

Leading with purpose

Mears Group PLC

Annual Report and Accounts 2023



Company number 03232863

Mears today

Mears is one of the UK's leading and most trusted providers of a wide range of specialist housing services to Local and Central Government.

Acting responsibly has been the cornerstone of our journey towards success, as it has earned us trust, credibility and a positive reputation in our industry.

This commitment to responsibility not only propelled us to our current achievements but also paves the way for continued opportunities, as stakeholders and partners see us as a reliable and ethical player in the market, opening doors for collaboration and growth.

Find out more about our company,
our mission, our culture and our
Red Thread behaviours:
mearsgroup.co.uk

Strategic report

- 1 Highlights
- 2 Chairman's statement
- 4 A Q&A with our Chief Executive Officer, Lucas Critchley
- 6 Chief Executive Officer's review
- 10 Our strategy
- 12 Strategy in action
- 16 Our value creation model
- 18 Key performance indicators
- 20 Stakeholder engagement
- 22 Section 172 statement
- 23 Sustainability
- 26 Task Force on Climate-related Financial Disclosures (TCFD)
- 36 Financial review
- 43 Financial viability review
- 45 Non-financial information and sustainability statement
- 46 Risk management
- 50 Principal risks and uncertainties

Corporate governance

- 54 Chairman's introduction
- 56 Board of Directors
- 58 Roles and responsibilities
- 59 Our corporate governance compliance statement
- 60 Corporate governance framework
- 61 Board activities
- 63 Stakeholder engagement
- 64 Board composition, development and evaluation
- 65 Induction in focus
- 66 Report of the Nominations Committee
- 68 Report of the Audit and Risk Committee
- 76 Report of the Remuneration Committee
- 97 Report of the Directors
- 100 Statement of Directors' responsibilities

Financial statements

- 101 Consolidated statement of profit or loss
- 102 Consolidated statement of comprehensive income
- 103 Consolidated balance sheet
- 104 Consolidated cash flow statement
- 105 Consolidated statement of changes in equity
- 106 Notes to the financial statements – Group
- 145 Parent Company balance sheet
- 146 Parent Company statement of changes in equity
- 147 Notes to the financial statements – Company
- 155 Independent auditor's report
- 168 Five-year record (unaudited)

Shareholder information

- IBC Shareholder and corporate information

Highlights

Financial and strategic highlights

Group revenue £m		Net debt (inclusive of lease obligations) £m	
2023	1,089.3	2023	145.3
2022	959.6	2022	125.3
2021	878.4	2021	162.3
Adjusted profit before tax £m		EBITDA to cash conversion %	
2023	46.9	2023	123
2022	34.9	2022	122
2021	25.6	2021	72
Adjusted net cash (exclusive of lease obligations) £m		Normalised diluted EPS p	
2023	109.1	2023	31.2
2022	100.1	2022	24.7
2021	54.6	2021	18.2
Statutory diluted EPS p		Accident frequency rate Number	
2023	31.9	2023	0.27
2022	24.5	2022	0.25
2021	11.5	2021	0.19
Order book £bn			
2023	2.5		
2022	2.9		
2021	2.4		

Reconciliations between the statutory figures and the alternative performance measures are detailed on pages 36-38 of the Financial Review.

- Revenues increased by 14% to a record level of £1.09bn
- Continued strong progression in the adjusted operating margin increasing to 4.7% compared to 3.7% in the prior year
- Final dividend proposed will bring the total for the year to 13.00p, an increase of 24%
- During FY23, the Board returned surplus capital of c.£33m to shareholders, through a buyback programme of on-market purchases
- New bidding targets secured with an aggregate contract value of around £175m, at a bid conversion rate of over 70%
- Successful SHDF Wave 2 grant applications of £40m, which will contribute to a total works value of around £120m to be delivered over the course of 2024 and 2025. There will be additional opportunities for the Group in the interim Wave 2.2 and Waves 3 and 4 of the SHDF funding applications
- Listed in the top 10 of the Sunday Times Best Big Companies to Work For
- The Group was awarded its 7th RoSPA Order of Distinction and its 21st consecutive Gold Award

Environmental, social and governance (ESG) highlights

Healthy planet

- 97.3% of waste diverted from landfill
- 3% reduction in Scope 1 and 2 CO₂ emissions
- We maintained an impressive SHDF win rate, supporting nine clients to deliver domestic retrofit solutions to 3,500 homes by the end of 2025
- Delivery of 59 green space social value projects within the communities we serve

Improving lives

- We delivered £108m of economic and social value, as measured by the Social Value Portal, which equates to £20,000 per employee
- The Mears Foundation supported over 100 community projects in the year with £200k plus of funding allocated. These projects included work to support digital inclusion and improve the welfare of asylum seekers

Good governance

- We achieved Cyber Essentials and Cyber Essentials Plus, the first security accreditation for the entire Group
- We launched our sustainable procurement strategy

Read about **ESG** on pages 23-25

Chairman's statement

Introduction

I am delighted to present my first statement as Chairman, and it is pleasing to be able to report a year of excellent progress against our strategic objectives. The continued strong trading performance is evidence that the strategic actions of recent years, the investment in our operating platforms, and our market leadership are delivering positively and position the Group well for the future.

Results

Revenue has reached £1,089m, an increase of 14% over 2022. Profit before tax was £46.9m, an increase of 34% over that achieved in 2022. Adjusted diluted earnings per share rose by 27% to 31.24p. It is an important milestone for the Group to see earnings per share move back above 30p, and this has been an key factor in delivering the strong returns to shareholders in the last 12 months.

It is reassuring that cash generation was once again very strong. The adjusted year-end net cash balance reached £109.1m and average net cash throughout the year was £76.5m. This is the result of a fourth consecutive year of over 100% conversion of profits to cash, while growing the business: a tremendous achievement by the management team and staff across the Group. It reflects the quality of the business and its underlying earnings.

During the period, the Group mobilised new works under our Rented Living Accommodation Project ('RLAP') for the Ministry of Defence, providing housing and support to those travelling to the UK under the Afghan Relocation and Assistance Policy. This is further evidence of Central Government increasingly looking to Mears to provide specialist housing support.

Our people

Mears has invested in its workforce over many years, and I was delighted to see that the Group was listed in the top 10 of the Sunday Times Best Big Companies to Work For. The commitment to our workforce starts at Board level, evidenced by the appointment several years ago of an Employee Director who works closely with a Deputy Employee Director and Trade

Representative to ensure that our people are at the forefront of our decision making and that the Board has a good understanding of our employees' views. It is pleasing to see that this is also reflected in a further reduction in staff turnover.

