Registration number: 02519234

Mears Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Mears Limited

Contents

Mears Limited

Company Information

Directors	D J Miles B R Westran C E Middlemass A C M Smith Mears Group PLC
Company secretary	B R Westran
Registered office	1390 Montpellier Court Gloucester Business Park Brockworth Gloucester GL3 4AH
Solicitors	BPE St James' House St James' Square Cheltenham Gloucestershire GL50 3PR
Bankers	Barclays Bank PLC Corporate Banking 4th Floor Bridgwater House Counterslip, Finzels Reach Bristol BS1 6BH
Auditors	Grant Thornton UK LLP Chartered Accountants 30 Finsbury Square London EC2A 1AG

Mears Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Fair review of the business
The Company has delivered a pleasing financial performance with revenue of £549,913,000 (2018: £491,069,000), an increase of 12% reflecting the mobilisation of the Asylum Accommodation and Support Contract ('AASC'), which has accelerated throughout the second half year.

The Directors are pleased with the progress made by the business. We have positioned ourselves to provide a broader service offering to a market where we are seeing an increasing blurring of the boundaries between social, affordable and private rented housing. Whilst we have increased the depth and breadth of our capabilities, we place particular emphasis upon ensuring that our wide spectrum of core skills is entwined within the single operating unit, which is important given the increasingly complex housing challenges being faced by our clients.

The three AASC contracts awarded to the Company were fully mobilised by the year end and contributed £48.8m of revenue in 2019, and the Directors continue to anticipate that these contracts will deliver annual revenues of at least £100m per year for the next ten years, delivering a 5% to 6% margin. The transitional phase of the AASC contract is expected to continue until March 2020 after which the Company expects the AASC contracts to have reached steady-state. The Company expects future opportunities outside the scope of these contracts to arise in the future.

During the year, the Company acquired certain business assets from Live Estates Limited, a property management company for consideration of £1.3m in cash, which provided the Company access to around 125 landlords and 680 properties within the North East region of the AASC contract. As a result of this transaction, an intangible asset of £1.3m was recognised in respect of the supplier relationships acquired.

These Financial Statements are the first to be prepared since the mandatory requirements of IFRS 16 'Leases' were introduced. The impact of this new accounting standard is outlined in Note 2 to these Financial Statements.

The Directors anticipate that the Group's broad service offering will be a key driver for winning new work in future and consider that the Company is well positioned as a leading provider of housing management services to the public sector.

The company's key financial and other performance indicators during the year were as follows:

	Unit	2019	2018
"Excellent" service rating	%	94.00	93.00
Customer complaints as a percentage of jobs	%	0.24	0.25
Revenue growth	%	12.00	(5.00)
Operating margin	%	4.60	2.90

"Excellent" service rating

In order for customers to recommend us, we must deliver excellent service. We randomly conduct a number of customer surveys each year. We achieved a rating of "excellent" in 94% of cases in 2019 (2018: 93%).

Customer complaints as a percentage of jobs

Incidents resulting from poor service result in a complaint. We are committed to dealing with all complaints on an individual basis. We reduced our complaints level to 0.24% in 2019 (2018: 0.25%).

Revenue increase

Revenue represents the amounts due for goods and services provided during the year. The increase for 2019 of 12% (2018: decline 5%) arose primarily due to the affects of the commencement of the AASC contract, especially during the second half year.

Operating margin

Our operating margin of 4.7% (2018: 2.9%) reflects the contribution from the AASC contract and the cost savings secured from the right sizing of the Group's support function.

Risk management objectives and policies

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

Macro economy

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

Reputation

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

Liquidity

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

Risks arise from short term cash flow movements and renewal risk on maturity of facilities. The Company is part of a Group banking facility. The facility has currently been agreed until November 2022.

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

Business retention and new business

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

Integrity, ethics, anti-bribery and corruption

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

Strategic Report for the Year Ended 31 December 2019 (continued)

Section 172 statement

The Directors of the Company 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 Directors recognise a wide range of stakeholder interests and seek 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.

Our employees are fundamental to meeting our strategic priorities. We aim to be a responsible employer in our approach to the pay and benefits that our employees receive and have implemented strong governance.

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 throughout the business.

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. 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 Company takes a strategic approach to corporate social responsibility and embeds it into every area of our business.

