RNS Number : 3788W
Mears Group PLC
18 August 2020

FINAL

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

Interim Results for the six months ended 30 June 2020

Mears Group PLC, the leading provider of services to the Housing sector in the UK, announces its financial results for the period ended 30 June 2020.

Key highlights

- The Group adapted quickly to new methods for managing the business, benefiting from prior years investment in people, customer relationships and IT systems
- Good operational and service-level performance in the first six months under challenging conditions
- ***Maintenance:***
    - Covid-19 required many Maintenance contracts to move to an emergency-only basis resulting in short-term reduction in volumes, revenues and profits
    - Interim customer arrangements reduced much of the financial risk and provided consistency of contract cashflows
    - Tendering processes for new maintenance contracts were impacted by Covid-19, however new contracts were secured to the value of £120m, a win rate (by value) of over 80%
- ***Management:***
    - Revenues largely unaffected by Covid-19 and increased 54% driven by the new AASC contract
- Group order book stands at £2.7bn (2019: £2.7bn), reflecting a number of new contract extensions
- Completed disposal of the England and Wales Domiciliary Care business, in line with the stated strategy
- The Company increased facilities from £170.0m to £192.7m as a precaution. Headroom remains satisfactory with average net debt in the period of £121.m (2019: £110.7m)
- The Board believes that it is inappropriate to declare an interim dividend. It remains the Board's intention to return to a progressive dividend policy once it is confident that activity and working practices have returned to normal

Financial highlights

	Six months to June 2020	Six months to June 2019
Revenue	**£407.0m**	£439.2m
Operating (loss) / profit*	**(£6.7m)**	£18.1m
Adjusted operating (loss) / profit**	**(£1.0m)**	£22.7m
Statutory diluted EPS*	**(8.98p)**	8.78p
Normalised diluted EPS**	**(4.28p)**	11.99p
Interim dividend per share	**-**	3.65p
Average daily net debt	**£121.2m**	£110.7m

* Continuing operations
** Continuing operations; stated before amortisation of acquisition intangibles. The normalised diluted EPS measure is further adjusted to reflect a full tax charge.

Outlook

- ***Maintenance:***
    - Recovery in activity levels expected during the second half, as working arrangements progressively return towards more normal levels.
- ***Management:***
    - Levels of demand to remain strong, with some easing in the operational challenges.
- The Board continues to evaluate Mears' portfolio of businesses, and where assets are seen as peripheral to the Group's core strategy of providing services to the Housing sector in the UK, actions are being taken in order to deliver the best financial return for shareholders, and accelerate the Board's stated desire to see a reduction in debt levels.
- The Group is progressing well with its planned disposal of its the Scotland Domiciliary Care business and expects to complete the disposal during 2020.
- While the Covid crisis has impacted short-term financial performance, the business remains resilient, volumes are returning and win rates are healthy.

David Miles, Chief Executive Officer of the Group, commented:

"The Mears' business has acted with a great sense of responsibility and professionalism during the Covid-19 pandemic, both in terms of ensuring the ongoing resilience of our operations and supporting the Communities where we work. Our people have performed valiantly in the most challenging of circumstances. Service quality levels to our local and central government clients, and to our many vulnerable service users, have remained at their traditionally high levels throughout the period. Inevitably, the Covid-19 crisis has impacted short-term financial performance in these results, particularly as Maintenance contract volumes reduced to emergency-only to protect the safety of staff and service users alike.

"Activity levels are returning to normal, and I am very confident as to the financial stability and the long-term wellbeing of the Group. The Group has taken positive and considered actions during the Covid-19 period to ensure that the Group is stronger than ever and well positioned once the UK sees a return towards normality."

For further information, contact:

Mears Group PLC

David Miles, Chief Executive Officer	Tel: +44(0)7778 220 185
Andrew Smith, Finance Director	Tel: +44(0)7712 866 461
Alan Long, Executive Director	Tel: +44(0)7979 966 453
Joe Thompson, Investor Relations	Tel: +44(0)7980 844 580

www.mearsgroup.co.uk

About Mears

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

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

Introduction

Covid-19

The considerable challenges generated by Covid-19 have had a significant impact on the Group in the first half of the financial year. Mears' response to these challenges was swift and decisive. Service levels have remained at their traditionally high levels, with many clients directly complimenting the exceptional performance of the workforce. The Group's IT systems enabled a swift transfer to remote working for many staff. The Group adapted quickly to the new methods required for managing the business, benefiting from the investment made in the core systems over many years.

Mears is seen as a valued partner by its customers, evidence of the close working relationships which have developed over many years. While some of our activities continued at pre Covid-19 levels, in other areas, especially maintenance, work was deferred. Detailed discussions were held with all clients about the basis on which a reduced service could be delivered, whilst ensuring the safety of Mears' staff and vulnerable service users. The Group expects to see a recovery in activity levels during the second half of the year, assuming that infection levels remain relatively low, as working arrangements in the core maintenance business progressively return towards more normal levels by the end of the year.

In adapting to new ways of working, the primary focus has always been the safety and well-being of our staff and of the individual customers to whom housing and care services are provided. As with many peers, access to PPE was difficult at times but the established procurement routes, together with the support of many clients, helped to keep staff fully protected. Mears was one of the first to call for additional support for care staff and it is pleasing to see society is now recognising the vital role delivered by carers.

The Group's success depends upon the commitment and engagement of its workforce. Significant extra effort has been put into workforce management, including amongst those staff that have been furloughed. Mears was already in the Sunday Times list of top 25 Big Companies to work for, but in a staff survey carried out in June, our scores reached a new high, reflecting the efforts made on communication and keeping staff safe. The Group is pleased to put on record its recognition of the dedication and commitment shown by all of our staff and our appreciation to all.

It has been necessary, regrettably, to place some staff into the Government's furlough arrangements for a period of time. Top-up payments were made to support the lowest paid and a staff hardship fund was created to provide additional relief. All furloughed staff are expected to return to work by the end of September.

Results

Mears has delivered good performance in the most challenging of circumstances. Strong customer relationships enabled the Group to agree interim arrangements quickly in respect of service levels whilst mitigating financial risk.

Group revenue for the six months to 30 June 2020 reduced to £407.0m (2019: £439.2m) with a reduction in Maintenance revenues to £261.7m (2019: £323.3m) was partly offset by an increase in Management revenues delivered by the new Asylum Accommodation and Support Contract ('AASC') which commenced in September 2019. As a result of the impact upon the business of Covid-19, the Group delivered a loss before tax and before the amortisation of acquisition intangibles of £5.8m (2019: profit before tax £16.7m). This is detailed below.

