationships which last decades.



Largest provider of temporary accommodation in UK: More than 86,000 households are currently living in temporary accommodation, including bed and breakfasts, hostels and private rented accommodation. This is an increase of 4,000 since 2018. Mears is the leading provider of innovative solutions alongside our partners in Local Government.

Using our services for national solutions: Our approach to integration of our services is demonstrated by our successful implementation of the Asylum Accommodation and Support Services Contract ('AASC'), delivering estimated revenues of around £100m a year for the next 10 years. Since August 2019, we have provided housing for over 24,000 people.

Leading provider of housing with care: We have built on our work to integrate housing and care contracts, at the front line delivery of service but also in the creation of new specialist accommodation, such as Supported Living housing and Extra Care property.

Largest private registered provider in the UK: Mears owns and operates two not for profit registered providers, Plexus and Omega Housing. Our partnerships allow us, as a registered HCA housing provider, to contract with councils to provide homelessness prevention, settled and temporary accommodation solutions.

Critical market factors that influence performance

Drivers | **Potential opportunities and risks**

Political and economic landscape

- Stable majority Government and an end to Brexit uncertainty
- An end to austerity spending
- Government focus on social housing with an expected white paper and increased focus on resident engagement
- Mergers of larger housing associations
- UK commitment to carbon reduction

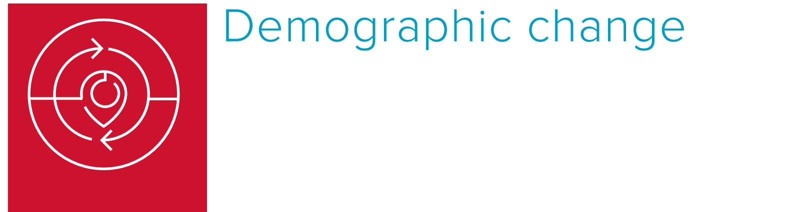
Potential opportunities and risks:

- Greater commitment to affordable and social housing evident
- Commitment to affordable housing
- Councils playing role in 300,000 house building target

Rising levels of homelessness due to housing shortage

Potential opportunities and risks:

- Innovative and rapid solutions needed given likely continued slow growth on new build provision
- Homelessness still growing – 84,000 in 2019
- Target to build 300,000 homes per year and planning reforms to streamline process



Demographic change

Potential opportunities and risks:

- More specialist housing needed to limit escalating cost to the NHS and Social Care
- The pace of change on care funding is slower than needed

Pace of technological development

Potential opportunities and risks:

- Technology playing an increasing role in all aspects of service management

Rising customer expectations

- Collapse of Carillion
- Rising tenant expectations
- Post-Grenfell focus on social value across the market
- Government focus on ‘levelling up’ and a commitment to renewal of democracy so people’s voices can be heard

Potential opportunities and risks:

- Customers’ quality, communication and speed expectations continue to increase
- Stronger tenant voice demanded by green paper
- Some push back against outsourcing following Carillion
- Opportunity to demonstrate the core strengths of our business model
- Our competitors gaining ground on social value as a business driver
- Our social value impact is the basis of our business

Impact of COVID-19

Potential opportunities and risks:

- Reducing revenues as emergency measures are implemented
- Some additional services to support Local Authority resilience plans will be needed
- Staffing levels fall due to sickness and self-isolation
- Pressure on liquidity

Mears' response

- Continuing to deliver market leading service and not compromising on pricing
- Fully engaged on housing white paper and developing our own tenant scrutiny service to ensure best outcomes for residents
- Growing our share of the repairs market with the acquisition and embedding of MPS
- Market leading approach to workforce engagement shown by second year of Sunday Times Best Companies accreditation
- Range of outsourcing models to suit varying client requirements
- Becoming the 'go to' expert for different housing needs
- All divisions ready to capitalise on government spend increase
- Mears will work closely with clients to implement carbon reduction measures in affordable housing

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- Finding solutions for more affordable homes
- We have become the leading provider of cost effective homelessness solutions
- Creating temporary accommodation from current building stock rather than waiting for pipeline
- Broadened footprint to areas of specific need e.g. MOD, Asylum
- Improving planning efficiency through the National Planning portal
- Our private registered providers of housing, Omega Housing and Plexus, are the largest of their kind in the UK

- Development of specialist housing solutions such as extra care
- Proving the case by commissioning data – cost to NHS per person of over £2,400 per year when not in extra care
- Calling for lifetime adaptable homes in housing white paper

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- Market leading tech to reduce long-term costs and integrate services
- Planning Portal streamlining process for clients
- Greater use of self-service technology in support of changing expectations
- Greater use of customer insight and development of bespoke consultation tools with Voice of Customer
- Tech to improve every step of the customer journey

- Mears' focus on housing
- Benchmarking against the best across all industries
- Supporting regulatory change that gives service users a bigger voice as promised in forthcoming white paper
- Demonstrating our approach to outsourcing proactively
- Working to continuously improve tenant engagement
- Highlighted by accreditation from TPAS and our new bespoke tenant engagement with Voice of Customer
- Continuing to support better communities in which service users live
- Commitment to social value and tenant engagement through Your Voice and our independent scrutiny board
- Our social value work remains at the heart of our business – not an afterthought following Grenfell

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- To continue to deliver great service and be a good employer during a difficult period
- Working closely with clients, the supply chain and funding partners to ensure positive commercial outcomes
- Ensure that the Group has sufficient funding to cope in the event of significant downside
- Using existing technology and proven processes to enable more staff to work remotely and safely

Long-term outcomes and positive social, economic and environmental impact

Our key resources and relationships

OUTSTANDING PARTNERSHIPS:
Firmly rooted in Local Government and Housing Associations we are moving into being seen as an important partner for Central Government. Our end service users are the recipients of housing services and extra care living.

A RESPONSIBLE APPROACH:
Creating social value is a key part of our business strategy, as this enables us to be seen as a trusted partner by our clients and is an essential part of building stronger relationships. We have renewed and reformed our Social and Diversity Impact Board made up of independent members who act as critical friends.

EXCEPTIONAL PEOPLE:
We recognise our staff as our greatest asset. Mears employees are skilled in delivering an excellent service whilst showing a strong customer service ethos and an empathy for our service users.

Market-leading technology: Our performance is built on a bedrock of first class IT platforms giving market-leading capability and driving innovation and resident engagement.

SUPPLY CHAIN PARTNERS:
We choose suppliers who share our values and meet our standards. We work closely with suppliers to develop innovative services and integrate them with our core systems.

FINANCIAL STABILITY:
We receive funding through shareholder capital, retained profits, debt and cash generation to run our business and fund its activities. We have a long track record of maintaining solid margins even during difficult trading conditions and are rapidly paying down the limited debt we have.

INNOVATION:
The challenge of delivering service improvements at lower cost requires innovative thinking and the use of technology. We create and lead best practice in our markets.

Our role	Our services
Housing strategic development	▶ Manage housing stock ▶ Innovative funding ▶ Planning support
Creating more decent homes	▶ Regenerate, refurbish and re-purpose stock ▶ Intelligent maintenance
Supporting people in these homes	▶ Tenancy management ▶ Care and welfare

Outcomes

Community outcomes

BETTER PLACE TO LIVE

REDUCED HOMELESSNESS

REDUCED PRESSURES ON THE NHS AND MORE EFFICIENT PUBLIC SECTOR SPEND

IMPROVED LIFE CHANCES FOR INDIVIDUALS

The value we share

SHAREHOLDERS

We generated a normalised diluted EPS of 27.26p but given the public health emergency, and given the over-riding importance of cash management, the Board considers it would be imprudent to declare a dividend at this time. This decision will be kept under review. This will be the first time, in the 23 years since the Group's flotation, that the dividend has not been increased.

GOVERNMENT

In 2019, we paid £3.0m in corporation tax and £35m in social security, whilst collecting £27m in income taxes and £50m in indirect taxes. In addition, through the services we provide to the public sector, we are delivering significant cost savings and better value to Central Government, Local Authorities and the NHS.

CUSTOMERS

We maintain over 650,000 homes in the UK, undertaking around 6,000 repairs per day. Mears has extended its activities to provide solutions to resolve the challenges of homelessness, asylum housing and MOD accommodation.

COMMUNITIES

At the heart of Mears lies a strong sense of responsibility towards improving people's lives. We create opportunities and enable people to develop new skills within some of the most disadvantaged and marginalised communities in the UK. Every branch of Mears makes a social value pledge, which focuses on specific activities to improve its local community in at least one of our social value priorities.

EMPLOYEES

Mears is committed to training. We employ nearly 600 apprentices and provide a number of alternative training solutions for upskilling employees and for the professional development of Mears managers. We are proud to be rated as one of the best 25 large companies in the UK to work for by the Sunday Times for the second year in a row.

Financial outcomes

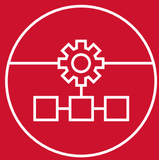
How we generate revenue

Mears' revenue is generated from payments from Government, Local Authority, Housing Association and NHS Trust clients in respect of its Housing and Care services. Whilst the end service users are at the centre of our business model, they do not pay for the service directly.

How profits convert to cash

We have a long standing record of converting profit into cash, utilising strong financial management combined with good relationships with clients and the supply chain.

Investing in our strategy

Strategic priorities		What we achieved
	Deepening our client relationships in both extra care and housing	▶ Winning and mobilising our biggest ever contract with the Home Office ▶ Being seen as a trusted supplier to Central Government departments ▶ Developing the National Planning Portal ▶ Developing our market share of extra care housing ▶ Being known and awarded for the quality of our new build schemes
	Increasing quality leadership	▶ 94% rated our service as excellent ▶ CSE accreditation ▶ Successful MPS mobilisation ▶ Executive Board leading by example with hands on approach to staff insight and branch morale
	Developing our people	▶ Reached Sunday Times list of Best 25 large companies to work for, for the second year ▶ Achieved Housing Diversity Network Excellence accreditation
	Continue to innovate and transform our business responsibly	▶ Delivering first integrated housing and care contracts ▶ Delivering innovative models combining finance with delivery to address homelessness
	Reducing our debt	▶ Not participating in housing development ▶ Exiting stand alone care

2020 priorities	How we measure success	Risks
▶ Maintaining win rates ▶ Creating more housing with care opportunities ▶ Building up our customer insight and engagement solutions ▶ Growing our brand as the largest private social landlord ▶ Creating a new market for the social housing of successful asylum applicants and those leaving the MOD	▶ Extending services with existing clients ▶ Retaining contracts at sustainable pricing ▶ Winning work with new clients who share our values ▶ Being seen as a trusted, responsible and ethical provider to Central Government	▶ A number of existing contracts will be retendered over the next year
▶ Ensure we embed the asylum contracts in our first year to ensure quality services ▶ Showcasing staff who have risen from operative to senior leadership and using their knowledge and experience	▶ Service user and client feedback ▶ Maintain leadership in all service areas and establish new Customer Scrutiny Board ▶ Buck the trend of the housing sector and become champions of customer and staff insight	▶ That we continue to demonstrate that quality leads to long-term cost reductions
▶ Continuing to improve staff retention ▶ Ensure that we recruit effectively to mobilise new contracts ▶ Continue to support women in maintenance ▶ Continue to increase diversity at all levels in the organisation and work with independent Social and Diversity Impact Board	▶ Staff retention ▶ Benchmarking v other organisations ▶ Ability to fill vacancies cost effectively ▶ Margin improvements ▶ Demonstrate to policy makers the improved staff retention in extra care schemes ▶ Step up our promotion of a diverse workplace following the exit from care	▶ Without investing in people who have not historically been drawn to maintenance/housing services we will face a skills gap
▶ Opportunities to innovate on existing contracts – e.g. housing successful asylum applicants ▶ Be known as an ethical partner who will remain true to our core competencies ▶ Focus on mental health and wellbeing for our colleagues by creating a working group made up of operatives as well as HR personnel	▶ Winning new business based on our values following the image problem for the outsourcing sector ▶ A happier, healthier and more engaged workforce based on Say What You See Survey and mental health and wellbeing working group policies	▶ We need to continually demonstrate that we are a responsible provider unlike those who have failed. If we can't demonstrate this then are task of winning new business will be much harder.
▶ Continue to make timely evidence based decisions on what is working and what isn't ▶ Maintain our focus on housing to run through everything we do ▶ Continue to make the argument to policy makers about the structural problems in markets we have exited as a responsible provider	▶ Decreasing levels of debt ▶ Being seen by government and local authorities as the housing solutions experts ▶ Winning more business	▶ That we fail to illustrate to potential investors and the market that the low levels of debt we have compared to competitors and that we are sharply focused on this.

Measuring our progress

Non-financial

EXCELLENT SERVICE RATING

In order for customers to recommend us, we must deliver excellent service. We completed over 2 million repairs in 2019 and we randomly conduct around 75,000 customer surveys per year.

RESULTS FROM THE YEAR

94%

Year	Result
2017	92%
2018	93%
2019	**94%**

We are delighted that our service delivery has remained at a high level. Strong performance will ensure competitiveness as we continue to be ranked above our peers. Our target for 2020 is to do even better.

HOW WE PERFORMED

2019 target	2020 target
>93%	90%

Outperformance

CUSTOMER COMPLAINTS

Incidents resulting from poor service result in a complaint. We are committed to dealing with all complaints on an individual basis.

RESULTS FROM THE YEAR

0.24%

Year	Result
2017	0.27%
2018	0.25%
2019	**0.24%**

We are committed to providing our colleagues with the skills and equipment to deliver great service. We seek to identify trends in order to improve our overall service quality.

HOW WE PERFORMED

2019 target	2020 target
<0.25%	<0.24%

Outperformance

EMPLOYEE TURNOVER

This measure is new for 2019. Previously our headline KPI was in respect of carer churn; however, given the Group's intention to dispose of the standalone care activities, this key measure has been extended to cover the full Group. The staff churn figure is calculated as the total number of leavers during the year as a proportion of the average headcount.

RESULTS FROM THE YEAR

30%

Year	Result
2017	34.0%
2018	32.8%
2019	**30.0%**

The Group monitors a suite of Workforce related measures, including those focused on gender equality and social value. The Net Promoter Score is seen as a key metric and underpins our success in being placed in the top 25 by the Sunday Times 'Best Big Company'. We are placing increasing focus on performance management and succession planning. There is close correlation between the various measures, and the simplest measure for our external stakeholders is considered to be staff turnover.

HOW WE PERFORMED

2019 target	2020 target
n/a	27.5%

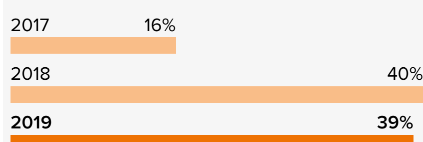
Business development

NEW CONTRACT SUCCESS

Contract success is measured by the total revenues secured as a proportion of the total value of tenders submitted. We typically tender around £1bn of new opportunities each year however, in 2019 our contract bidding was at a lower value of circa £0.6bn. The average contract length is around six years. In order to achieve our organic growth forecasts, it is important that we secure around one in three, by value.

RESULTS FROM THE YEAR

39%



The Group's new bid conversion rate was above target; however, the value of tenders submitted was low, and we fell short of our expectations in terms of the value of new contracts secured.

We entered 2020 with the expectation that this would be a very important period of new contract bidding, given the number of existing contracts coming up for re-bid. However, with the emergence of the COVID-19 public health emergency, many of the new contract opportunities are now likely to be delayed, meaning a number of our existing contracts are likely to enjoy short extensions with the new contract award deferred to 2021. The Board has withdrawn its new order intake target for 2020 and will focus upon delivering a great service, in challenging circumstances, to place the Group in the strongest position when the contracts are finally re-tendered.

HOW WE PERFORMED

2019 target	2020 target
33%	–

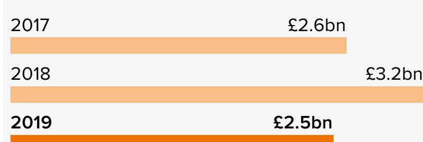
Outperformance

ORDER BOOK (continuing activities only)

Our order book provides us good visibility of those revenues secured for future periods. It is helpful that we have long-term contracts that allow us to plan with confidence, in the knowledge that we have significant revenues already contracted. It is also positive for all our stakeholders, providing stability to our supply chain, funders and, most importantly, for recruiting and motivating our workforce.

RESULTS FROM THE YEAR

£2.5bn



The order book does not stand still – there is a continuous inflow of new orders adding to the secured value, and a daily outflow as services are delivered to our customers which reduces the order book. The Group is forecasting revenues in excess of £900m in 2020, and new orders must be secured of a similar value in order for the order book value to be maintained. The order book increased significantly in 2018, with our success in securing the Asylum contract adding £1bn to our order book. Our order book at the end of 2018 was £3.2bn and we expected the value to reduce in 2019 given the timing of new opportunities, including a number of rebids. We entered 2020 with the target to maintain our order book at a similar level to 2019. The number of new tender opportunities provided the Group this opportunity. However, the emergence of the COVID-19 public health emergency has meant that few contracts will be re-bid, and the Group is likely to see short-term extensions. Whilst extensions are not negative, they do not provide a significant uplift to the order book valuation. The Group has reduced its order book target, in the light of COVID-19, from £2.5bn to £2.1bn.

HOW WE PERFORMED

2019 target	2020 target
£2.5bn	£2.1bn

On track

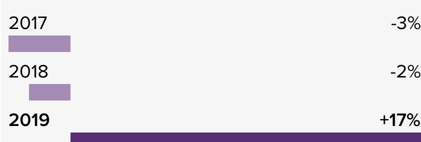
Financial performance

REVENUE GROWTH

Revenue represents the amounts due for services provided during the year. Our KPI target relates to total revenue, although it is important to also identify the split between organic growth and growth that has been delivered through acquisitions. We believe that organic growth gives a better indication of business performance, as it is a purer aggregation of market growth, success in new contract bidding and contract retention.

RESULTS FROM THE YEAR

+17%



Our revenue growth on continuing activities is ahead of expectation although if it were not for the disposal of Care, the reported growth would have been closer to target. The split of growth between organic and acquisitions is 3% and 14% respectively, therefore whilst it is pleasing to have delivered against target, we are mindful that the majority of this growth was not internally generated. Whilst growth is important, the quality of the revenues is key. By quality we mean the mix of longevity, margin opportunity and funding requirement. The Group has taken a robust stance to improve the quality of its order book, resulting in the decision to exit a small number of contracts.

Following the outbreak of COVID-19, the Group anticipates a significant reduction in its maintenance revenues. Local Authorities are likely to choose to defer works which are not considered priority or essential. The level of revenue reduction is dependant upon the duration of this public health emergency. The Group is currently expecting this disruption to last for a minimum of 3 months, and it is highly likely that Group revenues will fall significantly in 2020. Whilst we will target an even better result in 2020, we have adjusted the way we calculate this performance measure and this is expected to reduce the reported measure, which is why we have adjusted the target downwards for the coming year.

HOW WE PERFORMED

2019 target	2020 target
15%	–

Outperformance

ADJUSTED OPERATING MARGIN

Operating margin is the KPI used to measure and understand the profitability of our activities. This KPI is used to continually monitor our costs to ensure services are being delivered efficiently.

RESULTS FROM THE YEAR

4.6%

The Group delivered an operating margin in 2018 of 4.7%, however, forecast a reduction in margin in 2019 driven by a combination of the acquired MPS Housing business and the actions taken to unwind the Development activities, both of which were dilutive to operating margin. It is pleasing that the Group delivered against this target. Positively, given the MPS businesses are now integrated into the core Maintenance business, and progress has been made in respect of the Development activity, the senior team expected operating margins, before the impact of COVID-19 (based on the pre-IFRS 16 measure), to exceed 5.0% in 2020.

Following the outbreak of COVID-19, the Group anticipates a significant reduction in its maintenance revenues and it is not in a position to reliably estimate the impact upon profits or operating margin. The Group was previously forecasting a 5.0% operating margin. Under current circumstance, the Group has withdrawn this forecast.

HOW WE PERFORMED

2019 target	2020 target
4.5%	–

Outperformance

AVERAGE NET DEBT

Good working capital management remains a cornerstone of the business. The Group's IT systems are designed to deal with the challenges of high volume and low value activities. The Group has utilised debt to fund a number of acquisitions over recent years which is reflected in the increasing net debt. Given some of the challenges faced by our peers over recent years, a number of our stakeholders would prefer the Group to maintain a more conservative level of debt. The Board is in agreement with this desire and has clearly stated a target to achieve an underlying net debt, by the end of 2020, of around £60m, being 1x EBITDA on a pre-IFRS 16 basis.

RESULTS FROM THE YEAR

£114m

The Group has taken steps to refocus capital allocation on those areas with the lowest working capital requirement. This is evidence by the actions taken in Development, although the release of cash from this is not immediate, and there was a small increase in the working capital absorbed in this area during 2019. We expect working capital in this area to be neutral in 2020 and it is likely to be 2021 before we report a significant inflow.

The Group's average net debt fell short of target. In addition to the additional working capital absorbed in Development, this was also impacted by the mobilisation of the Asylum contract. Importantly, this means that the Group's starting position for 2020 in respect of underlying net debt is at around £120m.

The Group is mindful of the potential scale of disruption caused by COVID-19 and the impact that this may have on profitability and liquidity. The Group is taking actions to preserve cash and minimise the impact upon its debt position. However, in the light of these events, the Group has increased its target for the coming year from £110m to £140m.

HOW WE PERFORMED

2019 target	2020 target
£105m	–

Underperformance

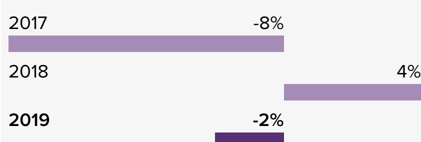
Health and safety

GROWTH IN NORMALISED DILUTED EPS

Normalised earnings are stated before exceptional costs and exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge.

RESULTS FROM THE YEAR

-2%



Normalised diluted earnings per share on continuing activities reduced to 27.26p (2018: 27.70p), a reduction of 2% reflecting that the disposal of standalone Care which, whilst the Board believes was strategically the right decision, was dilutive to earnings.

The target for 2019 already incorporated a reduction in profits, reflecting the actions being taken to exit Development. However an exit from standalone Domiciliary Care was not envisaged at the time that this target was set. Positively, the Group is delivering a profit in its continuing activities which is broadly in line with market expectations which were set at the start of 2019, and as such, the EPS figure is also broadly in line with those expectations.

Following the outbreak of COVID-19, the Group is not in a position to reliably estimate the impact upon profits. At this time, the Group would anticipate a reduction in earnings. The Group was previously forecasting a 13.0% increase in EPS. However, under current circumstance, the Group has withdrawn this forecast.

HOW WE PERFORMED

2019 target	2020 target
0%	–

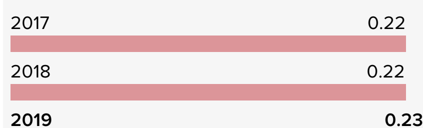
Underperformance

ACCIDENT FREQUENCY RATE

Providing our employees with a safe working environment remains paramount. Our accident frequency rate (AFR) is calculated as the number of reportable incidents (by both employees, service users and third parties) divided by the number of hours worked, multiplied by 100,000.

RESULTS FROM THE YEAR

0.23



We are proud of our record in this area and we continue to invest in our health and safety training, which is delivered through our in-house registered training provider. We place emphasis upon all accidents and near misses, however trivial, being reported and properly captured, which naturally impacts negatively on this measure. Having reported year on year reductions between 2013 and 2016, we have seen a small increase since that time. Much of this increase relates to an improved reporting regime. Whilst we have fallen short of our stretch target, our accident rates are already at very low levels for our sector. However we will continue to strive to deliver further improvements to this critical area.

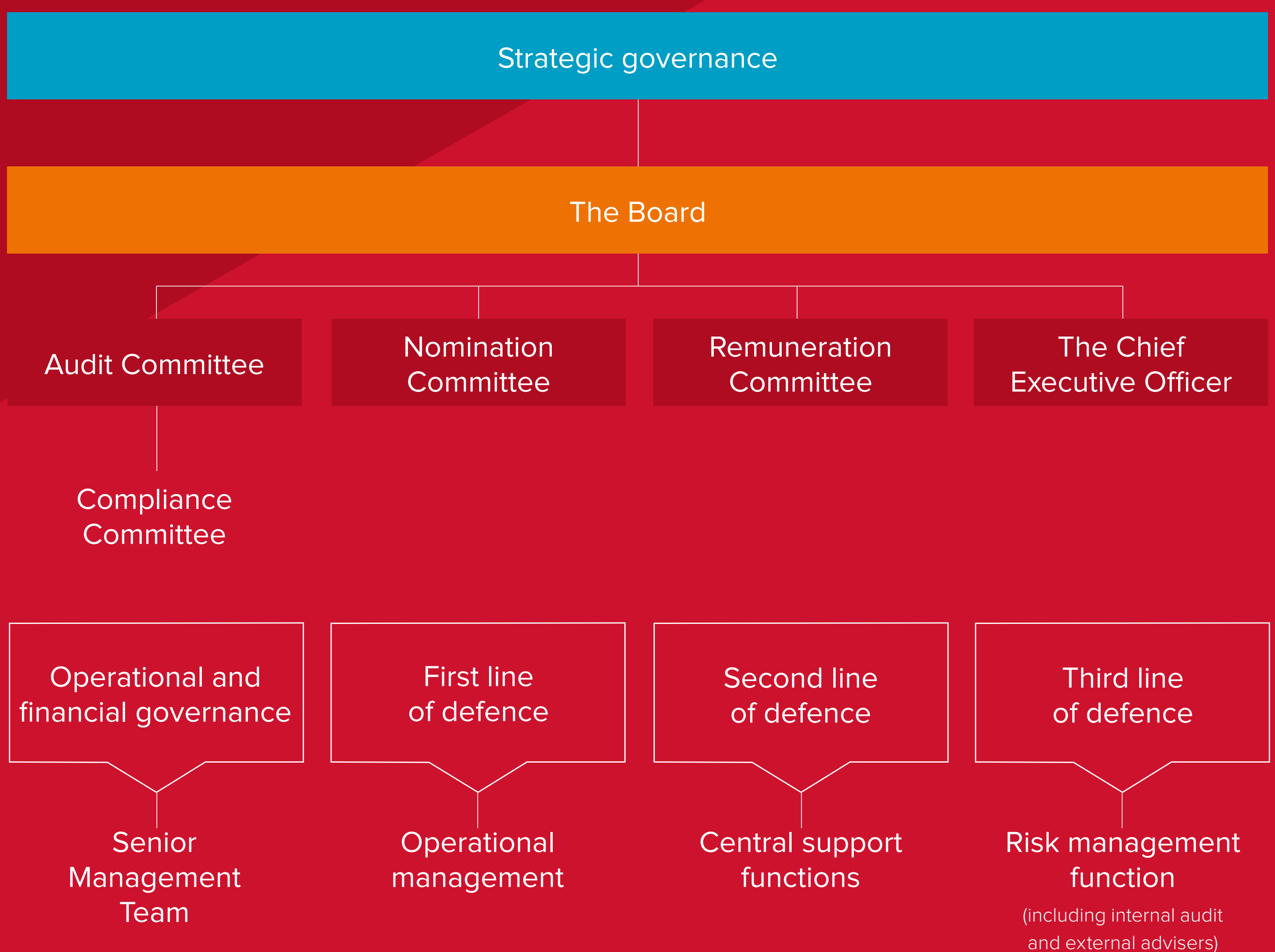
HOW WE PERFORMED

2019 target	2020 target
0.21	<0.25

Underperformance

Effective management of risks and opportunities is essential to the delivery of the Group's strategic objectives, the achievement of sustainable shareholder value and maintaining good standards of corporate governance

Risk management process



THE SENIOR MANAGEMENT TEAM

The Senior Management Team reviews and identifies the key risks which may impact upon the achievement of the Group's strategic goals and will consider how these risks are developing with changes in the operations, markets and the regulatory environment.

The nature of the risk is reviewed, including the possible triggering events and the aggregated impacts, before setting appropriate mitigation strategies directed at the causes and consequences of each risk. The risk is assessed in relation to the likelihood of occurrence and the potential impact of the risk upon the business, and assessed against a matrix scoring system which is then used to escalate risks within the Group as appropriate. The Senior Management Team has responsibility for managing the Group's key risks.

THE BOARD

The Board has overall responsibility for determining the nature and extent of risk it is willing to accept within the agreed strategy, and ensuring that risks are managed effectively across the Group.

Risk is a regular agenda item at Board meetings and is closely aligned to strategy review.

The Board also reviews reports on the effectiveness of the systems and processes of risk management and internal control.

THE AUDIT COMMITTEE

The Audit Committee monitors the Group's key risks identified by the risk assessment processes and reports it's findings to the Board. It also has delegated responsibility for reviewing in detail the effectiveness of the Group's system of internal control policies and procedures for the identification, assessment and reporting of risk.

COMPLIANCE COMMITTEE

Created in 2017 as a sub-committee of the Audit Committee, its purpose is to continue to increase the Board's focus on health and safety, strategy and performance, regulatory compliance and related risk management and provide a closer link between the Board and the operations.

RISK MANAGEMENT FUNCTION

The Group risk function is headed by the CEO and CFO. The Group has a functional risk register and there is a good understanding of the risks that could impact the Group, and their severity. The Group has a positive risk culture, with a clear tone-at-the-top being set by the Senior Management Team. The control environment is underpinned by a detailed scheme of delegated responsibilities that defines processes and procedures for the approval process in respect of decision making. This ensures that decisions within the organisation are made by the appropriate level of management.

The Group has engaged KPMG as an outsourced provider of internal audit services. KPMG assists the internal Group risk function to set the Internal Audit plan. This is a dynamic programme set on a three-year time horizon and ensures certain risks and themes are prioritised and appropriate resource and skills applied to those areas.

RISK MANAGEMENT APPROACH

The Group's approach to risk management is targeted towards early identification of risks and mitigation of those risks to reduce their likelihood and impact.

The Group is committed to protection of its assets through an effective risk management process, supported by insurance where appropriate. Examples of assets within scope include human, intellectual, physical property and financial resources.

Reporting within the Group is structured so that key issues can be escalated rapidly through the management team to the Board where appropriate. Risks are continually monitored, contingency plans are provided and this information is reported through established procedures. There is extensive fieldwork undertaken by risk auditors incorporating systems review, branch visits and cross-business surveillance.

The internal control approach is designed to manage rather than eliminate the risk of failure and thus can only provide a reasonable, rather than absolute, assurance against material misstatement or loss.

INTERNAL AUDIT APPROACH

Our internal audit plan is devised by understanding the strategy, objectives and risk profile of the Group and considering the other forms of management and independent assurance before agreeing what internal audit work is required. This enables us to ensure that our internal audit resources target the key areas and it also enables us to be efficient by not duplicating other assurance activities.

We take a different approach to each risk type:

Strategic: We take a high level view or a deep dive into areas of specific risk or investment. We link our work to the Group's strategic priorities and principal risks, to the extent the Board does not receive other assurance.

Operational: At the heart of our plan, we consider whether core controls are working effectively across the Group, again taking account of other assurance activities.