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

Approved by the Board on 22 May 2020 and signed on its behalf by:

Ben Westran

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B R Westran

Company secretary and director

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Directors' of the company

The directors, who held office during the year, were as follows:

D J Miles

B R Westran - Company secretary and director

C E Middlemass

A C M Smith

Mears Group PLC

G R Eden (resigned 31 March 2019)

Principal activity

The principal activity of the company is the provision of a full housing management service, predominately to Local Authorities and other Registered Providers of Social Housing.

Risk management

Objectives and policies

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

Risks

The Company is part of a group which has a single approach to managing risk. The Group-wide risk management process is set out in more detail in the Corporate Governance Statement of the Group financial statements. Details of specific risks faced by the Company are set out in the Strategic Report.

Employment of disabled persons

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

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

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

Employee involvement

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

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

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

Creditor payment policy

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

Trade creditors at the year-end amounted to 54 days of average supplies for the year (2018: 57 days).

Directors' Report for the Year Ended 31 December 2019 (continued)

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

After making enquiries, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future.

However, the uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the Company's adoption of the going concern basis. The company has completed an assessment as to the impact to the Company 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 recognition, non-productive labour costs and changes in working capital. This scenario is currently considered unlikely; however, it is difficult to predict the overall outcome and impact of COVID-19 at this stage. The Directors believe that in this most severe downside scenario, there is a risk that the Company's funding requirement could exceed its existing committed debt facilities and therefore concluded that in this scenario there is a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

The Company also completed an assessment of what is considered the most likely impact of COVID-19, which incorporated a number of mitigating actions, together with the benefit of reliefs made available from the Central Government including furloughing of employees and a deferral of the settlement of VAT liabilities. The most likely impact shows the Company's existing 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 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 the Company 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 Company were unable to continue as a going concern.

Directors' liabilities
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.

Disclosure of information to the auditors
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors
Grant Thornton UK LLP are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continued in force under the Companies Act 2006.

Approved by the Board on 22 May 2020 and signed on its behalf by:

Ben Westran

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B R Westran
Company secretary and director

Mears Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Strategic Report, Directors' Report and financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

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

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

Independent Auditor's Report to the Members of Mears Limited

Opinion

We have audited the financial statements of Mears Limited (the 'Company') for the year ended 31 December 2019, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, 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 their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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, 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 macro-economic uncertainties 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 macro-economic uncertainties such as Covid-19 and 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 company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their 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 company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Material uncertainty related to going concern

We draw attention to the Basis of preparation in 'Principal accounting policies' to the financial statements on page 17, 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 Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

Independent Auditor's Report to the Members of Mears Limited (continued)

We have nothing to report in this regard.

Opinions on other matters prescribed by 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors in preparation of the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 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 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.

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.

Independent Auditor's Report to the Members of Mears Limited (continued)

Grant Thornton UK LLP

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Elizabeth Collins
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
London

22 May 2020

Mears Limited

Profit and Loss Account for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	4	549,913	491,069
Cost of sales		(418,893)	(370,022)
Gross profit		131,020	121,047
Administrative expenses		(103,891)	(103,597)
Exceptional items	5	(1,673)	(3,503)
Operating profit	6	25,456	13,947
Interest payable by group undertakings		2,369	1,849
Other interest receivable and similar income	7	190	3,273
Interest payable and similar charges	8	(5,069)	(3,676)
Profit before tax		22,946	15,393
Tax on profit on ordinary activities	12	(2,851)	(3,744)
Profit for the year		20,095	11,649

The above results were derived from continuing operations.

Mears Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Profit for the year		20,095	11,649
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations (net)	22	(931)	375
Total comprehensive income for the year		19,164	12,024

The notes on pages 17 to 50 form an integral part of these financial statements.

Mears Limited

(Registration number: 02519234)
Balance Sheet as at 31 December 2019

	Note	31 December 2019 £ 000	(As restated) 31 December 2018 £ 000
Fixed assets			
Intangible assets	16	9,447	10,377
Tangible assets	15	12,376	11,379
Investments	17	7,883	7,883
Right of use assets	14	77,866	-
Pension guarantee assets	22	7,978	5,447
		115,550	35,086
Current assets			
Inventories	18	4,849	4,166
Debtors	19	191,789	172,731
Cash at bank and in hand		21,954	14,094
		218,592	190,991
Creditors: Amounts falling due within one year			
Trade and other payables	20	(118,173)	(95,181)
Loans and borrowings	21	(22,965)	(309)
Creditors: Amounts falling due within one year		(141,138)	(95,490)
Net current assets		77,454	95,501
Total assets less current liabilities		193,004	130,587
Creditors: Amounts falling due after more than one year			
Loans and borrowings	21	(56,676)	(892)
Other non-current financial liabilities		-	(2,000)
Amounts owed to related parties		(122,411)	(118,545)
Provisions for liabilities	13	-	(121)
Net assets excluding pension asset/(liability)		13,917	9,029
Net pension liability	22	(11,640)	(7,095)
Net assets		2,277	1,934
Capital and reserves			
Called up share capital	27	-	-
Profit and loss account		2,277	1,934
Shareholders' funds		2,277	1,934