Covid-19 has had a significant impact on the Group's activities and the associated financial results, causing both a loss of revenue and additional costs. A conservative estimate of the cost of protective equipment, the irrecoverable costs of furloughed employees and restructure costs in the first half amounted to in excess of £2.5m. The results for the first half include all the loss of revenue, under-recovery of overheads and other incremental costs within the operating result.

The Group delivered a solid cash performance given the circumstances, with average daily net debt of £121.2m (2019: £110.7m), representing a reduction in the opening underlying daily net debt from January 2020 of £126.1m.

Given the on-going uncertainty around the future course of the Covid-19 pandemic in the UK, the Board believes that it is inappropriate to declare an interim dividend. It remains the Board's intention to return to a progressive dividend policy once it is confident that activity and working practices have returned to normal and that it would be prudent financially to do so.

Operations

The operating results, split by Housing sub-division, are detailed below:

	2020		2019	
	Revenue £m	**Operating profit / (loss)* £m**	Revenue £m	Operating profit / (loss)* £m
Maintenance	**261.7**	**(0.9)**	323.3	15.4
Management	**135.7**	**3.8**	88.2	8.2

Development	**9.6**	**(3.6)**	27.7	(0.9)
Operating result	**407.0**	**(0.7)**	439.2	22.7
Finance costs	**-**	**(5.1)**	-	(6.0)
Total result	**407.0**	**(5.8)**	439.2	16.7

*before the amortisation of acquisition intangibles and inclusive of share of profit in associate

Maintenance

The Group's housing maintenance activities would typically account for around two-thirds of total revenue. These services are largely non-discretionary and usually provide a consistent and highly visible revenue stream. However, during the Covid-19 lockdown, Local Authority and Housing Association clients agreed to defer works and deliver an emergency service, to ensure the safety of Mears' staff and vulnerable service users. Accordingly, work volumes reduced to circa 15% of normal levels at the height of the lockdown. In the majority of cases, the Group secured interim arrangements to reflect the reduction in revenues and to ensure the interim pricing allowed for the recovery of direct labour and local overheads. The Group has commenced the process of transitioning services away from a full lockdown, with Maintenance work volumes at the period end and at end of July at 25% and 42% of normal levels respectively and the Group expects to see activities return to more normal levels by the end of the year. The speed over which revenue is expected to return to normality varies by client.

The Group utilised the Government's furlough scheme with over 2,000 employees furloughed at its peak. That has gradually reduced with around 1,600 and 980 employees on furlough at the end of June and July respectively. The Group expects all employees to have returned from furlough by the end of September 2020, reflecting the anticipated recovery in Maintenance activities.

Over the first half as a whole, Maintenance revenues reduced by circa 20% to £261.1m (2019: £323.3m), impacted by the reduction in volumes but reflecting the interim arrangements. The Maintenance activities reported an operating loss of £0.9m. Whilst the interim arrangements agreed with clients removed much of the financial risk, including by providing consistency of contract cashflows, such arrangements typically provided reduced recovery of central overheads together with a reduction in profit contribution. A small number of clients failed to provide financial support and those contracts account disproportionately towards the operating loss in the first six months.

Where the Group is paid under lump sum mechanisms, Mears receives a fixed amount, irrespective of work volumes, which provides a short-term cash benefit to the Group. Whilst revenues have been recognised against these works, costs have been accrued to reflect an unwinding of this effect, as Mears is likely to see a significant order backlog once normality returns.

During the Covid-19 period, and where an interim payment mechanism has been secured, the overarching principle within all such arrangements is one of open book accounting. Where the Group has benefitted from the protections offered by furlough, Mears will pass this benefit back to its clients through this transparent process.

Prior to the impact of Covid-19, the Group saw the expiry of a number of contracts with annual revenues amounting to circa £45.0m which were not put up for retender. In addition, the Group took action to exit contracts with annual revenues of circa £20.0m, where the Group identified these contracts as not fitting the criteria of the Mears way of working. As a result of the Covid-19 pandemic, the Group also terminated a number of customer relationships, with an annual revenue of £30.0m, where the Group could not sufficiently mitigate the risk and the longer term payback was not sufficiently visible. The withdrawal from under-performing contracts and the normalisation of volumes on existing contracts, post Covid-19, is expected to be positive for margins.

Management

The Group's Management activities have seen no reduction in demand, given the large numbers of vulnerable people who often need daily support. The challenge has been to continue to support vulnerable service users whilst adhering to the strict rules for how our employees can safely interact with colleagues and service users.

Management revenues reported an increase of 54% to £135.7m (2019: £88.2m), driven by the new AASC contract which reported revenues of £59.3m in the first half (2019: £5.0m). AASC volumes are increasing, with new service users entering the system and few exiting. The requirement for additional accommodation is operationally challenging in the short-term. Covid-19 presented a particular challenge for those people new to the UK with many lacking language skills and the knowledge to access basic supplies and necessities. In agreement with the relevant public authorities, it was decided the safest environment for new service users was to locate them in good quality hotels. That ensured their protection from Covid-19 infection and that they had access to food and other essentials. Despite recognising that few people want to be in a hotel for an extended period of time it was agreed that this was the right approach. The contractual mechanism under the AASC mitigates much of the financial risk associated with these developments. It remains the intention to support moving these people into dispersed accommodation as soon as it is safe to do so. Mears' priority throughout and going forward, will be the safety of staff and the service users.

When excluding growth from the AASC contract, the pre-existing Management business has reported a revenue reduction. This is in line with expectations, as the Group reduces its focus on emergency homelessness solutions and looks to secure larger, longer-term contracts such as AASC and the Key Worker contract.

The Group's Extra Care and Supported Living activities, which delivered revenues in the first-half of £9.6m (2019: £9.5m), have been absorbed into the Management category. The retention of these capabilities provide the Group with a demonstrable competence in the management of vulnerable people, and is expected to facilitate other value generating opportunities in the future.

Development

The Group made a clear strategic decision to reduce its exposure to Development activity and exit from those new build activities which required significant working capital. Following the Covid-19 outbreak, these remaining activities have been mothballed and action was taken immediately to reduce the fixed cost base. Development revenues are £9.6m in the first half-year (2019: £27.7m). The operating loss of £3.6m (2019: loss £0.9m) includes a reduction in the carrying value of the associated contract assets reflecting the Group's reassessment of both the costs to complete and the likely sales proceeds in an uncertain economic environment. Absent of any further adjustments to the anticipated sales proceeds, the Board expects a small loss from this activity in the second half.