Setting our internal audit priorities

RISK MANAGEMENT PROCESS

The responsibility for risk identification, analysis, evaluation and mitigation rests with the line management of the businesses. They are also responsible for reporting and monitoring key risks in accordance with established processes under the Group operational policies.

Identified risks are documented in risk registers showing: the risks that have been identified; characteristics of the risks; consequences of the risks; the basis for determining the mitigation strategy; and what reviews and monitoring are necessary. The person(s) accountable for assessing and monitoring each risk is noted.

We continue to drive improvements in our risk management process. We also review our business model, core markets and business processes to ensure that we have properly identified all risks. We continually review our mitigating actions to ensure that they are sufficient to minimise our residual risk. Key financial and non-financial risks identified by the business from the risk assessment processes are collated and reviewed by the Audit Committee. The financial and non-financial risk registers are reviewed to monitor the status and progression of mitigation plans; the key risks are reported to the Board on a regular basis.

PRINCIPAL RISKS

The Board has carried out a robust assessment of the principal risks facing the Group, including those that threaten the business model, strategy, future performance, solvency and liquidity. Risks have been identified as 'principal' based on the likelihood of occurrence and the severity of the impact on the Group, and have been identified through the application of policies and processes previously outlined. The Board is keen to simplify the reporting of risks, to ensure the risks disclosed to shareholders are those that are considered as business critical or potentially catastrophic. Therefore no additional risks have been disclosed in this Annual Report. These business-as-usual risks are monitored by divisional management.

EMERGING RISKS

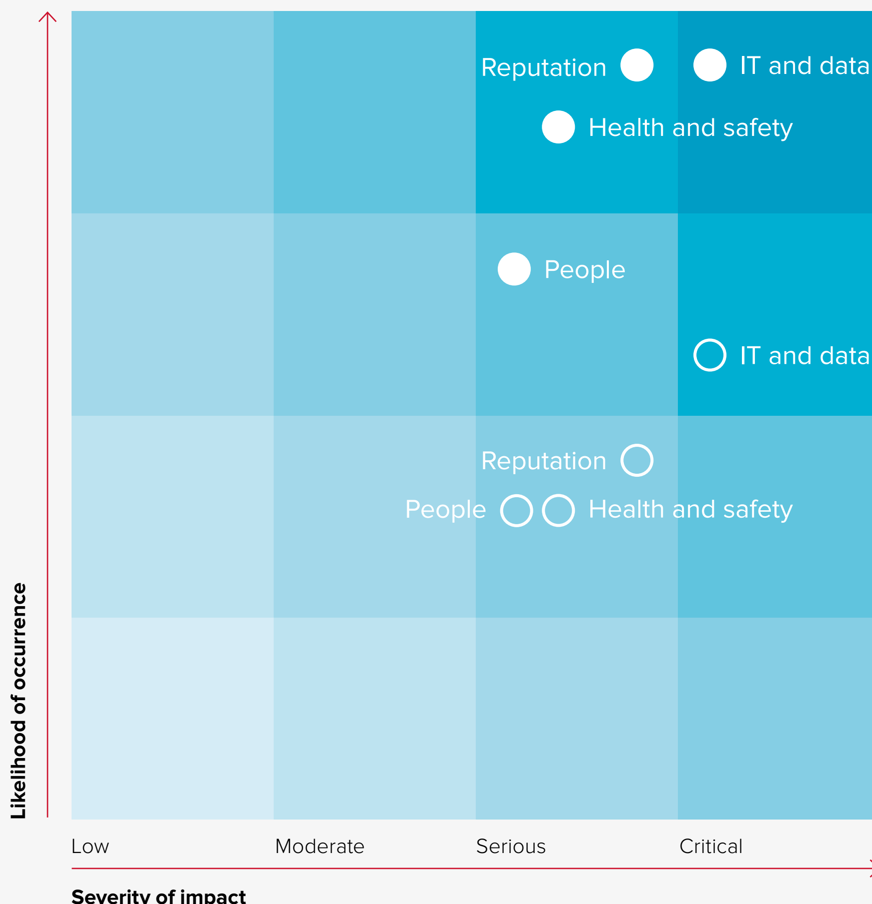
The Board have considered the following areas and their risk to the company;

- The Impact of climate change and other extreme weather events
- Political risk – a changing attitude to out sourcing
- An independence referendum for Scotland
- Cyber risk

The Board have considered the medium and longer term and concluded that the Board couldn't at this stage see any emerging risks, including those above, that would have a material effect on the performance of the Group.

PRIORITISING OUR RISKS

The Group's risk register rates risks on a matrix scoring system based on their likelihood and impact, i.e. potential severity. This severity can be measured using life and limb, financial, customer service, growth, regulatory compliance and reputational criteria. Therefore, Mears measures more than simply the financial impact of the risk. These scores are used to escalate risks and to drive the mitigation plans.



Key
- Gross risk
- Net risk

Read more in the Corporate Governance section on page 70

Read more in the Report of the Audit Committee on page 82

Risks are identified as 'principal' based on the likelihood of occurrence and the potential impact on the Group. The Group's principal risks are identified below, together with how we mitigate those risks.

COVID-19

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak is a critical short-term risk. As detailed in the Directors' Report and within the Viability Statement, 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 most severe 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 most severe downside scenario, there is a risk that the Group's funding requirement could exceed its existing committed debt facilities. Only the specific downside scenario detailed within the Viability Statement would indicate the existence of a material uncertainty which may cast significant doubt about 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.

KEY RISK MOVEMENTS

Each principal risk is considered in the context of how it relates to the achievement of the Group's strategic objectives. The risk discussion includes assessment of gross risk and net risk. Gross risk reflects the exposure and risk landscape before considering the mitigations in place, with net risk being the residual risk after mitigations. The gross risk movement from the prior year for each principal risk has been assessed and is presented below.

Mitigations in place supporting the management of the risk to a net risk position are also described for each principal risk.

Reputation

Definition

We recognise the significant commercial value attributable to the Mears brand. Our success in securing larger and more complex contracts, such as the new Asylum contract, increases the risk of reputational damage in the event of failure.

Poor service delivery would damage our reputation. Both our Housing and Care markets are close-knit communities where examples of poor performance are quickly communicated widely.

In the environment of caring for vulnerable people, there is a risk of isolated incidents of abuse and neglect, which rightly receive significant press coverage with the inevitable reputational damage.

KPIS ASSOCIATED WITH RISK:

- 'Excellent' service rating
- Customer complaints
- Staff churn

Mitigation

- In-house IT system developed to provide operational management with a real-time dashboard of service delivery indicators.
- Internal auditing of KPI reporting including 'mystery shoppers'.
- Strict process in place for vetting and approval of subcontractors.
- We drive a culture of putting our customers first; this is continually reinforced through internal communications.

Well-communicated policy for dealing with press enquiries and incident management.

- Care risk plans for dealing with vulnerable customers.
- Compliance management of bribery and corruption legislation and whistleblowing policy.
- We induct and train all new starters. This induction ensures that all employees understand our values and it reinforces the Group's culture.
- We ensure that staff are properly trained for their roles. We ensure that we deliver relevant training and implement best practice.

People

No change

Definition

The Group employs around 8,000 people who are critical to the success of our contract performance. Attracting and maintaining good relations with employees and investment in their training and development are essential to the efficiency and sustainability of the Group's operations. Delivery of strategic objectives increases our ability to attract, motivate and retain talent. In addition, the Care division is facing a challenging environment where the ability to recruit and retain carers is restricting performance.

KPIS ASSOCIATED WITH RISK:
- 'Excellent' service rating
- Customer complaints
- Staff churn

Mitigation

We induct and train all new starters. This induction ensures that all new employees understand our strategy, vision and values. All Care staff have access to NVQ training.

- We regularly review and benchmark our remuneration packages to ensure that they remain competitive. In Care, we are investing in an innovative recruitment process to ensure an increase in the volume and quality of carers. Local Care branches are targeted on a monthly basis in the areas of recruitment and retention.
- At the senior end of the business, we have increased our focus on succession planning and increased our investment in senior management development. Our senior leadership programme has identified a cross-section of the Group's brightest talent that we would envisage will play central roles in our future business.
- Expansion of apprenticeships.

An annual appraisal process is completed for all employees to ensure that all people receive feedback in respect of their performance and to identify future training and development requirements. We hold a national accreditation as an Investor in People. We are continually looking to improve our position as an employer of choice by improving the level of engagement with our employees through formal communications, awards to recognise success, local events and family fun days.

- We are continually monitoring our future skills requirements.
- We regularly undertake employee surveys to gauge employee satisfaction and engagement, and any barriers to high level performance.

Health and safety

No change

Definition

Prevention of injury or loss of life for both employees and customers is of utmost importance. In addition, it is vital to maintain the confidence our customers and clients have in our business.

KPIS ASSOCIATED WITH RISK:
- Accident frequency rates
- Customer complaints
- 'Excellent' service rating

Mitigation

Significant investment in the centralised health, safety and environment (HSE) function to maintain consistency and quality.

- We have comprehensive safe systems of work which are well communicated through a robust and coordinated internal training regime.
- We have robust processes for inducting new staff to ensure the importance of health and safety is emphasised together with detailed method statements for working safely.
- Creation of a Compliance Committee to monitor and oversee health and safety strategy and performance, regulatory compliance and risk management.

Closer review of buildings safety compliance (post Grenfell) in higher risk areas, e.g. Housing Management.

- Regular HSE training and updates are held, predominantly delivered by the in-house training function.
- Independent review of health and safety cases by insurers where recommendations of change are implemented.
- Internal health and safety auditing takes place using third party validation.
- A Group health and safety strategy and plan are produced annually.

IT and data

Definition

A major incident or catastrophic event could impact on the Group's ability to trade. In addition, it is essential that the security of customer, employee and Company confidential data is maintained. A major breach of information security could have a major negative financial and reputational impact on the business. The risk landscape of IT and data is constantly increasing with deliberate acts of cyber-crime becoming more sophisticated and frequent across all markets.

Mitigation

The Business Continuity Plan is constantly reviewed and frequently tested to ensure it is fit for purpose.

- Business continuity and IT disaster recovery management resource is convened at short notice to manage the response and any associated risk to the Group.
- General Data Protection Regulation (GDPR) steering group.

Information security penetration is externally tested to recommend improvements which are then implemented.

- Data Security Committee in place to monitor and review both physical data security and IT data security.
- GDPR implementation plan and steering group.

Business planning and financial viability

Given the public health emergency that is evolving at speed, in addition to the longer term considerations of viability, the Group has also considered whether COVID-19 would impact on the short-term viability of the Group.

CONSIDERATION OF COVID-19 AND ITS IMPACT ON VIABILITY

As detailed in the Strategic Review, the COVID-19 outbreak has brought significant short-term challenges. The Group recognises the significant social and economic impact of these events. The availability of labour, and the Group's ability to deliver services in a secure and safe environment for both our employees and service users is paramount.

The Board has completed an assessment as to the impact to the Group in the event of a significant deterioration in revenues and productivity as a result of COVID-19 for the purposes of its going concern review. It is challenging to measure the impact with any degree of precision given the extent of the uncertainty. The Group also considered actions that could mitigate any short term reduction in liquidity. In this most severe downside scenario analysis performed, the Board has considered the potential impact of the COVID-19 outbreak on the Group's results during the period of the pandemic, both for the purposes of this viability statement and for the purposes of our Going Concern review which is discussed in both the Directors report and the Basis of Preparation in our Accounting Policies. In preparing this most severe downside scenario analysis the following key assumptions were used:

- The impact of a reduction of between 50% and 80% of the Group's maintenance revenues (excluding lump sum arrangements for a period of six months and no fixed costs reductions). This assumes that the Group's customers will reduce service levels to deal only with emergency repairs and exclude lower priority works orders.
- In the region of 25% of the Group's maintenance revenues enjoy fixed price mechanisms. The Group expects to see no reduction in this revenue type and, in the short term, is expected to provide some mitigation, as there will be a reduction in cost.
- The impact of a reduction of between 20% and 40% of the Group's Care revenues for a period of six months and no fixed costs reductions.
- The Group also modelled for an increase in non-productive labour costs, including sick pay.
- The Group modelled for a small increase of five days in the timing of cash receipts.
- In mitigation, the Group modelled for the delay in the payment of the final dividend for 2019, which was originally intended to be paid in July 2020.
- The Group modelled for reduction in capital expenditure.
- The Group modelled for no other mitigating factors.

Positively, the Group's customers are predominantly Central and Local Government, which protects the Group against significant credit risk.

This most severe downside scenario is currently considered unlikely. However, it is difficult to predict the overall outcome and impact of COVID-19 at this stage. Under this most severe downside scenario, the Group's funding requirement shows marginal headroom when compared to its existing committed debt facilities. However, given the range of intra-month balances, the Board believes that, in this most severe downside scenario, there is a risk of the Group's funding requirement exceeding committed facilities and a breach to one or more banking covenants. The Directors are engaged in dialogue with the debt funders and the three banks have indicated that they understand the short-term challenges and are likely to be able to provide some additional facilities. Given that the financial covenants are only tested biannually on 30 June and 31 December, the Board believes that it would continue to comply with its financial covenants.

The most severe downside scenario does not model the longer term impacts, such as completing a significant backlog of orders or the availability to the Group's existing supply chain once the constraints applied to deal with the public health emergency are lifted.

LONG-TERM ASSESSMENT OF VIABILITY

The Directors have assessed the viability of the Group over a five year period. A period of five-years has been chosen as it reflects the average contract length. Whilst the Group holds contracts which extend beyond this time horizon, a period of greater than five years is not considered appropriate.

The Board considered its key risks. The principal risks are set out on pages 40 to 41 and the most relevant of these risks on viability were considered to be:

- a service delivery failure, possibly resulting in the death or harm of a service user, with significant negative publicity and long-term reputation damage;
- a health and safety failure resulting in serious personal injury or death of an employee or service user, leading to significant financial penalties and significant reputational damage; and
- a failure in our IT systems impacting upon our ability to deliver our services. We provide services to vulnerable people and even a short period of downtime could cause severe reputation damage. A serious system failure could have significant impact to invoicing our customers and collecting cash.

A financial model has been built on a contract by contract basis for the next twelve months and extended on a business by business basis for the following four years. The five year plan considers cash flows as well as financial covenants. The forecast for 2020 is based on the existing order book, takes no account of any impact from COVID-19, assumed no revenue growth, and at margins that are in-line with the current run-rate. Given the services delivered by the Group are non-discretionary, and any reduction in revenues from COVID-19 are temporary, the 2020 order book remains the correct starting point for modelling this scenario and assessing the long-term impact of each modelled scenario. The base case model forecasts a result for 2024, being year 5 of the model, with revenues and PBT of £939m and £45.9m respectively, and an average net debt at the end of that period of £19m. One impact from COVID-19 is that the Group has seen a number of contract re-bids delayed.

Business planning and financial viability continued

This is positive for the Group in the short-term, however the viability scenario remains relevant as these contracts will still be re-bid during the five year time horizon.

Sensitivity analysis was undertaken to stress-test the resilience of the Group and its business model to the potential impact of the Group's principal risks, or a combination of those risks. The Board overlaid the potential impact of the principal risks which could affect solvency or liquidity in 'severe but plausible' scenarios.

Three scenarios were modelled:

SCENARIO 1

The Group's base case forecast includes a modelled working capital assumption that profits generated are converted into cash as earned. This free cash flow is used to pay off debt. However, the first scenario assumes an underperformance in this key area, with EBITDA (before the impact of IFRS 16) to cash conversion reducing from 100% to 75%. This modelled deterioration would take account of a singular event at a contract level which, given the low margin nature of the Group, can have a disproportionate impact on profit to cash conversion. Within the context of a single year, this scenario is not unreasonable. In the context of the cumulative assumption over the five-year forecast period, this scenario is considered very pessimistic. Whilst this scenario has minimal impact upon profitability, it results in a net debt balance of £94m at the end of the five-year review period.

SCENARIO 2

The second scenario assumes a poor period in respect of the renewal of new contracts as they come up for re-bid. This scenario is highly relevant to the Group at this time, with the annualised value of contract renewals over the course of next two years, at circa £240m. The Group has a solid track-record of resecuring work on re-bid, however, for the purposes of considering the viability of the Group, the model has assumed the loss of all material contracts over the next two years. For the purposes of this scenario, the contracts with North Lanarkshire, Milton Keynes, MOD, Leeds and Lambeth are considered material, with each individually delivering annual revenues of in excess of £30m. All five contracts have varying levels of profitability. These contract losses results in a reduction in the Housing profit contribution and an associated under-recovery in central support overhead, the impact being a reduction in net profit margin from 4.9% to 3.8% in year 5 of the model and a closing net debt balance of £58m.

SCENARIO 3

A combination of both scenario 1 and 2. The combination of both significant reduction in cash generation from Scenario 1, and a reduced profit contribution from Scenario 2, results in a profit contribution similar to Scenario 2 but with a net debt balance at the end of the review period of £114m and a ratio of net debt to EBITDA of 2.9. Whilst this remains compliant with the current banking facility, it would add challenge to any refinancing, and the cost of debt would be expected to reflect this additional risk.

All scenarios show that the Group would remain viable even in the event of this significant business failure over the next five years. No mitigating actions were included within either scenario which was considered conservative but unrealistic. Whilst the Group's operations are entirely based in the UK, the large network of branches reduces the risk of serious business interruption through a single failure.

The Group's existing debt facilities run to November 2022. The future viability review extends beyond this date and therefore assumes that there will be sufficient appetite from our existing or new funders to provide the required level of funding on similar terms. The Group's average daily net debt in 2019 was circa £114m. The future viability review indicates a net debt at the point of renewal, to be around £100m, £74m and £110m across the base case, scenario 1, scenario 2 and scenario 3 respectively. Whilst the COVID-19 health emergency will delay the timing upon which contracts are re-bid, it is assumed that this outbreak will have concluded and the bidding cycle has been brought up to date by November 2022 in order for these figures to remain relevant. Therefore in all three cases, it is forecast that the Group would have delivered a reduction in its debt level at renewal compared to the balance today, and it could be in a position therefore to seek a reduction in the facilities required at renewal.

In addition to the three scenarios, the Board tested the sensitivity of the business to increasing the severity of the assumptions detailed in each case, to measure the trigger points at which the viability of the Group, in the absence of further mitigations, could be impacted.

- In Scenario 1, it was found that a reduction in EBITDA to cash conversion to 47% year on year, based on pre-IFRS 16 figures, would result in the Group exceeding its current level of committed debt in 2023.
- Scenario 2 already assumes that all revenue is lost on re-bid and in isolation would not impact on the viability of the business. Were the Group to see existing contracts terminated before their time, this could impact upon covenants and funding levels, and could inevitably impact upon viability.
- In Scenario 3, it was found that a reduction to 72% EBITDA to cash conversion, on a year on year basis, would see the Group breach the leverage covenant in 2023. Of more relevance in the short term is that a 63% EBITDA to cash conversion in both 2020 and 2021 would see the Group fail the leverage covenant in 2022. Similarly, a 43% conversion in both 2020 and 2021 would see a covenant breach in 2021. Given that Group covenants are only tested twice-yearly, there would be greater scope for the Group to ensure compliance with these covenants, notwithstanding the severity of the situation.

The Board has not modelled the impact of COVID-19 in addition to a combination of scenario 1, 2 and 3. As detailed above, one impact from COVID-19 is that the Group has seen a number of contract re-bids delayed. Therefore whilst the COVID-19 event brings a short term challenge to viability, it removes the risk from scenario 2 over that same period. Similarly, other actions taken by Central Government to improve the working capital position of businesses at this time also mitigates the impact of scenario 1 over the short-term.

The Board is mindful that there has been a significant increase in the fines that can be levied upon companies for non-compliance in areas such as health and safety and data protection. Fines are discretionary based on the nature, gravity and culpability of the company but fines are applied based upon a percentage of Group revenue. In a low margin business such as Mears, any single fine could have a significant and is proportionate impact upon retained profits. The Board took the view, however, that, whilst such an event could be damaging, it would not ultimately impact on the long-term viability of the Group. Both health and safety and IT and data feature high on the Group's risk register and we continually review our mitigating actions to ensure that we minimise our residual risk.

The Board accepts that uncertainty of results increases as the projections cover a five-year period. However, the Board concluded that there was a reasonable expectation that the Group will continue in operation and would be able to continue to meet liabilities as they fell due over the five-year period of business planning.

Financial 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) £'000	Exceptional costs £'000	Amortisation of acquired intangibles £'000	Full tax charge £'000	Normalised result for year £'000
Sales revenue	905,084	–	–	–	905,084
Cost of sales	(686,874)	–	–	–	(686,874)
Gross profit	218,210	–	–	–	218,210
Total administrative costs	(184,722)	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

Financial review continued

2018	Statutory (continuing activities) £'000	Exceptional costs £'000	Amortisation of 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 the Chief Executive's 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 £'000	**Year ended 31 December 2019 before impact of IFRS 16 £'000**	Year ended 31 December 2018 (restated) £'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 £0.96m. 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 £'000	Lease obligation £'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 £m	2018 £m
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 £m	2018 £m
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 are 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, and is consistent with the treatment in the prior year.

NET FINANCE CHARGE

	2019 £m	2018 £m
Finance costs on bank loans and overdrafts	**(3,753)**	(3,251)
Other interest income	**261**	316
Interest on lease obligations	**(6,072)**	(81)
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 £0.8m (2018: £0.8m).

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 £m	2018 £m
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 £'000	Year to 31 December 2019 before impact of IFRS 16 £'000	Year to 31 December 2018 £'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 £m	**Payables £m**	**Net working capital £m**	Receivables £m	Payables £m	Net working capital £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)**	**(3.3)**	(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 £m	Discontinued £m	**All activities 2019 £m**	2018 £m	Note
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	**–**	–	0.0	12.4	5
Net assets for resale – Care activities	**5.3**	(5.3)	0.0	–	
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	**–**	–	0.0	(15.0)	5
Deferred consideration	**–**	–	0.0	(2.0)	6
Other payables	**(4.9)**	–	(4.9)	(5.0)	7
Lease obligations	**(269.3)**	(2.0)	(271.3)	(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
Number of schemes	2	13	15	30
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.

Delivering social value in practice

2019 saw a strategic review of the Mears Group Social and Diversity Impact approach to build on the lead we are taking in our sectors. We launch in 2020, with a clear two year plan to achieve the goals and outcomes in our Group strategy for social and diversity impact. It sets out the approach we will take to develop and deliver effective, efficient and innovative social impact. It demonstrates our clear ambition towards improving people's lives and building strong, sustainable communities.

It includes our vision, goals and objectives and reflects the fact that we aim to create a centre of excellence model to support our business objectives and deliver a bespoke service to each of our business sectors which will be delivered through innovation and collaboration.

Our plans include how we will further develop our approach to social impact, diversity and inclusion, impact measurement and thought leadership, with a view to creating a diverse, highly skilled and engaged workforce, and positioning ourselves as a responsible business with a social heart.

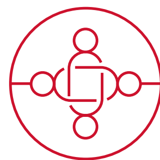
OUR STRATEGY

At Mears we pride ourselves on having a social heart and being a leading socially responsible business. Through a strategic approach in our specialist areas, we will work to ensure our business is positioned as a responsible business – evidenced by a highly engaged workforce, our social impact and strong governance. Our work brings us into contact with some of the most vulnerable people in society, living in some of our most socially deprived communities. As we grow, so do the opportunities and our sense of responsibility to make a positive difference. That's why we continue to value and invest in social and diversity activity, ensuring that it runs like a thread through everything we do in every part of our business. For us, social value is not something we simply pay lip service to. It is part of our DNA, completely embedded in everything we do.

If we didn't care about the people and communities we work with, we wouldn't be able to achieve this, and our organisation wouldn't survive. Putting social and diversity impact at the heat of our business isn't just the right thing to do – it makes good business sense. We're committed to building a diverse and inclusive culture that goes beyond protected characteristics, attracting and retaining the best talent, and enabling all of our colleagues to thrive.

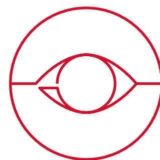
OUR APPROACH

The Mears approach to social diversity and impact continues to focus on four priority areas, which will be the basis for our plans and activities, for all branches to meet their social and diversity impact commitments.



PURPOSE

We want to create a culture of collaboration, which drives a dynamic approach to how we successfully deliver social and diversity impact.



VISION

To do this we aim to become the leading socially responsible business in our sector. We will create a fair for all culture that enables customers, colleagues and communities to benefit from the social impact opportunities we create.

OUR GOALS

We will secure competitive advantage by building our reputation as a socially responsible business, enabling our customers and communities to positively benefit from the social and diverse impact we create.

BUSINESS OUTCOMES FOR SOCIAL AND DIVERSITY IMPACT

Over the next two years we will:

- Fully embed social and diversity impact in all aspects of our business, by providing the solutions colleagues need to effectively deliver positive social value outcomes
- Establish a framework for our clients to support a SMART approach to social value
- Establish a consistent measurement model which enables effective data governance and insight to drive positive change in social impact
- Positively influence policy and current practice (local and national government) through our Thought Leader programme – continue to lead the way
- Gain external recognition and accreditation for our approach to social and diversity impact
- Create a diverse, engaged and highly skilled workforce at every level that fully represents the communities we work with

GENDER DIVERSITY

	Year	Men	Female
Board	2019	9	2
	2018	8	3
Senior managemet	2019	25	6
	2018	26	8
Employees	2019	4,714	4,047
	2018	4,789	5,304

Our two-year ambition

NATIONAL THEMES FOR 2020

2020 will see these develop further with focus on some key areas of social and diversity impact, and developing national campaigns and resources. The eight national themes approach has been endorsed by the Social and Diversity Impact Board.

LEADERSHIP RECOGNITION

- Highest rated large provider to the public sector, in terms of being perceived as a responsible business by our clients.
- Improved scores, year on year, within relevant external accreditations.
- Win one industry award per annum.
- Year on year growth in social value, guaranteed per employee from £2,400 as current baseline.
- Success in raising social value profile within public-sector procurement.
- Top 10 suppliers contributing at least 0.5% of their turnover with us into social value benefits.

FAIR FOR ALL
Reducing prejudice, improving understanding of differences, and supporting social inclusion

HOMELESSNESS

MENTAL HEALTH AWARENESS

- Recycling rates of over 50% on all waste generated or secured from properties.
- 100% reduction in carbon footprint per employee.

CHAMPIONING LOCAL
Improving the wellbeing of people and the communities we serve

COLLEAGUE LEADERSHIP

ENGAGEMENT

- Every contract will have a social value plan contributing social value of at least 2.5% of the value of the annual contract revenue.
- 100% of grade 6 leaders are personally involved in social value activity in their branch or team.

CREATING CHANCES
Providing career, skills and employment opportunities

EMPLOYMENT & TRAINING

APPRENTICESHIPS

- Year on year growth in employee perception of Mears being a great place to work – fair and responsible.
- 10% increase of women in leadership positions (grade 5).
- Year on year increase in starters at grade 5+ with a protected characteristic.
- Year on year reduction of the gender pay gap and regarded as a leader on communicating BAME pay equality information.
- Increase percentage of women in management positions within our housing business.

HEALTHY PLANET
Making a positive contribution to our planet

CARBON FOOTPRINT AND WASTE RECYCLING

SUPPLIER COMMITMENTS

- 85% of apprentices secure work at Mears or another organisation, on completion of their apprenticeship.
- Year on year growth, in percentage, of overall recruitment from under-represented groups.

Highlights

RECOGNISED AS A LEADING SOCIALLY RESPONSIBLE BUSINESS

2019 was the year Mears was awarded some significant accreditations, based upon the strategy, approach, outcomes and real-life positive stories of delivering social impact and making a difference to individuals and communities.

We're leading the way for social value in our sector – officially.

SOCIAL VALUE UK CERTIFICATE – LEVEL 1

Social Value International – the global organisation that promotes and champions social value– has given us Level 1 social value certification for our activity. And we're the first organisation in our sector to achieve it.

This means that based on our submission, they're confident that we have a commitment to implement systems and processes that are consistent with the Social Value Principles.

Group Head of Customer Success Tracey Lyth said:

"OUR COMMITMENT TO SOCIAL AND DIVERSITY IMPACT IS EXCEPTIONAL. IT'S WHAT MAKES MEARS STAND OUT FROM OUR COMPETITORS AND IT'S A CONCEPT THAT IS EMBRACED BRILLIANTLY BY COLLEAGUES FROM BOARD TO FRONT LINE. THIS CERTIFICATION IS IMPORTANT BECAUSE IT ENABLES US TO DEMONSTRATE THAT WHAT WE DO ISN'T JUST LIP SERVICE – IT'S RECOGNISED ON A GLOBAL SCALE AS BEING UP TO STANDARD."

The Social Value Certificate looked at the systems and processes we have in place for maximising social value. It is not about reporting social value or social impact and it doesn't provide proof or a statement that we're creating an amount of social value. Instead, it shows that processes and systems are in place to maximise social value and is awarded following an extensive examination and evidence period.

It proves to external stakeholders (including funders) that we are aligning to an international standard for managing social impact and that we are taking steps towards maximising the value that we can create.

Added Tracey:

"WE'RE NOT RESTING ON OUR LAURELS. THIS WEEK WE LAUNCHED THE SOCIAL AND DIVERSITY IMPACT TOOLKIT FOR 2020, WHICH IS AVAILABLE ON THE SOCIAL VALUE APP. WE'VE GOT A PLAN TO REALLY ENSURE ACTIVITY IS CENTRED THROUGHOUT THE ORGANISATION OVER 2020 AND LOGGED SO THAT WE CAN MEASURE THE REAL IMPACT WE MAKE. WE'VE ALREADY STARTED WORK ON LEVEL 2 CERTIFICATION AND ARE CONFIDENT WE'LL HAVE ACHIEVED THIS BY QUARTER 1."

SOCIAL MOBILITY INDEX LISTING

When it comes to accessing and progressing talent from all backgrounds, we're proud of the work we do.

And now that work has been recognised: Mears has been ranked in the top 75 companies in the UK for social mobility – the actions taken in the workplace to ensure they are open to accessing and progressing talent from all backgrounds.

Our Red Thread behaviours of motivation and empowerment support this concept – we believe that we can all reach our personal goals and that we will be supported if we take ownership, the initiative and responsibility for the work that we do.

Employers are assessed on everything from the work they do with young people and their apprenticeships, through to their recruitment and selection processes and how people from lower income backgrounds progress up the ladder within their organisations.

We came 36th in the index for measures including:

- Working directly with schools on social value projects with 11,300 pupils
- 45 management apprentices
- 70 pre-employment students
- 607 apprentices, plus 48 completers
- Selecting an Employee Director to sit on our Board
- Working to increase the number of women in the sector through our Tradeswomen into Maintenance project
- Our adult education programme enables our colleagues to upskill and also members of the local community who are long-term unemployed

Alan Long, Mears Executive Director said:

"OUR BUSINESS IS LITERALLY ROOTED IN THE COMMUNITIES WE WORK. WHETHER THAT'S BY INTERACTING WITH PEOPLE AS CUSTOMERS OR BY BEING LARGE COMMUNITY EMPLOYERS. WE TAKE OUR RESPONSIBILITY TO SOCIAL MOBILITY VERY SERIOUSLY AND HOPE THAT WHEREVER WE WORK WE CONTRIBUTE TO THAT SOCIETY AS AN EMPLOYER, AS A LOCAL PARTNER AND AS A DRIVER OF OPPORTUNITY.