Approved by the Board on 22 May 2020 and signed on its behalf by:

The notes on pages 17 to 50 form an integral part of these financial statements.

(Registration number: 02519234)
Balance Sheet as at 31 December 2019 (continued)

Andrew Smith

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A C M Smith
Director

Mears Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	-	1,934	1,934
Change in accounting policy	-	(821)	(821)
At 1 January 2019 (As restated)	-	1,113	1,113
Profit for the year	-	20,095	20,095
Other comprehensive income	-	(931)	(931)
Total comprehensive income	-	19,164	19,164
Dividends	-	(18,000)	(18,000)
At 31 December 2019	-	2,277	2,277

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	-	12,573	12,573
Change in accounting policy	-	(22,663)	(22,663)
At 1 January 2018 (As restated)	-	(10,090)	(10,090)
Profit for the year	-	11,649	11,649
Other comprehensive income	-	375	375
Total comprehensive income	-	12,024	12,024
At 31 December 2018	-	1,934	1,934

The notes on pages 17 to 50 form an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The company is a private company limited by share capital, incorporated and domiciled in United Kingdom.

The address of its registered office is:
1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester
GL3 4AH

These financial statements were authorised for issue by the Board on 22 May 2020.

2 Accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with applicable accounting standards, including FRS 101, and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis. The financial statements are presented in Sterling (£).

Impact of COVID-19

The uncertainty as to the future impact on the Company of the recent COVID-19 outbreak has been considered as part of the Company's adoption of the going concern basis. The Directors completed an assessment as to the impact to the Company 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 Directors believe that in this most severe downside scenario, there is a risk that the Company's funding requirement could exceed its existing committed debt facilities.

Only the specific downside scenario would indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Company was unable to continue as a going concern. On this basis, the Directors are satisfied that the Company 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 Company's 2019 financial statements.

2 Accounting policies (continued)

Summary of disclosure exemptions

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019. The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) The requirements of IFRS 2 Share-based Payments;
b) The requirements of IFRS 3 Business Combinations;
c) The requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
d) The requirements of IFRS 7 Financial Instruments: Disclosures;
e) The requirements of IFRS 13 Fair Value Measurement;
f) The requirements of IFRS 15 Revenue from Contracts with Customers;
g) The requirements of IFRS 16 Leases;
h) The requirements of paragraph 58 of IFRS 16;
j) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
(iii) paragraph 118(e) of IAS 38 Intangible Assets;
j) The requirements of IAS 1 Presentation of Financial Statements;
k) The requirements of IAS 7 Statement of Cash Flows;
l) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
m) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
n) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
o) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

2 Accounting policies (continued)

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 Balance Sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Company accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Company'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 the Profit and loss account.

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 Company 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.

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 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. None of the Company'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.

2 Accounting policies (continued)

Contracting

For contracting projects, the contract states the scope and specification of the construction works to be carried out, for a fixed price. The Company 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 Company. 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 a point in time, rather than over time.

Variable consideration

The Company's 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 judgements of customers or third parties, the length of time expected before resolution of the uncertainty and the Company's previous experience of similar contracts.

Property income

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

Where the Company is providing a management service, the Company 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 Company 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 Company's other variable consideration.

Where the Company 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 Company 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 4.

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.

2 Accounting policies (continued)

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.

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

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

Tax
The tax expense for the period comprises current and deferred tax.

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 Profit and Loss Account, any related tax generated is recognised as a component of tax expense in the Profit and Loss Account. Where an item is recognised directly to equity or presented within the Profit and Loss Account, 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 Profit and Loss Account, the 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.

Tangible assets
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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Profit and loss account during the financial period in which they are incurred.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Leasehold property improvements	over the period of the lease
Plant and machinery	25% per annum, reducing balance
Motor vehicles	25% per annum, reducing balance
Fixtures and fittings	20% per annum, straight line
Equipment	25% per annum, reducing balance

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 Company 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.