It was immensely satisfying to see a successful conclusion to the Group's 2020 Sharesave scheme which reached maturity in December 2023. The scheme, with an exercise price of 93p, was granted at the end of a year that had been greatly impacted by the Covid-19 pandemic and a period in which the Group was even more dependent upon the hard work and commitment of our colleagues. The grant at that time gave the Board the opportunity to show its gratitude for the commitment shown through that period. The recent maturity saw over £7m of value shared across 500 of our colleagues which was a tremendous outcome.

Dividend and capital allocation

Given the excellent trading performance of the Group, the continued strong cash performance and the positive outlook, the Board is pleased to propose a final dividend of 9.30p per share, bringing the total for the year to 13.00p, an increase of 24% on 2022 and an increase of over 60% against 2021. Our policy remains to progressively grow the dividend, keeping cover at between 2 - 2.5 times adjusted earnings.

The Group's capital allocation policy has been consistently communicated and remains robust. The Board currently seeks to maintain an appropriate net cash position. The Board continues to keep under review its capital allocation priorities, which extends to small-scale M&A opportunities that could enhance its service capabilities.

During FY23, the Board approved a return of surplus capital of c.£33m to shareholders, that was implemented through a buyback programme of on-market purchases. The 2023 buyback, which was delivered over two programmes during an eight-month period, saw the purchase and cancellation of 12.2m ordinary shares of 1p each at an average price of 272.7p, representing c.11.0% of the Group's issued share capital at the start of the year. The strong momentum reported in FY23 has continued into FY24 and, following the receipt of authority from shareholders at a General Meeting held in February 2024, the Board announced its intention to purchase up to a further £20m of shares, and this third buyback programme is on-going.

As reported previously, the Group has utilised its balance sheet strength to fund property acquisitions to support the urgent requirement for additional properties within the Asylum Accommodation and Support Contract ('AASC'). At the end of 2023, the Group had invested £22m in this area. Whilst it is not the Group's long-term strategy to carry property assets on the Group's balance sheet, this has been an important step in meeting the requirement for additional capacity, to fulfil our client's needs.

ESG

I thank the ESG Board for its diligent work over the year. Mears takes good governance seriously. Alongside our resident led Your Voice Scrutiny Board, the ESG Board adds an extra layer of professional advice and assurance. The Board's guidance is imperative, ensuring that we are driving forward on both our legal and ethical obligations to reach our Net Zero targets.

Board Developments and succession planning

During 2023, Kieran Murphy and Chris Loughlin stepped down from the Board. Kieran reshaped the Mears' Board during his time as Chairman and provided wise counsel and stewardship through a period impacted by the pandemic. Chris brought considerable commercial and operational input to the Board. On behalf of the Board, I would like to take the opportunity to thank Kieran and Chris for their service to Mears and wish them both well for the future.

In December 2023, the Board welcomed the arrival of Nick Wharton as a Non-Executive Director and Chair of the Audit and Risk Committee. Nick is a Chartered Accountant with extensive finance and corporate governance experience gained both in the UK and internationally, through executive and non-executive positions under both public and private equity ownership, and further improves the balance of skills and capabilities held by the Board.

During 2023, the Group's Employee Director, Hema Nar, elected for her position to become a non-statutory appointment. This will enable Hema to solely focus on being an effective link between the Board and the workforce. During 2023, the Group has greatly enhanced this function, with the addition of both a Deputy Employee Director and a Trade Representative. These three individuals perform regular branch visits, are highly visible and are in frequent contact with the Executive team. This has become an increasingly valuable channel of communication. Hema will continue to attend and present at every Board meeting. The change to a non-statutory position will not dilute the importance or significance of the role.

Succession planning has been a key area of focus for the Board in recent years. The transition of the CEO role from David Miles to Lucas Critchley has been well-communicated and this changeover has gone smoothly. The Board recognises the pivotal role that David played in driving the culture of the business and Mears' brand. The transition of the CEO duties to Lucas is now complete, and David stepped off the PLC Board at the end of 2023. David remains a key member of the senior management team and has committed to continue to provide support to the business with particular focus on client engagement, customer service and driving commercial performance at a local branch level over the medium-term.

Although the current Board is smaller in terms of headcount, I believe there is a strong cultural alignment with the business and the Board has the requisite skills and experience to operate effectively in the coming years.

The Board and Nominations Committee will continue to focus on succession planning across the senior executive team. I am continually impressed by the quality and strength of our senior management team operating across the business in support of the Executive. The Group has a strong track-record of developing talent internally, evidenced by both Lucas and Andrew Smith (CFO) having developed within the business prior to their Board appointments. I can already see a number of the senior team who will, in time, have the opportunity to develop further as leaders of the business over the long-term.

Looking forward

The Board is delighted with the strong trading performance reported in FY23, and this momentum has continued into FY24. We anticipate another strong trading result in FY24 and communicated a significant upgrade to market expectations in January 2024.

The Group is well positioned for the longer term, but management remains conservative when providing guidance for later years. The Board has consistently referred to elevated revenues within its management-led activities and it is expected that this position will normalise, although the timing is unclear. The Board is increasingly confident that the Group is well positioned to deliver further improvements in operating margins, which it expects will contribute to mitigating the profit impact from this reduction in revenues.

The Group is delivering well against the strategic goals set within the extensive business planning process concluded in 2021. The Board is now challenging the Executive team to carry out a further detailed refresh. The housing market continues to present significant opportunities for Mears. The Board is also challenging the Executive team to consider opportunities within adjacent markets and continue to identify emerging opportunities created through innovation and changes in technology. The strength of the Group's balance sheet and net cash position provides the opportunity to pursue a number of options to deliver shareholder value.

Jim Clarke
Chairman
10 April 2024

A Q&A with our new Chief Executive Officer, Lucas Critchley

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The Group is recognised as a leading housing specialist to the public sector, and there is an increasing reliance upon Mears by our Local and Central Government clients for the Group's expertise and problem-solving capabilities.”

Lucas Critchley
Chief Executive Officer

Q. There have been several changes to the Board over the past year – what can we expect from Mears under this new leadership?