"I COULDN'T BE PROUDER TO HAVE BEEN RECOGNISED IN THIS WAY AND I'M SURE THAT COLLEAGUES WHO HAVE LEARNED A TRADE AND HAVE A WHOLE NEW WORLD OF OPPORTUNITIES OPEN TO THEM WOULD AGREE."

2019: A YEAR OF GROWTH

We have been recognised as an organisation which is delivering on the social responsibility agenda, but we are never content to rest. During 2019, we increased the number of social value interventions we are engaged in by 100% and continued to develop our strategy and framework to ensure social and diversity impact is truly embedded in the Mears culture.

At a strategic level, we see social value as part of the 'Red Thread' that binds Mears employees together and defines the values and behaviours we exhibit as we go about our daily work. Our employees set high standards, focusing not just on providing customer service excellence but also acting as role models. We believe that these values are not predicated by academic achievement or social position, but instead are influenced by attitude, character and the strong work ethic of our teams.

This is translated into practical action which delivers outcomes through an enhanced framework of approaches in 2019, to effectively engage with communities on the ground and robust mechanisms for measuring the social impact that is created.

OUR GOVERNANCE

How we ensure we continue to do the right things.

To drive social and diversity impact throughout the business, we continue to operate our externally appointed Board. To align to the approach, the Board has been reviewed and joined with the previously established Diversity and Inclusion Board.

Going forward our newly appointed Social and Diversity Impact Board ensures we take a strategic approach to corporate social responsibility and embed it into every area of our business. The Board is endorsed by three external experts whose role is to challenge us to drive forward our social and diversity agenda and to hold us to account.

MEARS FOUNDATION

The Mears Foundation is chaired by Bob Holt, former Chairman of Mears Group Plc, with committed support from nominated Board members from across the business. It aims to help improve the lives of young people, vulnerable groups, the elderly and those with significant health issues, in the UK and abroad, through practical help, support and intervention.

The Foundation provides support through volunteering and hands on help for nominated causes, not just financial support. This year, teams across the Group have been taking part in a variety of events, specifically focusing on social isolation.

DELIVERING SOCIAL VALUE IN PRACTICE

Every Individual Makes a Difference

At Mears we pride ourselves on having a social heart and being a leading socially responsible business. Every branch delivers on a social and diversity plan and commitments and every colleague is encouraged and supported to make a positive difference to the lives of our customers and communities, by getting involved in their business plans.

As a result, we are making a difference across the UK, helping communities thrive. Let's see just some of the ways Mears teams and individuals are making a POSITIVE difference, delivering social and diversity impact through their everyday business and service delivery.

MEET OUR SOCIAL VALUE BOARD EXTERNAL EXPERTS

RICHARD KENNEDY

Richard is chair of the board for Social Value UK and co-chair of Social Value International.

"MEARS GROUP IS AN ORGANISATION WHICH TRULY UNDERSTANDS THE IMPORTANCE OF THE SOCIAL VALUE THEY CREATE BOTH THROUGH THEIR CORE BUSINESS AND COMMUNITY ACTIVITIES. IN MY OPINION THIS WILL FUTURE PROOF THE BUSINESS FOR SHAREHOLDERS, CUSTOMERS, AND THE COMMUNITIES IN WHICH MEARS OPERATES."

JANE FARRELL

Jane is the co-founder and Chief Executive of EW Group. She is a specialist in inclusive leadership, unconscious bias, organisational change and cultural adaptability. Jane has vast experience in diversity consultancy and training, specialising in working with senior management teams to improve individual, team and organisational performance.

She regularly works with leaders of global and national organisations, advising on inclusive leadership, and diversity and inclusion strategy. Jane works in collaboration with staff, managers, senior teams and boards to strengthen organisational cultures, strategy and practices.

BARRY MALKI

Barry is Director of Communities for Social Squared, a consultancy specialising in strategic Social Value and Community Investment. Outside of this he serves on the boards of several charities, and works with local voluntary organisations helping them to leverage financial support from different sectors. Barry commented:

"I HOPE THAT BY WORKING WITH MEARS AS PART OF THEIR SOCIAL VALUE BOARD, WE CAN STEER THE BUSINESS TO MAXIMISE THE BENEFITS TO THE COMMUNITIES IN WHICH THEY OPERATE."

FOCUS ON FAIR FOR ALL

In practice to reduce prejudice, improve understanding of differences and support social inclusion

DRIVING THE AGENDA FOR WOMEN IN MAINTENANCE – BUILDING ON A YEAR OF SUCCESS

We continue to work hard to encourage more women to consider a career in the housing trades, perhaps by starting on one of the wide range of Mears apprenticeship programmes. We are proud to have as an employee, a woman who was the first female to take up a gas apprenticeship in the UK, back in 1977. Her example is an inspiration for us to follow.

Amongst other things, we held a conference with our staff called Inspire: Women in Trades in 2019, looking at new ways to build our future workforce with a more balanced demographic.

Tracey Lyth, Group Head of Customer Services who has been leading the project said: "We started this project because we know that the more diverse our workforce, the better we are as an organisation. Only 1% of trades operatives in the UK are female. We wanted to buck that trend and lead the way.

"The research we commissioned, the guidance and toolkits and courses that we created, they are all there for people to use. This is a great way for branches – especially in housing maintenance and new homes – to deliver social value in their communities. But we know we can do more and it's great that the most senior people in our organisation want to hear from the colleagues at the pointy end about what the issues are and what can be done to overcome them."

WHY IS IT IMPORTANT FOR MEARS TO HAVE WOMEN IN MAINTENANCE ROLES?

A lot of our customers want to see a more balanced workforce and we want our workforce to be reflective of the people we work for and the areas we work in. It also makes good business sense because it's a tough employment market, and if we're going to continue to have growth in our business, we can't just rely on traditional labour markets, we have to attract people into our business who may not have thought in the past of maintenance as a career.

HOW CAN MEARS ATTRACT WOMEN WHO ARE LOOKING FOR A CHANGE IN THEIR CAREER INTO ROLES?

We will ensure there are good career development opportunities, including management and leadership training to give people a career path if they come and work for us. In the past 10 years we have grown the number of female housing branch managers from a handful to 20% of our branches. So for people to see that there are women in many and varied roles in our business and to see those women progressing if they want to, creates a culture where people will stay with us.

"THE WOMEN INTO MAINTENANCE PROJECT WAS REALLY IMPORTANT. GETTING MORE WOMEN INTO THIS PART OF THE BUSINESS REALLY DOES MATTER AND I HAVE NO DOUBT THAT IF WE HAD MORE PEOPLE IN OUR BUSINESS LIKE THE PEOPLE IN THIS ROOM, WE'D BE A BETTER BUSINESS."

Case study: Taking the message to the community

New Homes Scotland is delivering social value that engages local girls with construction as a career.

In a series of workshops, girls in the local community learned about our business, got a tour of our Bilston site and even got a chance to try their hand at bricklaying.

Twenty girls aged 11–17 took part in the events which happened as part of our contract with Mid Lothian Council, and were organised in partnership with the Goodtrees Neighbourhood Centre in Moredun, South Edinburgh.

The centre was established to provide social, recreational and educational use within the community, and this project was an important aspect of our plan which we created in partnership with the local community council.

The first session gave the girls exposure to the construction industry and they did some critical learning activities to help break down the associated stereotypes in the industry. They also looked at social housing in communities, roles and responsibilities in the industry and what skills are required.

In the second session, the girls and their youth worker from the centre toured our project at Bilston, learned about the importance of site health and safety and did some STEM orientated activity including problem solving, teamwork, creative and analytical thinking and hands-on learning experiences.

Their feedback on the events showed that they were a hit – with lots of the girls saying that they hadn't realised that girls could do construction, or that there were jobs in the industry for them. Their youth worker said: "The session was great. The girls were raving about it the whole way back. We'd like to bring other groups to the project and give them the same experience."

"Delivering social value on our New Homes projects is key, we recognise the role that Mears plays in creating and developing opportunities for the communities in which we are working," said Steven Porch, Operations Director of New Homes Scotland.

"This project for Goodtrees Neighbourhood Centre was an important aspect of our community plan, which was created and agreed in partnership with the local community council. The girls were engaged and showed a real interest in learning about our work. We hope to have given them some ideas about their future and the many opportunities for women in construction today."

FOCUS ON
CHAMPIONING LOCAL

Improving the wellbeing of people and the communities we serve

SOCIAL VALUE HELPS DELIVER THE WIN: ROTHERHAM HOUSING

Mears secured a 5+5-year contract extension on our existing partnership contract with Rotherham Metropolitan Borough Council.

This contract win comes from a strong Mears presence in Rotherham which has gone from strength to strength since 2012 when we acquired Morrison FS – the original contract holders.

Branch Manager Andy Chambers explains:

"Yes we deliver the core contract activity, but it's the social value work that we do which gives us the edge. It means I can go into a business meeting with people who don't really know about repairs and maintenance and have them instantly recognise Mears for the work we do to support the local community.

"We've built a presence in the town. Our clients see us as a company investing in Rotherham, which helps when they want to invest in us."

In total we employ more than 300 people in the area, and the Rotherham Housing team now shares space at the New York Stadium with Mears Care, Training and Development teams. That's not the only work we do in the stadium – we redeveloped three floors of space there to create a new home for Rotherham United Community Sports Trust which engages local people through sport.

On the pitch, we support the football club as an away shirt sponsor.

The stadium also houses the Mears Academy, which as well as offering training to colleagues, can also support the Local Authority in delivering tenant workshops so that tenants can understand how to effectively use their heating systems and do basic repairs. If client staff would like taster courses to be able to carry out their own DIY we can look at running some of those courses.

Out in the town, we host Local Employment Activity Forum events in Rotherham on an annual basis in partnership with the council and JobCentre Plus, bringing prospective employers and job seekers together. And we're founder members of the Rotherham Pioneers, a group of 80 like-minded businesses that are focused on promoting Rotherham as a place to invest and work in – something we've actively contributed to with the 49 apprentice opportunities we have provided over the past ten years and those we are planning over the new ten-year contract.

We've also contributed to infrastructure projects in the town – refurbishing two premises for a homeless charity, developing bungalows for disabled residents – as well as supporting local charities and stakeholder groups like Age UK.

Added Andy:

"It's not just about what you do as a branch, its getting people to see the extras we do as part of who we are as a company. The residents of Rotherham are our customers whether they take a core service from us or not. They see our name on our vans but more importantly, they see how we are supporting them in other areas too. It makes a difference. And it makes us proud."

MEARS CHALLENGE PROJECT COMES TO LIFE: SMALL IMPROVEMENTS MAKE HOSTELS BETTER

Employee Lisa Newton used her £2,000 prize money from Mears to make things a little better for customers in two of our temporary accommodation schemes.

"Our hostels provide a safe environment with decent accommodation, but it can be a big transition for customers who have come from a flat or a home and now find themselves homeless and in a place where they may need to share some facilities and get to know new people," she explains.

"Our Community Hub and Garden project focused on two of our hostels and what small things we could do to make their stay a bit more comfortable – to help them feel part of a community."

At **Oakleigh House** in Sutton, a previously unused and unloved room was re-purposed, redecorated and refurbished to provide a community space. Tables, chairs and storage were fitted, and a programme of community events and meetings set up, influenced by the recognised needs of the client group, but also with input from the tenants themselves in terms of what would be useful.

"Events and workshops are a great example of this," says Lisa. "Customers have told us that what they struggled with was knowing where to start when it came to improving their circumstances. So, we've run some very basic workshops that signpost them, with the idea that they are then empowered to go off and find and apply for jobs, benefits and activities to take part in.

"The Accommodation Manager based at the scheme can offer extra support if they need it such as advice and support on the applications and interviews as well as dealing with claims and queries."

At **Eaton Green** in Luton, the focus was on the external. “We wanted to create a space outside for people to get together outside but we couldn’t get planning permission, so instead the money has been used for equipment for the tenants to use – like rounders kit for the sessions with the kids they run every week,” Lisa explains.

“We had some left over so we also got some additional equipment for when we install raised beds and storage facilities.”

And feedback from customers is really positive, with comments about how this is helping them interact with each other and reduce the sense of isolation and stigma that can often come with this type of accommodation.

For Lisa, it’s been a great experience: “I’m really pleased we entered the Mears Challenge project competition. We’ve made a positive difference to these people’s lives by giving them a space to use outside the four walls of their often-small living units. That’s what it’s all about.”

“I’M REALLY PLEASED WE ENTERED THE MEARS CHALLENGE PROJECT COMPETITION. WE’VE MADE A POSITIVE DIFFERENCE TO THESE PEOPLE’S LIVES BY GIVING THEM A SPACE TO USE OUTSIDE THE FOUR WALLS OF THEIR OFTEN-SMALL LIVING UNITS. THAT’S WHAT IT’S ALL ABOUT.”

East Kent Housing: Canterbury

COMMITMENT TO SUPPORTING A COMMUNITY FOOD BANK ON A REGULAR BASIS AND PROVIDING WORK EXPERIENCE OPPORTUNITIES FOR LOCAL YOUNG PEOPLE – AND WE MANAGED TO COMBINE THE TWO!

The team at Canterbury, has worked with the food bank every week from December 2017. Despite workload fluctuations they have maintained the regular commitment and the team has even covered Christmas and bank holidays in their own time to ensure that this increasingly important service can provide the vital help to an average of 50 local families each week.

Peter, a trustee wrote to us: “The food bank gives out about 4,000 food parcels a year and demand is always growing. We really appreciate Mears’ help with the packing of parcels in the warehouse and in collecting donations from around Canterbury on Friday mornings. It is great to have this continuing support over a period.”

A recent message from the Foodbank is: “On behalf of Canterbury Food Bank I would like to thank you, and all your friends at the Mears Group, for your help over the past year. The help that you have given us with the Friday pickups has been invaluable. Our drivers are sometimes snowed under with collections, so the fact that you have been able to help has eased their load, especially at this time of year when people are so generous. Thank you all so much for your kindness and your support.”

Through contacts in this work we heard about Ben who was finding it hard to be motivated at school and had no idea what he wanted to do in the future. Ben became one of 11–15 young people per year who spend at least a week with our tradesmen learning what it’s like to be a tradesman and deliver excellent customer service to our residents. Ben’s mum was almost overwhelmed by Ben’s transformation and visited the office to see the customer care team and the tradesmen who had mentored Ben to thank them personally and tell them how much it had meant. She told us that Ben was “full of what he had been doing”, uncharacteristically enthusiastic and that this had carried on to his performance at school, where teachers have remarked on his increased commitment – he has a goal! With a year to go at school we hope that we will see him apply for our highly effective apprentice programme.

CREATING CHANCES

Providing career, skills and employment opportunities

OUR OPPORTUNITY TO OFFER FREE ADULT LEARNING TRAINING TO COLLEAGUES AND CUSTOMERS

Mears Group, in 2019 launched its new free training scheme, Mears Pathways, which is available to all customers and colleagues to support career development and employability. Developed through a strategic partnership with the Learning Curve Group, a national education and expert training provider, Mears Pathways will provide career, skills and employment opportunities both to customers and colleagues in the communities it serves.

Mears is committed to making a positive difference to enable individuals and communities to flourish and thrive. Creating Chances is one the Mears four social value priorities, and Pathways is a great opportunity to offer free learning to our customers and communities, to enable learning and career opportunities.

WHAT DOES PATHWAYS OFFER?

Mears Pathways will provide access to fully funded, flexible learning programmes, covering a wide variety of subjects, including:

- Wellbeing
- Health Awareness
- Dementia Awareness
- Mental Health
- Diversity & Inclusion
- Employability

Learning Curve is experts in the field of learning and training and this partnership will allow Mears to offer an exciting programme of learning opportunities to customer groups and colleagues, free of charge.

It's great news that over 100 colleagues and customers have registered interest to complete a Pathways programme since we launched a couple of months ago, so we look forward to hearing from those colleagues as they progress on their learner journey.

Pathways provides a great social value opportunity for our customers and communities. Tracey Lyth, Group Head of Customer Success said:

"We are delighted to be delivering Mears Pathways in partnership with the Learning Curve Group. At Mears, we are committed to making a positive difference to individuals and communities. 'Creating Chances' is one of Mears' four Social Value Priorities. It is all about providing career, skills and employment opportunities to enable people to create their own chances to succeed. Mears Pathways will deliver on this to offer growth and progression opportunities for both our staff and customers."

SUPPORTING OUR TROOPS – OUR COMMITMENT TO THE ARMED FORCES

An in depth look at the work we do for current and ex-service people.

Every year, almost 3,000 people leave the armed forces. And for many, the reality of a life on civvy street is difficult. Lack of support or preparation, or issues caused by time served in active war zones can mean a slip into poverty, the breakdown of relationships, or the loss of a place to call home.

One of our social and diversity impact approach themes is homelessness. And given that this homelessness is a real issue for veterans who have served and sacrificed, in October we focused on how this particularly effects ex-service people – and what we are doing to help and support them.

Cait Smith knows all about how hard life can be when a career in the forces ends. A former RAF Medic and Royal Signal DTG, she now specialises in helping Armed Forces Veterans with all aspects of life from welfare to social interaction – help that she herself needed.

"I got my dream job at 16 in the Royal Signals. Serving my country was one of the best things I have ever done. But the experience also affected me in ways I couldn't know. When I left the Army in 1997, I was a single mum. I had nowhere to live and a child to look after."

Cait was diagnosed with PTSD 20 years after her entire command was wiped out in the 1994 Mull of Kintyre helicopter disaster. She now runs the Bolton Armed Forces Centre for Veterans and she helps ex-service personnel.

"People think of veterans as little old men with medals. But the reality is different. We are men and women of all ages who need help and support. When I left the forces, there was nothing. I felt as though I had somehow failed. I even tried to take my own life.

"Homelessness among the veteran's community is getting worse by the month. The youngest we have dealt with is an 18-year-old and the oldest is 97. And we help people of every age in between.

"People who come out of the forces need support into work so that they have the stability of a job and can afford the security of a home."

We're proud of the work that we do as a group in helping ex-service people – and their partners and spouses – into work. Mike O'Neil is one of the latest people to benefit:

"I served for 22 years in the Navy working on radar systems. Towards the end of my career, I started to think about what I wanted to do and plan for a future.

"More and more of my role had been about managing the health and safety of the people who worked for me and did maintenance on the ship. I knew this would be a good sphere to get into.

"I went to a Career Transition Partnership employment fair and spoke to the Mears people. From that, I got two weeks' work experience in the Health and Safety Team. I kept in touch once those two weeks were over and then very luckily, a vacancy arose. I interviewed for it on my last day with the Navy and got offered it the same day. I went from working on a type 23 frigate being moored off the coast of Iraq to now being in customers' homes making sure the work we do and the people who do it are safe, in the space of two months. It was seamless. It was perfect. But I know that's not always the case for people coming out of the forces. There can be a lot of anxiety about what people are going to do."

Attending the employment fairs is just one way Mears supports ex-forces personnel. Our Armed Forces Working Group is led by Assistant SHEQ Director Kevin Holden: "Supporting ex-service people is the right thing to do for an organisation like Mears in terms of the debt that our country owes for their service.

"We're proud of this commitment. We're proud to welcome ex-service people – and their partners and spouses, as well as the partners and spouses of those currently serving – into Mears. We run a guaranteed interview scheme and have a dedicated email address through which they can contact us to ask about vacancies they have seen or ask about any upcoming opportunities. We're advocating for the Armed Forces Covenant and promoting it within our supply chain. We're aiming for gold standard when it comes to the Defence Employer Recognition Scheme. We have great links with the Royal British Legion and we're looking forward in 2020 to a partnership with them so that we can work more closely together going forward. Every year we raise money to fund the vital work which they do."

Mears Learning: Apprentice mentors will make the difference

2019 saw the first colleagues graduate from our new mentor training programme, hosted by Mears Learning.

Designed to recognise the vital role the mentor plays in the success of their apprentice, the training is an introduction into what mentoring is and the practical, educational and organisational cultural support they should provide.

Head of Learning and Development Heather Hughes said: "We recognise that the people mentoring our apprentices are just as important to the process as the apprentices themselves. The support they give with learning and training, the relationships they can build with the college and the examples they are leading of our values and Red Thread behaviours are key.

"This has happened organically in the past – every apprentice has had a mentor – but we want to standardise it and make it official so there is an understanding of what mentoring in Mears means. The training sets that out for them and shows them how they can hook in to Learning and Development so that we can support their apprentice with any issues. It's also a steppingstone to further training for people who want to enhance their careers and look to management roles."

That is certainly something that interests Gas Engineer David Ross: "I'm mentoring an existing Mears colleague who is a plumber who has moved into gas engineering," he says.

"THE TRAINING HELPED ME UNDERSTAND THE IMPORTANCE OF PATIENCE AND HONED MY TEACHING SKILLS. WHILE WE WERE ON THE COURSE, THE TRAINER WAS TALKING ABOUT PATHWAYS INTO LINE MANAGEMENT AND HOW THIS WOULD HELP. IT'S SOMETHING I'M INTERESTED IN AND WILL BE MENTIONING AT MY APPRAISAL."

FOCUS ON
HEALTHY PLANET

Making a positive contribution to our planet

MEARS MENTORS WORKING WITH SOLUTION 4 THE PLANET FOR 3RD YEAR: THE BIG IDEAS CHALLENGE

In 2019, we were delighted to announce that we have signed up for our third year with Solutions for the Planet, supporting the Big Ideas Challenge, this year working in Scotland and Yorkshire. Twenty-four mentors from across the Group have been trained to work with school students as they prepare for the STEM – based challenge.

WHAT IS THE BIG IDEAS PROGRAMME?

Solutions for the Planet runs an annual enterprise competition called the 'Big Ideas Programme'. This is a STEM-focused programme with an emphasis on sustainability and entrepreneurship. It is delivered in partnership with companies based locally, who support teams of pupils (in KS3) to generate solutions or 'Big Ideas' to sustainability issues. These Big Ideas are submitted to our competition with semi-finals held at a regional university and finals, traditionally held at the Houses of Parliament in London.

The success of our involvement in the programme relies on volunteer mentors to sign up to be involved in the five month programme. We have had some fantastic mentors over the past two years across the Group from Operations and Support Functions all of whom gave great feedback including John Martin, Mears Contract Manager at East Durham Homes during 2017–2018. John said:

"It was an incredible experience being a mentor to these young people. I would recommend mentoring to all my colleagues as it not only promotes us as a company but also gives an opportunity to impart our skills. The project really opened my eyes to the dedication and effort these young students have put into the project – these young people are the future of the industry."

Paddy Allum, Head of SHEQ who joined us as a mentor for 2018–2019 explained why he wanted to become a mentor:

"I was asked by my line manager if I would like to get involved in the programme and I jumped at the chance. Children are our future and the environment is something I'm passionate about, so I felt privileged to have been asked to assist in their development and to discuss environmental issues and solutions."

This year we will be moving back up north to support the programme in Scotland and Yorkshire. What makes this extra special is this will again be a #OneMears project, with colleagues from many different parts of Mears getting involved.

SUPPLY CHAIN AT THE FRONT OF TRIALLING HYBRID AND ELECTRIC VEHICLES:

Mears Group completed in 2019 a trial which included 16 other large companies operating extensively in London road testing a Ford Transit Plug-In Hybrid van for a year to explore how electrified vehicles can support cleaner air targets while boosting productivity for operators in urban conditions.

Ian Watson, Director of Procurement at Mears said:

"We are always looking at the impact of our business and how we can help to improve the communities we work in. The nature of our business means we are working in urban environments where air pollution will be a significant factor in reducing the quality of life for residents and if we can be part of the solution then that's what we should do.

WHAT'S THE IMPACT?

91% of students on Big Ideas Days said mentors helped them understand more about the range of jobs using STEM skills. The experience was overwhelmingly positive according to the feedback we received from mentors, 97% saying they saw the students developing key skills through the course of the programme. 94% of mentors felt that mentoring young people through the programme has helped them in their professional life and 82% felt it has helped them in their personal life.

91%

OF STUDENTS SAID MENTORS HELPED THEM UNDERSTAND JOBS USING STEM SKILLS

94%

OF MENTORS FELT THAT MENTORING YOUNG PEOPLE HAS HELPED THEM PROFESSIONALLY

"Companies like ours are heavily dependent on fleet for our day to day business so we are taking steps now to ensure that the Mears fleet of the future is reducing our carbon footprint."

The trial involved companies such as Addison Lee, British Gas, DPD, Heathrow Airport, TfL, Sky and the Royal Mail who, like Mears, operate large fleets in London. Further trials are planned in conjunction with our nominated manufacturers to optimise the use of the vehicle and deliver operational challenges, in areas that support these vehicles with the right geography and support infrastructure to deliver service levels to customers and clients.

DELIVERING SOCIAL VALUE WITH OUR SUPPLY PARTNERS

At Mears, we believe we are more effective in delivering social value where we can share resources, skills, experience and financial support with our supply partners. To ensure a consistent approach throughout our supply chain, we expect our suppliers to have or adopt similar business principles to our own. Our suppliers are required to acknowledge the significance of social, environmental and ethical matters in their conduct and must have a commitment to working towards improving quality standards and performance in these areas.

Above all, we expect suppliers to be able to demonstrate compliance with all the UK, EU and international legislation that applies to business operations from Modern Slavery, Anti-Bribery and Health, Safety & Wellbeing laws to product specific regulations.

"We work closely with our suppliers, who see this as a great opportunity to collaboratively invest for the improvement of our communities. We have a commitment to continuously increase the number of local SME subcontractors on our approved list, ensuring that a proportion of contract spend remains within the local economy by supporting increased revenue generation and increasing employment opportunities." said Ian Watson, Procurement Director.

Mears head office team working to support young people at Commercial Foundation #NoLimits

Working with Mears makes a HUGE difference to our young people and is a valued aspect of the programme and the fulfilment work we do. Mears makes a difference every time they put work our way. Producing mugs for Mears changes lives; it helps our young people to do REAL WORK, they love doing the practical aspects of the programme and learning new skills. By investing in the Foundation, Mears is investing in the next generation of young people. Last year over 80% of our young people gained employment, education or training after the #NoLimits programme, Mears has helped to achieve this!

We are enormously grateful for the time, energy and commitment shown by the Mears group in Brockworth for their continuous support of our mock interviews. Time and again volunteers come forward to assist us in this exercise. They are so keen to support the young people to improve their interview skills. They give generously of their time and show a genuine interest in the young people and where they are at on their journey. One of our young people who had never had an interview was really nervous of attending, he told us that "it was really helpful going to a real place of work, having to get dressed professionally and arrive on time. The people interviewing were really nice and helped me improve my confidence in interviews. I won't feel so scared next time. They gave me some good tips for next time!"

We could not make the difference we do without the support of companies such as Mears. We all play a part in helping young people of today become young employees of tomorrow!

"IT WAS REALLY HELPFUL GOING TO A REAL PLACE OF WORK, HAVING TO GET DRESSED PROFESSIONALLY AND ARRIVE ON TIME. THE PEOPLE INTERVIEWING WERE REALLY NICE AND HELPED ME IMPROVE MY CONFIDENCE IN INTERVIEWS. I WON'T FEEL SO SCARED NEXT TIME. THEY GAVE ME SOME GOOD TIPS FOR NEXT TIME!"

SOCIAL VALUE: WHAT'S THE FUTURE AGENDA FOCUS?

Whilst the Social Value Act is making a difference, with a greater proportion of public sector procurement spend being shaped by the Act, and increased focus from organisations to support individuals, local communities and economies, more can be done.

2019 announcements from the Minister for the Cabinet Office say the Social Value Act will be extended to ensure that all Government departments explicitly evaluate social value when commissioning services, as opposed to considering social value when awarding Central Government contracts. This provides a positive indicator for later extension to Local Government contracts and public sector to follow.

The Social Housing green paper provided a sound platform for the voice and engagement of residents to come back to the fore, in shaping and responding to service in their communities. Again, a further positive move to progressing the social and diversity agenda.

Mears is excited by these positive indicators and is taking a proactive approach through several thought leader research papers, supported by partners Locallis and Social Mobility Pledge. Mears will continue to take an active approach through thought leader, research and partner engagement, to lead in our sectors and be an engaged member in the growing social impact movement.

We are proud of our reputation as a company that makes a POSITIVE difference; enabling individuals and communities to flourish and thrive.

Case study: Mental Health Matters

SOCIAL VALUE ACTIVITY MAKES THE DIFFERENCE FOR £60M CONTRACT WIN

One in four people will experience from ill mental health in the UK every year. That means that at any one time in our business, more than 2,000 people could be suffering. Given that 50% of working people with ill mental health say they feel uncomfortable talking to their employees about it, at least a 1,000 will be suffering in silence. Feeling alone and ashamed at their most vulnerable.

Our organisational ethos is one of caring and compassion. So in 2020, we've decided we will address national stigma around mental health in our Group, helping colleagues feel supported and that they don't have to suffer in silence.

We have committed to providing accredited mental health awareness training on how to recognise the signs and support their people, to all our managers at grade 5 and above – nearly 1,000 people. This is a significant but vital investment for our organisation. The HSE reports that In 2018/19 stress, depression or anxiety accounted for 54% of all working days lost in the UK due to ill health, so tackling this issue makes good business sense.

We're partnering with Mental Health First Aiders UK to ensure we have enough people in our organisation to act as mental health first aiders, and we'll be offering refresher training to colleagues who currently carry out this role to ensure we're all operating at the same standards.

And to stamp out the stigma around suffering from ill mental health, we're planning and promoting informal monthly branch activity around a variety of wellbeing and mental health themes, encouraging people to share how they live well with the ill mental health issues they may face to normalise an issue which is part of every day life for so many. Wellbeing activity will become part of every branches formal annual People Plan.

The drive to embed this as a focus for our organisation is being led by our brand new Mental Health Steering Group, which includes representatives from every part and every level of our Group. Their work is grounded in a new mental health policy which we launched in March. Its hoped that by this time next year, the work will have made Mears a more positive place to be for people with ill mental health.

“OUR COMMUNITY HUB AND GARDEN PROJECT FOCUSED ON TWO OF OUR HOSTELS AND WHAT SMALL THINGS WE COULD DO TO MAKE THEIR STAY A BIT MORE COMFORTABLE – TO HELP THEM FEEL PART OF A COMMUNITY.”