2 Accounting policies (continued)

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 Company 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 Company. 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 Company are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Company recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are amortised over the useful economic life of those assets.

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

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

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

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

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

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

Amortisation

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.

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Software development expenditure	20% per annum, straight line
Software	25% per annum, reducing balance
Other intangibles	20% per annum, straight line

2 Accounting policies (continued)

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Company'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.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit and loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the Directors, not exceeding its useful economic life. It has been deemed, however, that non amortisation of goodwill is a required departure from the requirements of the Companies Act 2006 for the overriding purpose of giving a true and fair view.

Under the business combinations exemption of IFRS 1, goodwill previously written off directly to reserves under FRS 101 is not recycled to the Profit and Loss Account on calculating a gain or loss on disposal.

Impairment

For the purposes of assessing impairment, assets are tested individually.

Goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets 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 Profit and Loss Account for the amount by which the asset'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 evaluation. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Investments

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Inventories

Inventory is stated at the lower of cost and net realisable value (NRV). Cost is the actual purchase price of materials. NRV is the estimated selling price in the ordinary course of business less applicable selling expenses.

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.

2 Accounting policies (continued)

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 contracts that cannot be matched with contract work accounted for as revenue. 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.

Trade receivables

Trade receivables represent amounts due from customers in respect of invoices. 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.

Leased assets

From 1 January 2019, where an asset is subject to a lease, the Company 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 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 Company'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 Company 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.

Defined contribution pension obligation

The Company operates a defined contribution pension scheme for employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an independent entity. The Company 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 Company in an independently administered fund.

2 Accounting policies (continued)

Defined benefit pension obligation

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

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

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

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

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

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

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

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Share capital

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

Reserves

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

Profit and loss account includes all current and prior period retained profits and losses.

2 Accounting policies (continued)

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

The Company participates in equity-settled share based remuneration plans operated by its parent undertaking, Mears Group PLC, for its employees. All employee services received in exchange for the grant of any share based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Black Scholes Option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period to satisfy service conditions. For 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.

Share based remuneration is recharged by the parent undertaking and recognised as an expense in the Profit and Loss Account.

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

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

Mears Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Financial assets and liabilities

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

Financial assets, loans and receivables

The 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 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 Company'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.

Under IFRS 9, the Company 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 Profit and Loss Account.

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.

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

2 Accounting policies (continued)

Financial Liabilities
The Company's financial liabilities are overdrafts, trade and other payables including accrued expenses, and amounts owed to Group companies.

All interest related charges are recognised as an expense in 'Interest payable and similar charges' in the Profit and Loss Account 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 Profit and Loss Account.

Changes resulting from adoption of IFRS 16

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 Company 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 Company 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 2.25%.

2 Accounting policies (continued)

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 £443,421. Moving forward, it is expected to have a neutral impact in respect of operating profit.

The Company recognised lease liabilities in relation to leases that were classified as 'operating leases" under the principles of IAS 17 - Leases. On transition, an additional £45,324,840 (2018 - £Nil) of right-to-use assets and £46,334,678 (2018 - £Nil) of lease liabilities were recognised with the difference allocated to retained earnings.

	As originally reported 31 December 2018 £ 000
Operating lease commitments at 31 December 2018	46,439
Recognition exemption for short-term leases	569
Operating leases not previously recognised	10,126
Operating lease liabilities before discounting	57,134
Operating lease commitments discounted using the above rate	(12,001)
Operating lease liabilities	45,133
Finance lease obligations	1,201
Lease liabilities recognised at 1 January 2019	46,334

3 Critical accounting judgements and key sources of estimation uncertainty

In the preparation of these 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 and other similar evaluations. Actual amounts could differ from those estimates.

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.

Leases

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.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Defined benefit pension scheme
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 actual scheme assets and the values will be updated to actuals each time a triennial valuation takes place.

Defined benefit liabilities
A number of key estimates have been made, which are given below, and which are largely dependent on factors outside the control of the Group:
• inflation rates;
• mortality;
• discount rate; and
• salary and pension increases.

Details of the particular estimates used are included in the pensions note. Sensitivity analysis for these key estimates is included in note 22.

Where the Company 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 Company's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Company causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The Directors have made judgements in respect of whether any of the deficit is as a result of such situations.