I have been fortunate to have the opportunity to work closely with the pre-existing and long-standing Directors for many years. As such, I have already played a significant part in establishing our strategy and maintaining our culture. I am clear on what is needed to continue the successful progression of Mears and I am lucky that I take on the Chief Executive Officer role at a time where the Group is so well placed, and I remain completely behind our established and focused strategy. The management team working alongside me is also strong, and I can look with pride at the strength of our business at all levels from grass roots upwards. In terms of changes to the Non-Executive Board members, I am delighted to have an experienced and settled Board, chaired by Jim Clarke, who was previously Chair of the Audit and Risk Committee, and the continuity that brings will be important to our future success.

Q. Mears has reported strong growth in recent years. What are the key drivers and do you expect this trend to continue?

We have seen strong growth in recent years although as we have clearly communicated much of that has come from our housing management activities and I do continue to expect volumes to reduce in that area from the current high levels. We are keen to deliver growth in our traditional maintenance activities, and believe this is achievable, but we will do this in a disciplined way, and only grow in a manner that we are confident will also deliver an increase to operating margins.

We can look forward with optimism. Social housing investment will benefit from the desire to raise quality, the greater focus on compliance because of issues such as around damp and mould, plus the continued investment in carbon reduction measures. These drivers are not short term in nature; they reflect a long-term change with social housing often being the vanguard for housing improvement across the whole sector. Harder to predict is what happens with asylum housing in the future and the impact this has on current elevated volumes; however, it is pleasing to see continued growth in the Group across other Central Government departments, notably the Ministry of Justice and the Ministry of Defence, which reflects the positive position we have built with large Central Government departments. We see scope for growth here also.

Q. What progress has Mears made on its commitment to be the most socially responsible business in the public sector by 2025?

I am very pleased with progress here. We are increasingly recognised for our huge commitment to all ESG matters. This is covered fully within the ESG section of this report. The ultimate test is the willingness of clients to award us work and to retain the work we have. Again, this report demonstrates excellent progress, and we simply would not have been successful without the increasingly positive reputation that the business has built over many years. Our workforce outcomes are stronger than ever, and we have a clear path to reduce our carbon emissions. We are proud of how clients have entrusted us in supporting them to reduce the carbon within their own housing stock. There is undoubtedly a shift in our core markets towards ESG playing a greater role in procurement processes and this can only be positive for Mears.

Q. Accommodation provision for those seeking asylum in the UK continues to present challenges – how do you see the future developing?

As mentioned in an earlier question, this is difficult to predict given current and future Government policy as well as the continuing political and economic uncertainty we see in so many parts of the world. Mears also supports people who have entitlement to settle in the UK such as under the Afghan resettlement scheme. Overall, we are taking a cautious approach to demand, as indeed we have done throughout 2023. Having said that we again did see greater numbers than expected in 2023 and despite this we have maintained a good level of service under challenging circumstances.

Q. How are you planning to improve on your current position in the Sunday Times' top 25 Best Big Companies to Work For?

Finishing 8th in 2023 Best Companies across the UK was our best ever performance. During 2023, we have seen a reduction in staff turnover and are benefiting from a low number of current vacancies across the Group which brings stability. We recognise that having a skilled, motivated and well led workforce is the best single way to ensure positive customer service and strong financial outcomes. As such the development of our workforce will remain at the top of my priorities. We have a comprehensive programme for 2024 across staff development, equality, diversity and inclusion, health and wellbeing and benefit improvements. Continued investment in leadership skills development remains a priority, as we will ensure that we have the right people for today and for tomorrow.

Q. There seems to be increasing focus on regulation and compliance. Is this a threat or an opportunity?

Our clients are under pressure to improve compliance, not only in traditional areas such as gas, electrical and fire safety but also in new focus areas such as around damp and mould and carbon reduction and monitoring. We are already supporting clients in this area, helping them quickly resolve any damp and mould cases that are identified but we believe there may be opportunity to do more. We are also using new in-home technology to give early warning and address risk. 2024 will see Mears fully investigate the compliance opportunity and establish whether further investment would be beneficial.

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We recognise that having a skilled, motivated and well led workforce is the best single way to ensure positive customer service and strong financial outcomes. As such the development of our workforce will remain at the top of my priorities.”

Lucas Critchley
Chief Executive Officer

Chief Executive Officer's review

Introduction

It is pleasing to report another strong trading performance in FY23. The Group has benefited from the strategic redirection of the business over the last five years, having exited from a number of non-core activities and applying a rigorous approach to improving operating margins. The Group is recognised as a leading housing specialist to the public sector. There is an increasing reliance upon Mears by our Local and Central Government clients and Housing Associations for the Group's expertise and problem-solving capabilities. We will continually look to evolve our capabilities in this area to further strengthen our market position and believe that the Group is well placed to do so.

Operational review

	2023 £m	2022 £m	Change
Revenue			
Maintenance-led	543.3	535.3	+1%
Management-led	543.3	405.8	+34%
Development	2.7	18.5	
Total	1,089.3	959.6	+14%
Operating profit before tax measures:			
Statutory operating profit ¹	52.2	41.3	+26%
Adjusted operating profit (pre-IFRS 16) ²	51.4	35.9	+43%
Adjusted operating margin (pre-IFRS 16)	4.7%	3.7%	
Profit before tax measure			
Statutory profit before tax	46.9	34.9	+34%

1 Operating profit includes share of profit in associates.

2 Adjusted measures are defined in the Alternative Performance Measures section of the Finance Review.

Revenues increased by 14% to £1.09bn. Our maintenance-led activities reported an increase of 1% to £543.3m which was impacted by the full-year effect of a number of contract losses in 2022, which were reported previously. It is reassuring that the Group has absorbed these losses and still delivered revenue growth. The Executive team believes that, following a number of years which have seen a reduction in maintenance-led revenues, this has plateaued. Moving forward, the Executive team believes that the current market dynamics and our continually developing offering to clients can deliver modest growth in the traditional maintenance-led activities, supported by additional spending in respect of decarbonisation.

Management-led activities have reported strong growth, with revenues growing by 34% to £543.3m. It is a tremendous achievement that an area of the business which the Group entered less than 10-years ago, and has been grown almost entirely organically, now comprises half the Group's revenues. As reported previously, the Group has experienced elevated revenues within the Group's asylum services with volumes being significantly higher than originally envisaged. The Executive team anticipates these revenues will normalise, although the timing is uncertain. It is positive that the Group has seen increased activity in both the Ministry of Defence and Ministry of Justice contracts ('RLAP' and 'CAS3' respectively), and the Group sees further opportunities to provide additional services to both of these important clients.