Non-financial statement

Commitments	Community commitment	Safety, health and environment
Policies	We have a clear Social Value plan with four Strategic priorities: 1. **Fair for all:** Reducing prejudice, improving understanding of differences, supporting social inclusion 2. **Championing local:** Improving the wellbeing of people and the communities we serve 3. **Creating chances:** Providing career, skills and employment opportunities 4. **Healthy planet:** Making a positive contribution to our planet We have a Social and Diversity Impact Board with independent Directors.	Mears aims to be the industry leader for creating a safe working environment for everyone. We operate a full health and safety training programme. We fully monitor accident frequency rates and we have a proud record on safety within our work places and across all of our contracts. Our strategy includes: ▶ Reducing accidents by 10% per year ▶ Achieving or exceeding a diversion rate of waste from landfill of 95% ▶ Increasing near miss reporting
Status	In 2019, we generated in excess of £55 million in social value. We are the first contractor to be awarded Social Value UK Certificate Level 1. Mears Group has been recognised for its outstanding environmental, social and governance practices by improving year on year its place in the FTSE4Good Index – and places Mears in the top 9% of companies in the index which measures commitment to social, environmental and governance practices. Social Mobility Index Top 75.	In 2019, Mears Group achieved a Highly Commended in the Facilities Management Sector alongside its award of 17 consecutive Golds in the internationally renowned Health and Safety Awards run by the Royal Society for the Prevention of Accidents (RoSPA). Health and safety is paramount to our business. It gives recognition that Mears Group is one of the leading companies devoted to continually improving its safety, health and environment standards.

Human rights, anti-corruption and anti-bribery

Our policies include:

- Modern slavery and human trafficking
- Preventing engagement of child labour
- Whistleblowing policy
- Family Friendly policy

Mears is proud of its Social Mobility Index status, listed as number 36 in the Top 75 listed, creating opportunities and enabling people to develop new skills in some of the most disadvantaged and marginalised communities in the UK.

Mears is committed to supporting the elimination of acts of modern slavery and human trafficking.

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. We are committed to acting ethically and with integrity in all our business relationships and implementing and enforcing effective systems and controls.

Employees

We want to be a great place to work and to place our colleagues at the very heart of what we do.

Our policies include:

- Whistleblowing
- Family Friendly
- Safeguarding
- Equality, Diversity and Inclusion
- Approach to Labour Standards compliance

Mears aims to be a great place to work and we have been awarded for the second year running a place in the top 25 Best Companies in conjunction with the Sunday Times. We are accredited as an Investor in People and have been awarded Diversity Network Accreditation. In addition, this year we were listed in the Top 75 Social Mobility Index and Social Mobility Best Practice organisation.

Our employees are at the heart of our business and we provide extensive employee benefits; a commitment to a transparent pay policy and a commitment to training and development.

RED THREAD

Wearing the Mears badge carries a lot of responsibility. All Mears colleagues are bound by a common set of behaviours. We call this the Red Thread. It's in our DNA and it helps us achieve more as individuals, as a team, and as a Company.

Motivation: There are no limits; we can all reach our personal goals and aspirations. Individually and collectively we can deliver the services our customers expect a little bit better every day.

Empowerment: Great leaders aren't born, they grow. We urge you to take the initiative, take ownership and take responsibility, and support you every step of the way.

Customer focus: It's very simple; we're here to serve. The success of Mears is built on 360-degree service and appreciating that the needs of clients and customers are complex and multi-dimensional.

Role models: Everyone who represents the Company is expected to lead by example, whether you're looking after vulnerable people or making sure the homes of elderly tenants are properly maintained.

High standards: We set industry-wide standards and encourage everyone to work hard, present themselves well and keep raising the bar. If we do, success is guaranteed.

The strategic report from pages 1 to 69 was approved by the board and signed on its behalf by:

D J MILES
CHIEF EXECUTIVE OFFICER
22 May 2020

An effective culture of governance

"MEARS MUST BE EQUIPPED WITH A BOARD THAT CAN PROVIDE A WIDE RANGE OF VIEWS, SKILLS AND EXPERIENCE TO WORK WITH AND CHALLENGE THE MANAGEMENT TEAM."

KIERAN MURPHY
CHAIRMAN

Dear shareholder,

On behalf of the Board, I am pleased to present my corporate governance report for the year ended 31 December 2019. As in previous years, we report against the UK Corporate Governance Code 2018 (the 'Code') issued by the Financial Reporting Council (FRC). I am pleased to confirm that during 2019 we have fully complied with the provisions of the Code.

BOARD ACTIVITIES

Later in this report, shareholders will find a summary of the matters which the Board discussed during 2019. These include regular reports on performance but also specific strategic questions and developments in relation to workforce engagement and engagement with end customers of the Group.

BOARD COMPOSITION

In my first report as Chairman last year, I said that Mears must be equipped with a Board that can provide a wide range of views, skills and experience to work with and challenge the management team and accordingly that the balance of capabilities around the Board table would be kept under review so as to ensure that the Group had what it needed for effective leadership.

In accordance with those principles, the Board appointed two new Non-Executive Directors in 2019, Jim Clarke and Chris Loughlin. The process for their appointment is set out in the report of the Nomination Committee. Two existing Non-Executive Directors, Liz Corrado and Jason Burt, have stood down with effect from the end of 2019 and the end of March 2020. Importantly, although Jason is leaving the Board, he is being retained to continue to increase the governance around health safety and environmental matters and will continue to attend the Audit Committee. Our Employee Director, Amanda Hillerby, left the Board early in 2020 consequent on the completion of the sale of the Group's domiciliary care activities in England and Wales. Preparations are underway to appoint a new Employee Director in due course as the Group sees this role as one of the most effective means of employee engagement.

With the resignations noted above those Directors did not have any concerns about the operations of the Board or the management of the Group.

As Chairman I take it upon myself to ensure that there are no conflicts of interest around the Board in any discussions and that all Directors have the time and resources to conduct their role effectively.

BOARD EVALUATION

The Chairman is in regular discussion with the Non-Executive Directors about their contribution to the success of the Company. The Senior Independent Director will provide a review of the performance of the Chairman. In the light of the extensive Board changes in 2019, no independent review was undertaken last year but it is intended to undertake such a review in 2020.

COMMITTEE GOVERNANCE

Within this annual report, shareholders will find reports from the chairman of each of the main Board Committees, respectively audit, nomination and remuneration. Committee meetings have taken place throughout the year. I would like to thank in particular the Committee chairs for their work during the year but also my fellow Non-Executive Directors for their commitment to the work which is increasingly undertaken at Committee level rather than at the main

Board. The Committee chairs have remained available to shareholders throughout the year.

WIDER SOCIETY

The Code draws attention to the contribution which each company, and thus its board, makes to society as a whole. Mears has been a strong advocate of the importance of social value for many years and this year's activities are summarised in the Diversity and Social Impact section of the Strategic Report. Mears' contribution to social value is discussed at each Board meeting. In doing so the Board monitors culture and, where not satisfied, is clear in ensuring that management has taken meaningful corrective action.

SHAREHOLDER ENGAGEMENT

The Board continued to engage with shareholders in an open and meaningful way throughout 2019. Since my appointment, I have met with each of our major shareholders on more than one occasion to understand their views and concerns. I intend to continue this dialogue throughout 2020.

K MURPHY
CHAIRMAN
kieran.murphy@mearsgroup.co.uk
22 May 2020

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The right skills and experience to deliver our strategy

KIERAN MURPHY
INDEPENDENT NON-EXECUTIVE CHAIRMAN

Age: 61
Tenure: 1 year
Skills and experience: Kieran has spent much of his career working in finance, holding senior positions. At Kleinwort Benson, he built a market-leading corporate finance advisory business in the building and construction sector and became a member of the bank's Investment Bank Management Committee. More recently, at Gleacher Shacklock, the boutique corporate finance advisory firm, Kieran extended his advisory work into the business services sector.
Principal external appointments:
Aliaxis SA., Ordnance Survey, University of London

DAVID J MILES
CHIEF EXECUTIVE OFFICER

Age: 54
Tenure: 23 years (13 years on the Board)
Skills and experience: David joined Mears in 1996 and, prior to his appointment to the Board in January 2007, was Managing Director of the Mears Social Housing division. Prior to joining Mears, David held a senior position with the Mitie Group. His background is in electrical engineering.
Principal external appointments:
None

ANDREW C M SMITH
FINANCE DIRECTOR

Age: 47
Tenure: 20 years (13 years on the Board)
Skills and experience: Andrew joined Mears in 1999 and, prior to his appointment to the Board, was Finance Director covering the Group's subsidiaries. Andrew qualified as a Chartered Accountant in 1994 and worked in professional practice prior to joining Mears.
Principal external appointments:
None

ROY IRWIN
INDEPENDENT NON-EXECUTIVE DEPUTY CHAIRMAN AND CHAIR OF THE REMUNERATION COMMITTEE

Age: 65
Tenure: 3 years
Skills and experience: Roy has significant experience in the social housing sector, having lately been Chief Inspector of the Audit Commission following a career of over 30 years in public sector housing. Since 2013, Roy has held the position of Non-Executive Chairman of Plexus and Omega Housing, being Mears' Registered Providers of social housing with the Regulator of Social Housing.
Principal external appointments:
None

DAME JULIA UNWIN
INDEPENDENT NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR

Age: 63
Tenure: 4 years
Skills and experience: Julia is former Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust. She has significant experience in the housing and care sectors, having been a member of the Housing Corporation Board for ten years.
Principal external appointments:
Yorkshire Water Services Limited, Financial Reporting Council

ALAN LONG
EXECUTIVE DIRECTOR

Age: 57
Tenure: 14 years (10 years on the Board)
Skills and experience: Alan joined Mears in 2005 and, prior to his appointment to the Board in August 2009, was Managing Director of the Group's Care division, having previously held the position of Group Sales and Marketing Director. Prior to joining Mears, Alan held senior roles at Britannia Building Society, Mars and Smith & Nephew.
Principal external appointments:
None

GERAINT DAVIES CBE
INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF THE AUDIT COMMITTEE

Age: 65
Tenure: 4 years
Skills and experience: Geraint is a fellow member of the Institute of Chartered Accountants in England and Wales. He was previously a partner for a leading professional practice for over 25 years. His commercial experience includes working with Registered Social Landlords and a number of organisations in the healthcare sector.
Principal external appointments:
Cardiff International Airport Limited

JIM CLARKE
INDEPENDENT NON-EXECUTIVE DIRECTOR

Age: 60
Tenure: 9 months
Skills and experience: Jim qualified as a Chartered Accountant in 1984. He has spent much of his career in senior finance roles in consumer facing industries, having been Finance Director at David Lloyd Leisure and subsequently JD Wetherspoon. He joined Countrywide as Group Chief Financial Officer in 2007, retiring early in 2017. Jim joined following Countrywide being taken private in 2007 and led subsequent significant restructuring and recapitalisations of the business which culminated in a successful return to the public markets via an IPO in early 2013.
Principal external appointments:
None

CHRIS LOUGHLIN
INDEPENDENT NON-EXECUTIVE DIRECTOR

Age: 67
Tenure: 7 months
Skills and experience: Since 2016, Chris has been Chief Executive Officer of Pennon Group plc, the listed company which owns South West Water and the waste business Viridor. He was previously CEO of South West Water for a decade and before that held roles as Chief Operating Officer at Lloyds Register, as an Executive Director of British Nuclear Fuels Plc and Executive Chairman of Magnox Electric Plc.
Principal external appointments:
Pennon Group plc, British Water, Water UK, Reall

BEN WESTRAN
COMPANY SECRETARY

Age: 43
Tenure: 16 years (5 years as Company Secretary)
Skills and experience: Ben is a Chartered Accountant and, prior to his appointment as Company Secretary, was Group Financial Controller and Director of a number of the Group's subsidiaries. Ben joined the Group in 2004 having previously worked in professional practice.
Principal external appointments:
None

Corporate governance report
Corporate governance statement

HOW THE BOARD OPERATES

The Board leads and provides strategic direction to the Group and carries ultimate responsibility for management of the Group's activities and financial performance. The Board acknowledges accountability to shareholders for proper conduct of the business, and responsibility for the long-term success of the Group, having regard to the interests of all stakeholders.

LEADERSHIP AND EFFECTIVENESS

Our Board

Role and responsibilities

- Assesses and evaluates critically proposals on strategy developed by management so as to deliver value to shareholders and stakeholders.
- Monitors management activity and performance against targets.
- Provides constructive challenge to management.
- Sets the parameters for promoting and engaging the interests of shareholders and investors.
- Ensures that satisfactory dialogue with shareholders takes place.

Matters reserved for the Board's decision

- Group strategy, business objectives, long-range plans and annual budgets.
- Annual and interim results approval.
- Material acquisitions, disposals and contract bidding approval.
- Major changes to internal controls, risk management or financial reporting policies and procedures.
- Changes to advisers.
- Setting the risk appetite of the Group.
- Changes to capital and management structure.
- Succession planning for the Board and senior management.
- Board appointments and independence.
- Appointment, termination and remuneration of Directors and the Company Secretary.

CORPORATE GOVERNANCE FRAMEWORK

The Chairman

Key responsibilities

- Is responsible for the leadership of the Board and ensuring its effectiveness.
- Sets the Board's agenda and ensures adequate time is available for discussion of all agenda items.
- Ensures all discussion is in the context of the long-term success of the Group.
- Promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors.
- Ensures that the Directors receive accurate, timely and clear information.
- Is responsible for designing a rigorous annual evaluation of the performance of the Board and individual Directors.

The Board

Audit Committee

KEY OBJECTIVE

The Audit Committee is responsible for effective corporate governance in respect of financial reporting, agreeing the scope of the external audit, the setting of the auditor's remuneration, the development of strategic risk plans and reviewing the effectiveness of the Group's internal controls, risk management and internal audit processes.

Read the Report of the Audit Committee on pages 82 to 87

Remuneration Committee

KEY OBJECTIVE

The Remuneration Committee is responsible for setting, reviewing and recommending the remuneration policy and strategy in respect of Executive Director and senior management remuneration.

Read the Report of the Remuneration Committee on pages 88 to 90

The Board's prime objective is to ensure the ongoing commercial and financial success of the Group. The Board provides entrepreneurial leadership of the Group within a sound and prudent risk management framework using effective internal control systems which enable risk to be assessed and managed. The Board sets the Group's strategic objectives, and the nature and extent of principal risks it is willing to take in achieving these strategic objectives, and ensures that the necessary financial and human resources are in place for the Group to meet these objectives. The Board sets the Group's values and standards, and ensures that the Group's obligations to its shareholders and others are understood and met.

- Develops a dialogue with key shareholders and other stakeholders to understand their likely requirements from the Group.
- Holds meetings from time to time with the Non-Executive Directors without the Executive Directors present.
- Reviews the performance of each of the Non-Executive Directors annually.

Nomination Committee

KEY OBJECTIVE

The Nomination Committee is responsible for ensuring that the Board and senior management positions has the skills, experience and diversity needed to enable the Group to be managed effectively. It is also responsible for overseeing Group succession planning.

Read the Report of the Nomination Committee on pages 80 and 81

The Chief Executive Officer

Key responsibilities

- Manages the day-to-day business operations of the Group.
- Ensures appropriate standards of corporate governance permeate throughout the organisation.
- Recommends key strategies to the Board and is responsible for execution of those agreed by the Board.
- Takes a leading role in the relationship with all external agencies and in promoting Mears Group PLC.
- Directs the risk profile of the Group in line with the risk appetite and categories of risk identified and accepted by the Board.

Read the Chief Executive Officer's review on pages 14 to 19

Divisional boards and management

KEY OBJECTIVE

Carries out activities delegated by the Board, including:

- Day-to-day operational management of the business.
- Monitoring service delivery performance measures and driving improvements.
- Financial performance reviews and comparison to forecasts and updated forecasts.
- Business development activity not subject to Board approval.

Corporate governance statement

Board composition and meetings in 2019

GOVERNANCE FRAMEWORK

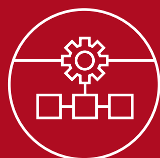
Our governance framework supports the development of good governance practices throughout the Group. No one individual has unfettered powers of decision. The Board works closely with the Executive team which ensures that the Board and its culture are effectively communicated and embedded within the Group. Regular updates are received from the Executive Directors in order to keep the Non-Executive Board members informed of how the business is progressing.

Role	Potential	Attended	Responsibilities include:
Chairman			
Kieran Murphy	8	8	▶ Promoting a culture of challenge, debate, openness and support. ▶ Leadership of the Board and ensuring its effectiveness. ▶ Ensuring that Directors allocate sufficient time to the Company to discharge their responsibilities effectively. ▶ Effective communication between the Board, the sub-committees and its key stakeholders. ▶ Ensuring that the Board demonstrates culture, values and behaviours of the Group. ▶ Ensuring that the Board presents a fair, balanced and understandable assessment of the position and prospects of the Group.
Senior Independent Director			
Julia Unwin	8	8	▶ Being the principal conduit between the Chairman, Non-Executive Directors and shareholders. ▶ Leading the annual performance evaluation of the Chairman, including collecting the views of the Executive Directors. ▶ Providing a sounding board for the Chairman.
Independent Non-Executive Directors			
Jason Burt	8	8	▶ Promoting the highest standards of integrity, probity and corporate governance throughout the
Roy Irwin	8	7	Group and the Board.
Geraint Davies	8	8	▶ Constructively challenging decisions proposed by the Executive Directors.
Elizabeth Corrado	8	8	▶ Assisting in developing proposals on strategy.
Jim Clarke	3	3	▶ Contributing to the performance evaluation of the Chairman.
Chris Loughlin	2	2	▶ Briefing the Board on decisions made and key issues from each Committee Chair.
Employee Director			
Amanda Hillerby	8	1	▶ Promoting the highest standards of integrity and probity. ▶ Assisting in developing proposals on strategy. ▶ Ensuring that the Board receives full, open and honest insight and views from its workforce on how strategic initiatives are being implemented. ▶ Helping to provide the wider workforce with a better understanding of how the Board operates.
Executive Directors			
David Miles Chief Executive Officer	8	8	▶ Managing the day-to-day running of the business in line with the strategy and objectives set by the Board. ▶ Ensuring the Board is supplied with sufficient and appropriate information on a timely basis. ▶ Leading the business within the scope set by the Board. ▶ Developing strategy and setting objectives to meet the Group strategy approved by the Board. ▶ Managing the Group's operations to ensure they meet the risk appetite set by the Board.
Andrew Smith Group Finance Director	8	8	▶ Supporting the Chief Executive Officer in developing strategy and meeting objectives. ▶ Establishing strong control processes. ▶ Managing the treasury activities in accordance with the credit risk appetite set by the Board. ▶ Supporting the Chief Executive Officer with investor relations. ▶ Leading the development of talent within the finance function.
Alan Long Group Executive Director	8	8	▶ Supporting the Chief Executive Officer in developing strategy and meeting objectives. ▶ Supporting the Chief Executive Officer in managing external communications and investor relations. ▶ Setting the Group social value policies and procedures. ▶ Leading the operational leadership and development function of the Group.

As noted above, in addition to formal Board meetings, the Chairman meets with the Non-Executive Directors to discuss, collectively and individually, Group performance, strategy, governance and other relevant matters. The Executive Directors do not attend these meetings.

The Board considers all Non-Executive Directors who served during the year to be independent in terms of judgement and character and free from any relationship that might materially interfere with the exercise of independent judgement.

What did the Board do this year?



STRATEGY

- Reviewed the mix of businesses within the Group and their contribution to overall Group strategy and financial performance
- Resolved to downsize the capital allocated to the housing development division and options for executing on that decision
- Considered the optimal positioning of care activities within the Group
- Resolved to explore options to exit the Group's stand-alone domiciliary care businesses
- Commenced a three-year review of overall Group strategy
- Reviewed and approved the annual budget for 2019
- Reviewed the Group's state of preparedness for Brexit and the potential impact of party political manifesto commitments prior to the general election

MANAGEMENT

- Reviewed operational and financial updates from the CEO and CFO at each Board meeting
- Questioned the CEO on the mobilisation of the Group's new Asylum contracts, with particular reference to their financial and operational complexity and the fact that the client is new to the Group
- Regularly reviewed progress on the integration of MPS
- Received reports on bidding activity for new contracts and progress on rebidding for existing contracts
- Received reports on any significant litigation concerning the Group
- Received reports on questions on regulatory matters relating to the Group from the Health and Safety Executive, the Regulator of Social Housing and other bodies

FINANCIAL REPORTING

- Approved the Group's Annual Report and Accounts, half year financial statements and considered and approved dividend payments to shareholders
- Reviewed and approved the viability statement for the Annual Report
- Reviewed the Audit Committee's advice on internal audit planning, progress and reviews
- Reviewed the Audit Committee's advice on making the 'fair, balanced and understandable' statement in the Annual Report
- Reviewed reports on the management of working capital within the Group

WORKFORCE

- Reviewed the results of the Group's annual 'say what you see' survey and monitored progress against improvement measures in poorly performing branches
- Reviewed health and safety reports at each Board meeting assessing accidents and other issues affecting Group employees, subcontractors and, where relevant, end customers
- Reviewed the Group's report on gender pay and options for improvement
- Reviewed an initial senior management succession plan
- Routinely reviewed reports arising from concerns raised by the workforce

COMMUNICATIONS

- Reviewed reports from the CEO and the Chairman on the views of shareholders as to Mears' strategy and performance
- Reviewed the creation of the new Customer Scrutiny Board and agreed that, in the first instance, the chair be the link between the two Boards

APPOINTMENTS

- Approved the appointment of Jim Clarke and Chris Loughlin as Non-Executive Directors
- Approved the appointment of Peel Hunt as the Company's brokers and Investec as the Company's financial advisers, following a competitive process

Corporate governance report continued

Corporate governance statement

BOARD PERFORMANCE EVALUATION

Early in 2019, the Board received a report from the Chairman which, inter alia, addressed the composition and effectiveness of the Board. After discussion based on that report, the Board undertook the changes to its composition which are described elsewhere in this Annual Report.

As a result, the Board has a significantly different mix of Non-Executive Directors from that which it had some 12 months ago. The Chairman regularly discusses with each Non-Executive Director their contribution to the Company's overall success. The Senior Independent Director provides feedback to the Chairman on his performance, having canvassed opinion from the other Directors and more widely.

Having regard to the changing composition of the Board, no formal independent review was undertaken in 2019. However, it is intended to undertake such a review in 2020. The last such independent review was undertaken in 2017.

All Directors have access to the Company Secretary, who is responsible for all Board compliance requirements, to ensure they are updated on all legislative developments. In addition to this, the Company Secretary ensures that the Board agenda and papers are provided usually at least seven days in advance of the meeting. Minutes and actions from previous meetings are distributed on a timely basis. As per the Board policies and procedures, any Non-Executive Director may, on request through the Company Secretary or the Chairman, meet with any member of staff in the Group. Non-Executive Directors are able to request the support of an independent adviser from the Company Secretary.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS AND RE-ELECTION OF DIRECTORS

The Board adopts the principles of the Code regarding tenure of the Board. In accordance with Code requirements, each of the Directors offer themselves for re-election annually. The Board considers that each of the Non-Executive Directors continues to be effective and that they are considered to demonstrate appropriate commitment to the role.

INDEMNIFICATIONS OF DIRECTORS

In accordance with our Articles of Association and to the extent permitted by the laws of England and Wales, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. However, our indemnity does not cover Directors or officers in the event of being proven of acting dishonestly or fraudulently.

Shareholder engagement

Principal methods of communication with investors:

- Annual Report and Accounts
- Interim statements
- Trading updates
- Quarterly newsletters
- Group website **www.mearsgroup.co.uk**
- Individual meetings with management and/or Non-Executive Directors

INVESTOR RELATIONS

The Company is committed to maintaining good communication with investors. Normal shareholder contact is the responsibility of the Executive Directors, who respond on a daily basis to queries from institutional and private investors. The Chairman, the Senior Independent Director and other Non-Executive Directors are available to shareholders to discuss any matters they wish to raise. Directors are available at each AGM and shareholder participation is encouraged.

The Board is committed to maintaining regular contact through the provision of the Annual Report, regular Interim Reports and regular trading updates. This information can be found on the Group's website (www.mearsgroup.co.uk).

There is an active programme of communication with existing and potential shareholders which was especially intense during the first half of 2019. There is increased dialogue with institutional investors following the publication of final and interim results, which is facilitated through a series of formal presentations. The Company also held additional investor days during the year to ensure that they are better informed of market and Company developments. A Capital Markets Day in February 2019 provided background information on the Asylum Accommodation and Support Services Contract (AASC) award and the Mitie Property Services acquisition (MPS). A further day in January 2020 provided an update on the AASC.

The Group regularly receives and responds to questions raised by small private shareholders through the investor enquiry portal within the Group's website.

Feedback from communication with shareholders and other investors is discussed at Board meetings. Feedback from this year's shareholder dialogue, particularly discussions with the Chairman in the first half of the year, provided broad support for the Company's strategy in relation to housing maintenance and management but dissatisfaction with the following:

A Activities were insufficiently focused and some did not contribute adequately to shareholder value.

B Indebtedness was too high and efforts needed to be made significantly to reduce it.

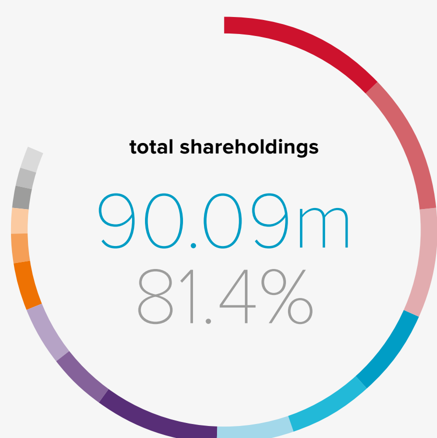
C Market expectations were too often not matched by corporate performance.

D The Board with insufficient representation from the corporate sector.

During the course of 2019, a number of steps have been taken in order to address these concerns. The streamlining of the Group's activities has been discussed under strategy above while Board changes have been discussed under Board developments above. The Group ended 2019 achieving its forecast profit level and with a significant reduction in net indebtedness relative to the end of 2018. However, for a number of reasons, and as noted under results above, disappointing progress was made in reducing the Group's average net indebtedness during the year. This will continue to remain a focus for the Group and, while progress to reduce indebtedness will likely be inhibited by the changes necessary to protect the Group during the COVID related emergency in 2020, the Board will continue to seek progress in 2021.

The Group also has regular dialogue with its banking partners, valuing the close relationship with Barclays, HSBC and Bank of Ireland.

K MURPHY
CHAIRMAN
22 May 2020



Shareholder	Shares (m)	% IC
PrimeStone Capital London	14.40	13.0%
Shareholder Value Management Frankfurt	11.66	10.5%
Majedie Asset Management London	9.08	8.2%
Fidelity Management & Research Boston	7.41	6.7%
Heronbridge Investment Management Bath	7.14	6.5%
Columbia Threadneedle Investments London	6.37	5.8%
Artemis Investment Management London/Edinburgh	10.28	9.3%
Legal & General Investment Management London	5.05	4.6%
Dimensional Fund Advisors London	4.86	4.4%
M&G Investments London	3.91	3.5%
Montanaro Asset Management London	2.50	2.3%
Slater Investments London	2.36	2.1%
Wells Fargo Securities Charlotte	1.79	1.6%
Close Asset Management London	1.70	1.5%
BlackRock Investment Management London	1.58	1.4%

Q1 2019

- Investor meetings prior to the close period.
- Capital Markets Day held in February 2019 to focus on Asylum Accommodation and Support Services Contract (AASC) award and the Mitie Property Services acquisition (MPS).
- Following release of final results for 2018, investor roadshow spanning six days, meeting with both 'buy' and 'sell' sides.

Q2 2019

- Regular update meetings with existing and prospective shareholders.
- AGM held in May 2019, providing an opportunity to meet a number of private investors.

Q3 2019

- Following release of interim results for 2019, investor roadshow spanning five days, meeting with both 'buy' and 'sell' side.

Q4 2019

- Regular update meetings with existing and prospective shareholders.
- Retendered our corporate broker engagement. Peel Hunt was appointed sole broker and Investec appointed as financial adviser.
- Investor lunch providing cross-section of fund managers to meet the key management beneath the PLC Board.

Report of the Nomination Committee

Meeting attendance

J Unwin	●●●
K Murphy	●●●
G Davies (from 16 April 2019)	●●
R Irwin (from 16 April 2019)	●●

Key
● Attended ○ Absent

In addition to formal meetings of the Committee, there were extensive telephonic communications amongst the Committee members, especially during the selection processes described below.

The main focus of the Committee in 2019 was the process to rebalance the Board and especially to introduce some skills and experience at non-executive level which were underrepresented. During the course of the first half of the year, the Committee identified the desirability of strengthening the Board's overall capabilities in two areas: financial control, reporting and management, and senior commercial strategic general management.

During May 2019, the Chairman engaged in detailed discussions with almost all of the Company's largest shareholders and sought their views on the appointment of two new Non-Executive Directors. Those discussions included the relative merits of the proposal put forward by way of a resolution at the Annual General Meeting by one of the major shareholders and the Committee's own process. The shareholders voted at the AGM to support the Committee's process.

Throughout the period March to August 2019, the Committee ran two robust processes, in each case using a different search firm. We also ensured that these new positions were advertised widely, being mindful of both gender equality and social mobility.

Both of these processes produced shortlists of high quality candidates. In the first, the Committee interviewed five individuals, each of whom either was or had been the Chief Financial Officer of a listed company of at least comparable size and complexity to Mears. At the conclusion of this process, the Committee was pleased to offer the appointment to Jim Clarke. During his executive career, Jim had been Chief Financial Officer at a number of consumer oriented listed businesses, including Countrywide, JD Wetherspoon and David Lloyd Leisure and had extensive experience of effective investor relations. Jim had also had experience as a CFO under private equity ownership and as the chair of an audit committee at a listed company. Overall, the Committee considered that Jim's experience and skills were an excellent fit to the needs of the Group.

In the second process, the Committee interviewed four candidates, each of whom was or had been the chief executive of another group, some, but not all, listed. The Board was pleased to appoint Chris Loughlin, who is the current CEO of Pennon Group. During his career, Chris has had extensive experience of businesses requiring long-term strategic planning, of dealing with Local Authority clients and of businesses with a strong interface with both the consumer and Government sectors. He has also had considerable investor relations experience. The Committee considered that Chris's mix of skills and experience were again an excellent fit to the Group's requirements.

Post these appointments, the Committee also discussed the need to bring the size of the Board back towards that at which it had started the year.

We briefly considered the culture of the Board and the Group as a whole during our discussions this year. The Mears culture is articulated in the Social value section of the Strategic Report, which can be found on pages 54 to 69. The Nomination Committee plays a role in embedding the culture throughout the Group by ensuring that our succession planning and appointment processes identify candidates who demonstrate our vision, values and desired culture. This, and executive succession planning, will likely be an area of greater focus for the Committee going forward.

The Committee also expects to put in place a formal and probably independent evaluation of the effectiveness the Board and its various committees during the course of 2020.

Mears has a clear policy on equality, diversity and inclusion, and an evaluation of the effectiveness of this policy will also be part of the Committee's workplan for 2020.

The appointments made during 2019 have had the undesirable effect of reducing the gender diversity of the Board. As at the end of the year, the Board had 25% female representation. Since then, the departure of a number of Directors has further reduced this level of diversity. This issue will be a key consideration in any further recruitment in 2020.

At senior management level, there were 26.5% female staff at end 2019.