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

Impairment of goodwill
Determining whether goodwill is impaired requires an estimate of the value in use to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the goodwill 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. Changes in the estimated growth rate could result in variations to the carrying value of goodwill. The estimated cash flows and future growth rates are based on past experience and knowledge of the sector. The value in use is most sensitive to changes in the terminal growth rate, the explicit growth rate and the discount rate. The sensitivity to changes in these estimations is detailed in note 15.

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 recovery of pre-contract costs, changes in the scope of work and changes in costs. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract.

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 Company utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Deferred consideration

Acquisitions occasionally give rise to liabilities relating to contingent consideration agreed as part of an acquisition. The Directors assess the fair value of the contingent consideration based on the present value of the expected consideration to be paid calculated according to the terms of the share purchase agreement.

4 Revenue

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

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

	2019 £ 000	2018 £ 000
Revenue from contracts with customers		
Schedule of rates contracts	258,409	144,486
Contracting and variable consideration	102,440	163,368
Lump sum contracts	87,062	116,145
Property income	98,012	63,922
Professional services	645	-
Other	335	-
	546,903	487,921
Lease income	3,010	3,148
	549,913	491,069

Schedule of rates 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. Payment terms for revenue invoiced is typically 30 to 60 days from the date of invoice.

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).

5 Exceptional items

Exceptional items comprise £1,673,000 in respect of exceptional legal costs in connection with a property lease. Prior year exceptional items of £3,503,000 comprised restructuring costs relating to the rationalisation of the Group's central services and largely comprising non-recurring staff costs (£1,431,000), costs in respect of the acquisition of MPM Housing Limited and MPS Housing Limited (£524,000) and exceptional legal costs in respect of a property lease (£1,548,000).

Mears Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Operating profit

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation on fixed assets	3,189	2,915
Depreciation on right of use assets	9,884	-
Amortisation expense	3,932	3,232
Share based payment	400	552
Loss on disposal of property, plant and equipment	89	34

7 Interest receivable and similar income

	2019 £ 000	2018 £ 000
Interest income on bank deposits	-	8
Dividend income	-	3,250
Other finance income	190	15
	190	3,273

8 Interest payable and similar expenses

	2019 £ 000	2018 £ 000
Interest paid to group undertakings	3,513	3,656
Other finance costs	57	20
Interest expense on leases	1,499	-
	5,069	3,676

9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	96,406	87,228
Social security costs	8,899	8,252
Other pension costs	4,741	3,293
	110,046	98,773

9 Staff costs (continued)

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Administration and support	1,159	1,062
Other departments	2,077	2,156
	3,236	3,218

10 Directors' remuneration

The directors' remuneration for the year was as follows:

No Directors' remuneration was incurred during the period as all Statutory Directors were remunerated by Mears Group PLC.

11 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	68	40

12 Income tax

Tax charged/(credited) in the profit and loss account

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	2,724	(759)
UK corporation tax adjustment to prior periods	-	(231)
	2,724	(990)
Deferred taxation		
Arising from origination and reversal of temporary differences	142	4,734
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(15)	-
Total deferred taxation	127	4,734
Tax expense in the profit and loss account	2,851	3,744

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Income tax (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - the same as the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	22,946	15,393
Corporation tax at standard rate	4,360	2,925
Decrease in current tax from adjustment for prior periods	(15)	(231)
Increase (decrease) from effect of capital allowances depreciation	414	95
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	(176)	(1,097)
Tax decrease from utilisation of tax losses	-	(263)
Increase (decrease) from effect of exercise employee share options	76	103
Increase (decrease) arising from group relief tax reconciliation	(1,821)	2,443
Deferred tax credit relating to changes in tax rates or laws	-	(10)
Increase (decrease) from changes in pension fund prepayment	13	(221)
Total tax charge	2,851	3,744

Mears Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13 Deferred tax

Deferred tax asset and liabilities

	Accelerated capital allowances £ 000	Other short term timing differences £ 000	Pension scheme £ 000	Acquisition intangibles £ 000	IFRS 16 £ 000	Total £ 000
At 1 January 2018	196	-	289	-	-	485
At 1 January 2018 (As restated)	-	-	-	-	-	-
Deferred tax charge in profit and loss account						
- On origination and reversal of timing differences	100	306	111	(121)	-	396
Deferred tax charge in other comprehensive income						
- On origination and reversal of timing differences	-	-	(87)	-	-	(87)
At 1 January 2019	296	306	313	(121)	-	794
At 1 January 2019 (As restated)	-	-	-	-	-	-
Deferred tax charge in profit and loss account						
- On origination and reversal of timing differences	(250)	(144)	166	121	172	65
Deferred tax charge in other comprehensive income						
- On origination and reversal of timing differences	-	-	218	-	-	218
At 31 December 2019	46	162	697	-	172	1,077