Discontinued activities

During 2019, Mears reviewed its options around Care. The decision was taken to dispose of stand-alone Domiciliary Care activities. In January 2020, the Group announced the disposal of the England and Wales Domiciliary Care business for a cash consideration of £4.0m payable on completion, and a further £1.0m of deferred consideration receivable over the twelve months following completion. As at the half year end, £0.5m of deferred consideration has been received. The Group is progressing well with its planned disposal of its Scotland Domiciliary Care business and expects to complete the disposal during 2020. The results for the six month period are disclosed within discontinued activities, with revenue and a profit before tax of £13.8m and £0.3m respectively.

The Board is hugely impressed at the hard work and professionalism of the Care team where we continue to provide an excellent service to a particularly vulnerable group of service users.

Business Development

The order book on continuing activities stands at £2.7bn (2019: £2.7bn), a consistent level over the last twelve months reflecting a number of contract extensions. The Group has secured maintenance contracts valued at £120.0m in the first half year, with a win rate (by value) of over 80%. This includes securing a 10 year contract with Exeter Council, worth an estimated £85.0m and a five year contract with Hammersmith and Fulham worth £21.0m, both being contract retentions. In the case of Hammersmith and Fulham, Mears was the only one of the existing three contractors to retain and extend its contract. While Covid-19 has led to several other contracts being extended rather than tendered, it is pleasing both to see an excellent win rate and that the pipeline of new maintenance tenders is increasing, with active live bids carrying a contract value of around £450.0m. In addition, the Group is actively bidding to deliver additional Housing Management services to the Ministry of Defence (MoD).

In addition, Mears has been confirmed as the preferred bidder by Cornwall Council, to be a strategic partner to deliver to the Council up to 750 new extra care units across the County in the next 7-10 years. As Strategic Partner, and using council owned land, Mears will deliver the end to end solution to identify funders, and to design, build, manage and maintain the units over a period of up to 30 years.

Working capital and net debt

	Six months to 30 June 2020	Six months to 30 June 2019
	£'000	£'000
EBITDA*	**26,897**	42,381
Cash inflow from operating activities of continuing operations before taxes paid	**22,061**	44,112
Cash conversion %	**82%**	104%
Total average daily net debt (operating)	**(121,200)**	(110,700)
Net debt (operating) at 30 June	**(62,170)**	(48,610)
Net debt (property acquisition facility) at 30 June	**-**	(15,000)
Total net debt at 30 June	**(62,170)**	(63,610)

*includes the share of profit in associate

The Group reported an operating cash inflow from operating activities on continuing operations, as a proportion of EBITDA, of 82% (2019: 105%). Whilst in normal circumstances this cash conversion metric is considered to be a key performance measure, the impact on the business from Covid makes it hard to properly interpret. The Group has enjoyed the short-term cash benefit of £17.0m from the deferral of its VAT liability from the March 2020 quarter, which now becomes payable in March 2021. The Group has also received relief under the Coronavirus Job Retention Scheme, however given this is paid is arrears, a balance of £6.3m was due to be received as at 30 June 2020.

The Group reported average daily net debt in the first-half of 2020 of £121.2m, reflecting a small reduction from the average net debt in the last quarter of 2019 of £126.1m, following the mobilisation of the Asylum contract. Importantly, cash flow in the second quarter has been positive, resulting from the significant reduction in revenue and clients' commitment to pay efficiently during this period, with an average daily net debt for the second-quarter of 2020 of £112.5m. This solid performance has continued into the third quarter, with the average daily net debt in July 2020 below £100.0m.

The average month end trade receivable and trade payable balance split by Housing sub-division is detailed below which better reflects performance during the first half year, albeit with the same caveat in respect of Covid-19.

6 month average to June 2020	12 month average to December 2019

	Receivables	**Payables**	**Net working capital**	Receivables	Payables	Net working capital
	£m	**£m**	**£m**	£m	£m	£m
Maintenance	**141.9**	**(121.1)**	**20.8**	159.3	(126.2)	33.1
Management	**36.4**	**(24.6)**	**11.8**	29.8	(24.3)	5.5
Development	**36.8**	**(8.2)**	**28.6**	33.4	(8.7)	24.7

The core activities of Maintenance and Management absorb relatively low levels of working capital when compared to the size of the business and the profit generated. The Maintenance activities delivered a sharp reduction in working capital utilisation, reducing from £33.1m to £20.8m, reflecting the reduction in activities. The average working capital absorbed in Management increased from £5.5m to £11.8m, reflecting the mobilisation of the AASC contract and in line with previous guidance.

The average working capital absorbed within the Development activity increased to £28.6m (2019: £24.7m) driven by the increase in the inventories balance reflecting the slow market sales. The Group expects to see this inventories balance unwind over the course of the next two years.

As previously reported, the Group considered it prudent to increase its banking facilities to secure additional headroom given the unique and uncertain times. The Company increased facilities from £170.0m to £192.7m, with the additional headroom being available through a 364-day arrangement. The Group has not needed to use nor does it anticipate the need to use this additional headroom.

Liquidity

The Group manages its liquidity requirements to ensure that it always has sufficient committed facilities in place to meet foreseeable peak working capital and borrowing requirements. Given the on-going uncertainty around the course of the pandemic, the Directors have stress tested a range of different scenarios in respect of Covid-19 and how the pandemic may affect the business. In preparing this assessment, the Board considered a 'reasonable worst case' scenario which assumed restrictions on activities in the UK were at least as severe as those experienced earlier this year. These restrictions were assumed to occur in the fourth quarter of 2020 and represent an effective second UK lockdown. The stress test exercise confirmed that under this reasonable worst case scenario the group has sufficient liquidity headroom to meet its operational needs for a period of at least 12 months from the date of this interim statement and without recourse to shareholders.

Board developments

In 2018, the Company became one of the first listed companies in the UK to appoint an Employee Director, underlining the Company's commitment to progressive Corporate Governance. Mears understands the vital role the workforce plays in the success of the Group, and never more so in the recent challenges faced by the UK. The Board's existing Employee Director, Amanda Hillerby, stood down from the Board in February, consequent on the completion of the sale of the Group's England and Wales Domiciliary Care business. Following an extensive internal process, Claire Gibbard was appointed as the new Employee Director. Claire currently works within our housing maintenance business. There was a large number of high quality applications for the role. Claire will make an important contribution to ensuring the workforce can contribute at the most senior level during such a difficult time.