It is particularly important that the business has continued to report strong progress in adjusted operating margin, with the headline measure increasing to 4.7% (2022: 3.8%). Notwithstanding the Group's strategic ambitions to deliver revenue growth, the primary

focus of the senior team over recent years has been to see the operating margin return towards its historical level of 5.0%. As previously reported, the actions taken to exit non-core activities, prune the contract estate to remove suboptimal arrangements, drive efficiencies at a contract level, and maintain a disciplined approach to securing new works, all continue to drive improvement to the operating margin.

One area of the business where trading has been unacceptable, is in respect of the Community Housing business. This is only a small part of the Group's operations, reporting revenues of c.£35m in 2023, in which the challenging regulatory and operational environment has resulted in an operating loss in the period. The Executive team will continue to focus on improving trading in this area. Some of the contractual obligations in this part of the Group mean it will not be a quick fix. The result for the period includes an impairment to right of use assets of £6.2m and onerous contract provisioning of £4.2m relating to these Community Housing activities. This is detailed within the notes to the financial statements.

The Executive team is mindful that the elevated revenues within the management-led activities have delivered additional economies of scale and an increased overhead recovery, which is a further factor behind an increasing operating margin. However, the Executive team is confident that, as the management-led revenues normalise, and some of this increased overhead recovery diminishes, that this will be mitigated by efficiency improvements within the business which will continue to drive improvement to margin.

Business development

We have seen a shift among some client organisations towards large, long-term relationships that are broad in scope. We believe that these types of opportunities play to Mears' strengths and present future opportunities. Clients are increasingly seeking the competence and confidence from dealing with a market leader, while the regulatory environment, and the detailed compliance process around elements of work such as decarbonisation, serve to further reduce the pool of serious competitors. This makes the comprehensive Mears offer attractive to clients that are looking to package contracts in this way.

Mears has successfully provided housing maintenance works to NLC since 2012, with an annual value of c. £60m, delivering high service levels together with excellent engagement with all stakeholders. Accordingly, the Group remains well-placed in the tender by North Lanarkshire Council ('NLC') of the Housing and Corporate Maintenance and Investment Services Contract, a bidding process that commenced in 2022. The new contract would see Mears providing reactive maintenance, statutory compliance, servicing, and inspection services, as well as programmes of planned works to the Council's housing assets (approximately 37,000 homes) and corporate assets (approximately 1,200 buildings). The contract is for a period of up to 12 years, with an annual value in the region of £125m and a total contract sum of over £1.5bn.

With the exception of the NLC tender, the last 12-months has been a relatively quiet period of new contract bidding. Positively, the Group secured both of its key bidding targets contributing to an aggregate new contract awards of around £175m, at a bid conversion rate of over 70% (by value). This reflects an increasingly focused approach when bidding for new contract opportunities. The Executive team anticipates that the total value of bids submitted in the future will be lower than historical levels, but the proportion of successful outcomes is anticipated to be higher. Importantly, both the contracts secured in FY23 represent new work to the Group:

- London Borough of Croydon ('Croydon') has awarded to Mears a 10-year contract with an estimated annual value of £6m. The contract is to deliver responsive repairs, voids refurbishments, and planned maintenance works. Mears was selected as one of two providers, and the Group is delighted to be working in the Borough again, after a period of absence. The new contract commenced on 1 August 2023.
- A2Dominion ('A2D'): the Group has been awarded a contract with an estimated annual value of c. £10m for a base period of 10 years with the potential for this to be extended up to a total of 26 years. This contract award builds upon an existing long-term relationship with A2D for repairs and maintenance services to the housing stock outside of London, meaning that the Group will now be delivering services across A2D's entire 38,000-unit portfolio. The new contract commenced in October 2023. The contract will deliver services through a pre-existing joint venture with A2D, in which the Group holds a 30% interest. Therefore, whilst the A2D relationship is very significant for the Group, the revenue is not included within the Group's consolidated revenue. The profit contribution is introduced as a share of profit in an associate, the Group's margin expectation against the notional revenue, is consistent with other housing contracts.

FY24 is again expected to be a period of focused bidding activity with the Group targeting a small number of new bidding opportunities where the mix of quality, price, size, longevity, supply chain and cultural fit meets the Group's bidding criteria. This highly qualified pipeline contains some exciting opportunities. The Executive team is mindful that FY25 is likely to be a busy period of rebidding, as a number of existing contracts are approaching expiry and contractual extensions have been previously utilised. A total annual contract value of c. £100m is expected to be re-bid during that calendar year. Whilst the Group has an excellent record of retentions, rebids naturally bring some risk and can distract from bidding for incremental revenue opportunities with new and existing clients.

Decarbonisation

Over recent years, Mears has created an end-to-end decarbonisation service through investment in expertise and technology to support our clients with the huge challenge of improving social housing stock. In 2023, Central Government committed £3.8bn of Social Housing Decarbonisation Funding (SHDF) to be allocated in England and Wales over a 10-year period. The Group secured three successful bids in respect of the first wave of SHDF applications, securing grant funding on behalf of clients of £5m which doubled-up when combined with client funding. The bulk of this value was delivered by the end of FY23. The SHDF Wave 2 saw Mears submit successful grant applications of £40m, which will contribute to a total works value of around £120m to be delivered over the course of 2024 and 2025. It is the grant funded element that represents new value to the Group's order book. There will be additional opportunities for the Group in the interim Wave 2.2, and Waves 3 and 4 of the SHDF funding applications.

Our market environment

The housing market continues to present opportunity for Mears to support clients both in its traditional areas and some emerging new ones.

The demand for social housing, temporary accommodation and care provision continued through 2023 and provided a solid market for innovation, partnership working and outsourced services and capabilities.

The changes going through the sector are arguably as great as at any point in recent history and follow a period of significant macro-economic challenges. Our optimism about the future growth is based on the developments we see in our markets, which are summarised below.