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

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

14 Right of use assets

	Equipment £ 000	Property £ 000	Investment property £ 000	Vehicles £ 000	Total £ 000
Cost or valuation					
At 1 January 2019	119	27,987	-	17,219	45,325
Additions	86	21,158	24,293	2,644	23,888
At 31 December 2019	205	49,145	24,293	19,863	69,213
Depreciation					
Charge for the year	69	5,645	1,517	8,409	14,123
At 31 December 2019	69	5,645	1,517	8,409	14,123
Carrying amount					
At 31 December 2019	136	43,500	22,776	11,454	55,090

Investment property included above represents properties held by the Company primarily to earn rentals, rather than for use in the Company'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.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Tangible assets

	Leasehold improvements £ 000	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation					
At 1 January 2019	11,736	23,784	494	1,992	38,006
Additions	1,822	2,409	8	34	4,273
Disposals	-	(2,875)	-	(435)	(3,310)
At 31 December 2019	13,558	23,318	502	1,591	38,969
Depreciation					
At 1 January 2019	8,213	16,294	489	1,631	26,627
Charge for the year	891	2,199	3	96	3,189
Eliminated on disposal	-	(2,794)	-	(429)	(3,223)
At 31 December 2019	9,104	15,699	492	1,298	26,593
Carrying amount					
At 31 December 2019	4,454	7,619	10	293	12,376
At 31 December 2018	3,523	7,490	5	361	11,379

16 Intangible assets

	Goodwill £ 000	Software £ 000	Internally generated software development costs £ 000	Acquisition intangibles £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation						
At 1 January 2019	8,242	5,785	16,565	666	224	31,482
Additions	-	24	1,680	1,300	-	3,004
Disposals	(123)	(57)	-	-	(224)	(404)
At 31 December 2019	8,119	5,752	18,245	1,966	-	34,082
Amortisation						
At 1 January 2019	6,228	3,897	10,728	28	224	21,105
Amortisation charge	-	957	2,120	855	-	3,932
Amortisation eliminated on disposals	(123)	(55)	-	-	(224)	(402)
At 31 December 2019	6,105	4,799	12,848	883	-	24,635
Carrying amount						
At 31 December 2019	2,014	953	5,397	1,083	-	9,447
At 31 December 2018	2,014	1,888	5,837	638	-	10,377

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

Amortisation of intangible assets is included within other operating charges.

Goodwill represents the excess of purchase price over net assets in respect of the acquisition of a number of social housing businesses. Other intangibles represents intellectual property.

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

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 is carried at cost less accumulated impairment losses.

An asset is impaired if its carrying value exceeds the recoverable amount, which is based upon value in use. At 31 December 2019 impairment reviews were performed by comparing the carrying value with the value in use.

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Intangible assets (continued)

Budgeted operating profits during the budget period are estimated by reference to the operating margin achieved in the period leading up to the start of the budget period, flexed for known changes in either the pricing mechanism or the cost base at a contract level. There is no inclusion of any anticipated efficiency improvements which have not been formally committed to before the year end.

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

17 Investments

Subsidiaries	**£ 000**
Cost or valuation	
At 1 January 2019	7,883
At 31 December 2019	7,883
Provision	
Carrying amount	
At 31 December 2019	7,883

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

17 Investments (continued)

Details of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2019	2018
Mears Home Improvement Limited	Home improvement agency	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary A	100%	100%
Mears Learning Limited	Training provider	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary A	90%	90%
Mears New Homes Limited	Building contractor	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary	90%	90%
MPM Housing Limited	Support services	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary A	100%	100%
MPS Housing Limited	Maintenance services	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary	100%	100%
Plexus UK (First Project) Limited	Housing management services	1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH	Ordinary	100%	100%

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

At 31 December 2019 the Company also held an interest in the entire issued ordinary share capital of the following dormant companies:

Mears Scotland (Housing) Limited, Mears Wales Limited, Mears Social Housing Limited, Mears Energy Limited, Laidlaw Scott Limited, Helcim Group Limited, Helcim Homes Limited and Jackson Lloyd Limited. All subsidiaries are incorporated in the United Kingdom.

18 Inventories

	31 December 2019 £ 000	31 December 2018 £ 000
Raw materials and consumables	4,849	4,166

The cost of stock recognised as an expense in the year amounted to £418,894,000 (2018 - £370,022,000). This is included within cost of sales.