Results of AGM

Following the results of the Group's AGM in June 2020, the Group is required to provide an update in accordance with the 2018 UK Corporate Governance Code. The Board noted that Resolutions 2 and 3 (concerning the approval of the remuneration policy and the approval of the remuneration report); Resolution 4 (concerning the approval of the LTIP); Resolution 13 (concerning the re-election of Roy Irwin) received 20% or more votes against the Board's recommendation. The Remuneration Committee engaged in extensive consultation with shareholders over the drafting of the Remuneration Policy and refined the policy in line with the feedback received, making some important changes as a result. The Group shall continue to monitor evolving views and market practice and intend to consult again with shareholders over the LTIP performance measures.

The Board noted that Resolution 16 (concerning the general authority to allot relevant securities) and Resolutions 17 and 18 (concerning the authority to issue ordinary shares without a pre-emptive offer) also received 20% or more votes against the Board's recommendation. Resolution 18 did not meet the threshold to be passed as a special resolution. These resolutions are consistent with the latest investor guidelines. Following shareholder discussions during the previous year, the Board understands that some shareholders vote against these resolutions as a matter of policy. The Board remains committed to continuing an open and transparent dialogue and will seek to continue to engage with shareholders.

People

Mears' employee satisfaction scores have never been higher. This reflects the work that has been done around employee engagement this year and the fact that staff have seen how responsibly Mears has acted in the crisis. The Mears Amazing People Awards scheme has generated hundreds of responses from staff, illustrating the outstanding efforts to help local communities. People increasingly want to work for organisations that demonstrate positive values. This can be seen in staff retention rates that were already improving ahead of the crisis and which now are at the highest levels the company has achieved.

The company is committed to ensuring training and apprenticeships are open to all staff at Mears, especially for younger people who will be most impacted by rising unemployment and we, like others, are considering what can be done to improve inclusivity and diversity further within Mears.

The Board commends all employees for their continued commitment and the enormous part they have played in making Mears the business that it is.

Social Value

Mears' commitment to creating Social Value and to making a positive difference to the lives of the people and communities whom it serves has been a consistent feature since the business was formed.

At the start of the crisis, the Group immediately offered services to both central and local government, to support the national effort around Covid-19, using spare capacity as some normal activities were suspended. Mears staff have delivered thousands of food parcels, provided laptops and books to asylum families to enable home schooling, helped quickly refurbish buildings to be used as additional bed capacity, found creative ways to connect isolated vulnerable people with their communities and numerous of other examples of our staff stepping up. Many Mears staff were directly impacted themselves and a hardship fund was created for staff who were particularly impacted by Covid-19.

Outlook

The Board continues to make strategic progress towards the vision to be the UK's most respected and trusted provider of housing solutions. The portfolio of businesses continues to be evaluated to ensure that they fit with that vision and provide a sound basis for sustainable growth in shareholder value.

In its key operations, the Group has commenced the process of transitioning services away from a full lockdown, with Maintenance work volumes at the period end and end July at 25% and 42% respectively of normal levels and the Group expects to see activities return to more normal levels by the end of the year. The speed over which revenues return to normality varies by client.

The Covid-19 crisis has delayed the tendering process in Maintenance activities. The Group's win rate on the tenders which are taking place is encouraging, though management remains cautious about new contract win volumes in the short-to-medium term. The withdrawal from under-performing contracts and the normalisation of volumes on existing contracts, post Covid-19, should be positive for margins over this period. Housing Management contracts continue to perform in-line with expectations.

The culture of our business and the quality and commitment of the company's staff, has enabled Mears to quickly, responsibly and effectively adapt to the crisis. The robust nature of the Mears' business model and the essential services delivered provide confidence about the future and the Group's contribution to the recovery of the UK as a whole.

Half-year condensed consolidated income statement
For the six months ended 30 June 2020

	Note	**Six months ended 30 June 2020 £'000**	Six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Continuing operations				
Sales revenue	3	**406,963**	439,227	905,084
Cost of sales		**(327,445)**	(331,214)	(686,874)
Gross profit		**79,518**	108,013	218,210
Other administrative expenses		**(80,525)**	(85,274)	(172,632)
Exceptional costs		**-**	-	(2,018)
Amortisation of acquisition intangibles		**(5,714)**	(4,583)	(10,122)
Total administrative costs		**(86,239)**	(89,857)	(184,722)
Operating result before exceptional costs and amortisation of acquisition intangibles		**(1,007)**	22,739	45,578
Operating (loss)/profit	3	**(6,721)**	18,156	33,438
Share of profits of associates		**357**	-	895
Finance income	4	**163**	660	1,097
Finance costs	4	**(5,303)**	(6,725)	(10,229)
(Loss)/profit for the period before tax, exceptional costs and amortisation of acquisition intangibles		**(5,790)**	16,674	37,341
(Loss)/profit for the period before tax		**(11,504)**	12,091	25,201
Tax credit/(expense)	5	**1,562**	(1,981)	(3,976)
(Loss)/profit for the period from continuing operations		**(9,942)**	10,110	21,225
Discontinued operations				
Profit/(loss) before tax from discontinued operations	6	**276**	380	(87,171)
Tax charge on discontinued operations		**-**	-	(100)
Profit/(loss) for the period from discontinued operations		**276**	380	(87,271)
(Loss)/profit for the period from continuing and discontinued operations		**(9,666)**	10,490	(66,046)

Attributable to:				
Equity holders of the Company		**(9,650)**	10,121	(66,388)
Non-controlling interests		**(16)**	369	342
Profit for the period		**(9,666)**	10,490	(66,046)
Earnings per share - from continuing operations				
Basic	8	**(8.98)p**	8.82p	18.90p
Diluted	8	**(8.98)p**	8.78p	18.80p
Earnings per share - from continuing and discontinued operations				
Basic	8	**(8.73)p**	9.16p	(60.09)p
Diluted	8	**(8.73)p**	9.12p	(59.77)p

Half-year condensed consolidated statement of comprehensive income
For the six months ended 30 June 2020