ROLE OF THE COMMITTEE

The Nomination Committee's responsibilities include:

- keeping under review the composition of the Board and succession to it, and succession planning for senior management positions within the Group;
- making recommendations to the Board concerning appointments to the Board, whether of Executive or Non-Executive Directors, having regard to the balance of skills, knowledge, experience and diversity of the Board;
- reviewing the length of service of Non-Executive Directors to ensure a progressive refreshing of the Board, whilst retaining the correct level of experience;
- making recommendations to the Board concerning the re-appointment of any Non-Executive Director at the conclusion of his/her specified term and the re-election of any Director by shareholders under the retirement provisions of the Company's Articles of Association;
- managing a formal, rigorous and transparent procedure for any appointments of new Directors to the Board;
- prior to the appointment of a Director, requiring that the proposed appointee discloses any other business interests that may result in a conflict of interest and reports any future business interests that could result in a conflict of interest; and
- ensuring that, on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, Committee service and involvement outside Board meetings.

ACTIVITIES DURING THE YEAR

- Reviewed Board governance, Executive and Non-Executive Director succession and deliberation of person requirements for the appointments to the Board.
- Entered into dialogue with major shareholders, canvassing their views on the Board.
- Carried out a rigorous appointment process to appoint two new Non-Executive Directors.
- Recommended to the Board that all Directors stand for re-election.

The terms and conditions of each of the Non-Executive Directors are made available on request of the Company Secretary, and are available for inspection at the AGM.

K MURPHY
NOMINATION COMMITTEE CHAIRMAN
22 May 2020

Report of the Audit Committee
Corporate governance statement

Meeting attendance

G Davies	●●●●●●
J Burt	●●●●●●
J Clarke (from 2 July 2019)	●●●
C Loughlin (from 3 December 2019)	●
E Corrado (left on 31 December 2019)	○●●●●●

Key
● Attended ○ Absent

This report sets out how the Committee has fulfilled its responsibilities during the year and in relation to financial reporting matters, the significant issues that were considered and how they were addressed.

During the year, the Committee was strengthened with the addition of Jim Clarke and Chris Loughlin. Both Jim and Chris are Chartered Accountants and have, over an extended period of time, held senior positions within UK listed entities. Both individuals bring significant recent and relevant experience to the Committee and the Committee has already benefitted from their involvement.

I also wish to thank Elizabeth Corrado who left the Board in December 2019 for her diligent work during her time on this Committee.

COMPLIANCE COMMITTEE

Last year, a new Compliance Committee dealing with health, safety and environmental risks was formed. This Compliance Committee is a sub-committee of the Audit Committee and is chaired by Jason Burt, who has a detailed working knowledge of the factors which cause and drive regulatory prosecutions and employers' and public liability claims. The extent to which the full integration of health, safety and environmental risks is now embedded in the governance structures of the Group is highlighted by the members of the Compliance Committee who include the Group's Chief Executive Officer, Health and Safety Director and internal Health and Safety legal adviser. Others are called upon to attend if required.

The Compliance Committee has detailed terms of reference which include:

- to review and monitor the Group's policies in relation to health, safety and environmental (HSE) matters;
- to review HSE risks and risk assessments on the Group risk register and mitigation actions and controls related thereto, including subcontractor controls and related procurement;
- to review Group buildings compliance and safety including fire and other risks;
- to consider and approve major SHE projects and any related investment including use of consultants; and
- to consider any other significant SHE matters including emerging risks and unforeseen risks as they arise.

During the year, the Compliance Committee has focused its attention on four key risk areas:

- the integration of MPS;
- fleet driver licensing compliance;
- contractor management; and
- the mobilisation of the Asylum contract.

The acquisition of MPS created the need for all MPS safety policies, procedures and staff training to be aligned with the main Group, a process that has been successfully completed.

The Compliance Committee also initiated two new audit and monitoring processes designed to enhance the Group's existing control measures around fleet driving licence compliance and contractor management. The latter included the recruitment of two specialist auditors whose focus is the policing of branch-level management adherence with the Group's contractor management requirements.

The mobilisation and subsequent commencement of the Asylum contract brings the potential for risk in a number of areas and the Compliance Committee is monitoring and reviewing all compliance issues via a bespoke health, safety and welfare focused risk register.

The Group's Safety, Health, Environment and Quality team ('SHEQ') performed well throughout the year, achieving 17 RoSPA 'Gold' standards and receiving their 'Highly Commended' accreditation.

In relation to risk management and internal controls, the Board and Audit Committee are mindful of the importance of improving both control and output in this area. The Group previously employed a Chief Risk Officer together with an in-house internal audit team whose annual audit plan is based on the Group risk register and approved by the Compliance Committee annually and continually reviewed during the course of the year. The 2018 Annual Internal Audit Report, presented to the Compliance Committee for approval in February 2019, included more coverage than ever before. I was pleased to note the extent to which management has responded positively and quickly to the system changes suggested by the internal audit work. During the year, the Compliance Committee, with the subsequent approval of the Board, took the decision to strengthen the Internal Audit Function by co-sourcing with a major provider. KPMG, who have carried out ad hoc internal audit assignments previously, were appointed. Their initial work was to review the business's key risks and the appropriateness of the controls and mitigations around them and to review the universe of internal controls and internal testing to give comfort to the Compliance Committee that the 'Three lines of Defence' were both appropriate and effective. At the year end, KPMG were assisting the Executive Directors in finalising the internal audit plan for the next three years. By co-sourcing the Compliance Committee has added the potential to bring on ad hoc basis specialists to our business rather than adding full time employment for what are mainly 'task and finish' projects. The overall lead for our internal audit work will sit with KPMG.

In previous years, the carrying value of Care goodwill was a significant judgement because of its inherent materiality. Following the announcement to exit standalone Domiciliary Care, a significant proportion of the goodwill balance attached to the Care activities has been impaired with the residual element relating to Housing with Care being transferred to the Housing goodwill balance. Although there are judgements around the values transferred, the balances form part of the goodwill impairment modelling carried out by management and reviewed and tested by Grant Thornton. The Committee took comfort that there is a higher level of headroom within the impairment test for the continuing business.

ROLE OF THE COMMITTEE

The Committee has access to the financial expertise of the Group and its auditor and, as and when it can, seeks further professional advice at the expense of the Group.

The key responsibilities of the Committee are to:

- consider the appointment of the external auditor, its reports to the Committee and its independence, including an assessment of its appropriateness to conduct any non-audit work;
- review the financial statements and announcements relating to the financial performance of the Company;
- review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- discuss with the external auditor the nature and scope of the audit;
- review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board;
- formally review the effectiveness of the external and internal audit processes;
- consider management's response to any major external or internal audit recommendations;
- review the Company's plans for business continuity;
- report to the Board and recommend adoption of the viability statement
- review the Company's plans for prevention and detection of fraud, bribery and corruption;
- review the effectiveness of the whistleblowing arrangements; and
- report to the Board on how it has discharged its responsibilities.

The Committee's terms of reference are available on the Company's website and on request from the Company Secretary.

COMMITTEE MEETINGS

The Committee met six times during the year with attendance by all members. These meetings were also attended by the Group Chief Executive Officer, the Group Finance Director and as required by invitation from the Chairman of the Audit Committee. The external auditor, Grant Thornton UK LLP, was invited to all meetings. KPMG as internal auditors were invited to all meetings post appointment. There was also significant dialogue outside formal meetings between Committee members, Executive Directors, KPMG and the external auditor, particularly during the audit process and the preparation of the Annual Report. The Audit Committee Chairman meets with the external auditor regularly throughout the year.

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR

Financial and business reporting

The Audit Committee shares the responsibility with the Board for reviewing the appropriateness of the Annual Report and half-year announcements, to ensure that they properly reflect the Group's business model, strategic priorities, key risks, and financial and non-financial performance. Consideration is given on the whole, as to whether the annual report and accounts are fair, balanced and understandable, which includes the reasonableness of the accounting policies, adherence to accounting standards, and sufficiency and clarity of the information disclosed.

The primary areas of judgement considered by the Committee in relation to the 2019 accounts, and how these were addressed, were:

Report of the Audit Committee continued
Corporate governance statement

REVENUE RECOGNITION

The Audit Committee reviewed in detail the impact of the accounting standard, IFRS 15, which came into effect on 1 January 2018 and which impacts on the timing of recognising revenue and costs on a number of contracts:

- The judgements applied under IFRS 15 more closely align timing of revenue recognition with cash inflows where the contractual mechanism contains uncertainty. Previously, the Group utilised expected value calculations in determining the variable consideration revenue to be recognised.
- The application of IFRS 15 to the AASC contract requires disaggregation into separately identifiable performance obligations which cover from mobilisation to transportation, initial accommodation and remote accommodation. Each performance obligation requires revenue to be recognised as the obligation is fulfilled. Given the scale and complexity of the contract the Committee spent much time in discussions with management and ensuring that they provided all the explanations and detailed analysis necessary for Grant Thornton.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the key judgements report prepared by management which provided a detailed explanation in respect of the valuation of unbilled works and the recognition of revenues.
- The Committee took comfort from the contract management system which is central in generating the valuation of works (both billed and unbilled) and the integrated process that follows to ensure an accurate cut-off so that revenue is appropriately matched to cost. Grant Thornton carried out substantive testing of the amounts recoverable on contracts, adopting a blend of risk-based and random sampling approaches to testing, and provided detailed feedback to the Committee in this area. Grant Thornton's comments can be seen on page 110. Grant Thornton also carried out a detailed review of the impact of IFRS 15 on the AASC contract.

THE IMPLEMENTATION OF IFRS 16 'LEASES'

IFRS 16 'Leases' has proved a difficult standard to implement and one which requires significant change to the systems and day-to-day processes.

Under IFRS 16, a lessee will recognise its right to use a leased asset along with a lease liability representing its obligation to make lease payments. The depreciation cost of the newly recognised 'right of use' lease asset will be charged to profit within administrative costs, whilst the interest cost of the newly recognised lease liability will be charged to net 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 overall charge being applied to the income statement in the early years of a lease, with this impact reversing over the later years. The profit impact over the life of a lease is neutral and IFRS 16 has no impact on pre-tax cash flows.

The impact of IFRS 16 on the Group resulted in the recognition of a right of use asset and an associated lease obligation of in excess of £190m at the point of transition. The Group adopted the modified retrospective approach, meaning that the Group does not restate its comparative figures, but recognises the cumulative effect of adopting IFRS 16 as an adjustment to equity at the beginning of the current period as detailed in note 3. The application of IFRS 16 is complex and sensitive to relatively small changes in the incremental borrowing rate attached to each class of leased asset where judgement has to be applied.

Due to the potential material impact of very small changes in relation to, in particular, the term premium percentage, management sought external advice in determining an artificial credit rating for the Group, and the related yield curves that would be expected from an entity with that risk profile.

In addition the AASC contract had a major impact on the number of properties secured through lease during the year with a variety of lease terms between three and ten years although many have early break clauses. This created a significant increase in right of use assets and associated lease obligations in the year.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the assumptions and key judgements provided by management which gave a detailed explanation as to how both the opening adjustment and the additions in the year were arrived at. The Committee took comfort from the external expert report in arriving at the pro forma credit rating and yield curves.
- The Committee took additional comfort from the work of the external auditors who undertook detailed testing of the assumptions and the models behind the amounts included in the Balance Sheet and discussions with them as to the adequacy of the related disclosures.

ACCOUNTING FOR THE ACQUISITION OF MPS HOUSING AND MPM HOUSING

In November 2018, the Group acquired the entire share capital of MPS Housing Limited and Mitie Property Management Limited. This acquisition had a material impact on the financial statements, resulting in the recognition of goodwill and intangible assets of £21.5 million. The goodwill measured at the acquisition date was the fair value of the consideration, including the estimated value of contingent consideration, less the net recognised amount of identifiable assets acquired and liabilities assumed. The estimates were provisional for 2018 and were finalised during the course of 2019. Following a detailed review of the completion Balance Sheet, significant provisions were made against contract assets and adjustments were also required to accruals and contract liabilities. Significant judgement was required in finalising the acquisition accounting, although the passage of time has provided some additional assurance in this area. Having finalised the net recognised amount, the assessment of identified intangible was reviewed, with the residual amount allocated to goodwill. Whilst there was contingent consideration payable on this transaction, given that a significant part of the earn-out period has now elapsed, the assessment of contingent consideration is not considered a significant judgement for the 2019 year end.

The Audit Committee addressed this area of judgement in the following ways:

- Obtaining an understanding of the acquisition through review of legal agreements and discussion with management. The Committee took comfort from the fact that the acquired activities are very similar in nature to the Group's core activities, and management has been shown over many years to have a high level of expertise in this area. This was reflected in a good understanding of the underlying contracts and the bases for valuing unbilled works;
- Considering the assumptions set by management in respect of discount rate, customer attrition and long-term growth rate through the sales pipeline. These are the most sensitive assumptions which impact upon both the estimated value of the contingent consideration and the recognition of acquired intangibles;
- Reviewing the adjustments at the one year anniversary date which takes the provisional numbers to final; and
- Reviewing with Grant Thornton their work and their detailed feedback to the Committee.

DEFINED BENEFIT PENSION VALUATION

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
- Salary and pension increases

Details of the particular estimates used are included in the pensions note 32 to the financial statements on pages 162 to 166.

Where the Group has a contractual right to recover the costs of making good any deficit pension scheme, 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 contributions payable 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.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the key assumptions proposed by management, notably assumptions in respect of discount rate, RPI, CPI and future salary increases. Given the materiality of this area, the Committee reviewed a report prepared by PricewaterhouseCoopers LLP which validated the assumptions set by management and provided a comparison with other quoted companies.
- The Committee reviewed the accounting treatment of pension related transactions. Full disclosure has been provided within the pensions note (note 32) to the financial statements on pages 162 to 166 and the Committee concurred with the analysis provided on pages 43 to 53 of the Financial Review in respect of defined benefit scheme pension obligations.
- Given the technical nature of this area, the Committee placed reliance upon the actuarial reports prepared by the respective scheme actuaries in respect of each of the defined benefit pension schemes, including an assessment of gender equalisation.

DISCONTINUED ACTIVITIES

During 2019, the Board took the decision to exit from standalone Domiciliary Care. Whilst an active sales process was underway at the balance sheet date, no disposal had been completed. The Group completed the sale of the England and Wales Domiciliary Care business in January 2020. The sales process on the Scotland activities has not concluded. The results for the standalone Domiciliary Care activities have been reported within discontinued operations. The Audit Committee considered whether the disclosures within the Financial Statements are appropriate. Notably, whether the activities are properly categorised as discontinued, and met the criteria for disclosing as 'Assets held for resale'. The Committee concluded that the disposal represented a single co ordinated plan to dispose of a separate major line of business and supported the classification within discontinued operations.

The Audit committee addressed this area of judgement in the following ways:

The Committee considered the guidelines of IFRS 5 'Non-current assets held for sale and discontinued operations', and considered whether the six conditions had been met for an asset to be classified as held for sale, notably that: (i) management is committed to a plan to sell; (ii) the asset is available for immediate sale; (iii) an active programme to locate a buyer is initiated; (iv) the sale is highly probable, within 12 months of classification as held for sale; (v) the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and (vi) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

- The Committee considered the conditions set by IFRS 5 for each 'disposal group'. For this purpose, the Domiciliary Care activities in England and Wales Care were considered separately from those of Scotland Domiciliary Care. The Audit Committee concluded that both disposal groups met the definition of Assets held for resale.
- The Committee took additional comfort from the work of the external auditors.

GOODWILL IMPAIRMENT

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows; these are termed as cash-generating units (CGUs). Due to the Board successfully integrating the newly acquired MPS business into the existing Housing business, there have been two CGUs identified: Housing and Care. Determining whether goodwill is impaired requires an estimate of the value in use of each of the CGUs to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the CGU and also the selection of an appropriate discount rate to calculate present values. Future cash flows are estimated using the current one-year budget, extrapolated for five years to December 2024 using specific rates with a general terminal growth rate being used thereafter. This has been derived

Report of the Audit Committee continued
Corporate governance statement

from the extensive business planning process described in greater detail within note 13 to the financial statements on pages 145 to 146. Estimated growth rates over each period are based on past experience and knowledge of the individual sector's markets. The value in use is most sensitive to changes in the terminal growth rate, the explicit growth rate during the forecast period and the discount rate.

Past experience has indicated significant headroom in the goodwill balance relating to Housing. The impairment review of the Care intangible has historically reported much less headroom. However, following the decision to dispose of the standalone Care activities, a significant impairment has been recognised during the year, resulting in an impairment of £80.6m, leaving a residual goodwill value, attached to the continuing Care activities, of £19.1m. The Committee took comfort that, following the impairment, the residual value is less material and the impairment review showed a higher level of headroom.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the key assumptions proposed by management, notably forecast growth rate, discount rate, terminal growth rate, and carer recruitment and retention rates.
- The Committee revisited the 2018 impairment review to gain comfort that, whilst a significant impairment has been recognised in the current year, this did not reflect any error in the judgements made in the previous year.
- The Committee reviewed the disclosure in the notes to the financial statements.
- This area represented a prime area of audit focus and Grant Thornton UK LLP provided detailed feedback to the Committee.

GOING CONCERN

With the advent of the COVID-19 pandemic and its impact on the Group, customers and supply chain, the Committee was very mindful that a very detailed assessment be carried out to assure the Board that the Group could continue to trade as a going concern for the foreseeable future and prepare the Annual Report and Accounts on that basis.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the assumptions behind the most severe downside scenario used in preparing the Viability Statement and recognised that under this scenario there is a material uncertainty which could cast doubt on the Group's ability to continue as a going concern.
- The Committee also reviewed the assumptions behind the assessment of the most likely impact of COVID-19; understanding the impact of mitigating actions and newly introduced Central Government reliefs.
- The Committee noted the very detailed review carried out by Grant Thornton in reaching their conclusion on the adoption of the going concern principle in the preparation of the financial statements.
- The Committee recognised that the financial statements did not include any of the adjustments to the carry value or classification of assets and liabilities that would result if the Group was unable to continue as a going concern.
- The Committee satisfied itself that the Board had taken account of the combination of the various options and uncertainties and the impact of a potential liquidity shortfall in the event of a longer period of impact from the pandemic and was satisfied that the Board could therefore adopt a going concern basis for the preparation of the financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

The Group is required to disclose information on standards that are in issue, not yet effective that have not been early adopted in the financial statements.

- On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.
- On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The Committee satisfied itself after discussions with management and the review of the external auditor that the disclosures were appropriate internal controls and risk management

With respect to its oversight of risk management and internal controls, the Board reviewed and discussed a wide range of matters with management, internal audit and external audit, as appropriate. This extends to cover all material controls, including operational, compliance and financial controls and risk management systems. The Directors are satisfied that procedures are in place to ensure that the Group complies with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council in September 2014.

The Board has delegated some of these responsibilities to this Committee which has reviewed the effectiveness of the system of internal controls and ensured that any remedial action has been or is being taken on any identified weaknesses. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. It includes all controls including financial, operational and compliance controls and risk management procedures.

In addition, the Audit Committee has a very active sub-committee, the Compliance Committee. An overview of the terms of reference of this Committee and its areas of principal oversight in the year is included within the Audit Committee Chairman's introduction; the Compliance Committee reports to the Audit Committee under these terms of reference.

The Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Group endeavours to ensure that the appropriate controls, systems and training are in place and has established procedures for all business units to operate appropriate and effective risk management.

The processes used to assess the effectiveness of the internal control systems are ongoing, allowing a cumulative assessment to be made, and include the following:

- Delegation of day-to-day management to operational management within clearly defined systems of control, including:
- The identification of levels of authority within clearly identified organisational reporting structures;
- The identification and appraisal of financial risks both formally, within the annual process of preparing business plans and budgets, and informally, through close monitoring of operations;
- A comprehensive financial reporting system within which actual results are compared with approved budgets, quarterly reforecasts and previous years' figures on a monthly basis and reviewed at both local and Group level; and
- An investment evaluation procedure to ensure an appropriate level of approval for all capital and revenue expenditure.
- Discussion and approval by the Board of the Group's strategic directions, plans and objectives and the risks to achieving them, combined with regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them.
- Review and approval by the Board of annual budgets, combined with regular operational and financial reviews of performance against budget, prior year results and regular forecasts by management and the Board.
- Regular reviews by the Board and the Audit Committee of identified fraudulent activity and actions being taken to remedy any control weaknesses.
- Regular reviews by management and the Audit Committee of the scope and results of internal and external audit work across the Group and the implementation of recommendations.
- Consideration by the Board and by the Audit Committee of the major risks facing the Group and of the procedures in place to manage them and to ensure controls react to changes in the Group's overall risk profile. These include health and safety, people, legal compliance, quality assurance, insurance and security, and reputational, social, ethical and environmental risks.
- Discussion relating to a presentation from the IT Director on cyber-security, including an assessment of vulnerabilities and the programmes being implemented to protect the Group against this evolving and potentially catastrophic risk.
- Consideration and discussion relating to regular updates from the Finance Director regarding developments within the finance function.

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. During the year a decision was taken to strengthen the review of internal controls by co-sourcing the internal audit provision with KPMG who were initially tasked to review the Group's risk management framework and mitigations in place. KPMG are now extending this piece of work to embedding the risk management framework and provide further assurance in respect of fraud risk management and the core controls in respect of the scheme of delegated authority. The Committee is pleased with the additional support provided by KPMG and has concluded that the system of internal controls and risk management is embedded into the operations of the Group and the actions taken to mitigate any weaknesses are carefully monitored.

The key controls in place are:

- a defined organisational structure and an appropriate level of delegated responsibility to operational management;
- authorisation limits for financial and non-financial transactions;
- written operational procedures;
- a robust system of financial budgeting and forecasting;
- a robust system of financial reporting with actual results compared to budget and forecast results; and
- regular reporting of operational performance and risks to the Board, including the work of the Compliance Committee.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of consolidated accounts. The consolidated financial statements are produced by the Group finance function, which is responsible for the review and compilation of reports and financial results from each of the operating subsidiaries in accordance with the Group reporting procedures. The consolidated financial statements are supported by detailed working papers. The Audit Committee is responsible for overseeing and monitoring these processes, which are designed to ensure that the Company complies with relevant regulatory reporting and filing requirements. As at the end of the period covered by this report, the Audit Committee, with the participation of the Chief Executive Officer and the Finance Director, evaluated the effectiveness of the design and operation of disclosure controls and procedures designed to ensure that information required to be disclosed in financial reports is recorded, processed, summarised and reported within specified time periods.

The Committee carried out a review of its effectiveness with input from Committee and Board members, management and the external auditor. The review concluded that the Audit Committee members had sufficient expertise and committed time to discharge their responsibilities.

EXTERNAL AUDIT RELATED SERVICES

The External Auditor engagement was last retendered in 2018 at which point the incumbent, Grant Thornton UK LLP, was reappointed, having originally been appointed in 1996.

The Company has adopted a strict policy of prohibiting the external auditor from carrying out non-audit services, in order to safeguard audit objectivity and independence. The Committee is responsible for approval of all non-audit services provided by Grant Thornton UK LLP; however, this is considered to be in exceptional circumstances only. In such an exceptional event, the Audit Committee would approve only where the Company would be disadvantaged by engaging an alternative provider, for instance where Grant Thornton UK LLP possesses a detailed knowledge of the structure of the business or an understanding of the markets within which the Group operates. No non-audit services were provided by Grant Thornton UK LLP during 2019.

As part of its annual inspection of audit firms the Audit Quality Review team of the Financial Reporting Council ("FRC") reviewed Grant Thornton's audit of the Group's report and accounts for the year ended 31 December 2018. The Audit Committee discussed the findings of the report and the actions undertaken by Grant Thornton to address the matters raised. The Committee met with Grant Thornton to gain assurance that all the areas identified for improvement by Grant Thornton have been addressed in the audit of the 2019 year end.

G DAVIES
AUDIT COMMITTEE CHAIRMAN
geraint.davies@mearsgroup.co.uk
22 May 2020

Report of the Remuneration Committee

Meeting attendance

R Irwin	●●●●
J Unwin	●●●●
K Murphy	●●●●
C Loughlin (from 1 October 2019)	●

Key
● Attended ○ Absent

Dear shareholders,

I am pleased to present on behalf of the Board the Directors' Remuneration Report for the year ended 31 December 2019, which was operated in line with the Directors' Remuneration Policy that was approved by shareholders on 7 June 2017.

The Annual Report on Remuneration sets out payments and awards to made to Directors and the link between company performance and remuneration for 2019. As the current Directors' Remuneration Policy approaches the end of its three-year life, the report also sets out the proposed new Policy in full.

You will have seen earlier in the annual report that 2019 has been a year of re-focusing the business whilst mobilising the significant Asylum Accommodation and Support contracts and the incorporation of the MPS acquisition into the Group. Both of these business streams have progressed well.

Since the end of 2019, COVID-19 has had an unprecedented impact on society and the economy. Mears has the resolve, resources and relationships to manage its way through these unforeseen challenges and is well positioned for the new normal as it emerges.

The Committee has reviewed the performance of the business and the achievement of the targets set for the Executive team and have concluded that no Executive Incentive Plan (EIP) awards should be made under the current Directors' Remuneration Policy in respect of performance in financial year 2019. The Executive Team concurs with this view.

NEW DIRECTORS' REMUNERATION POLICY

During the year we undertook a comprehensive review of senior executive pay arrangements, including a full consultation exercise with our major shareholders, and will be asking all shareholders to approve a new Remuneration Policy at the forthcoming AGM in June 2020. There will be the usual advisory shareholder vote on the other aspects of the remuneration report including the payments and awards made to the Directors in respect of performance for the period ended 31 December 2019. There will also be a vote to approve a new Long-Term Incentive Plan to reflect the proposed changes to the Remuneration Policy.

BUSINESS CONTEXT AND AIMS OF THE NEW POLICY

In 2019 the Board made a number of key strategic changes to the mix of activities on which Mears will focus on in the future. These changes include the refocus of our housing development activity so as to reduce the amount of our own capital utilized in that area. The Board also decided to exit the domiciliary care market in England and Wales together with the intention of disposing of our Scottish domiciliary care business at the earliest opportunity in 2020.

The Board believes that these changes will enable the Group to more effectively 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.

The Board's future strategy, set in a COVID-19 impacted environment, will be based on our vision to be the UK's most respected and trusted provider of housing and care with the ongoing evaluation of our portfolio of businesses to ensure that they fit with that vision and provide a sound basis for sustainable growth in shareholder value.

Aligned with these aims, the Committee wishes to ensure that:

- the Remuneration Policy is effective and fairly incentivises and rewards our Executive team to maintain and enhance a successful business as well as striving to lead the way in terms of social value creation;
- there is an appropriate balance between fixed and performance-related pay;

- incentive measures are appropriately aligned to both short and long-term strategy execution and stakeholders' interests, including customers, employees and shareholders; and
- our remuneration policies and practices are in line with good practice and take account of market developments, particularly in light of the publication of the UK Corporate Governance Code in 2018 and latest institutional investor best practice guidance.

In order to meet the design objectives set out above, the Committee is proposing the following policy changes:

Policy change	Commentary and rationale
1. Replacing the existing Executive Incentive Plan (EIP) with separate short and long-term incentive schemes – an Annual Bonus scheme and performance shares under a new Long-Term Incentive Plan.	The current EIP has two parts – share awards are made under Part A if an earnings growth underpin test has been met and, under Part B, share awards are granted if performance criteria have been achieved. The underpin and performance criteria are both measured over a 12-month period (i.e. over the financial year prior to grant). Any awards vest in tranches after three, four and five years. The Remuneration Committee is proposing to replace the EIP with a more conventional set of incentive arrangements: ▶ An annual bonus scheme: the bonus scheme will operate in a similar fashion to Part B of the EIP in that pay-outs are based on annual performance criteria set at the start of each financial year. At the end of the year, the Committee will assess the extent to which the criteria have been met and if a bonus is due, it will be delivered in a mix of cash (67%) payable after the end of the performance year and deferred share awards (33%) which will vest after three years; and ▶ A Long-Term Incentive Plan: annual awards of performance shares, structured as nil or nominal cost options will be granted. These awards will vest after three years subject to performance against specific measures and continued employment. A two-year holding period will also apply. The key difference between the proposed Policy and the existing one is the inclusion of the LTIP which incentivises and measures performance over a three-year period, while the existing scheme is based on an assessment of annual performance only. The Committee believes it is important to reward the delivery of strategic priorities and sustained performance over both one- and three-year-time horizons.
2. Alignment of pension provision for any new Executive Director appointments with the workforce level	For any new Executive Director appointments (including internal promotions), the pension contribution will be aligned with the prevailing level available to the majority of the workforce. The Company is in the process of carrying out a review of Company-wide pension arrangements. There are currently 50 pension schemes in operation at Mears reflecting employee transfer arrangements under contract awards as well as business acquisitions. Under some arrangements contributions are at circa 3% of salary while others are significantly in excess of the current 15% of salary contribution rate for Executive Directors. Further work is being carried out in order to arrive at the 'typical' Mears workforce contribution rate. As part of the review, the Committee will also consider whether and how any reductions to incumbents' pension contributions may be applied. We will provide an update on progress in this area in next year's report.
3. Shareholding guideline of 200% of base salary for new Directors and introduction of post-cessation shareholding policy	The current Executive Directors' shareholding guideline is set at 400% of salary and will remain at this level over the life of the new remuneration Policy. For new Director appointments, a 200% of salary shareholding guideline will apply. The 400% of salary shareholding guideline was included as part of a transition to a new incentive arrangement (the 2017 EIP) which provided greater certainty on incentive pay. A revised 200% of salary guideline is felt to be more appropriate for new Director appointments because (i) it is a more realistic guideline when considered against the current incentive opportunity and (ii) it is market standard for a company of Mears' size. The UK Corporate Governance Code asks for a formal policy on the treatment of vested and unvested share awards upon cessation of employment. We have taken the opportunity to formalise our policy in this regard such that, for good leavers: ▶ unvested deferred bonus awards will vest on their normal vesting dates; ▶ unvested LTIP awards will vest on their normal vesting dates, be tested for performance and be subject to a pro-rata reduction for time served relative to the three-year vesting period. Awards will normally also be subject to a two-year holding period; and ▶ any vested LTIP awards that are subject to a holding period at the time of leaving will normally be released only once the holding period has expired.
4. Malus and claw back provisions strengthened	Malus and claw back provisions will be enhanced to ensure that a comprehensive set of triggers will operate and enforceability will also be strengthened.

The above changes are subject to the approval of the new Remuneration Policy by shareholders at the 2020 AGM.

APPLYING THE POLICY IN 2020

Base salaries

For the 2020/21 period, the base salaries of the Executive Directors will be increased by 2% with effect from 1 April 2020. This is in line with the increase of 2% awarded to the workforce which took effect from 1 January 2020.

Transitioning to the new incentive arrangements

The Committee has considered carefully how best to transition from the EIP to the proposed bonus and LTIP.

The proposed annual bonus scheme will become operational from 1 January 2020. Performance will be assessed, and the bonus outcome determined, in April 2021. Any bonus earned will be delivered in cash (67%) and deferred shares (33%).

As the underpin test in respect of 2019 performance has not been achieved (see below), no award will be made under the EIP in April 2020. Therefore, no EIP awards were granted under the entire life of the expiring Directors' Remuneration Policy.

The first LTIP award will be made in 2021 and not 2020. The delayed grant ensures that the opportunity for making two long-term incentive grants in the same financial year is avoided.