Chief Executive Officer's review continued

Our market environment continued

Political and regulatory	- The Social Housing (Regulation) Act 2023 received Royal Assent. New consumer standards and a new regulatory regime will come into force. £3.8bn has been allocated to the Social Housing Decarbonisation fund with similar schemes in devolved nations. Data on the energy efficiency of housing in England and Wales shows that most of the Local Authorities have less than half of their dwellings achieving EPC band C or higher. The Government is targeting social homes to reach band C by 2035. - The Decent Homes and Minimum Energy Efficiency standards (MEES) are under review. Both are expected to set higher standards for the sector and a transition period will be agreed for this improvement. - The Regulator's review of damp and mould has demanded better information on stock condition and faster resolution of the issue. - The Procurement Act 2023 will bring with it an enhanced focus on social value within the supply chain. - The Building Safety Act 2022 has raised standards, in particular within high rise buildings, especially in relation to fire safety. - The compliance environment is tightening further, creating opportunities.
Economic	- The period of high interest rates has challenged a number of social housing providers, with high debt burdens. - The 7% rent increase cap imposed in 2023/24 put pressure on providers but this cap has been removed in 2024/25, which should provide financial improvement to the sector. - The cost-of-living crisis has affected customers and colleagues.
Skills	UK-wide skills shortage in trade related roles, particularly those with the right skills to undertake new Net Zero works. This requires a long-term commitment to workforce development to resolve.
Technology	- Data and cyber security issues have increased in the sector with several landlords reporting issues. The Transparency, Influence and Accountability Standards in relation to the diverse needs of tenants, come into force in 2024. - There is increased use of data, analytics, automation, and AI in the housing sector. Many tenants are feeling "left behind" by some of these developments.
Customer expectations	The newly regulated consumer standards in 2024, will further raise expectations and require high quality service solutions and data management.

Our Pathway to Net Zero

We have launched Our Pathway to Net Zero and made this available via our website. We have recruited a Net Zero Manager to co-ordinate our pathway going forward.

The primary focus for 2023 was the development of detailed plans to transition our fleet of company vehicles to electric alternatives by 2030 – this is important to the success of our strategy as 96% (2021 baseline) of our Scope 1 emissions (and 91% when combined with Scope 1 and 2) are from our vehicle fleet. Mears has completed a comprehensive fleet infrastructure and transition planning project to gain a deeper understanding of the detailed steps we need to undertake to transition 85% our fleet to zero carbon alternatives by 2030. We have created a clear transition plan to decarbonise our fleet within the trajectory set out within Our Pathway to Net Zero for implementation from 2024 onwards.

Workforce

We are proud of our achievement of being in the top 10 of the Sunday Times Best Big Companies to Work For survey. This reflects years of commitment to improving conditions and career development for our staff. We see the benefits in low staff turnover, low vacancies, and the ability to grow the skills of our people, to meet the need of changing client requirements. We also recognise the strong correlation between staff satisfaction, customer satisfaction and financial performance.

We value the fact that we have an Employee Director, a Deputy Employee Director focused on supporting people with disabilities, a Trade Representative and a Group wide employee forum. They enable the Board to stay close to our front-line staff and to ensure that decisions are made with the impact on the workforce fully understood.

Customer and client engagement

We monitor our success with customers and clients through a number of measures including the ability to win and retain work, as well as directly measuring the satisfaction of clients and tenants/ service users.

We maintain an independently chaired Customer Scrutiny Board, which produces a report on its findings which is published openly. All our key service changes are reviewed and optimised as well as investigating areas that require improvement.

Our main areas of focus in 2023 were around enhancing the ways that customers could interact with us digitally. While we recognise that this is important to many people, we have not lost sight of the need to maintain the more personal ways of contact that many of our customers still prefer.

Lucas Critchley
Chief Executive Officer
10 April 2024

Where we operate

We operate across all four countries of the UK through a range of local branches. A sample of recent contract activities is given below:

UK wide

£50m

Additional services to be delivered to the Ministry of Defence under the Afghan Resettlement Scheme.

North Lanarkshire

37,000 homes

We are bidding the new Housing and Corporate Maintenance and Investment Services Contract. We are the incumbent of the housing works, but this new contract would see a significant increase in the annual value.

North East

£10m

Ministry of Justice. The Group previously delivered work in the North West and Yorkshire & Humber, supporting prisoners upon release. This is a new geographical area.

Croydon

£60m

10-year contract with London Borough of Croydon delivering responsive repairs, voids refurbishments and planned maintenance works.

London

38,000 homes

Pyramid Plus is the Group's joint venture with A2Dominion. Following the latest contract award, we provide maintenance services to A2D's entire housing portfolio.

Our strategy

Our mission:

Through long-term, sustainable partnerships we will deliver high quality, value-for-money services to meet our customers' needs. We will achieve this through a culture which values people, promotes innovation and encourages continuous improvement.

Our vision:

To be the leading provider of housing services and solutions to the affordable housing market in the UK.

The five pillars underpinning our strategy:

1

To be recognised as the most trusted large private provider working with the public sector

What we achieved in 2023

- The Group secured both its key bidding targets, contributing to an aggregate new contract award of around £175m, a bid conversion rate of over 70%
- In addition, secured new work opportunities with existing Home Office, Ministry of Defence and Ministry of Justice clients

How we measure success

- Bid win rate %
- Annual contract value secured £m
- Client satisfaction %
- Positive media coverage %
- Voice of the Client survey

2

To have the highest levels of customer service in the affordable housing sector where we operate

What we achieved in 2023

- We enhanced the ways that customers could interact with us digitally, whilst not losing sight of the need to maintain the more personal ways of contact
- Achieved 89% customer satisfaction, which is ahead of reported industry norms
- Our Customer Scrutiny Board ensured that all our key service changes are reviewed and optimised as well as investigating areas that require improvement

How we measure success

- Work orders completed on time %
- Right first time %
- Customer satisfaction %
- Customer complaints per 1,000 work orders
- Social value delivered per employee £

Underpinned by our values

We value our customers and communities, putting them at the heart of everything we do.

We value teamwork, supporting each other, sharing ideas and never excluding others.

3

To embrace innovation that drives positive change such as digital and carbon reduction

What we achieved in 2023

- Integration of IRT, following its acquisition in 2022, has been a significant factor behind the excellent progress made in securing decarbonisation opportunities
- The Social Housing Decarbonisation Fund (SHDF) Wave 2 saw Mears submit successful grant applications for £40m, which will contribute to a total works value of around £120m
- Increasingly utilising our in-house Mears Contract Management (MCM) platform to deliver real-time information around buildings performance and compliance
- Enhanced our service offer with the introduction of our customer app, M&Me; this has received positive feedback from tenants and is being rolled out across the business

How we measure success

- Carbon reduction revenues secured £m
- Carbon emissions – Scope 1 and 2 (tonnes)
- Waste diverted from landfill %
- Adoption of customer app %

We value personal responsibility, setting consistently high standards for our work and holding ourselves accountable for achieving them.