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Net result for the period	**(9,666)**	10,490	(66,046)
Other comprehensive income for the period			
Which will be subsequently reclassified to the Income Statement:			
Cash flow hedges:			
- losses arising in the period	**(829)**	(115)	(145)
- reclassification to the Income Statement	**77**	7	49
Increase in deferred tax asset in respect of cash flow hedges	**143**	21	18
Which will not be subsequently reclassified to the Income Statement:			
Actuarial loss on defined benefit pension scheme	**(12,825)**	(1,700)	(11,288)
Increase in deferred tax asset in respect of defined benefit pension schemes	**2,437**	323	2,145
Other comprehensive income for the period	**(10,997)**	(1,464)	(9,221)
Total comprehensive income for the period	**(20,663)**	9,026	(75,267)
Attributable to:			
Equity holders of the Parent	**(20,647)**	8,657	(75,609)
Non-controlling interests	**(16)**	369	342
Total comprehensive income for the period	**(20,663)**	9,026	(75,267)
Total comprehensive income for the period attributable to owners of Mears Group PLC arises from:			
Continuing operations	**(20,923)**	8,277	11,677
Discontinued operations	**276**	380	(87,286)
Total comprehensive income for the period attributable to owners of Mears Group PLC	**(20,647)**	8,657	(75,609)

Half-year condensed consolidated balance sheet
As at 30 June 2020

	Note	**As at 30 June 2020 £'000**	As at 30 June 2019 £'000	As at 31 December 2019 £'000
Assets				
Non-current				
Goodwill		**123,204**	197,380	123,204
Intangible assets		**24,176**	28,257	28,642
Property, plant and equipment		**25,821**	25,398	26,326
Right of use assets		**264,210**	167,476	264,576
Investments accounted for using the equity method		**893**	-	536
Pensions and other employee benefits	14	**3,605**	15,668	6,871
Pension guarantee assets	14	**66,604**	16,947	23,810
Deferred tax asset		**5,008**	6,721	3,310
		513,521	457,847	477,275
Current				
Assets classified as held for sale	6	**4,302**	12,592	11,185
Inventories		**39,972**	34,827	36,045
Trade and other receivables	9	**122,794**	174,715	162,838
Current tax assets		**180**	-	-
Cash at bank and in hand		**61,820**	40,121	72,909
		229,068	262,255	282,977
Total assets		**742,589**	720,102	760,252
Equity				
Equity attributable to the shareholders of Mears Group PLC				
Called up share capital	12	**1,105**	1,105	1,105
Share premium account		**82,225**	82,224	82,224
Share-based payment reserve		**2,521**	2,121	2,421
Hedging reserve		**(733)**	(133)	(124)
Merger reserve		**12,956**	46,214	12,956
Retained earnings		**458**	72,820	20,496
Total equity attributable to the shareholders of Mears Group PLC		**98,532**	204,351	119,078
Non-controlling interest		**(101)**	(58)	(85)
Total equity		**98,431**	204,293	118,993
Liabilities				
Non-current				
Long-term borrowing and overdrafts		**124,258**	88,731	124,047
Pensions and other employee benefits	14	**80,946**	20,749	28,593
Deferred tax liabilities		**3,223**	6,823	4,995
Financing liabilities		**338**	76	39
Lease obligations		**228,352**	150,049	228,588
Other liabilities		**4,501**	5,849	4,700
		441,618	272,277	390,962
Current				
Borrowings related to assets classified as held for sale		**-**	15,000	-
Trade and other payables	10	**157,972**	190,527	202,366
Financing liabilities		**587**	89	119
Lease obligations		**41,299**	25,895	40,757
Provisions		**404**	-	504
Current tax liabilities		**-**	2,243	659
Dividend payable		**-**	9,778	-
Liabilities related to assets classified as held for sale				

	Note			
Liabilities related to assets classified as held for sale	6	**2,278**	-	5,892
		202,540	243,532	250,297
Total liabilities		**644,158**	515,809	641,259
Total equity and liabilities		**742,589**	720,102	760,252

Half-year condensed consolidated cash flow statement
For the six months ended 30 June 2020

	Note	**Six months ended 30 June 2020 £'000**	Six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Operating activities				
Result for the period before tax		**(11,504)**	12,091	25,201
Adjustments	13	**38,501**	30,390	64,032
Change in inventories		**(5,616)**	(5,342)	(6,294)
Change in trade and other receivables		**41,306**	1,162	4,971
Change in trade, other payables and provisions		**(40,626)**	5,811	12,340
Cash inflow from operating activities of continuing operations before taxation		**22,061**	44,112	100,250
Taxes (repaid)/paid		**(167)**	53	(2,991)
Net cash inflow from operating activities of continuing operations		**21,894**	44,165	97,259
Net cash outflow from operating activities of discontinued operations		**(3,125)**	(413)	(1,943)
Net cash inflow from operating activities		**18,769**	43,752	95,316
Investing activities				
Additions to property, plant and equipment		**(2,672)**	(4,150)	(8,513)
Additions to other intangible assets		**(2,570)**	(898)	(3,011)
Proceeds from disposals of property, plant and equipment		**10**	-	46
Net cash (outflow)/inflow in respect of property for resale		**-**	(150)	7,824
Payments on business combinations, net of cash acquired		**-**	-	(1,300)
Loans made to other entities (non-controlled)		**3**	(32)	(48)
Interest received		**9**	94	363
Net cash outflow from investing activities of continuing operations		**(5,220)**	(5,136)	(4,639)
Net cash inflow/(outflow) from investing activities of discontinued operations		**3,163**	(159)	(841)
Net cash outflow from investing activities		**(2,057)**	(5,295)	(5,480)
Financing activities				
Proceeds from share issue		**1**	1	1
Receipts from borrowings related to assets classified as held for sale		**-**	-	(15,000)
Net movement in revolving credit facility		**211**	(5,049)	30,267
Discharge of lease liabilities		**(21,899)**	(14,834)	(35,411)
Interest paid		**(5,002)**	(6,330)	(9,843)
Dividends paid - Mears Group PLC shareholders		**-**	-	(13,811)
Net cash outflow from financing activities of continuing operations		**(26,689)**	(26,212)	(43,797)
Net cash outflow from financing activities of discontinued operations		**(996)**	-	(854)
Net cash outflow from financing activities		**(27,685)**	(26,212)	(44,651)
Cash and cash equivalents at beginning of period		**73,061**	27,876	27,876
Net (decrease)/increase in cash and cash equivalents		**(10,973)**	12,245	45,185
Cash and cash equivalents at end of period		**62,088**	40,121	73,061

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

- cash and cash equivalents	**62,088**	40,121	73,061
- revolving credit facility	**(124,258)**	(88,731)	(124,047)
Cash and cash equivalents, including revolving credit facility	**(62,170)**	(48,610)	(50,986)