Incentive measures

In order to simplify the operation of the annual bonus, two rather than three financial measures will apply for 2020 – adjusted Group operating profit for 40% of the bonus and average daily net debt for 30%. The remaining 30% will be based on a basket of strategic measures to include those relating to Customer Satisfaction, Employees and Social Value. Further details are provided in the Annual Report on Remuneration.

With the first LTIP grant not being scheduled until 2021, the Remuneration Committee will consider the most appropriate measures during the course of 2020 and will consult with major shareholders to ensure their views are taken into account. The Committee envisages earnings per share growth will feature as a measure.

REGULATORY AND GOVERNANCE CHANGES

In carrying out the remuneration review, the Committee has considered the various changes to the regulatory environment and in particular the revised UK Corporate Governance Code and the new legislation requiring companies to make additional pay disclosures. The Committee has sought to align practice and disclosures to the new requirements. This includes:

- including discretion in our new annual bonus and LTIP schemes to permit the Committee to override formulaic outcomes to ensure any payments are appropriately aligned with underlying Company performance and to the experience of our shareholders and other key stakeholders;
- a comprehensive review of the recovery and withholding provisions in our incentive schemes with changes reflecting best practice in this area;
- pension equalisation with the workforce for new Director appointments;
- introduction of a formal policy on the treatment of vested and unvested shares post-cessation;
- updated terms of reference to reflect the expanded scope of the Remuneration Committee;
- as disclosed last year, the Committee strengthened its membership through the inclusion of our Chairman Kieran Murphy; and
  - **Clarity** – the policy is well understood by our Directors and has been clearly articulated to shareholders and proxy voting agencies.
  - **Simplicity** – the Committee believes the proposed, market standard remuneration structure is simpler and will be better understood than the previous EIP scheme. We have purposefully avoided any complex structures which have the potential to deliver unintended outcomes.
  - **Risk** – our Policy and approach to target setting seek to discourage any inappropriate risk-taking. A balanced scorecard of financial and non-financial objectives applies to the annual bonus scheme and the targets are appropriately stretching, to mitigate the risk of inappropriate actions being taken. Malus and claw back provisions apply.
  - **Predictability** – executives' incentive arrangements are subject to individual participation caps. An indication of the range of values in packages is provided in the reward scenario charts on page 96. Deferred bonus and LTIP awards provide alignment with the share price and their values will depend on share price at the time of vesting.
  - **Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance.
  - **Alignment to culture** – pay and policies cascade down the organisation and are fully aligned to Mears' culture.

As mentioned above, we have undertaken a comprehensive review of our Remuneration Policy and hope you will support the binding and advisory remuneration votes and the resolution to approve the LTIP rules. I would like to thank all shareholders and proxy voting agencies that participated in the shareholder consultation exercise and the helpful feedback that has contributed to the new Policy.

I am always happy to hear from the Company's shareholders and you can contact me direct, or via the Company Secretary, Ben Westran, if you have any questions on this report or more generally in relation to the Company's remuneration.

R IRWIN
REMUNERATION COMMITTEE CHAIRMAN
roy.irwin@mearsgroup.co.uk
22 May 2020

Directors' Remuneration Policy for 2020 to 2022

This part of the Directors' Remuneration report sets out the Directors' Remuneration Policy (the 'Policy') which, subject to shareholder approval at the 2020 Annual General Meeting, shall take binding effect from the date of that meeting and shall be in place for the next three-year period unless a new Policy is presented to shareholders before then. Subject to approval by shareholders, all payments to Directors during the Policy period will be consistent with the approved Policy. This Policy takes into account the provisions of the 2018 UK Corporate Governance Code and other good practice guidelines from institutional shareholders and shareholder bodies.

SUMMARY OF THE KEY CHANGES FROM THE PREVIOUS POLICY

The key differences between the Policy approved by shareholders in 2017 and the proposed 2020 Policy are described in full in the Remuneration Committee Chairman's annual statement. In summary, the key changes are as follows:

- The EIP will be replaced by two separate and distinct incentive schemes – an annual bonus scheme delivered in a mix of cash and deferred share awards and a Long-Term Incentive Plan under which performance share awards will be granted.
- The shareholding guideline for Executive Directors will be reduced from 400% to 200% of salary for new appointments (retained at 400% for incumbent Executive Directors). All Executive Directors will be required to retain 100% of vested LTIP and deferred bonus share awards (on a net of tax basis) until the shareholding guideline has been met.
- Malus and claw back provisions in the bonus and LTIP have been reviewed and additional triggers have been included in both incentive schemes.
- Pension contribution rates (as a percentage of salary) for new Executive Directors and employees promoted to the Board will be aligned with the workforce contribution rate.

The following table summarises the main elements of the Executive Directors' Remuneration Policy for 2020 onwards, along with the key features of each element and their purpose and linkage to our strategy. The Policy for the Chairman and Non-Executive Directors is set out on page 98.

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EXECUTIVE DIRECTORS

The table below sets out the key elements of the Policy for Executive Directors:

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Base salary The purpose of the base salary is to: ▸ help recruit and retain individuals of the necessary calibre to execute the business strategy; ▸ reflect the individual's experience, role and contribution within the Group; and ▸ ensure fair reward for 'doing the job'.	Salaries will be eligible for increases during the three-year period that the Remuneration Policy operates. The Committee reviews base salaries annually with any change typically effective from 1 April. The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate. When determining base salaries and whether to increase levels the Committee will take the following into consideration: ▸ the performance of the individual Executive Director; ▸ the individual Executive Director's experience and responsibilities; ▸ the impact on fixed costs of any increase; ▸ pay and conditions throughout the Group; and ▸ the economic environment. When setting the salary levels for the Executive Directors, in addition to the factors summarised above, salary levels paid by companies of a similar size and complexity to Mears are taken into account.	The Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take into account relevant market movements.	Not applicable.

Directors' Remuneration Policy for 2020 to 2022 continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Benefits To provide benefits that are valued by the recipient and are appropriately competitive.	The Executive Directors may receive benefits including a Company-provided car or an allowance in lieu, life assurance and private medical insurance. Other additional benefits may be provided where appropriate. Benefits in kind are not pensionable.	Benefit values vary year on year depending on premiums and the maximum potential value is the cost of these provisions.	Not applicable.
Pension To provide a framework to save for retirement that is appropriately competitive.	The Company may contribute directly into an occupational pension scheme (an Executive Director's personal pension) or pay a salary supplement in lieu of pension. If appropriate, a salary sacrifice arrangement can apply. Only the base salary is pensionable.	The current Executive Directors receive a contribution of up to 15% of salary. Any new Executive Director appointments to the Board after 1 January 2020 will receive a pension contribution (in percentage of salary terms) in line with the prevailing contribution for the majority of the Mears workforce.	Not applicable.
Annual bonus To reward and incentivise the achievement of annual targets linked to the delivery of the Company's strategic priorities for the year.	Bonus measures and targets are reviewed annually and any pay out is determined by the Committee after the end of the financial year, based on performance against targets set for the one-year financial period. Up to 67% of any bonus that becomes payable is paid in cash with the remainder deferred into shares for three years. Deferred bonus share awards typically vest subject to continued employment. Individuals may be able to receive a dividend equivalent payment on deferred bonus shares at the time of vesting equal to the value of dividends which would have accrued during the vesting period. The dividend equivalent payment may assume the reinvestment of dividends on a cumulative basis. In the event that there was (i) a material misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions that was based on incorrect information; (iii) misconduct on behalf of an individual; (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events; malus and/or clawback provisions may apply for three years from the date of payment of any bonus or the grant of any deferred bonus share award.	Maximum bonus potential is capped at 100% of salary for Executive Directors.	Bonus performance measures are set annually and will be predominantly based on challenging financial targets set in line with the Group's strategic priorities and tailored to each individual role as appropriate; for example, targets relating to adjusted earnings. For a minority of the bonus, strategic or operational objectives may operate. The Committee has the discretion to vary the performance measures used from year to year depending on the strategic priorities at the start of each year. Details of the performance measures for the relevant financial year will be provided in the Annual Report on Remuneration and actual targets will be disclosed retrospectively. For financial targets, and where practicable in respect of operational or strategic targets, bonus starts to accrue once the threshold target is met (up to 20% payable) rising on a graduated scale to 100% for stretch performance. The Committee may adjust bonus outcomes, based on the application of the bonus formula set at the start of the relevant year, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the year. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual Report on Remuneration.

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Long-Term Incentive Plan A new Long-Term Incentive Plan is being put forward for shareholder approval at the 2020 AGM. Its purpose is to incentivise and reward the delivery of strategic priorities and sustained performance over the longer term. To provide greater alignment with shareholders' interests.	The LTIP provides for awards of free shares (i.e. either conditional shares or nil or nominal cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. It is anticipated that the first award under this scheme for current Directors will be made in 2021. Vested awards are subject to a two-year post-vesting holding period. In exceptional circumstances such as due to regulatory or legal reasons, vested awards may also be settled in cash. Dividend equivalent payments may be made on vested LTIP awards and may assume the reinvestment of dividends, on a cumulative basis. In the event that there was (i) a material misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions based on incorrect information; (iii) misconduct on behalf of an individual; (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events, malus and/or clawback provisions may apply for three years from an award becoming eligible to vest.	In any financial year, performance shares with a face value of up to 100% of salary (or 150% of salary on an exceptional basis, such as in recruitment cases) may be granted to an Executive Director. The actual grant level will take into account the share price performance of the Group and the number of awards made in previous years.	The Committee may set such performance conditions on LTIP awards as it considers appropriate reflecting the medium-term priorities of the Group. The choice of measures and their weightings will be determined prior to each grant. Up to 25% of awards will vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets. No awards vest for performance below threshold. A graduated vesting scale operates between threshold and maximum performance levels. The Committee may adjust LTIP vesting outcomes, based on the result of testing the performance condition, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the three-year performance period. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual Report on Remuneration.
Executive Incentive Plan (EIP) *(no further awards will be made under this scheme following the approval of this Directors' Remuneration Policy)* To provide a link between reward and corporate performance in order to appropriately retain and motivate the Executive Directors and senior management who are critical to executing the business strategy. To align the interests of Executive Directors and senior management more closely with shareholders over the longer term and provide a greater exposure to share price movements over this period.	Annual awards of nil-cost options are made based on the achievement of annual performance measures. Awards are made in two parts: ▶ 50% of the maximum award will be granted in deferred shares ('Part A'); and ▶ 50% of the maximum award will be granted based on the achievement of a range of annual performance measures ('Part B'). Both awards vest 60% after three years, with a further 20% after four years and the remaining 20% after five years. The Committee may award dividends/dividend equivalents on shares to the extent that the shares vest. In exceptional circumstances (such as recruitment) the Committee retains the discretion to provide an element of the award in cash. Further details of the operation of the EIP, including the performance measures that applied for 2019, are set out on page 99.	Annual awards for Executive Directors are capped at a maximum of 200% of salary. For Part A of the award, 100% will vest if the EPS metric is met in full. For Part B of the award: ▶ 20% of the award will vest for threshold performance; and ▶ 100% of the award will vest for maximum performance. There is straight-line vesting between these points.	The performance measure for Part A was based on earnings per share. The performance measures for Part B of the 2019 awards were as follows: earnings per share (EPS), return on capital employed (ROCE), cash conversion, customer satisfaction, and health and safety. The EIP contains malus (up to date of vesting) and clawback (two years post vesting) provisions.

Directors' Remuneration Policy for 2020 to 2022 continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
All-employee share plans Encourages employees to own shares in order to increase alignment over the longer term.	All employees are eligible to participate in the Company's Share Incentive Plan (SIP) and Share save Plan (Save As You Earn). Under the terms of the Share save Plan, all employees can apply for three or five-year options to acquire the Company's shares priced at a discount of up to 20%. Under the terms of the SIP, the Company can choose to offer free shares, partnership shares, matching shares (up to two for one on any partnership shares purchased) and/or dividend shares. In addition, the Company operates a discretionary unapproved share plan and a Company Share Option Plan (CSOP). No awards to Executive Directors are proposed under these plans.	Under the SIP, Share save Plan and CSOP, the maximum amount is equal to the HMRC limits set from time to time.	Not applicable.
Shareholding requirement Secures a long-term locked-in alignment between the Executive Directors and shareholders, ensuring that they build up and maintain a minimum level of shareholding throughout their employment with the Company.	The shareholding requirement will operate in the following manner: ▶ shares unconditionally owned by the Executive Director will count towards the requirement; and ▶ unvested deferred bonus shares or vested LTIP shares which are subject to a holding period may count towards the guideline on a net of tax basis. All vested deferred bonus and LTIP awards must be retained until the guideline has been achieved. It is expected that the shareholding is built up over a five-year period from implementation of this policy.	Minimum shareholding requirement is 400% of salary for the current Directors (in place at 1 January 2020) and 200% of salary for new Director appointments. Any vested share deferred bonus and LTIP shares must be retained on a net of tax basis until the guideline has been achieved.	Not applicable.

REASONS FOR SELECTING PERFORMANCE MEASURES

The annual bonus measures are selected to provide direct alignment with the short-term operational targets of the Company. Care is taken to ensure that the short-term performance measures are always supportive of the long-term objectives. The LTIP performance measures will be selected to ensure that the Executives are encouraged in, and appropriately rewarded for, delivering against the Company's key long-term strategic goals so as to ensure a clear and transparent alignment of interests between Executives and shareholders and the generation of long-term sustainable returns. The performance metrics that are used for annual bonus and long-term incentive plans are a sub-set of the Group's KPIs.

The Committee wanted to ensure that the annual bonus performance measures selected provide a holistic assessment of overall corporate performance and tie into the non-financial objectives that the Company embraces throughout the organisation.

Adjusted Group operating profit is a key metric for the Group and ensures management is focused on delivering sustained profits. Alongside this, average daily net debt continues to be important as management focuses on achieving the optimal capital structure.

The strategic measures will be primarily focused on customers and employees, as two of our most important stakeholder groups. The Group firmly believes that customer and employee satisfaction are drivers of long-term performance and productivity. They both contribute to the retention of existing contracts as well as helping to win new contracts with new and innovative operating models. The creation of social value supports our aim of investing in local communities which has been fundamental to Mears for more than 25 years.

Targets are calibrated to reflect the Committee's assessment of good to exceptional performance and take into account internal budgets and the current economic environment.

DIFFERENCES IN REMUNERATION POLICY FOR ALL EMPLOYEES

The Company sets terms and conditions for employees which reflect the different legislative and labour market conditions that operate in each of our jurisdictions. We will always meet or exceed national minimum standards for terms and conditions of employment in each of our business areas. Pay arrangements in our businesses also reflect local performance with personal increases based on achievement, individually assessed. Mears believes in the value of continuous improvement, both for the individual and for the Company.

In general, all employees receive base salary, benefits and pension, and are eligible to participate in the Company's all-employee share plans. Bonus plans are set for senior management, aligning the Senior Management Team to deliver value for the Group.

COMMITTEE DISCRETIONS

The Committee will operate the conclusion to the existing EIP, and the new annual bonus and LTIP according to their relevant plan rules. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include, but are not limited to, the following:

- The individuals participating in the plans.
- The timing of grant of an award.
- The size of an award and/or payment.
- The determination of vesting.
- Discretion required when dealing with a change of control (e.g. the timing of testing performance targets), M&A or restructuring of the Group.
- Determination of the treatment of good and bad leavers based on the rules of the plan and the appropriate treatment chosen.
- Adjustments required in certain 'corporate action' circumstances (e.g. rights issues, corporate restructuring events and special dividends).
- The annual review of the choice of performance measures and weightings for the annual bonus and LTIP.
- The ability to adjust incentive outcomes, based on the results of testing the performance conditions, if the Committee considers the quantum to be inconsistent with the performance of the Company, business or individual.

The Committee also retains the ability to adjust the targets, and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

These discretions, which in certain circumstances can be operated in both an upward and a downward manner, are consistent with market practice and are deemed necessary for the proper and fair operation of the schemes in order to achieve their original purpose. It is the Committee's policy, however, that there should be no element of reward for poor performance and any upward discretion will only be applied in exceptional circumstances.

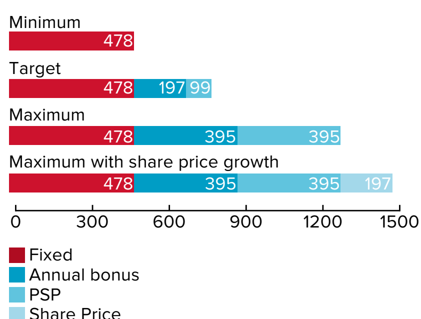
Directors' Remuneration Policy for 2020 to 2022 continued

ILLUSTRATIONS OF APPLICATION OF REMUNERATION POLICY

The Company's Remuneration Policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The composition and total value of the Executive Directors' remuneration packages for minimum, on-target and maximum performance scenarios, along with a maximum performance scenario with a share price growth assumption included, are set out in the charts below. The charts assume that an LTIP award is granted (although there will not be a grant in 2020, with the first one due in 2021.

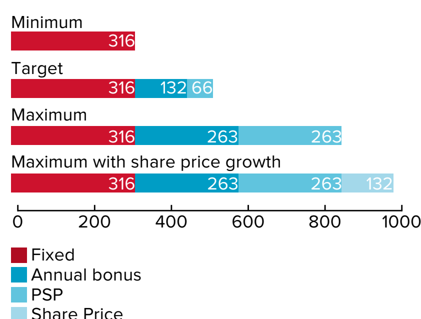
CEO

Salary from 1 April 2020



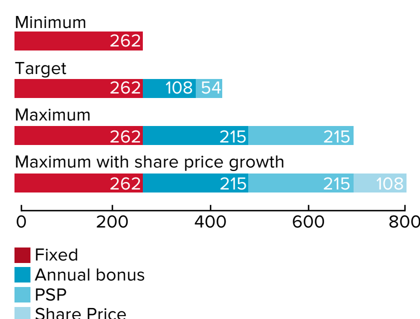
CFO

Salary from 1 April 2020



OTHER

Salary from 1 April 2020



Assumptions:

- Minimum performance includes only fixed pay (base salary for 2020, the value of 2019 benefits and a 15% of salary pension contribution).
- On-target performance includes fixed pay and assumes an annual bonus payout of 50% of maximum and 25% vesting of a 100% of salary grant of LTIP awards.
- Maximum performance includes fixed pay and assumes full bonus and 100% LTIP vesting.
- Maximum performance with share price growth is as per maximum but with a 50% share price growth assumed on LTIP awards.

APPROACH TO RECRUITMENT REMUNERATION

When setting the remuneration package for a new Executive Director, the Committee will apply the same principles and implement the Policy as set out in the Remuneration Policy table.

Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. In certain cases, this may include setting a salary below the market rate but with an agreement on future increases up to the market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.

Pension provision, in percentage of salary terms, will be aligned to the general workforce level prevailing at the time of appointment.

The maximum level of variable remuneration which may be granted (excluding buyout awards as referred to below) is an annual bonus of 100% of salary and LTIP award of 150% of salary (as per the limits in the Policy table).

In relation to external appointments, the Committee may offer compensation that it considers appropriate to take account of awards and benefits that will or may be forfeited on resignation from a previous position. Such compensation would reflect the performance requirements, timing and such other specific matters as the Committee considers relevant. This may take the form of cash and/or share awards. The policy is that the maximum payment under any such arrangements (which may be in addition to the normal variable remuneration) should be no more than the Committee considers is required to provide reasonable compensation to the incoming Executive Director.

If the Executive Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.

In the case of an existing employee who is promoted to the position of Executive Director, the Policy set out above would apply from the date of promotion but there would be no retrospective application of the Policy in relation to existing incentive awards or remuneration arrangements.

Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the employee. These would be disclosed to shareholders in the following year's Annual Report on Remuneration.

Non-Executive Director appointments will be through letters of appointment. Non-Executive Directors' base fees, including those of the Chairman, will be set at a competitive market level, reflecting experience, responsibility and time commitment. Additional fees are payable for the chairmanship of the Audit and Remuneration Committees and for the additional responsibilities of the Senior Independent Director.

SERVICE CONTRACTS AND PAYMENT FOR LOSS OF OFFICE

Executive Directors' service contracts are terminable by the Company and by the Director by giving no more than 12 months' notice.

If an Executive Director's employment is to be terminated, the Committee's policy in respect of the contract of employment, in the absence of a breach of the service agreement by the Executive Director, is to agree a termination payment based on the value of base salary and benefits that would have accrued to the Executive Director during the contractual notice period. The policy is

that, as is considered appropriate at the time, the departing Executive Director may work, or be placed on garden leave, for all or part of their notice period, or receive a payment in lieu of notice in accordance with the service agreement.

The Committee will also seek to apply the principle of mitigation where possible so as to reduce any termination payment to a leaving Executive Director, having had regard to the circumstances.

In addition, the Committee may also make payments in relation to any statutory entitlements, to settle any claim against the Company (e.g. in relation to breach of statutory employment rights or wrongful dismissal) or make a modest provision in respect of legal costs or outplacement fees.

With regard to annual bonus for a departing Executive Director, if employment ends by reason of redundancy, retirement with the agreement of the Company, ill health or disability or death, or any other reason as determined by the Committee (i.e. the individual is a 'good leaver'), the Executive Director may be considered for a pro-rated bonus payment. If the termination is for any other reason, any entitlement to bonus would normally lapse. Under any circumstance, it is the Committee's policy to ensure that any bonus payment reflects the departing Executive Director's performance and behaviour towards the Company.

Any bonus payment will normally be delayed until the performance conditions have been determined for the relevant period and be subject to a pro rata reduction for the portion of the relevant bonus year that the individual was employed.

With regard to deferred share bonus awards, these will normally lapse on cessation of employment other than where an Executive Director is a 'good leaver' (as detailed above) with awards then usually vesting on the normal vesting date.

In relation to awards granted under the Company's LTIP, in certain prescribed circumstances, such as death, injury or disability, redundancy, transfer or sale of the employing company, retirement with the Company's agreement or other circumstances at the discretion of the Committee (reflecting the circumstances that prevail at the time), 'good leaver' status may be applied.

If treated as a good leaver, awards will be eligible to vest subject to performance conditions, which will be measured over the original performance period (unless the Committee elected to test performance to the date of cessation of employment), and be subject to a pro rata reduction (unless the Committee considered it inappropriate to do so) to reflect the proportion of the vesting period actually served. Awards will typically vest on their normal vesting date and the post vesting holding period will normally continue to apply until the second anniversary of vesting (for both unvested and vested awards at the time of cessation).

The rules of the EIP set out what happens to awards if a participant ceases to be an employee or Director of Mears before the end of the vesting period. Generally, any outstanding share awards will lapse on such cessation, except in certain circumstances.

If the Executive Director ceases to be an employee or Director as a result of death, injury, ill health, redundancy, retirement, the sale of the business or company that employs the individual or any other reason at the discretion of the Committee, then they will be treated as a 'good leaver' under the plan rules.

Under the EIP, a proportion of a good leaver's award will vest on cessation of employment by reference to the time elapsed from grant to cessation. The Committee has discretion to determine the period during which the good leaver may exercise their award after cessation.

On a change of control, all awards under the policy will vest immediately.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman, whose remuneration is determined by the Committee and recommended to the Board.

The table below sets out the key elements of the policy for the Chairman and Non-Executive Directors.

Annual remuneration report 2019

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
To provide compensation that attracts individuals with appropriate knowledge and experience.	Fee levels are reviewed periodically taking into account independent advice and the time commitment required of Non-Executive Directors. The fees paid to the Chairman and the fees of the other Non-Executive Directors aim to be competitive with other listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity. Non-Executive Directors receive a base fee and additional responsibility fees for undertaking the role of Senior Independent Director or for membership and/or chairmanship of certain Committees. In exceptional circumstances, if there is a temporary yet material increase in the time commitment for Non-Executive Directors, the Board may pay extra fees on a pro rata basis to recognise the additional workload involved. The Chairman receives a single fee and does not receive any additional fees for membership and/or chairmanship of Committees. Non-Executive Directors also receive reimbursement of reasonable expenses (and any tax thereon) incurred through undertaking their duties and/or Company business.	Any increase in Non-Executive Director base fees or additional responsibility fees may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities. The Company will pay reasonable expenses incurred by Non-Executive Directors. Current fee levels are set out in the Statement of implementation on page 103.	Non-Executive Director fees are not performance related. Non-Executive Directors do not receive any variable remuneration element.

OTHER NON-EXECUTIVE APPOINTMENTS

Executive Directors have an obligation to inform the Board, specifically the Remuneration Committee, of any Non-Executive positions held or being contemplated and of the associated remuneration package. The Remuneration Committee will consider the merits of any such external appointment on a case-by-case basis and will carefully consider the work and time commitment involved and the potential benefit to the Group. Whether the remuneration for any such external appointment is retained by the Executive or passed over to the Group will also be considered on a case-by-case basis.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP IN DEVELOPING POLICY

In setting the Remuneration Policy for Executive Directors, the Remuneration Committee takes into account Group and business unit performance including both financial performance and safety improvements in the year. The Remuneration Committee also monitors pay trends and workforce conditions across the Group and takes this into account when formulating the policy for Executive Directors. The salary increase for the general workforce is a key reference point used by the Committee to inform its decisions on salary increases for senior executives.

The Committee has not expressly sought the views of employees and no remuneration comparison measurements were used when drawing up the Directors' Remuneration Policy. Through the Board, however, the Committee is updated as to employee views on remuneration generally.

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements. We remain sensitive to the views of shareholders and consulted many of our largest shareholders regarding the changes we are proposing in relation to the approval of this 2020 Remuneration Policy.

The Company will continue to monitor shareholder comments and retain an open dialogue as necessary.

ANNUAL REPORT ON REMUNERATION

This section of the Directors' Remuneration report contains details of how the Company's Remuneration Policy for Directors was implemented during the financial year ended 31 December 2019 and how it will be implemented for the following year.

SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)

Executive Directors

The remuneration of Executive Directors showing the breakdown between elements and comparative figures is set out below. Figures provided have been calculated in accordance with the regulations.

Executive Director (£'000)	Year	Salary[1]	Taxable benefits[2]	Pension[3]	Annual incentives[4]	Total remuneration
D J Miles	2019	387	24	58	–	469
	2018	387	10	58	–	455
A C M Smith	2019	258	13	39	–	310
	2018	258	6	39	–	303
A Long	2019	211	13	32	–	256
	2018	211	11	32	–	254

1 Executive Director salaries were not increased for 2019 and, effective 1 April 2019, remained at £386,817 (D J Miles), £257,912 (A C M Smith) and £211,019 (A Long).

2 Benefits included a company-provided car or an allowance in lieu, life assurance and private medical insurance.

3 Executive Directors received a cash allowance in lieu of pension.

4 Full details of how the annual incentive awards made under the EIP have been calculated are set out in the section below.

ADDITIONAL DETAILS IN RESPECT OF SINGLE TOTAL FIGURE OF REMUNERATION TABLE (AUDITED)

The performance measures and targets for the annual incentives (the 'EIP') for the year ended 31 December 2019 are detailed below.

The EIP for 2019 was split into two parts – the deferred share award element (Part A) and the performance share award element (Part B) – each with a maximum of up to 100% of salary.

Part A (deferred share award) of the EIP for 2019 was dependent upon achievement of EPS growth of 3% (before the impact of IFRS 16). This threshold was not met and 0% of the awards will be made under this element of the EIP.

Part B (performance share award) for 2019 was dependent upon achievement of the following targets:

Description	Weighting	Calculation	Targets
Earnings per share (EPS)	40%	Growth in diluted EPS. Diluted EPS is stated before exceptional costs and amortisation of acquisition intangibles and is adjusted for a normalised tax charge from 1 January 2019 to 31 December 2019. Base figure of 27.70p (adjusted for continuing activities) to be used.	Threshold: 8% EPS growth leads to 20% maximum contribution. Maximum: 13% EPS growth leads to 100% maximum contribution. Straight-line contribution between 8% and 13%.
Return on capital employed (ROCE)	20%	Operating profit divided by capital employed. Operating profit is stated before acquisition intangible amortisation and exceptional costs. Capital employed is defined as total assets less current liabilities less all balances relating to bank borrowings and overdrafts classified within non-current liabilities at 31 December 2019.	Threshold: 15% ROCE leads to 20% maximum contribution. Maximum: 20% ROCE leads to 100% maximum contribution. Straight-line contribution between 15% and 20%.
EBITDA cash conversion	20%	Cash inflow from operating activities as a proportion of EBITDA measured at 31 December 2019.	Threshold: 80% cash conversion leads to 20% maximum contribution. Maximum: 100% cash conversion leads to 100% maximum contribution. Straight-line contribution between 80% and 100%.

Description	Weighting	Calculation	Targets
Customer satisfaction	10%	The measure is the percentage of customers who rate our service as 'excellent'. This output is generated from around 80,000 customer surveys carried out during 2019.	A level of customer service 'excellent' rating of 90% must be achieved in order to deliver a maximum contribution.
Health and safety	10%	The measure is accident frequency rate (AFR). It is calculated as the number of reportable incidents divided by the number of hours worked, multiplied by 100,000.	An AFR below 0.25 must be achieved in order to deliver a maximum contribution.

The actual performance achievement for Part B of the EIP is summarised below:

Performance measures	Actual	% of target satisfied
EPS growth	1%	0%
ROCE	19.4%	18%
EBITDA to cash conversion	116%	20%
Customer service – 'excellent' rating	94%	10%
AFR	0.23	10%
Total		58%

The Remuneration Committee and Executive team have agreed that no award will be made under the EIP in respect of the 2019 financial year.

NON-EXECUTIVE DIRECTORS

The remuneration of Non-Executive Directors showing the breakdown between elements and comparative figures is shown below. Figures provided have been calculated in accordance with the regulations.

Chairman and Non-Executive Director (£'000)	Year	Salary/fees	Taxable benefits	Pension	Annual incentives	Total remuneration
R Holt[1]	2019	–	–	–	–	–
	2018	220	–	–	–	220
G Davies	2019	74	–	–	–	74
	2018	70	–	–	–	70
J Unwin	2019	63	–	–	–	63
	2018	70	–	–	–	70
R Irwin	2019	84	–	–	–	84
	2018	70	–	–	–	70
J Burt	2019	70	–	–	–	70
	2018	70	–	–	–	70
E Corrado[2]	2019	55	–	–	–	55
	2018	55	–	–	–	55
A Hillerby[3]	2019	28	5	–	–	33
	2018	29	2	–	–	31
K Murphy[4]	2019	159	–	–	–	159
	2018	–	–	–	–	–
P F Dicks[5]	2019	–	–	–	–	–
	2018	35	–	–	–	35
J Clarke[6]	2019	27				27
	2018	–				–
C Loughlin[7]	2019	16				16
	2018	–				–

Variations between the figures above and the approved fee rates relate to the part-year impact for changes in the Committee membership.