4

To maintain and grow a resilient business with long-term partnerships underpinned by a strong balance sheet and cash position

What we achieved in 2023

- Delivered both revenue growth and margin accretion
- Delivered record profit before tax of £46.9m
- Reported an average net cash position of £76.5m, having remained cash positive for every day of 2023

How we measure success

- Revenue growth %
- Operating margin %
- Profit before tax £m
- EBITDA to operating cash conversion %
- Average daily net cash £m
- Order book £bn

5

To attract and retain a committed and engaged workforce

What we achieved in 2023

- Continued improvement in workforce satisfaction, receiving our best ever score on employee satisfaction from the independently run Best Companies survey
- Awarded our 21st consecutive Royal Society for the Prevention of Accidents Gold Award and our 7th consecutive Order of Distinction
- Key employee indicators such as staff turnover have all improved
- Having been one of the first listed companies to have an Employee Director, we have developed and enhanced this role further with a Deputy Employee Director (focused on supporting people with disabilities), and a Trade Representative who leads on interaction with front-line operatives
- The annual pay award directed the highest percentage increases to the lowest paid and was very well received by our staff
- Increased support for mental health and wellbeing. We have asked the MIND charity to overview our programme, to identify scope for further improvement
- We have reduced the gender pay gap and grown the percentage of management roles filled by women

How we measure success

- Employee turnover %
- Great Place to Work score (Best Companies Index)
- Grade 5+ workforce who are women %
- Apprentices completing training and securing long-term employment %
- Accident frequency rate %

We value innovation, being inventive in our approach and empowering people to take reasonable action without fear or discrimination.

Strategy in action

Continued momentum with two contract mobilisations in 2023

Despite challenging market conditions, 2023 saw us secure contracts with London-based Housing Association A2Dominion and Croydon Council to deliver responsive repairs, maintenance and voids services across thousands of homes.

Placing customers firmly at the heart of the delivery, we'll work hard to provide cost-effective services designed around first contact resolution, shorter wait times and clearer communications with customers across both contracts.

In addition to providing residents with a dependable, quality repairs and maintenance service, our skilled workforce will also be taking part in community projects, and we will be providing apprenticeships and workplace opportunities for local people.

We will draw on our wealth of experience and the successful momentum of the London Borough of Havering contract mobilisation to establish a foundation of good performance and trust with our clients.

We are committed to continuous improvement and will use our knowledge and expertise to create opportunities to enhance further the services we deliver and provide our clients across all of our contracts with a best-in-class service.

Supporting those seeking asylum in the UK to thrive in our communities

We provide accommodation and support to people seeking asylum in the UK. We deliver these services in Scotland, Northern Ireland, the North East, Yorkshire and Humber to nearly 30,000 people.

People fleeing their home countries to seek asylum in the UK often arrive with very few possessions. It's our role in those first few days and weeks to provide people with the immediate support they need. We arrange housing, food and access to medical care. Once this initial support has been provided, we provide a settled home in the community where they will live until a decision is reached on their application for asylum.

In addition, and as part of our social value commitment, we also arrange and signpost to a whole host of community and social activities for people in asylum accommodation to get involved in, creating opportunities and helping people to build closer connections with the communities they live in.

Below is a snapshot of just some of the community projects we've been involved in throughout 2023.

Language and digital skills

- Hope English School in Sheffield provides English for Speakers of Other Languages (ESOL) courses. Funded by the Mears Foundation, over 200 service users in the local area took part in the courses which focused on speaking, reading, writing and listening skills.
- Working alongside charity Migrant Help, those service users considered to be in greatest need received either a tablet, smartphone or SIM card as part of a joint digital inclusion project. The digital inclusion project for people seeking asylum and new refugees aims to connect people who are considered digitally excluded from the internet and provides the devices and skills to connect them to essential online services.

Employability

- We work with a range of partners which provide additional support to service users and their families. NE RISE is a service that helps newly recognised refugees in the North East of England to find employment, housing and community integration. We've been working with service users who are actively seeking work to access employability skills through NE RISE.

Wellbeing and exercise classes

- Through our partnership with the Peel Project CIC in Hull, people can access a range of activities which includes youth fitness sessions, women's befriending sessions, group cooking classes, and Boxercise and jiu-jitsu classes.
- Organised through OUTlet, people in our asylum accommodation in East Kilbride have been learning about local wildlife, wood skills and focusing on the positive mental and physical health benefits of being outdoors in nature.

Community projects

- Service users from Wakefield were involved with visual arts charity The Art House and its Mini Sanctuary Gardens project. This saw people making bird feeders, planting flowers and constructing supporting frames for climbing plants. Following on from this service users now volunteer at the Mini Sanctuary Gardens every week.
- For the second consecutive year, we worked in partnership with the Ambassador Theatre Group and the Theatre Royal in Glasgow to offer summer scholarships for asylum seeking children to act, sing, dance and perform to an audience. This year, six children performed in Treasure Island where they learnt new skills, built on their own confidence and most importantly had fun.

“

The peel project has helped my physical health and my mental health and has also allowed me to improve the social aspect of my life.”

Service user
Hull

Strategy in action continued

Integrated end-to-end solution improves customer satisfaction for London Borough of Havering

In 2022, Mears was appointed as the new repairs and maintenance contractor for the London Borough of Havering (LBH). This 10-year contract will deliver an efficient and responsive repairs and maintenance service to over 12,000 homes in the borough.

From the outset, we wanted to ensure that this contract was one of the best examples of this type of partnership approach in London. Following a strong and successful mobilisation period we were able to prove to LBH and to residents that we were a safe pair of hands. By combining our specialist approach to each property with strong resident communication and engagement we put customers at the heart of our approach.

Once our core offering was embedded, LBH looked to us to provide support in resolving some of the issues around the service challenges at the LBH call centre. With data showing that customer satisfaction levels were reducing and call wait times were increasing, it was important that a solution was found that would reverse these trends and provide customers with an improved experience.

“

We have delivered a positive change. Our customers can now speak to an officer with the knowledge to diagnose the issue and raise the most appropriate solution, and more difficult issues can also be immediately resolved by having the wider team supporting the call handlers. This has driven further improvement in our KPIs.”

Daniel Hadrava
Repairs and Voids Manager
London Borough of Havering

Based on our extensive experience of managing call centre functions for clients, LBH made the decision to move its call centre operations to Mears from April 2023. We focused on improved training for call handlers, and better communication between those call handlers and the repairs team. Since that time, there has been a significant improvement in the call handling times and a reduction in the number of abandoned calls and customers' issues are often resolved on first point of contact.

Customers can now manage their own appointments directly through our Resident Appointment Tracking System or can speak directly to a knowledgeable member of our team who can help with changing appointments as well as resolving more detailed queries.