Half-year condensed consolidated statement of changes in equity
For the six months ended 30 June 2020

	Attributable to equity shareholders of the Company							
	Called up share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2019	1,105	82,224	2,021	(46)	46,214	79,189	(427)	210,280
Impact of change in accounting policies	-	-	-	-	-	(5,335)	-	(5,335)
Adjusted balance at 1 January 2019	1,105	82,224	2,021	(46)	46,214	73,854	(427)	204,945
Net result for the period	-	-	-	-	-	10,121	369	10,490
Other comprehensive income	-	-	-	(87)	-	(1,377)	-	(1,464)
Total comprehensive income for the period	-	-	-	(87)	-	8,744	369	9,026
Issue of shares	-	-	-	-	-	-	-	-
Share option charges	-	-	100	-	-	-	-	100
Dividends	-	-	-	-	-	(9,778)	-	(9,778)
At 30 June 2019	1,105	82,224	2,121	(133)	46,214	72,820	(58)	204,293
At 1 January 2020	**1,105**	**82,224**	**2,421**	**(124)**	**12,956**	**20,496**	**(85)**	**118,993**
Net result for the period	**-**	**-**	**-**	**-**	**-**	**(9,650)**	**(16)**	**(9,666)**
Other comprehensive income	**-**	**-**	**-**	**(609)**	**-**	**(10,388)**	**-**	**(10,997)**
Total comprehensive income for the period	**-**	**-**	**-**	**(609)**	**-**	**(20,038)**	**(16)**	**(20,663)**
Issue of shares	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Share option charges	**-**	**-**	**100**	**-**	**-**	**-**	**-**	**100**
At 30 June 2020	**1,105**	**82,225**	**2,521**	**(733)**	**12,956**	**458**	**(101)**	**98,431**

Notes to the half-year condensed consolidated statements
For the six months ended 30 June 2020

1. Corporate information

Mears Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded. The half-year condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 17 August 2020.

2. Basis of preparation and accounting principles

(a) Basis of preparation

The half-year condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, with IAS 34 'Interim Financial Reporting' and with the Accounting Standards Board's 2017 statement 'Half-yearly financial reports'. The half-year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2019, which have been prepared in accordance with IFRS as adopted by the European Union.

This half-year condensed consolidated financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 22 May 2020. Those accounts, which contained an unqualified audit report under Section 495 of the Companies Act 2006 and which did not make any statements under Section 498 of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

The half-year condensed consolidated financial statements for the six months ended 30 June 2020 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on the Review of Interim Financial Information.

There have been no significant changes to estimates of amounts reported in prior financial years.

Impact of COVID-19

The uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. The Board has completed an assessment of expected trading for the period to December 2021 in the event of a further significant deterioration in revenues and productivity. In preparing this assessment, the Board considered a reasonable worst case scenario that has involved making certain assumptions regarding the potential evolution of the COVID-19 pandemic and its potential impact on the Group in that reasonable worst case scenario. The key COVID-19 reasonable worst case assumptions assumed restrictions on activities in the UK as a result of COVID-19 which are assumed to be at least as severe as those experienced earlier this year. They are assumed to occur in the fourth quarter of 2020 and are reflective of a second UK lockdown. The scenario planning also considered mitigation actions including reductions in capital expenditure and dividend payments. There are additional actions that were not modelled but could be taken including other cost mitigations. The reasonable worst case projections prepared by the Company, which take into account its available debt facilities show that there is no liquidity shortfall. However in the event of this reasonable worst case scenario, this could result in a breach in the Group's banking covenants at 31 December 2020 and 30 June 2021.

At the time of the Board approving the 2019 Annual Report, the Board accepted the existence of a material uncertainty which at that time was considered to cast some doubt on the Group's ability to continue as a going concern. The Board is pleased with the progress made by the Group since that time, and the Board no longer believes that the same level of uncertainty exists. The Directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing this interim statement.

(b) Significant accounting policies

The accounting policies adopted in the preparation of the half-year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

3. Segment reporting

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

The Group had two operating segments during the period:

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

· Care - services within this segment comprise personal care services for people in their own homes. This segment was classified as discontinued during the year ended 31 December 2019.

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

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

	Six months ended 30 June 2020		Six months ended 30 June 2019	
	Housing (continuing)	**Care (discontinued)**	Housing (continuing)	Care (discontinued)
	£'000	**£'000**	£'000	£'000
Revenue	**406,963**	**13,835**	439,228	41,527
Operating result before exceptional items, amortisation of acquisition intangibles and long-term incentive plans	**(907)**	**(368)**	22,839	380
Operating margin before exceptional items, amortisation of acquisition intangibles and long-term incentive plans	**(0.22)%**	**(2.66)%**	5.20%	0.92%
Long-term incentive plans	**(100)**	**-**	(100)	-
Operating result before exceptional items and amortisation of acquisition intangibles	**(1,007)**	**(368)**	22,739	380
Exceptional costs	**-**	**(498)**	-	-
Exceptional profit on disposal of subsidiary	**-**	**1,142**		

Amortisation of acquisition intangibles	**(5,714)**	**-**	(4,583)	-
Operating (loss)/profit	**(6,721)**	**276**	18,156	380
Share of profits of associates	**357**	**-**	-	-
Net finance costs	**(5,140)**	**-**	(6,065)	-
Tax credit/(expense)	**1,562**	**-**	(1,981)	-
(Loss)/profit for the period	**(9,942)**	**276**	10,110	380

There has been no material change in segment assets and segment liabilities to those reported at December 2019.

4. Finance costs and finance income

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
Interest charge on overdrafts and short-term loans	**(1,436)**	(1,685)
Interest charge on hedge items (effective hedges)	**(77)**	(7)
Interest charge on lease liabilities	**(3,460)**	(4,633)
Interest charge on defined benefit obligation	**(330)**	(400)
Finance costs	**(5,303)**	(6,725)
Interest income resulting from short-term bank deposits	**3**	10
Interest income resulting from defined benefit obligation	**160**	650
Finance income	**163**	660
Net finance charge	**(5,140)**	(6,065)

5. Taxation

The tax credit for the six months ended 30 June 2020 has been based on the estimated tax rate for the full year.