1 R Holt retired and stepped down from the Board on 2 January 2019.
2 E Corrado stepped down from the Board on 31 December 2019. A payment in lieu of notice of £14,000 has been paid in addition to the figures reported above.
3 A Hillerby stepped down from the Board on 12 February 2020.
4 K Murphy was appointed to the Board as Chairman of the Company on 2 January 2019.
5 P F Dicks stepped down from the Board on 7 June 2018.
6 J Clarke was appointed to the Board on 2 July 2019.
7 C Loughlin was appointed to the Board on 17 September 2019.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED)

Directors' share interests as at 31 December 2019 are set out below:

Director	Share interests: Number of beneficially owned shares	Share interests: Vested but unexercised options	Share interests: Total interests held at year end
D J Miles	175,020	164,729	339,749
A C M Smith	130,000	69,333	199,333
A Long	36,230	56,727	92,957
K Murphy	–	–	–
G Davies	2,500	–	2,500
J Unwin	–	–	–
J Burt	–	–	–
R Irwin	–	–	–
E Corrado	–	–	–
A Hillerby	–	–	–
J Clarke	–	–	–
C Loughlin	–	–	–

There were no changes to the holdings set out above from the period 31 December 2019 to date of sign off.

The Executive Directors each have a shareholding requirement of 400% of salary. As at 31 December 2019, D J Miles, A C M Smith and A Long had met 33.3%, 37.1% and 12.6% of their requirement respectively (based on a share price of £2.94).

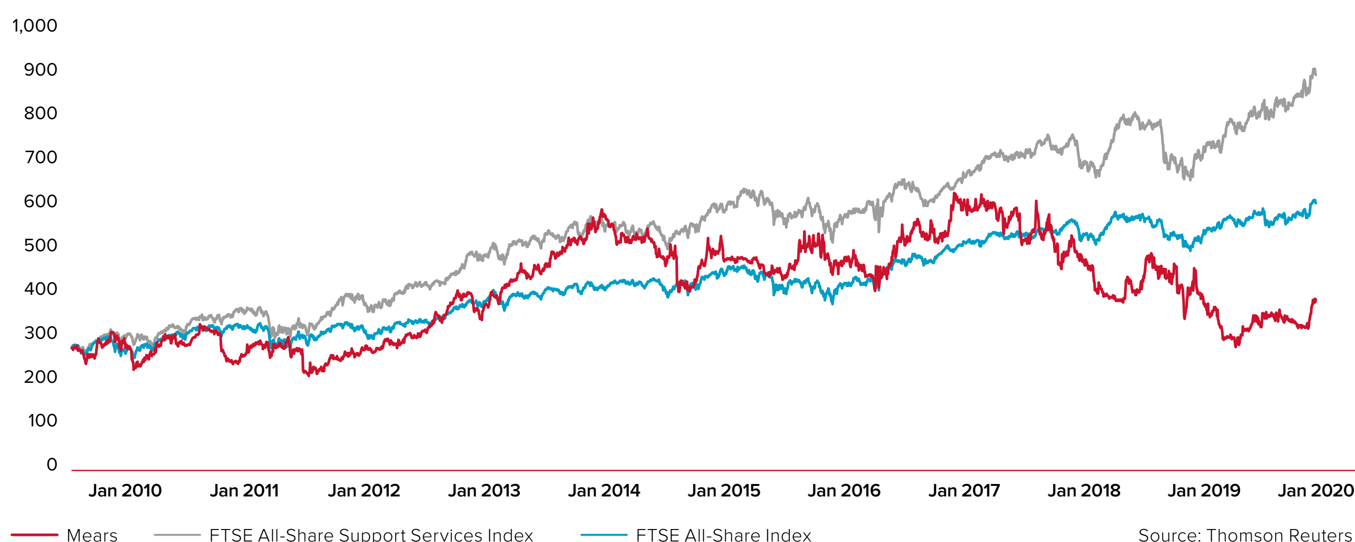
SHAREHOLDER DILUTION

In accordance with the Investment Association's guidelines, the Company can issue a maximum of 10% of its issued share capital in a rolling ten-year period to employees under all its share plans. In addition, of this 10% the Company can issue 5% to satisfy awards under discretionary or Executive plans. The Company operates all its share plans within these guidelines.

PERFORMANCE GRAPH AND TABLE (UNAUDITED)

The graph below shows the Group's performance, measured by TSR, compared with the constituents of the FTSE All-Share Index and the FTSE All-Share Support Services Index over the past ten years. The Company is a constituent of both indices and these peer groups are considered to provide relevant comparisons.

Total shareholder return



Source: Thomson Reuters

The table below shows the Chief Executive Officer's remuneration package over the past ten years, together with incentive payout/vesting as compared to the maximum opportunity.

Year	Name	Single figure of total remuneration (£'000)	Bonus payout (as % maximum opportunity)	Long-term incentive accrual rate (as % maximum opportunity)
2019	D J Miles	469	–	–
2018	D J Miles	455	–	–
2017	D J Miles	443	–	–
2016	D J Miles	436	–	–
2015	D J Miles	436	–	20%
2014	D J Miles	412	–	35%
2013	D J Miles	825	–	100%
2012	D J Miles	409	–	–
2011	D J Miles	384	–	–
2010	D J Miles	270	–	–
	R Holt	600	–	–
2009	R Holt	1,095	100%	–

PERCENTAGE CHANGE IN CHIEF EXECUTIVE OFFICER'S REMUNERATION (UNAUDITED)

The table below compares the percentage change in the salary of the Chief Executive Officer with that of the wider employee population.

	Remuneration		
	Salary entitlement	Benefits	Bonus/ incentives
Chief Executive Officer	–	–	–
Office salaries	4.2%	–	–

CEO TO EMPLOYEE PAY RATIO (UNAUDITED)

The table below sets out the ratio between the total pay of the CEO and the total pay of the employees at the 25th, 50th (median) and 75th percentiles of the workforce.

Year	Method	25th percentile	Median	75th percentile
2019	B	4.16%	4.30%	6.09%

The 25th, 50th and 75th percentile ranked individuals have been identified the gender pay gap survey data for 2019, i.e. as allowed for under method B of the UK reporting requirements. This was deemed to be the most reasonable and practical approach to identifying the relevant individuals for the purposes of this disclosure. The day by reference to which the 25th, 50th and 75th percentile employees were determined was 5 April 2019. The CEO pay figure is the total remuneration figure as set out in the single figure table on page 99 and equivalent figures (on a full-time equivalent basis) have been calculated for the relevant 25th, 50th and 75th percentile employees. The calculated hourly pay for each employee paid in the pay period containing 5 April 2019 was used to determine the 25th, 50th and 75th individuals. The Remuneration Committee is comfortable that the resulting calculations are representative of pay levels at the respective quartiles.

The total pay and benefits figures used to calculate the ratios for each of the 25th percentile, median and 75th percentile employees are £19,494, £20,145 and £28,554 respectively. The salary element for each of these figures are £19,141, £19,747 and £27,953 respectively.

RELATIVE IMPORTANCE OF SPEND ON PAY (UNAUDITED)

The table below sets out the relative importance of spend on pay in the financial year and previous financial year compared with other disbursements from profit.

Significant distributions	**Disbursements from profit in financial year 2019 £'000**	Disbursements from profit in previous financial year 2018 £'000	% change
Total Directors' pay	**1,629**	1,628	0
Profit distributed by way of dividend	**13,811**	12,539	10%
Underlying profit before tax	**37,341**	36,722	2%

The profit distributed by way of dividend relates to dividends paid during the year. Following the uncertainty surrounding COVID-19, the Board agreed to defer any decision over the final dividend for 2019, which was originally expected to be paid in July 2020.

DETAILS OF SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Director	Date of contract/letter of appointment	Notice period by Company or Director
Executive		
D J Miles	June 2008	Twelve months
A C M Smith	June 2008	Twelve months
A Long	August 2009	Twelve months
Chairman/Non-Executive		
K Murphy	January 2019	Six months
G Davies	October 2015	Six months
J Unwin	January 2016	Six months
J Burt	February 2017	Six months
R Irwin	February 2017	Six months
E Corrado*	September 2017	Six months
A Hillerby*	June 2018	Three months
J Clarke	July 2019	Six months
C Loughlin	September 2019	Six months

* E Corrado resigned on 31 December 2019 and A Hillerby resigned on 12 February 2020.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

Executive Directors

Salary

The salary entitlements for the forthcoming year are set out below:

Executive Director	2020 £	2019 £	% change
D J Miles	392,619	386,817	1.5%
A C M Smith	261,781	257,912	1.5%
A Long	214,184	211,019	1.5%

The salary increase for 2020 is effective 1 April 2020 and matches the general workforce inflationary increase of 2% applied on 1 January 2020.

PENSION

Details of pension contributions for the year ended 31 December 2019 are set out below:

Executive Director	Pension
D J Miles	15%
A C M Smith	15%
A Long	15%

ANNUAL BONUS

Subject to shareholder approval of the revised policy at the 2020 AGM, the EIP will be replaced by two separate incentive arrangements – an annual bonus scheme and an LTIP.

The new annual bonus scheme will operate from the 2020 financial year with any payments, subject to the achievement of performance targets, to be made in 2021 after the end of the first performance year. Any payments due will be delivered in a mix of cash (67%) payable immediately and deferred share awards (33%) which will vest after three years from grant. The maximum bonus potential will be 100% of salary and will be dependent upon the following performance measures:

- Adjusted Group operating profit (40%)
- Net debt (30%)
- Strategic objectives relating to customer satisfaction, employee net promoter score and monetary social value generated (30%)

These strategic objectives reflect the Group's commitment to serving our clients and customers and will be built around the Group's strategy for customer success and supported by our independently chaired Customer Scrutiny Board; the further development of our Social Value offer to add value in the Communities we serve and secure high levels of positive employee engagement through net promote scores and validated by external accreditation.

In addition, health and safety will apply as a discretionary underpin and before any bonus becomes payable, the Committee will consider health and safety performance over the year and will have the power to reduce the bonus outcome if standards are below expectations.

It is not possible to disclose the targets that apply to the above measures in this report due to commercial sensitivity. However, full details of the targets and any associated bonus payouts will be set out in next year's annual report.

LTIP

The first LTIP award will be made in 2021 and not 2020. The delayed grant is transitionary and ensures that two long-term incentive grants (i.e. under the current EIP and the proposed LTIP) are not made in the same financial year. Given this delay the Committee will consider the choice of LTIP measures nearer the time of grant.

NON-EXECUTIVE DIRECTORS

The following table sets out the fee rates for the Non-Executive Directors:

	2019	2018	% change
Chairman fee	**160,000**	220,000	-27%
Base fee	**50,000**	50,000	0%
Committee Chairman fee	**15,000**	15,000	0%
Committee membership fee	**5,000**	5,000	0%

ROLE OF THE COMMITTEE AND ACTIVITIES

The Committee determines the total individual remuneration packages of each Executive Director of the Group and certain other senior employees (and any exit terms) and recommends to the Board the framework and broad policies of the Group in relation to Senior Executive remuneration. The Committee determines the targets for all of the Group's performance related remuneration and exercises the Board's powers in relation to all of the Group's share and incentive plans.

There is a formal and transparent procedure for developing policy on Executive remuneration and for determining the remuneration of individual Directors.

The Remuneration Committee is responsible for:

- determining and agreeing with the Board the broad remuneration policy for:
  - the Chairman, the Executive Directors and senior management; and
  - the Executive Directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options; and
- approving the service agreements of each Executive Director, including termination arrangements.

No Director is involved in determining his/her own remuneration.

COMPOSITION OF THE REMUNERATION COMMITTEE

The members of the Committee during the course of the year were Roy Irwin, Julia Unwin, Kieran Murphy, Chris Loughlin and Amanda Hillerby.

SUPPORT TO THE REMUNERATION COMMITTEE

By invitation of the Committee, meetings are also attended by the Company Secretary (who acts as secretary to the Committee) and the HR Director, who are consulted on matters discussed by the Committee, unless those matters relate to their own remuneration. The Committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers. During the year, the Committee was assisted in its work by FIT Remuneration Consultants LLP. FIT was appointed in 2019 following a tender process and has provided advice in relation to general remuneration matters and the review of the remuneration policy. Fees paid to FIT in relation to advice to the Committee in 2019 were £0.04m (excluding VAT). FIT did not provide any other services to the Company. FIT is a member of the Remuneration Consultants Group and, as such, voluntarily operate under the Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice they received from FIT is objective and independent.

ANNUAL OVERVIEW

The Committee has continued to work to build investor confidence with regard to its Executive Remuneration Policies and remains committed to the following actions:

- Improving the level of openness and transparency in remuneration reporting through a detailed Annual Remuneration Report.
- Operating a structured incentive arrangement with clear financial performance targets for each year.
- Undertaking a regular review of the remuneration policies for Executive Directors and other Senior Executives within the Group to ensure that they remain appropriate to retain and motivate such individuals.
- Considering pay policies within the Group as a whole when determining Executive Directors' remuneration packages.
- Encouraging Executive Directors and Senior Executives to build up a meaningful shareholding in the Company to more closely align the interests of shareholders and Executives.
- Being kept fully aware and informed on developments and best practice in the field of remuneration and corporate governance from external advisers, institutional shareholders and their representative bodies.

Notwithstanding the above, the Committee recognises that the success of the Group is dependent on the efforts of key individuals and that they should be fairly rewarded for their efforts and contributions in making Mears the success it is.

STATEMENT OF VOTING AT GENERAL MEETING

The table below shows the voting outcome in respect of the Annual Remuneration Report at the 2019 AGM.

Item	Votes for	%	Votes against	%	Votes withheld
To approve the Annual Report on Remuneration	64,336,525	67	31,382,947	33	1,098,814

The significant vote against the Annual Report on Remuneration at the 2019 AGM was primarily as a result of the dissatisfaction with the performance of the Company – at that time – of a small number of significant shareholders. The Remuneration Committee has consulted extensively with our major shareholders, as well as the leading proxy voting agencies, during the course of 2019 and early 2020 in order to understand how we may, from a remuneration perspective, be able to optimise our arrangements going forward. This consultation process has been constructive and the feedback we received has been crucial in informing our approach to designing the revised Policy for which we will be seeking approval at the 2020 AGM.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of a range of outsourced services to the public and private sectors. The principal activity of the Company is to act as a holding company.

BUSINESS REVIEW

The Company is required to set out a fair review of the business of the Group during the reporting period. The information that fulfils this requirement can be found in the Strategic Report, Review of Operations and Financial Review. The results of the Group can be found within the consolidated income statement. Information required to be disclosed in respect of emissions and future developments is included within the Strategic Report.

DIVIDEND

The final dividend in respect of 2018 of 8.85p per share was paid in July 2019. An interim dividend in respect of 2019 of 3.65p per share was paid to shareholders in October 2019. 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. It remains the Board's intention to continue to adopt a progressive dividend policy once it is confident that activity and working practices have returned to normal and that it would be prudent to do so.

CORPORATE GOVERNANCE

Details of the Group's corporate governance are set out on pages 74 to 79.

KEY PERFORMANCE INDICATORS (KPIS)

We focus on a range of key indicators to assess our performance. Our performance indicators are both financial and non-financial and ensure that the Group targets its resources around its customers, employees, operations and finance. Collectively they form an integral part of the way that we manage the business to deliver our strategic goals. Our primary performance indicators are detailed on pages 32 to 35.

DIRECTORS

The present membership of the Board is set out with the biographical detail on pages 72 and 73.

In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the AGM in May 2020. Any person appointed by the Directors must retire at the next AGM but will be eligible for re-election at that meeting.

The beneficial interests of the Directors in the shares of the Company at 31 December 2019 are detailed within the Remuneration Report on page 101.

The process governing the appointment and replacement of Directors is detailed within the Report of the Nomination Committee on pages 80 and 81.

AMENDMENT TO ARTICLES OF ASSOCIATION

The Company's Articles of Association can be amended only by a special resolution of the members, requiring a majority of not less than 75% of such members voting in person or by proxy.

SHARE CAPITAL AUTHORISATIONS

The 2019 Annual General Meeting (AGM) held in May 2019 authorised:

- the Directors to allot shares within defined limits. The Companies Act 2006 requires directors to seek this authority and, following changes to Financial Services Authority (FSA) rules and institutional guidelines, the authority was limited to one third of the issued share capital, a total of £368,301 plus an additional one third of issued share capital of £368,301 that can only be used for a rights issue or similar fundraising;
- the Directors to issue shares for cash on a non-preemptive basis. This authority was limited to 5% of the issued share capital of £55,245 and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and
- the convening of general meetings (other than an AGM) on 14 days' notice. This results from a European Union directive that became effective on 3 August 2010 and will override Section 307 of the Companies Act 2006 where the requirement to give 21 days' notice for certain meetings has been amended.

Further details of these authorisations are available in the notes to the 2019 Notice of AGM. Shareholders are also referred to the 2020 Notice of AGM, which contains similar provisions in respect of the Company's equity share capital as detailed below.

AGM

The date of the AGM has not been confirmed. A formal Notice of Meeting and Form of Proxy will be issued in advance. The ordinary business to be conducted will include the reappointment of all Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk is an accepted part of doing business. The Group's financial risk management is based on sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal controls within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail within the Corporate Governance Statement. The key risks and mitigating factors are set out on pages 39 and 40. Details of financial risk management and exposure to price risk, credit risk and liquidity risk are given in note 27 to the financial statements.

CONTRACTS OF SIGNIFICANCE

The Group is party to significant contracts within each segment of its business. The Directors do not consider that any one of those contracts is essential in its own right to the continuation of the Group's activities.

PAYMENT POLICY

The Company acts purely as a holding company and as such is non-trading. Accordingly, no payment policy has been defined. However, the policy for Group trading companies is to set the terms of payment with suppliers when entering into a transaction and to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 55 days (2018: 55 days) of average supplies for the year.

CAPITAL STRUCTURE

The Group is financed through both equity share capital and debt. Details of changes to the Company's share capital are given in note 29 to the financial statements. The Company has a single class of shares – ordinary 1p shares – with no right to any fixed income and with each share carrying the right to one vote at the general meetings of the Company. Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the AGM. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution but such dividend cannot exceed the amount recommended by the Board.

SUBSTANTIAL SHAREHOLDINGS

As at 21 February 2020 the Company has been notified of, or is aware of, the shareholders holding 1.5% or more of the issued share capital of the Company, as detailed in the table below.

Fund manager	City	Shares (m)	% IC
PrimeStone Capital	London	14.40	13.0%
Shareholder Value Management	Frankfurt	11.66	10.5%
Artemis Investment Management	London/Edinburgh	10.28	9.3%
Majedie Asset Management	London	9.08	8.2%
Fidelity Management & Research	Boston	7.41	6.7%
Heronbridge Investment Management	Bath	7.14	6.5%
Columbia Threadneedle Investments	London	6.37	5.8%
Legal & General Investment Management	London	5.05	4.6%
Dimensional Fund Advisors	London	4.86	4.4%
M&G Investments	London	3.91	3.5%
Montanaro Asset Management	London	2.50	2.3%
Slater Investments	London	2.36	2.1%
Wells Fargo Securities	Charlotte	1.79	1.6%
Close Asset Management	London	1.70	1.5%
BlackRock Investment Management	London	1.58	1.4%

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

GHG EMISSIONS

The Group's carbon emissions data for the year is provided below. Scope 1 emissions, which are generated from owned or controlled sources such as vehicles, have reduced while Scope 2 emissions, which are from the generation of purchased energy, have increased. This is as a result of the change in mix between traditional maintenance work, which naturally requires significant vehicle usage and management of properties, which consume electricity. There has also been an overall reduction as a result of more efficient working practices across the Group.

These figures have been generated from independently provided reports of carbon emissions or energy usage from a variety of sources and, where necessary, energy usage has been converted into carbon emissions using the 2018 dataset provided by the Department for Environment, Food & Rural Affairs.

Scope	Units	2019	2018
Scope 1	Tonnes CO_2e	**19,728**	17,437
Scope 2	Tonnes CO_2e	**2,714**	2,008

Scope 1 and 2	2019	2018
Intensity tonnes CO_2e/£m revenue	**22.82**	22.36

EMPLOYEE INFORMATION AND CONSULTATION

The Group has received recognition under the 'Investors in People' award. The Group continues to involve its staff in the future development of the business. Information is provided to employees through a daily news email, a quarterly newsletter posted out to all staff, the Group website and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

CREST

CREST is the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and also makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

AUDITOR

Grant Thornton UK LLP offers itself for reappointment as auditor in accordance with Section 489 of the Companies Act 2006.

GOING CONCERN

The financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities for twelve months from the date of signing these financial statements. At 31 December 2019, the Group had £170m of unsecured committed facilities. At the balance sheet date, the Group reported net debt of £51.0m. However the Directors consider the average daily net debt to be more reflective of the debt requirements of the business, and this was £114.4m for 2019 but, of more relevance, £126.1m in the last quarter of 2019, following the mobilisation of the Group's AASC contract.

However, 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. As detailed within the Viability Statement, 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 most severe downside scenario included a number of assumptions with regards to revenue reduction, non-productive labour costs and changes in working capital, all of which are detailed in the viability statement. This 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 most severe downside scenario, there is a risk that the Group's funding requirement could exceed its existing committed debt facilities and breach one or more banking covenant, and the Board have therefore concluded that in this scenario there is a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The Board also completed an assessment of what it considered the most likely impact of COVID-19, which incorporated a number of mitigating actions, together with the benefit of reliefs made available from Central Government including furloughing of employees and a deferral of the settlement of VAT liabilities. This most likely impact shows the Group's existing available funding is sufficient to sustain the business and settle obligations as and when they fall due.

Given that it remains challenging to measure the impact with any degree of precision given the extent of the uncertainty, and the fact that whilst the most likely scenario shows increased headroom when compared to the most severe downside scenario, the risk of a potential covenant breach remains a risk, the Directors have concluded that the uncertainty over the impact of the COVID-19 pandemic described above, including possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Further adverse changes arising from COVID-19 would increase the challenge of complying with financial covenants and remaining within banking facilities.

Nevertheless, having assessed the combination of these various options and the impact of a potential liquidity shortfall in the event of an extended period of impact as a result of the COVID-19 pandemic, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

By order of the Board

B WESTRAN
COMPANY SECRETARY
ben.westran@mearsgroup.co.uk
22 May 2020

Statement of Directors' responsibilities

In respect of the Directors' Report and financial statements

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and Remuneration Report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

A C M SMITH
FINANCE DIRECTOR
andrew.smith@mearsgroup.co.uk
22 May 2020

Independent auditor's report

to the members of Mears Group PLC

OPINION

Our opinion on the financial statements is unmodified

We have audited the financial statements of Mears Group PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

THE IMPACT OF UNCERTAINTIES ARISING FROM THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the Directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with a course of action such as Brexit.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to the Basis of preparation in 'Principal accounting policies – Group' to the financial statements on page 120, which indicates that the Directors have prepared a most severe downside scenario which models the potential impact of the recent COVID-19 outbreak. This scenario indicates that a material uncertainty exists that may cast significant doubt on this Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Audit work performed

To respond to risks relating to going concern, our procedures evaluated management's assessment of the impact of COVID-19 on the group's working capital and covenant conditions by undertaking, *inter alia*, the following work:

- Obtained managements base case forecasts and covenant calculations covering the period to December 2021. We assessed how these forecasts were compiled, and assessed the appropriateness of management's forecasts by applying appropriate sensitivities to the underlying assumptions. Reverse stress tested the base case forecasts and considered the magnitude of decline in EBITDA that would give rise to a breach in banking covenants;
- Assessed the quality of management's forecasting by comparing the reliability of past forecasts to the base case forecast;
- Obtained management's most severe downside scenario and most likely scenario prepared to assess the potential impact of COVID-19. We evaluated the assumptions regarding the lost revenue, depleted workforce and the resulting effect on working capital during the estimated period of COVID-19 impact. We considered whether the assumptions are consistent with our understanding of the business derived from other detailed work undertaken;

- Assessed the impact of the mitigating factors available to management in respect of the ability to restrict cash impact, including the level of available facilities. We also agreed committed facilities to external confirmations;
- Reverse stress tested the most severe downside scenario COVID-19 forecasts to determine the magnitude of decline in revenue, increase in debtor days and reduction in productivity of the workforce that would give rise to elimination of the headroom in borrowing facilities;
- Considered the forecasts prepared in respect of the most likely impact of COVID-19 and whether these still give rise to a material uncertainty;
- Assessed the adequacy of disclosures within the Annual Report and Accounts.

Conclusions relating to principal risks, going concern and viability statement

The events and conditions set out in the Basis of Preparation on page 120 of the financial statements indicate that a material uncertainty exists that may cast significant doubt over the Group and Parent Company's ability to continue as a going concern.

Aside from the impact of the matter disclosed in the material uncertainty related to going concern section, we have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 36 to 40 that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated (including the impact of Brexit);
- the Directors' confirmation, set out on page 109 of the Annual Report that they have completed a robust assessment of the principal and emerging risks facing the Group (including the impact of Brexit), including those that would threaten its business model, future performance, solvency or liquidity;
- whether the Directors' statements relating to going concern and their assessment of the prospects of the Group required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation, set out on page 108 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

- Overall materiality: £1.3 million, which represents approximately 4.75% of the Group's continuing profit before exceptional items and taxation;
- Key audit matters were identified as revenue recognition (including contract accounting, contract assets and contract accruals), going concern, goodwill impairment, acquisition accounting, defined benefit pension schemes, implementation of IFRS 16 and disposals and discontinued operations; and
- We performed full scope audit procedures on the financial information of four components and specific audit procedures over certain balances and transactions at seven further components to gain sufficient appropriate audit evidence over all material balances at both divisional and Group levels. We performed analytical procedures on the financial information on the remaining 22 components in the Group.

Independent auditor's report continued

to the members of Mears Group PLC

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the 'Material uncertainty related to going concern' section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter – Group	How the matter was addressed in the audit – Group
Revenue recognition (including contract accounting, contract assets and contract accruals) Revenue is recognised in accordance with IFRS 15 'Revenue from Contracts with Customers'. Determining the amount of revenue to be recognised requires management to make significant judgements and estimates in the application of IFRS 15, the stage of completion of certain contracts and the recoverability of work in progress, mobilisation costs and contract assets. We therefore identified revenue recognition, including contract accounting, contract assets and contract accruals, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▸ assessing whether the accounting policies adopted by the Directors are in accordance with the requirements of IFRS 15, and whether management accounted for revenue in accordance with the accounting policies; ▸ selecting contracts by reference to materiality and other risk factors including loss making contracts, contracts with significant aged contract assets and receivables balances or significant increases in these balances, contracts with disputes, contracts relating to site locations we visited during the year and a random selection to ensure coverage across the Group; ▸ assessing, for the selected items and samples, whether the revenue recognised is in accordance with the Group's accounting policies by agreeing details to contract terms, support for costs on which the revenue is derived, re-performing management's calculations and assessing management's assumptions and assertions underpinning its forecasts for contracts' future performance by reference to supporting documentation, such as contract KPIs, historical performance against forecasts, actual performance against previous estimates and discussions with key contract personnel; ▸ investigating the recoverability of contract assets and work-in-progress balances by reference to post balance sheet cash collection, certifications performed by the Group's internal quantity surveyors or external quantity surveyors, reviewing the quality of supporting evidence, including internal and external legal opinions, expert value reports and correspondence with customers, examining the Group's historical experience of recovery and considering whether any other forms of external evidence were needed; ▸ identifying contracts that were at risk of incurring future losses during the remaining life of the contract. This included assessing all potentially onerous contracts in the prior year, but also any that had incurred significant losses during 2019; ▸ examining such contracts and challenging management's assumptions and assertions relating to the future results of those contracts by reference to supporting evidence such as management's plans to return the contract to profit, forecast models, previous history of turning around loss making contracts and correspondence with clients where appropriate; and ▸ assessing whether the disclosures within the financial statements are appropriate in light of IFRS 15. The Group's accounting policy on revenue recognition is shown in 'Principal accounting policies – Group' to the financial statements on page 121 and related disclosures are included in note 1. The Audit Committee identified revenue recognition as a primary area of judgement in its report on page 84 where the Audit Committee also described the action that it has taken to address this issue. **KEY OBSERVATIONS** Based on our audit work, we did not identify any material misstatement in the revenue recognised in the year to 31 December 2019 or in the contract assets and contract accrual balances as at that date.

Key audit matter – Group	How the matter was addressed in the audit – Group
GOODWILL IMPAIRMENT The Directors are required to make an annual assessment to determine whether the carrying value of goodwill of £123.9m is impaired. Past experience has indicated that there is significant headroom in the goodwill balance relating to the Housing cash generating unit (CGU) but limited headroom in the goodwill balance relating to the Care division CGU. At 31 December 2019 this amounted to £19.1m and was in respect of the Extra Care business after the discontinuation of the remaining part of the Care division resulted in goodwill of £80.56m being reclassified to Assets held for sale (which is a separate key audit matter). The process for assessing whether an impairment exists under Internal Accounting Standard (IAS) 36 'Impairment of Assets' is complex. Management determines the recoverable amount of a CGU as the higher of value in use or fair value less cost to sell. Calculating the value in use, through forecasting cash flows related to CGUs and the determination of the appropriate discount rate and other assumptions to be applied, can be highly judgemental and can significantly impact the results of the impairment review. We therefore identified the impairment review of goodwill undertaken by management in relation to the Care division CGU as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▶ assessing whether the accounting policies adopted by the Directors are consistent with the prior year and in accordance with the requirements of IAS 36; ▶ obtaining management's discounted cash flow forecast for the Extra Care division used in the impairment review and comparing it to our understanding of the division and re-calculating to check the arithmetical accuracy of those calculations; ▶ testing and challenging the assumptions utilised in the impairment models, including the increase in carer hours, the new contract wins and the ability to pass on uplifts in payroll costs to Local Authorities; ▶ considering whether the market level assumptions used were appropriate and, where possible, benchmarking these assumptions against available industry data including assessing these against the work done by our auditor expert; ▶ performing sensitivity analysis on the various assumptions used for this model to consider the headroom levels for various scenarios; ▶ testing the accuracy of management's forecasting through a comparison of budget to actual data and historical variance trends and investigating the cash flows for exceptional or unusual items or assumptions; and ▶ assessing whether the disclosures within the financial statements are appropriate in light of the relevant requirements. The Group's accounting policy on impairment is shown in 'Principal accounting policies – Group' to the financial statements on page 126 and related disclosures are included in note 13. **KEY OBSERVATIONS** Based on our audit work, we found the valuation methodologies and assumptions made in management's assessment of goodwill impairment were appropriate. We did not find any material misstatements in relation to the Group's disclosure in accordance with IAS 36 and have found no material errors in calculations.
DEFINED BENEFIT PENSION SCHEMES The Group operates a number of defined benefit pension schemes and is an admitted body of other defined benefit pension schemes. At 31 December 2019 the defined benefit pension schemes had a combined net deficit of £21.7m. The gross value of the pension assets and obligations which form the net deficit amounted to £462.1m and £483.8m respectively. The measurement of the assets and obligations in accordance with IAS 19 'Employee Benefits' involves significant judgement and their valuation is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different value of pension assets and liabilities being recognised within the Group financial statements. We therefore identified the accuracy and valuation of the defined benefits liabilities and defined benefit assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▶ assessing whether the accounting policies adopted by the Directors are appropriate and in accordance with the requirements of IAS 19; ▶ utilising the expertise of our actuarial specialists in order to review the appropriateness of the assumptions used in the calculation of the obligations and testing the appropriateness of the valuation methodologies and their inherent actuarial assumptions by benchmarking key assumptions such as discount rates, wages and salary growth rates and mortality rates to available market data; ▶ directly confirming the existence and valuation of pension scheme assets with asset managers and custodians for Group schemes and analysing the movements on assets for admitted body schemes; ▶ we obtained service auditor reports for the asset manager to ensure the reliability of their valuations; ▶ testing the accuracy of underlying membership data utilised by the Group's actuaries for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing membership to underlying records; and ▶ assessing whether the disclosures within the financial statements are appropriate in light of the relevant requirements. The Group's accounting policy on defined benefit pensions is shown in 'Principal accounting policies – Group' to the financial statements on page 125 and related disclosures are included in note 32. The Audit Committee identified defined benefit pension valuation as a primary area of judgement in its report on page 85, where the Audit Committee also described the action that it has taken to address this issue. **KEY OBSERVATIONS** Based on our audit work, we found the valuation methodologies, including the inherent actuarial assumptions, to be balanced and consistent with the expectation of our auditor's expert. We found that group scheme assets were over-valued based on external confirmation received. Management made adjustments to decrease the group scheme asset values by £2.1m and increase the actuarial loss by £2.1m to reflect this. Our testing did not identify any other material misstatements.