By managing the call centre function as well as the repairs and maintenance contract for the LBH, we have been able to simplify and enhance the experience customers receive which is driving tangible business benefits and boosting customer satisfaction outcomes.

100%

of emergencies completed on time

47%

decrease in customer complaints

93%

reduction in call waiting times

19 seconds

is the time in which calls are answered on average

Improved

first-time fix

Thousands of residents to benefit from energy efficiency upgrades

Utilising the capabilities of our recently acquired IRT business, Mears has looked to create an end-to-end domestic retrofit service to support our clients with the huge challenge of improving the energy performance of social housing stock.

As part of a 10-year repairs and maintenance contract with Crawley Homes valued at £167m, Mears worked in partnership with Crawley to secure £3m of SHDF Wave 1 and 2.1 funding to improve the energy efficiency of its housing stock. Work delivered improved external wall insulation, cavity wall insulation, insulated lofts and replaced windows. We also took on new apprentices locally to support delivery of this work.

Wave 1 funding was delivered across 57 homes, with a value of £670,000 and has delivered estimated savings of more than £400 in bills every year for households. The next phase of the work delivered under the SHDF funding will bring the similar savings to approx. 200 households and will be finalised by September 2025.

The Social Housing Decarbonisation Fund (SHDF) is a Government initiative which provides funding to help improve the energy performance of social homes. The funding aims to reduce fuel stress, reduce carbon emissions, support the green economy through employment opportunities, and improve tenants' comfort, health and wellbeing.

In the SHDF Wave 1, Mears secured three grant funded projects of £5m which tripled up when combined with client funding. The bulk of this value will have been delivered by the end of 2023. The SHDF Wave 2.1 saw Mears support our client partners with successful grant applications of £47m, which will contribute to a total works value of around £120m+ to be delivered over the course of 2024 and 2025. There will be additional opportunities for the Group to support our clients with future funding applications.

We have secured nine SHDF Wave 2.1 projects which will see the energy efficiency of up to 3,500 social homes across England benefit from vital energy efficiency upgrades, including installation of insulation and more energy efficient doors, windows, micro-renewables and heating systems. On these nine projects, the projected savings on energy bills over a year could exceed £1m for residents and will reduce carbon emissions by around 1,300 tonnes. The projects will create or sustain hundreds of jobs, with the roles providing an opportunity for the development of green skills across the workforce and the wider local supply chain.

£5m

Wave 1 SHDF funding secured

£40m

Wave 2 successfully submitted grant applications value

3,500

social homes energy efficiency upgrades

£250

estimated annual household saving

Nine

projects in collaboration with local partners

Our value creation model

Our key stakeholders >

Our clients

We hold strong relationships with Central and Local Government as well as with Housing Associations in the delivery of housing services, typically through long-term partnership contracts.

50

material customers

Our customers and communities

Tenants and service users are at the heart of our service delivery model and a key stakeholder in the decisions we make, although they do not pay us directly for the services they receive. We pride ourselves on delivering the highest level of customer service and remain committed to evolving the way we do things to better serve our customers and communities.

>1 million

tenants and service users

Our people

We employ c.5,500 employees and we recognise the critical part that every colleague plays in delivering our strategy. Our people are our greatest assets. We are proud to have a knowledgeable, dedicated workforce committed to delivering the highest possible customer service. Against the backdrop of the Red Thread, a set of guiding principles which our colleagues work to, we have an open and inclusive culture where colleagues are empowered to bring their whole selves to work.

c.5,500

employees

Supply chain partners

We are selective in who we partner with and choose suppliers which share our values and meet our standards. We work closely with suppliers to develop innovative services and integrate them into our core systems. All suppliers are required to acknowledge the significance of social, environmental and ethical matters and we encourage and expect the adoption of responsible behaviour throughout our supply chain.

>500

suppliers

>750

subcontractors

Shareholders and investors

The work we do is funded by a combination of shareholder funds and retained profits. We have good forward visibility, stable margins, strong cash conversion and limited capital requirements. Free cash flow is largely used to invest further in the business, to maintain low levels of cash and to provide returns to capital providers.

>1,200

shareholders

>£300m

market capitalisation

Read more about **what matters to our stakeholders** on pages 20–21

The natural environment

We seek to deliver services in a way that reduces the emissions across our operations whilst still delivering a quality service and an excellent customer experience. We seek to adapt our services to reduce our carbon footprint and to demonstrate positive sustainability outcomes.

What we do >



We are one of the largest providers of specialist housing solutions across the UK.

We provide property and tenancy management, whilst often providing other welfare services to the tenants.

We operate an intelligent approach to maintenance, using technology to improve our customers' experience and to operate preventative maintenance programmes that reduce levels of emergency repairs.

The shortage of housing in the UK has made investment in housing both a political and an economic priority. We look to provide sustainable alternatives to homelessness, helping reduce the rising problems created by the housing shortage in the UK.

Carbon reduction targets also mean that significant further investment in housing is needed.

Demographic change is a key long-term driver; the ageing population in the UK will create a requirement for more specialist housing, where our broad range of services can be effectively combined through a single partner.

How we do it >

Read about our values on pages 10–11

We are a highly responsible partner, committed to delivering the highest levels of customer service, keeping our promises, creating a great place to work, and tackling issues that matter to people and communities.

Exceptional people

We empower our workforce to be the best they can be and to work to a shared set of values and behaviours. Called our Red Thread, these guiding principles help us achieve more as individuals, as a team and as a company.

Market-leading technology and innovation

Data and technology are an increasingly important part of our proposition and continuous progress in this area allows us to build on our market-leading capability. Our Mears Contract Management (MCM) operating system is a key part of our proposition and a proprietary system to Mears which means we are able to innovate and quickly react to new opportunities or changes in the market.

Adopting innovation to drive positive change is a central pillar within the Group's strategic plan. We will continue to innovate to deliver service improvements and drive efficiencies. We continuously invest in our IT capabilities and we are leading the way in terms of best practice in our sector.

A responsible and sustainable approach

Our ambition is to be recognised as the most trusted large private provider working with the public sector by 2025. Our environmental, social and governance (ESG) approach prioritises where we can have the greatest impact and supports a culture that fully integrates sustainability and purpose beyond profit.