Tax recognised in the Income Statement:

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
United Kingdom corporation tax and total current tax recognised in the Income Statement	**(672)**	2,800
Adjustment in respect of previous periods	**-**	-
Total current tax recognised in the Income Statement	**(672)**	2,800
Total deferred tax recognised in the Income Statement	**(890)**	(819)
Total tax (credit)/expense recognised in the Income Statement	**(1,562)**	1,981

6. Discontinued activities

During 2019, the Group classified its Domiciliary Care business as a disposal group in accordance with IFRS 5. The assets of the Domiciliary Care business are presented separately on the face of the Consolidated Balance Sheet and are measured at the lower of carrying amount and fair value less costs to sell.

Part of the disposal group, in the form of one of the Group's subsidiaries, Mears Care Limited, was sold on 31 January 2020. The proceeds from this disposal were £4m of cash and a further £1m of deferred consideration, of which £0.5m had been received by 30 June 2020, in line with the sale agreement.

The cash received during the period as a result of this transaction is included within net cash inflows from investing activities of discontinued operations in the Consolidated Cash Flow Statement, as follows:

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Cash inflows/(outflows) from investing activities of discontinued operations			
Additions to property, plant and equipment	**(238)**	(159)	(841)
Proceeds from disposal of subsidiary	**4,500**	-	-
Net cash disposed of with subsidiary	**(1,099)**	-	-
Net cash inflows/(outflows) from investing activities of discontinued operations	**3,163**	(159)	(841)

The remainder of the disposal group, in the form of another subsidiary, Mears Care (Scotland) Limited, is expected to be sold during 2020.

The results of the operations that have been classified as discontinued are as follows:

	Six months ended 30 June 2020	Six months ended 30 June 2019
	£'000	£'000
Revenue and profits		
Sales revenue	**13,835**	41,527
Cost of sales	**(10,498)**	(32,505)
Administrative expenses	**(3,705)**	(8,642)
Exceptional items	**644**	-
Profit for the year before tax on discontinued operations	**276**	380
Tax on discontinued operations	**-**	-
Profit for the year on discontinued operations	**276**	380

	As at 30 June 2020	As at 30 June 2019	As at 31 December 2019
	£'000	£'000	£'000
Consolidated Balance Sheet			
Assets classified as held for sale	**4,302**	-	11,185
Liabilities related to assets classified as held for sale	**(2,278)**	-	(5,892)
Net assets of disposal group	**2,024**	-	5,293

7. Dividends

Following the uncertainty surrounding COVID-19, the Board did not declare a final dividend in respect of the year ended 31 December 2019. Due to the ongoing uncertainty the Board believes it remains inappropriate to declare an interim dividend in respect of the year ended 31 December 2020.

8. Earnings per share

	Basic (continuing)		Basic (discontinued)		Basic (continuing and discontinued)	
	Six months ended 30 June 2020	Six months ended 30 June 2019	**Six months ended 30 June 2020**	Six months ended 30 June 2019	**Six months ended 30 June 2020**	Six months ended 30 June 2019
	p	p	**p**	p	**p**	p
Earnings per share	**(8.98)**	8.82	**0.25**	0.34	**(8.73)**	9.16
Effect of amortisation of acquisition intangibles	**5.17**	4.14	**-**	-	**5.17**	4.14
Effect of full tax adjustment	**(0.47)**	(0.92)	**(0.05)**	(0.06)	**(0.52)**	(0.98)
Normalised earnings per share	**(4.28)**	12.04	**0.20**	0.28	**(4.08)**	12.32

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	Six months ended 30 June 2020*	Six months ended 30 June 2019	Six months ended 30 June 2020*	Six months ended 30 June 2019	Six months ended 30 June 2020*	Six months ended 30 June 2019
	p	p	p	p	p	p
Earnings per share	(8.98)	8.78	0.25	0.34	(8.73)	9.12
Effect of amortisation of acquisition intangibles	5.17	4.13	-	-	5.17	4.13
Effect of full tax adjustment	(0.47)	(0.92)	(0.05)	(0.06)	(0.52)	(0.98)
Normalised earnings per share	(4.28)	11.99	0.20	0.28	(4.08)	12.27

* Where potential ordinary shares reduce loss per shares from continuing operations, they are not treated as dilutive and therefore there is no difference between the Basic and Diluted Earnings Per Share figures for the six months ended 30 June 2020.

A normalised earnings per share (EPS) is disclosed in order to show performance undistorted by the amortisation of acquisition intangibles and adjusted to reflect a full tax charge. The Directors believe that this normalised measure better allows the assessment of operational performance, the analysis of trends over time, the comparison of different businesses and the projection of future performance.

The profit attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	Normalised (continuing)		Normalised (discontinued)		Normalised (continuing and discontinued)	
	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000
(Loss)/profit attributable to shareholders:	(9,926)	9,741	276	380	(9,650)	10,121
Effect of amortisation of acquisition intangibles	5,714	4,583	-	-	5,714	4,583
Effect of full tax adjustment	**(520)**	(1,020)	(50)	(68)	**(570)**	(1,088)
Normalised earnings per share	(4,732)	13,304	226	312	(4,506)	13,616

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

	Six months ended 30 June 2020 Millions	Six months ended 30 June 2019 Millions
Weighted average number of shares in issue:	**110.50**	110.49
- dilutive effect of share options	**0.53**	0.49
Weighted average number of shares for calculating diluted earnings per share	**111.03**	110.98

9. Trade and other receivables

	As at 30 June 2020 £'000	As at 30 June 2019 £'000	As at 31 December 2019 £'000
Current assets			
Trade receivables	**34,503**	55,555	36,749
Contract assets on non-construction contracts	**70,779**	100,485	110,263
Prepayments and accrued income	**7,962**	9,592	6,111
Other debtors	**9,550**	9,083	9,715
Total trade and other receivables	**122,794**	174,715	162,838

10. Trade and other payables

	As at 30 June 2020 £'000	As at 30 June 2019 £'000	As at 31 December 2019 £'000
Current assets			
Trade payables	**73,906**	123,086	125,054
Accruals and contract liabilities	**43,137**	42,567	48,582
Social security and other taxes	**34,675**	16,591	21,989
Other creditors	**6,254**	8,283	6,741
Total trade and other payables	**157,972**	190,527	202,366

11. Fair value measurement of financial instruments

IAS 34 requires that interim financial statements include certain of the disclosures about fair value of financial instruments set out in IFRS 13 and IFRS 7. These disclosures include the classification of fair values within a three-level hierarchy. The three levels are defined, based on the observability of significant inputs to the measurement, as follows:

· Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

· Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: unobservable inputs for the asset or liability.