Key audit matter – Group	How the matter was addressed in the audit – Group
ACQUISITION ACCOUNTING In the prior year the Group acquired the entire share capital of MPS Housing Limited and Mitie Property Management Limited which was accounted for in 2018 with provisional balances. In accordance with IFRS 3 'Business Combinations' the Group has updated the provisional assessment within 12 months of the acquisition. This has had a material impact on the financial statements, resulting in an increase to goodwill and intangible assets on consolidation of £12.1m. The Group measures goodwill at the acquisition date as being the fair value of consideration, including the estimated value of deferred consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed. Adjusted goodwill of £10.0m was recognised as a result of the acquisition of MPS Housing Limited and Mitie Property Management Limited. Under IAS 38 'Intangible Assets', intangible assets acquired in a business combination are deemed to have a cost to the Group equal to their fair value at the acquisition date. Adjusted intangible assets of £22.8m were recognised as a result of the acquisition. These intangibles were valued, based on discounted cash flow forecasts prepared by management, which require judgement by the Directors around key assumptions such as revenue growth, discount rates, customer attrition and long-term growth rates. On initial recognition, the assets and liabilities acquired in a business combination are included in the Consolidated Balance Sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group accounting policies. These initial fair values, which were provisional in the prior year, have been updated for measurement period adjustments in the current year. Determining the fair value of certain assets and liabilities requires judgement to be exercised by the Directors, particularly in respect to estimating the value in use of assets acquired and capturing contingent liabilities not previously recognised in the financial statements. Due to the significant financial statement impact of the measurement period adjustments, as well as the high level of estimation required in determining the appropriate accounting treatment, we therefore identified acquisition accounting, including valuation of goodwill and intangibles, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▶ assessing whether the accounting policies adopted by the Directors are in accordance with the requirements of IFRS 3 'Business Combinations' and IAS 38 'Intangible Assets'; ▶ testing significant measurement period adjustments made to the assets and liabilities acquired to pertinent supporting documentation such as information from the vendor, correspondence, and contract extracts; ▶ challenging management's conclusions that the new information relates to facts and circumstances that existed at the acquisition date, ensuring the treatment is in accordance with the requirements of IFRS 3; ▶ using our internal valuation expert to evaluate and assess the assumptions used, including discount rates and growth rates, in the calculation of the fair value of the intangibles recognised; ▶ testing the accuracy of the data used in the intangibles valuation by agreeing data to pertinent supporting documentation such as legal agreements; ▶ assessing whether the disclosures within the financial statements are appropriate in light of the relevant requirements of IFRS 3. The Group's accounting policy on acquisition accounting is shown in 'Principal accounting policies – Group' to the financial statements on page 126 and related disclosures are included in note 13. **KEY OBSERVATIONS** Based on our audit work, we identified that intangible assets were understated. Management made adjustments to increase the capitalised value of these assets by £704k and reduce the capitalised goodwill value by the same amount to reflect this. Our testing did not identify material misstatements in the measurement period adjustments, and we found management's accounting treatment to be reasonable.

Key audit matter – Group	How the matter was addressed in the audit – Group
IFRS 16 IMPLEMENTATION The impact of IFRS 16 'Leases' on the consolidated transition balance sheet results is a reduction to net assets of £2.4m. The right of use asset recognised on transition is £190.2m with a lease liability of £191.3m. A number of judgements have been applied and estimates made in determining the impact of the standard. In order to compute the transition impact of IFRS 16, a significant data extraction exercise was undertaken by management to summarise all property and equipment lease data such that the respective inputs could be uploaded into management's model. The incremental borrowing rate (IBR) method has been adopted where the implicit rate of interest in a lease is not readily determinable. Our key audit matter was focused on the following areas of risk: ▶ specific assumptions applied to determine the discount rates for each lease are inappropriate; ▶ the underlying lease data used to calculate the transitional impact is incomplete and/or inaccurate; ▶ leasing arrangements within the scope of IFRS 16 are not identified or appropriately included in the calculation of the transitional impact; ▶ the mechanical accuracy of lease calculations is flawed; ▶ recognition of assets where Group determined to be the lessor; and ▶ the disclosures in the financial statements are insufficient, precluding investors from obtaining a clear understanding as to the transitional impact of the change in accounting standard. Due to the significant financial statement impact of IFRS 16, as well as the high level of estimation required in determining the appropriate accounting treatment, we therefore identified the implementation of IFRS 16, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▶ assessing the appropriateness of the discount rates applied in determining lease liabilities by checking the synthetic credit rating to external data sources with input from our valuation specialists; ▶ verifying the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information; ▶ checking the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment; ▶ checking completeness by testing the reconciliation to the group's prior year operating lease commitments; ▶ checking a sample of excluded leases to contract terms to verify they meet the short-term criteria set out in IFRS 16; and ▶ assessing whether the disclosures within the financial statements are appropriate in light of the requirements of IFRS 16. The Group's accounting policy on the implementation of IFRS 16 is shown in 'Principal accounting policies – Group' to the financial statements on page 121 and related disclosures are included in note 3. The Audit Committee identified the implementation of IFRS 16 as a primary area of judgement in its report on page 84, where the Audit Committee also described the action that it has taken to address this issue. **KEY OBSERVATIONS** Based on our audit work, we did not find any material misstatement with respect to the accounting for the impact of IFRS 16 in accordance with the group's stated accounting policy and in the related disclosure of these items per note 3 to the financial statements.

Independent auditor's report continued

to the members of Mears Group PLC

Key audit matter – Group	How the matter was addressed in the audit – Group
DISCONTINUED OPERATIONS During the year the Group made a strategic decision to exit a substantial part of the Care division by both discontinuing and divesting of operations. This has resulted in assets of £10.8m and liabilities of £5.5m being disclosed as held for sale. Discontinued operations accounted for £77.5m of revenue and £87.3m of the Group's loss for the year. Due to the significant financial statement impact of discontinued operations, we therefore identified the discontinued operations as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▶ assessing whether the disclosure of assets held for sale met the criteria set out in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' at the reporting date; ▶ verifying completeness and accuracy of the assets and liabilities reflected as held for sale by agreeing to post year-end sales agreement for the part of the division that was sold; ▶ reconciling the reclassified assets and liabilities and results to the business unit reporting available in the entity's financial reporting system, challenging management's calculation of the amount of goodwill allocated to the disposal group; ▶ challenging the accuracy of management's estimate of the impairment loss on reclassifying assets as held for sale by comparing the carrying value of the disposal group to the anticipated fair value less costs to sell; and ▶ assessing whether the disclosures within the financial statements are appropriate in light of the relevant requirements. The Group's accounting policy on disposals and discontinued operations is shown in 'Principal accounting policies – Group' to the financial statements on page 128 and related disclosures are included in note 10. **KEY OBSERVATIONS** Based on our audit work, we are satisfied that the disclosure of the discontinued operations is in accordance with the group's stated accounting policy and the related disclosure of these items per note 10 to the financial statements is appropriate.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£1.3m which represents approximately 4.75% of the Group's continuing profit before exceptional items and taxation. This benchmark is considered the most appropriate because it removes the impact of certain one-off or exceptional items impacting the underlying profit of the group and is also a key measure for stakeholders.	£830,000 which represents approximately 1% of the company's total assets excluding amounts owed by group undertakings. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to monitor the financial position of the Parent Company whose principal activity is that of an investment holding company.
Performance materiality used to drive the extent of our testing	70% of financial statement materiality.	70% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as exceptional items, Directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as exceptional items, Directors' remuneration and related party transactions.
Communication of misstatements to the Audit Committee	£65,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£41,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile. In order to address the risks described above as identified during our planning procedures, we performed a full scope audit of the financial statements of the Parent Company, Mears Group PLC, and of the Group's operations throughout the United Kingdom.

The components of the Group were evaluated by the Group engagement team based on a measure of materiality considered as a percentage of total Group assets, revenues and earnings before taxes, to assess the significance of the component and to determine the planned audit response. For those components that we determined to be significant components, either a full scope approach or specific procedures in relation to specific balances and transactions were carried out. This approach was determined based on their relative materiality to the Group and our assessment of audit risk; this approach is in line with our approach used in the prior year.

The Group's components vary significantly in size. We performed full scope audits at four components. Specific audit procedures over certain balances and transactions were performed on a further 15 components, to give appropriate coverage of all material balances at both divisional and component levels. Together, the reporting units subject to audit procedures, being full scope and specific procedures, were responsible for 99% of the Group's revenues, 100% of the Group's loss for the year before tax and 98% of the Group's total assets. We performed analytical procedures over the remaining 22 components. All components subject to audit and analytical procedures have been performed by the Group engagement team.

For significant components requiring a full scope approach, an interim visit was conducted before the year end to undertake substantive procedures in advance of the final visit and to evaluate the Group's internal control environment. We then undertook substantive testing on significant transactions and material account balances, including the procedures outlined above in relation to the key risks. For the components where specific procedures were carried out a similar testing strategy was applied, focused on the significant transactions and material account balances.

The remaining non-significant components of the Group were subject to analytical procedures over their financial performance and position after taking into account the risks identified above and the significance of the component to the Group.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- We understood how the Company and the Group is complying with those legal and regulatory frameworks by making enquiries to the management and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit Committee. We identified whether there is culture of honesty and ethical behaviour and whether there is a strong emphasis of prevention and deterrence of fraud.
- We assessed the susceptibility of the Company's and Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the group engagement team included:
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - assessing matters reported through the Group's whistleblowing programme and the results of management's investigation of such matters;
  - challenging assumptions and judgments made by management in its significant accounting estimates;
  - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

We did not identify any key audit matters relating to irregularities, including fraud.

Independent auditor's report continued

to the members of Mears Group PLC

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

Fair, balanced and understandable set out on page 109 – the statement given by the Directors that they consider the Annual Report and Accounts and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Audit Committee reporting set out on page 82 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

- Directors' statement of compliance with the UK Corporate Governance Code set out on page 70 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OUR OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 ARE UNMODIFIED

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' responsibilities statement set out on page 109, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

We were appointed by the Audit Committee in 1996 to audit the financial statements for the year ending 31 December 1996 and subsequent financial periods. Our total uninterrupted period of engagement is 24 years, covering the periods ending 31 December 1996 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

USE OF OUR REPORT

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

REBECCA EAGLE
SENIOR STATUTORY AUDITOR
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
22 May 2020

Principal accounting policies – Group

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' on pages 125 and 126.

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. As detailed within the Viability Statement, 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 most severe 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 detailed within the Viability Statement 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.

The Directors have discussed the other principal risks and uncertainties of the business in the Risk Management section on pages 36 to 40.

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 benefitted 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 standalone 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.
- 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.
- 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:

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.

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.

USE OF JUDGEMENTS AND ESTIMATES CONTINUED

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 Services 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 its 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 cash flows 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 also 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 coordinated 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 payables'.

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 these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit for the year		**(66,046)**	24,825
Other comprehensive income/(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 these financial statements.

Consolidated balance sheet

For the year ended 31 December 2019

	Note	2019 £'000	2018 (restated) £'000	2017 (restated) £'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 22 May 2020.

D J MILES — DIRECTOR
A C M SMITH — DIRECTOR

Company number: 03232863

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

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:

	2019 £'000	2018 £'000
▶ 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 financial statements – Group

For the year ended 31 December 2018

1. REVENUE

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

	2019 £'000	2018 £'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	**32,451**	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.
- 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.

Notes to the financial statements – Group continued

For the year ended 31 December 2019

2. SEGMENT REPORTING CONTINUED

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.

Operating segments	2019 Housing (continuing) £'000	2019 Care (discontinued) £'000	2018 Housing (continuing) £'000	2018 Care (discontinued) £'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':

Operating segments	2019 Housing £'000	2019 Care £'000	2019 Total £'000	2018 Housing £'000	2018 Care £'000	2018 Total £'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.

3. CHANGES IN ACCOUNTING POLICIES CONTINUED

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 £'000	2018 £'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 £'000	2018 £'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

Notes to the financial statements – Group continued

For the year ended 31 December 2019

6. EMPLOYEES

Staff costs during the year were as follows:

	2019 £'000	2018 £'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 £'000	2018 £'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.

7. SHARE-BASED EMPLOYEE REMUNERATION CONTINUED

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
	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 vested 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 on page 93 of the Remuneration Report.

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.

Notes to the financial statements – Group continued

For the year ended 31 December 2019

9. TAX EXPENSE

Tax recognised in the Consolidated Statement of Profit or Loss:

	2019 £'000	2018 £'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 £'000	2018 £'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.

9. TAX EXPENSE CONTINUED

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

	2019 £'000	2018 £'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)/profit 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**

Notes to the financial statements – Group continued

For the year ended 31 December 2019

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 p	2018 p	2019 p	2018 p	2019 p	2018 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 p	2018 p	2019 p	2018 p	2019 p	2018 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 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'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 reassessment 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

Notes to the financial statements – Group continued

For the year ended 31 December 2019

13. GOODWILL CONTINUED

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	1,891	8,014	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	**51,431**	**13,580**	**1,089**	**66,100**	**14,185**	**–**	**14,185**	**80,285**
Carrying amount								
At 31 December 2019	**14,556**	**4,190**	**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

14. OTHER INTANGIBLE ASSETS CONTINUED

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

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16. RIGHT OF USE ASSET

	Investment property £'000	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'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 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 Extra Care Limited	100%	England and Wales	Provision of care
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

Notes to the financial statements – Group continued

For the year ended 31 December 2019

17. INVESTMENTS CONTINUED

	Proportion held	Country of registration	Nature of business
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 £'000	2018 £'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

17. INVESTMENTS CONTINUED

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).

Notes to the financial statements – Group continued

For the year ended 31 December 2019

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 (IBRs) 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.

Notes to the financial statements – Group continued

For the year ended 31 December 2019

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 management's 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 has made these provisions 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.

27. FINANCIAL INSTRUMENTS CONTINUED

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.

27. FINANCIAL INSTRUMENTS CONTINUED

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.

27. FINANCIAL INSTRUMENTS CONTINUED

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.

27. FINANCIAL INSTRUMENTS CONTINUED

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)
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.

28. DEFERRED TAXATION CONTINUED

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
Debit/(credit) to Consolidated Statement of Profit or Loss	58	(842)	–	(784)
Credit 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
Debit/(credit) to Consolidated Statement of Profit or Loss	56	(1,882)	–	(1,826)
Credit 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 £'000	Borrowings relating to assets held for resale £'000	Finance leases £'000	Operating leases £'000	Total £'000
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 12 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

32. PENSIONS CONTINUED

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 Guaranteed Minimum Pension equalisation, following the recent Lloyds Banking Group ruling.

Notes to the financial statements – Group continued

For the year ended 31 December 2019

32. PENSIONS CONTINUED

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 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

32. PENSIONS CONTINUED

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 2020 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.

32. PENSIONS CONTINUED

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. The Viability Statement on page 41 has details of the Directors' assessment of the impact on the Group.

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.

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

36. RELATED PARTY TRANSACTIONS CONTINUED

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 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

Principal accounting policies – Company

STATEMENT OF COMPLIANCE

Mears Group PLC is a public limited company incorporated in England and Wales. Its registered office is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 101 and the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments specified in the accounting policies below. The financial statements are presented in Sterling.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 from disclosing its individual profit and loss account.

The Company has taken advantage of the reduced disclosures for subsidiaries and the ultimate parent provided for in FRS 101 and has therefore not provided a cash flow statement or certain disclosures in respect of share-based payments.

The principal accounting policies of the Company are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

GOODWILL

Goodwill representing the reallocation of amounts previously classed as investments upon the hive-across of trade and assets is capitalised and amortised on a straight-line basis over its estimated useful economic life.

SHARE-BASED EMPLOYEE REMUNERATION

All share-based payment arrangements that were granted after 7 November 2002 are recognised in the financial statements.

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 value. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Black Scholes option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period.

Share-based remuneration in respect of employees of the Company is ultimately recognised as an expense in the profit and loss account. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve; for cash-settled share-based payments the Company recognises a liability at the balance sheet date. The Company operates share-based remuneration plans for employees of subsidiaries using the Company's equity instruments. The fair value of the compensation given in respect of these share-based compensation plans less payments received from subsidiaries in respect of those share-based payments is recognised as a capital contribution.

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.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax and laws that have been enacted or substantively enacted by the balance sheet date.

RETIREMENT BENEFITS

Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

Defined benefit pensions

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

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the 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. The asset that is recognised is restricted to the amount by which the service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

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 profit and loss account, including the current service cost, any past service cost and the effect of curtailments or settlements. The interest costs less the expected return on assets are 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 Company's contributions to the schemes are paid in accordance with the rules of the schemes and the recommendations of the actuary.

INVESTMENTS

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at deemed cost less impairment. Dividends on equity securities are recognised in income when receivable.

FINANCIAL INSTRUMENTS

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

Financial assets

Basic financial assets, including trade and other receivables, amounts due to Group companies and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

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

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled; (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party; or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party which has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Principal accounting policies – Company continued

FINANCIAL INSTRUMENTS CONTINUED

Financial liabilities

Basic financial liabilities, including trade and other payables, and amounts payable to Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Bank borrowings are non-basic financial liabilities and are initially recognised at fair value, being the present value of future payments discounted at a market rate of interest. Bank borrowings are remeasured at fair value.

Derivatives, including interest rate swaps, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Hedge accounting for interest rate swaps

The Company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the Consolidated Statement of Profit or Loss.

The gain or loss recognised in other comprehensive income is reclassified to the Consolidated Statement of Profit or Loss when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires or no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty are disclosed in the Group's accounting policies on pages 125 and 126.

Parent Company balance sheet
As at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Intangible assets: goodwill		**–**	–
Right of use assets		**1,360**	–
Investments	5	**39,583**	58,123
		40,943	58,123
Current assets			
Debtors	6	**189,429**	194,112
Cash at bank and in hand		**21,597**	191
		211,026	194,303
Creditors: amounts falling due within one year	7	**(16,799)**	(38,848)
Net current assets		**194,227**	155,455
Total assets less current liabilities		**235,171**	213,578
Creditors: amounts falling due after more than one year	8	**(125,059)**	(78,795)
Provisions for liabilities			
Pension liability	13	**(1,378)**	(1,044)
		108,733	133,739
Capital and reserves			
Called up share capital	10	**1,105**	1,105
Share premium account		**82,224**	82,224
Share-based payment reserve		**2,421**	2,021
Hedging reserve		**(124)**	(46)
Profit and loss account		**23,107**	48,435
Shareholders' funds		**108,733**	133,739

The Parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a loss of £11.5m (2018: £23.2m) which is dealt with in the financial statements of the Company.

The financial statements were approved by the Board of Directors on 22 May 2020.

D J MILES
DIRECTOR

A C M SMITH
DIRECTOR

Company number: 03232863

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

Parent Company statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018	1,036	60,204	1,469	(326)	84,166	146,549
Impact of change in accounting policies	–	–	–	–	(443)	(443)
Adjusted balance at 1 January 2018	1,036	60,204	1,469	(326)	83,723	146,106
Net result for the year	–	–	–	–	(23,239)	(23,239)
Other comprehensive expense	–	–	–	280	490	770
Total comprehensive income/(expense) for the year	–	–	–	280	(22,749)	(22,469)
Issue of shares	69	22,020	–	–	–	22,089
Share option charges	–	–	552	–	–	552
Dividends	–	–	–	–	(12,539)	(12,539)
At 1 January 2019	1,105	82,224	2,021	(46)	48,435	133,739
Impact of change in accounting policies	–	–	–	–	(61)	(61)
Adjusted balance at 1 January 2019	1,105	82,224	2,021	(46)	48,374	133,678
Net result for the year	–	–	–	–	(10,903)	(10,903)
Other comprehensive expense	–	–	–	(78)	(553)	(631)
Total comprehensive (expense)/income for the year	–	–	–	(78)	(11,456)	(11,534)
Share option charges	–	–	400	–	–	400
Dividends	–	–	–	–	(13,811)	(13,811)
At 31 December 2019	**1,105**	**82,224**	**2,421**	**(124)**	**23,107**	**108,733**

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

Notes to the financial statements – Company

For the year ended 31 December 2019

1. RESULT FOR THE FINANCIAL YEAR

This result for the year is stated after charging auditor's remuneration of £71,000 (2018: £55,000) relating to audit services.

2. DIRECTORS AND EMPLOYEES

Employee benefits expense

	2019 £'000	2018 £'000
Wages and salaries	**13,469**	13,755
Social security costs	**1,826**	1,920
Other pension costs	**282**	774
	15,577	16,449

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

	2019 Number	2018 Number
Management	**335**	339

Remuneration in respect of Directors was as follows:

	2019 £'000	2018 £'000
Emoluments	**1,499**	1,507
Pension contributions to personal pension schemes	**130**	121
	1,629	1,628

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

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

3. SHARE-BASED EMPLOYEE REMUNERATION

As at 31 December 2019 the Group maintained six share-based payment schemes for employee remuneration. The details of each scheme are included within note 7 to the consolidated financial statements.

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

In total, £0.2m of employee remuneration expense has been included in the Company's profit and loss account for 2019 (2018: £0.2m), which gave rise to additional paid-in capital.

4. 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.

Notes to the financial statements – Company continued

For the year ended 31 December 2019

5. FIXED ASSET INVESTMENTS

	Investment in subsidiary undertakings £'000
At 1 January 2019	58,123
Impairment	(13,540)
At 31 December 2019	**39,583**

Details of the subsidiary undertakings of the Company are shown in note 17 to the consolidated financial statements.

6. DEBTORS

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	**188,060**	193,084
Other receivables	**1,036**	498
Deferred tax asset	**333**	530
	189,429	194,112

The deferred tax asset above of £0.3m (2018: £0.5m) is due after more than one year. The recoverability of the deferred tax asset is dependent on future taxable profits. The Company expects to realise sufficient profits to enable the deferred tax asset to be recovered.

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Bank loan	**–**	15,000
Bank overdraft	**–**	21,032
Trade creditors	**15,607**	–
Interest rate swaps	**119**	41
Accruals	**191**	2,292
Corporation tax	**395**	453
Lease obligations	**467**	–
Other payables	**20**	30
	16,799	38,848

8. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2019 £'000	2018 £'000
Bank borrowings	**124,047**	78,780
Lease obligations	**974**	–
Interest rate swaps	**38**	15
	125,059	78,795

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

9. FINANCIAL INSTRUMENTS

The Company has the following financial instruments:

	2019 £'000	2018 £'000
Financial assets that are debt instruments measured at amortised cost:		
▶ Other receivables	**1,036**	498
Financial liabilities that are measured at fair value through other comprehensive income:		
▶ Interest rate swaps	**(158)**	(56)
Financial liabilities that are measured at amortised cost:		
▶ Bank borrowings	**(124,047)**	(93,780)
▶ Lease obligations	**(1,441)**	–
▶ Other payables	**(20)**	(30)
	(124,094)	(93,368)

There have been no changes during the period or cumulatively in the fair value of bank borrowings attributable to changes in the credit risk of the instrument. The change attributable to changes in own credit risk is not material due to the short life of individual draw-downs within bank borrowings. The difference between the carrying amount and the amount expected to be paid at maturity is not material due to the short life of individual draw-downs within bank borrowings.

The Company pays a margin over and above LIBOR on bank borrowings. The margin is based on the ratio of Group consolidated net borrowings to Group consolidated adjusted EBITDA and could have varied between 1.35% and 1.9% during the year.

The Company has entered into interest rate swaps to receive interest at LIBOR and pay interest at fixed rates. At 31 December 2019, these consist of two £15.0m swap contracts expiring in August 2021 with a fixed interest rate of 0.96%, one £20.0m swap contract expiring in December 2020 with a fixed interest rate of 0.84% and two £10.0m swap contracts expiring in December 2020 with fixed interest rates of 0.84%. The swaps have quarterly maturity matching the underlying debt.

These instruments are used to mitigate the Company's exposure to any interest rate movements. The fair value of the interest rate swaps is a liability of £0.2m (2018: £0.1m).

During 2019, a hedging loss of £0.1m (2018: £nil) was recognised in other comprehensive income for changes in the fair value of the interest rate swap and £nil (2018: £0.3m) was reclassified from the hedge reserve to profit and loss.

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

Management monitors rolling forecasts of the Group and Company's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. The quantum of committed borrowing facilities of the Group and Company is regularly reviewed and is designed to exceed forecast peak gross debt levels. For short-term working capital purposes, the Group and Company utilise bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

Notes to the financial statements – Company continued

For the year ended 31 December 2019

10. SHARE CAPITAL AND RESERVES

	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.

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.

11. CAPITAL COMMITMENTS

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

12. CONTINGENT LIABILITIES

The Company has guaranteed that it will complete certain Group contracts that its subsidiaries have 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 Company had no other contingent liabilities at 31 December 2019 or at 31 December 2018.

13. PENSIONS

Defined contribution schemes

The Company contributes to personal pension schemes of the Directors.

Defined benefit scheme

The Company operates a defined benefit pension scheme for the benefit of certain employees of its subsidiary companies. The assets of the schemes are administered by trustees in a fund independent from the assets of the Company.

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed and updated to 31 December 2019 by a qualified independent actuary using the projected unit funding method.

13. PENSIONS CONTINUED

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 RPI with a cap of 5%	**2.85%**	3.05%
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	**20.7 years**	20.9 years
Life expectancy for a 65-year-old female	**23.8 years**	23.8 years

The amounts recognised in the Parent Company Balance Sheet and major categories of plan assets as a percentage of total plan assets are:

	2019 £'000	2018 £'000
Equities	**11,302**	7,721
Bonds	**8,512**	9,734
Cash	**1,158**	1,488
Group's estimated asset share	**20,972**	18,943
Present value of funded scheme liabilities	**(22,350)**	(19,987)
Funded status	**(1,378)**	(1,044)
Related deferred tax asset	**262**	198
Pension liability	**(1,116)**	(846)

The amounts recognised in the profit and loss account are as follows:

	2019 £'000	2018 £'000
Current service cost	**26**	36
Administration cost	**–**	–
Total operating charge	**26**	36
Net interest	**25**	58
Total charged to the result for the year	**51**	94

	2019 £'000	2018 £'000
Present value of obligations at 1 January	**19,987**	20,992
Current service cost	**26**	36
Interest on obligations	**582**	581
Plan participants' contributions	**5**	5
Benefits paid	**(518)**	(502)
Actuarial gain arising from changes in demographic assumptions	**(99)**	(430)
Actuarial gain/(loss) arising from changes in financial assumptions	**2,437**	(574)
Actuarial loss arising from liability experience	**(70)**	(121)
Present value of obligations at 31 December	**22,350**	19,987

Notes to the financial statements – Company continued

For the year ended 31 December 2019

13. PENSIONS CONTINUED

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

	2019 £'000	2018 £'000
Fair value of plan assets at 1 January	**18,943**	18,418
Expected return on plan assets	**557**	523
Employer's contributions	**399**	1,019
Plan participants' contributions	**5**	5
Benefits paid	**(518)**	(502)
Return on plan assets above that recorded in net interest	**1,586**	(520)
Fair value of plan assets at 31 December	**20,972**	18,943

The movements in the net pension liability and the amount recognised in the Balance Sheet are as follows:

	2019 £'000	2018 £'000
Deficit in schemes at 1 January	**(1,044)**	(2,574)
Current service cost	**(26)**	(36)
Contributions	**399**	1,019
Other finance cost	**(25)**	(58)
Actuarial gain arising from changes in demographic assumptions	**99**	430
Actuarial (loss)/gain arising from changes in financial assumptions	**(2,437)**	574
Actuarial loss arising from liability experience	**70**	121
Return on plan assets above that recorded in net interest	**1,586**	(520)
Deficit in schemes at 31 December	**(1,378)**	(1,044)

The employer's contributions expected to be paid during the financial year ending 31 December 2020 amount to £0.2m.

14. 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 13 to the consolidated financial statements.

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. Details of transactions are disclosed in note 36 to the consolidated financial statements.

Five-year record (unaudited)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUING ACTIVITIES)

	2019 (continuing) £'000	2018 (continuing) £'000	2017 (all activities) £'000	2016 (all activities) £'000	2015 (all activities) £'000
Revenue by business segment					
Housing	**905,084**	771,861	766,121	787,530	735,129
Care	**–**	–	134,063	152,570	146,010
Continuing activities	**905,811**	771,861	900,184	940,100	881,139
Gross profit	**218,210**	184,928	223,702	244,894	232,132
Operating profit before acquisition intangible amortisation and exceptional costs	**45,578**	39,093	39,151	41,850	38,662
Exceptional items	**(2,018)**	(5,657)	–	–	–
Operating profit	**33,438**	29,698	28,513	31,160	27,825
Profit for the year before tax	**25,201**	27,377	26,484	29,372	25,920
PBT before acquisition intangible amortisation and exceptional costs	**37,341**	36,772	37,122	40,062	36,757
Earnings per share					
Basic	**18.90p**	21.91p	20.28p	23.54p	20.31p
Diluted	**18.80p**	21.78p	20.10p	23.41p	20.10p
Normalised	**27.26p**	27.70p	28.05p	30.36p	27.94p
Dividends per share	**3.65p***	12.40p	12.00p	11.70p	11.00p

* Following the uncertainty surrounding COVID-19, the Board has agreed to defer any decision over the final 2019 dividend and therefore no amount is recognised for this within the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Non-current assets	**478,653**	304,549	264,567	262,263	258,201
Current assets	**282,977**	244,272	211,439	222,158	237,767
Current liabilities	**(250,297)**	(222,909)	(198,678)	(194,567)	(219,882)
Non-current liabilities	**(392,340)**	(115,632)	(67,738)	(91,180)	(84,458)
Total equity	**118,993**	210,280	209,590	198,674	191,628
Cash and cash equivalents, end of year	**(50,986)**	(65,904)	(25,789)	(12,374)	822

Shareholder and corporate information

FINANCIAL CALENDAR

Annual General Meeting
Date to be confirmed

Interim results announced
18 August 2020

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INTERNET

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

REGISTRAR

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

INVESTOR RELATIONS

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

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