19 Trade and other debtors

	31 December 2019 £ 000	31 December 2018 £ 000
Trade debtors	17,508	20,165
Debtors from related parties	97,587	88,743
Prepayments	4,568	4,923
Other debtors	1,761	3,050
Contract assets	68,843	53,966
Income tax asset	446	969
Deferred tax assets	1,076	915
	191,789	172,731

Details of non-current trade and other debtors

£97,587,000 (2018: £88,743,000) of debtors from related parties is classified as non current.

£1,076,000 (2018: £915,000) of deferred tax asset is classified as non current.

20 Trade and other creditors

	31 December 2019 £ 000	31 December 2018 £ 000
Trade creditors	70,412	63,156
Accrued expenses	29,522	19,821
Amounts due to related parties	1,134	-
Social security and other taxes	15,031	8,147
Other creditors	2,074	3,444
Due to customers for non-construction contract work	-	613
	118,173	95,181

21 Loans and borrowings

	31 December 2019 £ 000	31 December 2018 £ 000
Non-current loans and borrowings		
Hire purchase contracts	469	892
Lease liabilities	56,207	-
	56,676	892

21 Loans and borrowings (continued)

	31 December 2019 £ 000	31 December 2018 £ 000
Current loans and borrowings		
Hire purchase contracts	568	309
Lease liabilities	22,397	-
	22,965	309

The above lease liabilities relate to the right of use assets in note 14 as accounted for under IFRS 16.

22 Pension and other schemes

Defined benefit plans

The Company participates in a pension scheme arrangement where the Company's parent, Mears Group PLC (the 'Group'), is the principle employer and where contributions are made to separately administered funds. The assets of the schemes are administered by trustees in funds independent from the assets of the Company.

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 total deficit in the scheme as at 31 December 2019 was £15,045,000 (2018 £1,044,000)

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

Contributions payable to the pension scheme at the end of the year are £Nil (2018 - £Nil).

The expected contributions to the plan for the next reporting period are £1,067,000.

The scheme was most recently valued on 31 December 2019. Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed on TUPE transfers and updated to 31 December 2019 by qualified independent actuary using the projected unit method.

22 Pension and other schemes (continued)

Principal actuarial assumptions

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

	31 December 2019 %	31 December 2018 %
Discount rate	2.10	2.95
Future salary increases - first two years	2.90	3.15
Future salary increases - long term	2.90	3.15
Future pension increases - capped at 5% based on RPI	2.85	3.05
Future pension increases - capped at 3% based on RPI	2.35	2.45
Future pension increases - capped at 5% based on CPI	1.95	2.20
Future pension increases - capped at 3% based on CPI	1.75	1.90
RPI inflationary growth	2.90	3.15
CPI inflationary growth	1.90	2.15
Future salary increases - first year	2.90	2.00

Post retirement mortality assumptions

	31 December 2019 Years	31 December 2018 Years
Current UK pensioners at retirement age - male	22.50	22.40
Current UK pensioners at retirement age - female	24.70	24.80
Future UK pensioners at retirement age - male	24.50	24.30
Future UK pensioners at retirement age - female	26.80	26.90

Mears Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	31 December 2019 £ 000	31 December 2018 £ 000
Fair value of scheme assets	108,700	131,466
Present value of scheme liabilities	(117,830)	(135,792)
	(9,130)	(4,326)
Scheme surpluses not recognised as assets	(2,510)	(2,769)
Defined benefit pension scheme deficit	(11,640)	(7,095)
Related deferred tax asset	696	313
Net pension deficit	(10,944)	(6,782)
Pension guarantee assets	7,978	5,447

Scheme assets

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

	31 December 2019 £ 000	31 December 2018 £ 000
Fair value at start of year	136,913	149,320
Net interestu	2,865	3,873
Actuarial gain	14,384	(10,646)
Employer contributions	1,067	1,139
Contributions by scheme participants	491	511
Benefits paid	(1,590)	(3,037)
Settlements	-	(1,828)
Acquisitions/business combinations	(37,278)	-
Contract transfer	(174)	(2,419)
Fair value at end of year	116,678	136,913

Mears Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2019 £ 000	31 December 2018 £ 000
Equity	67,995	82,400
Bonds	26,326	29,958
Property	4,823	4,685
Other	9,556	14,423
Company's estimated asset share	108,700	131,466
Guarantees	7,978	5,447
Pension asset	116,678	136,913