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 30 June 2020, 31 December 2019 and 30 June 2019:

	As at 30 June 2020 £'000	As at 30 June 2019 £'000	As at 31 December 2019 £'000
Financial assets			
Amortised cost			
Trade receivables	**34,503**	55,555	36,749
Other debtors	**9,550**	9,083	9,715
Cash at bank and in hand	**61,820**	40,121	72,909
	105,873	104,759	119,373
Financial liabilities			
Fair value (Level 2)			
Interest rate swaps - effective	**(925)**	(165)	(158)
Fair value (Level 3)			
Contingent consideration in respect of acquisitions	-	(1,250)	-
Amortised cost			
Borrowings related to assets held for sale	-	(15,000)	-
Bank borrowings and overdrafts	**(124,258)**	(88,731)	(124,047)
Trade payables	**(73,906)**	(123,086)	(125,054)
Lease liabilities	**(269,650)**	(175,944)	**(269,345)**
Other creditors	**(10,755)**	(12,882)	(11,441)
	(479,494)	(417,058)	(530,045)
	(373,621)	(312,299)	(410,672)

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

The fair values of contingent consideration have been calculated by the Directors by reference to expected future income and expenditure in respect of the relevant businesses.

There were no transfers between Level 1 and Level 2 during the six-month period to 30 June 2020 or the year to 31 December 2019.

The reconciliation of the carrying values of financial instruments classified within Level 3 is as follows:

	Contingent consideration £'000
At 1 January 2019	2,000
Released on reassessment	(750)
At 30 June 2019	1,250
Released on reassessment	(1,250)
At 31 December 2019 and 30 June 2020	-

Contingent consideration represents an estimate of future consideration likely to be payable in respect of acquisitions. Contingent consideration is discounted for the likelihood of payment and for the time value of money. Contingent consideration becomes payable based upon the profitability of acquired businesses.

The carrying value of the following financial assets and liabilities is considered a reasonable approximation of fair value:

- trade and other receivables;
- cash and cash equivalents;
- trade and other payables; and
- lease liabilities.

12. Share capital

	As at 30 June 2020 £'000	As at 30 June 2019 £'000	As at 31 December 2019 £'000
Allotted, called up and fully paid			
At 1 January 110,490,459 (2019: 110,487,586) ordinary shares of 1p each	**1,105**	1,105	1,105
Issue of 12,708 (2019: 2,873) ordinary shares of 1p each on exercise of share options	-	-	-
At 30 June 110,503,167 (2019: 110,490,459) ordinary shares of 1p each	**1,105**	1,105	1,105

12,708 (2019: 2,873) ordinary 1p shares were issued in respect of share options exercised. The difference between the nominal value and the total consideration has been credited to the share premium account.

13. Notes to the half-year condensed consolidated cash flow statement

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

	Six months ended 30 June 2020 £'000	Six months ended 30 June 2019 £'000	Year ended 31 December 2019 £'000
Depreciation	**26,402**	18,071	41,011
Loss on disposal of property, plant and equipment	**(7)**	77	179
Amortisation	**7,036**	5,827	12,669
Share-based payment charges	**100**	100	400
IAS 19 pension movement	-	-	209
Finance income	**(3)**	(10)	(363)
Finance cost	**4,973**	6,325	9,927
Total	**38,501**	30,390	64,032

14. Pensions

The Group contributes to a number of defined benefit schemes on behalf of employees, which require contributions to be made to separately administered funds. The assets of the schemes are administered by trustees in funds independent from the assets of the Group.

In certain cases, the Group will participate under Admitted Body status in Local Government Pension Schemes. The Group will contribute for a finite period up until the end of the relevant contracts. The Group is required to pay regular contributions as detailed in the schemes' schedules 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.

The amounts recognised in the Consolidated Balance Sheet are:

June 2020	**Group schemes £'000**	**Other schemes £'000**	**Total £'000**
Group's estimated asset shares	**168,570**	**278,669**	**447,239**
Present value of funded scheme liabilities	**(168,889)**	**(353,657)**	**(522,546)**
Funded status	**(319)**	**(74,988)**	**(75,307)**
Scheme surpluses not recognised as assets	**-**	**(2,034)**	**(2,034)**
Pension asset/(liability)	**(319)**	**(77,022)**	**(77,341)**
Pension guarantee assets	**-**	**66,604**	**66,604**

December 2019	Group schemes £'000	Other schemes £'000	Total £'000
Group's estimated asset shares	163,250	303,464	466,714
Present value of funded scheme liabilities	(156,379)	(327,460)	(483,839)
Funded status	6,871	(23,996)	(17,125)
Scheme surpluses not recognised as assets	-	(4,597)	(4,597)
Pension asset/(liability)	6,871	(28,593)	(21,722)
Pension guarantee assets	-	23,810	23,810

The Group has seen a worsening in the key actuarial assumptions causing an increase in scheme liabilities of around 8%. The performance of equities has resulted in a reduction in the asset values, albeit a significant proportion of pension scheme assets are held in bonds which has mitigated much of the deterioration in equity value. Whilst the Group has seen a large increase in pension liabilities, in the majority of arrangements, the Group holds corresponding indemnities from its clients. These indemnities are disclosed as a separate guarantee asset on the face of the balance sheet.

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. A 0.1% reduction in the net discount rate (the base discount rate less the rate of inflation) would result in an increase in the present value of the defined benefit obligation of approximately 2%, although an element of the increase would be mitigated by an increase in the pension guarantee assets, as described above.

15. Half-year condensed consolidated financial statements

Further copies of the Interim Report are available from the registered office of Mears Group PLC at 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester, GL3 4AH or www.mearsgroup.co.uk.

16. Principal risks and uncertainties

The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 39 to 40 of the 2019 Annual Report and Accounts and is not expected to change over the next six months. The uncertainty as to the future impact on the Group of the Covid-19 outbreak continues to be considered a critical short-term risk. In addition, the four principal risks which are considered to impact most significantly on the Group's strategic objectives over the longer term are: reputation, people, health and safety, and IT and data.

17. Forward-looking statements

This report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Mears Group PLC. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Interim report includes a fair review of the information required by Rules 4.2.4, 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

The names and functions of the Directors of Mears Group PLC are as listed in the Group's Annual Report for 2019 with the exception of Claire Gibbard who was appointed as an Employee Director in July 2020.

By order of the Board

D J Miles	A C M Smith
Chief Executive Officer	Finance Director
david.miles@mearsgroup.co.uk	andrew.smith@mearsgroup.co.uk

17 August 2020