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

Scheme liabilities

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

	31 December 2019 £ 000	31 December 2018 £ 000
Present value at start of year	135,792	130,131
Current service cost	1,740	1,936
Past service cost	141	-
Interest cost	2,850	3,811
Actuarial loss	15,684	(7,833)
Contributions by scheme participants	491	511
Benefits paid	(1,590)	(3,037)
Settlements & curtailments	-	(2,062)
Acquisitions/business combinations	(37,278)	-
Contract transfer	-	12,335
Present value at end of year	117,830	135,792

Mears Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Pension and other schemes (continued)

Amounts recognised in the income statement

	31 December 2019 £ 000	31 December 2018 £ 000
Amounts recognised in operating profit		
Current service cost	1,740	1,936
Past service cost	141	-
Gains on curtailments and settlements	-	(234)
Recognised in arriving at operating profit	1,881	1,702
Amounts recognised in finance income or costs		
Interest on obligation	(15)	(62)
Total recognised in the income statement	1,866	1,640

Amounts taken to the Statement of Comprehensive Income

	31 December 2019 £ 000	31 December 2018 £ 000
Actuarial gains and losses arising from changes in financial assumptions	(15,015)	8,630
Return on plan assets, excluding amounts included in interest income/(expense)	13,715	(11,443)
Actuarial gain on TUPE transfer of employees	-	(14,754)
Effect of limitation on surplus recognition	(2,438)	(2,688)
Reversal of previously unrecognised surplus	2,688	20,711
Amounts recognised in the Statement of Comprehensive Income	(1,050)	456

22 Pension and other schemes (continued)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

		31 December 2019			31 December 2018	
	+ 0.1%	0.0%	- 0.1%	+ 0.1%	0.0%	- 0.1%
Adjustment to discount rate	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	(2,858)	-	2,775	(538)	-	764

		31 December 2019			31 December 2018	
Adjustment to rate of inflation	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000
Present value of total obligation	2,860	-	(2,795)	(936)	-	526

		31 December 2019			31 December 2018	
Adjustment to rate of salary growth	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000
Present value of total obligation	577	-	(558)	122	-	(127)

		31 December 2019			31 December 2018	
Adjustment to mortality age rating assumption	+ 1 Year £ 000	None £ 000	- 1 Year £ 000	+ 1 Year £ 000	None £ 000	- 1 Year £ 000
Present value of total obligation	4,120	-	(4,120)	1,148	-	(721)

23 Dividends

	31 December 2019 £ 000	31 December 2018 £ 000
Final dividend of £18,000,000.00 (2018 - £Nil) per ordinary share	18,000	-

24 Contingent liabilities

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

The Company has made guarantees that it will complete certain contracts. The value of these commitments at 31 December 2019 was £10.9m (2018: £10.9m).

25 Parent and ultimate parent undertaking

The company's immediate parent is Mears Group PLC by virtue of its 100% shareholding.

The most senior parent entity producing publicly available financial statements is Mears Group PLC. These financial statements are available upon request from The Company Secretary, Mears Group PLC, 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH.

26 Related party transactions

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

Summary of transactions with joint ventures
During the year, the Company made sales of £nil (2018: £16,000) to YourMK LLP, an entity in which the Company has a 50% interest.

Summary of transactions with other related parties
During the year, the Company made sales of £49,000 (2018: £11,000) to Manchester Working Limited, an entity in which Mears Group PLC has an 80% beneficial interest via its 100% owned subsidiary, Morrison Facilities Services Limited. At the year end, the Company was owed £500,000 by Manchester Working Limited (2018: £596,000).

27 Share capital

Allotted, called up and fully paid shares

	31 December 2019		31 December 2018	
	No.	£	No.	£
Ordinary shares of £1 each	100	100	100	100

28 Restatement of prior year Balance Sheet

The Company 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 Balance Sheet.

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

Balance sheet as at 31 December 2018	**As restated £ 000**	**As originally presented £ 000**
Fixed assets		
Pension guarantee assets	5,447	-
Non-current liabilities		
Pension (liability)/asset	(7,095)	(1,648)
Net pension (liability)/assets	(1,648)	(1,648)

29 Non adjusting events after the financial period

Since early 2020, the Covid-19 outbreak has increasingly impacted on businesses across the world. Whilst it is too early to determine the consequences of the outbreak on the Company, the Directors are confident that the Company has put in place the correct measures to ensure the Company's future.