Read more about ESG at www.mearsgroup.co.uk/esg

The value we create

Employees

>£200m

payroll cost
(2022: £191m)

Supply chain partners

>£700m

annual spend
(2022: c.£625m)

Government

c.£193m

taxes paid
(2022: £177m)

Communities

c.£108m

social and economic value generated
(2022: £84.5m)

Shareholders and investors

13.00p

dividend
(2022: 10.50p)

Natural environment

14,900 tonnes

Scope 1 and 2 greenhouse gas emissions
(a reduction of 3%)

Key performance indicators

Non-financial

Customer satisfaction

In order for customers to recommend us, we must deliver excellent service. The Group completed circa 1.9m repairs in 2023 and we subsequently post-inspect around 10% of works orders and encourage tenants to provide feedback so we can deliver further service improvements.

Results from the year

89%

2023	89%
2022	88%
2021	86%

2023 target

88%

Outperformance

2024 target

90%

Customer complaints

Incidents resulting from poor service may result in a complaint. We are committed to dealing with all complaints on an individual basis. We measure complaints per thousand works orders.

Results from the year

1.9 per 1,000

2023	1.9
2022	1.8
2021	2.2

2023 target

1.5

Underperformance

2024 target

1.8

Employee turnover

Retaining a workforce that is motivated and feels valued is critical. The staff churn figure is calculated as the total number of leavers during the year as a proportion of the average headcount.

Results from the year

21%

2023	21%
2022	24%
2021	22%

2023 target

23%

Outperformance

2024 target

21%

Business development

New contract success

Contract success is measured by the total revenues secured as a proportion of the total value of tenders submitted. The Group has historically secured around one in three, by value.

Results from the year

70%

2023	70%
2022	34%
2021	35%

2023 target

33%

Outperformance

2024 target

50%

Order book

Our order book provides us good visibility of those revenues secured for future periods. The order book estimates a value for orders which are contractually secured and takes no account for contract extensions or future inflation.

Results from the year

£2.5bn

2023	£2.5bn
2022	£2.9bn
2021	£2.4bn

2023 target

£4.0bn

Underperformance

2024 target

£3.5bn

Health and safety

Accident frequency rate

The health, safety and wellbeing of our employees is our primary consideration in the way we do business. The accident frequency rate is calculated as the number of reportable incidents (by employees, service users and third parties) divided by the number of hours worked, multiplied by 100,000.

Results from the year

0.27

2023	0.27
2022	0.25
2021	0.18

2023 target

0.24

Underperformance

2024 target

0.26

Financial performance

Revenue growth (continuing activities)

This is measured as the reported revenues in the latest year as an increase (or decrease) on the previous year. We anticipate a revenue reduction in FY24 as the elevated management activities normalise. In FY23, the increase entirely relates to organic growth.

Results from the year

+14%

2023	14%
2022	9%
2021	9%

2023 target

-5%

Outperformance

2024 target

-10%

Adjusted operating margin (continuing activities)

Operating margin is the KPI used to measure and understand the profitability of our activities. The operating profit measure is taken before the amortisation of acquisition intangibles and is stated on a pre-IFRS 16 basis, being the measure that is utilised within the business and understood by our investors and bankers.

Results from the year

+4.7%

2023	4.7%
2022	3.7%
2021	3.4%

2023 target

+3.9%

Outperformance

2024 target

+4.8%

Average daily net debt (excluding lease obligations)

Mears has always fostered a strong "cash culture", whereby the Group's front-line operations understand that invoicing and cash collection are intrinsically linked, and that a works order is not complete until cash is collected in full. The measure is derived by calculating EBITDA as a proportion of operating cash inflow.

Results from the year

£76m

2023	£76m
2022	£43m
2021	£0m

2023 target

£50m

Outperformance

2024 target

£55m

Normalised diluted EPS

Normalised earnings are stated before the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge. The growth in this measure is simply the measure in the latest year as an increase (or decrease) on the previous year.

Results from the year

31.2p

2023	31.2p
2022	24.3p
2021	18.2p

2023 target

23.2p

Outperformance

2024 target

32.5p

Stakeholder engagement

Understanding what matters to our stakeholders

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

Our clients

What matters to them

- Provision of good quality and appropriate affordable housing
- Improving national housing stock
- ESG and Net Zero
- Responding to the increasing regulation in the sector
- Government-led housing solutions such as homelessness, parole and asylum

How we engage across the Company

- Executive team has daily contact with key clients
- Regular discussion of key issues at each Board meeting
- Access to external press and news flow
- Regular contract-specific meetings
- Bringing clients together to solve sector-wide issues
- Voice of the Client feedback programme

Our performance

- Contract retentions on re-bid

Our customers and communities

What matters to them

- Rising expectations for customer service
- Increased understanding by tenants of poor housing and its health effects
- Local employment
- Cost of living crisis
- “Levelling up” agenda

How we engage across the Company

- Review of monthly customer performance statistics, including satisfaction, complaints and compliments
- Regular senior management attendance at tenant panel meetings
- Customer Scrutiny Board
- Local social value plans for each community where we work
- Monitoring of social value measures
- Voice of the Customer programme provides regular perception audit of our service
- Independent ESG Board

Our performance

- Customer satisfaction 89% (2022: 88%)
- Social value created per employee £2,396 (2022: £1,218)
- Customer complaints 1.7 per 1,000 works orders (2022: 1.5)

Our people

What matters to them

- Health, safety and wellbeing
- Open and honest environment
- Fair pay and reward
- Diverse and inclusive workplace
- Opportunities to reach full potential

How we engage across the Company

- Employee Director supported by a Deputy and a Trade Representative to specifically focus on issues raised by front-line staff
- Best Companies survey considered by Board and open and honest feedback provided to all staff
- Voice of Colleague forum that provides feedback on strategic initiatives and considers issues and topics that affect staff across the Group
- Weekly communications and business briefings delivered by CEO and cascaded to all levels
- Detailed review process for all annual appraisals, underpinning succession planning

Our performance

- Accident frequency rate 0.27 (2022: 0.25)
- Employee turnover 21.0% (2022: 24.5%)
- Females in management positions 37% (2022: 35%)
- Top 75 of the Social Mobility Index
- >200 apprentices

Suppliers and partners

What matters to them

- Fair engagement
- Prompt payment
- Sustainable procurement
- Financial stability

How we engage across the Company

- Regular operational meetings with supply chain to continually monitor performance
- Internal audits relating to supply chain and subcontractor management
- Regular meetings with suppliers including training in modern slavery and our Code of Conduct
- Commercial performance is discussed at every Board meeting, including supplier relationships and pressures

Our performance

- Invoices settled within terms %
- Trade credit days 32 (2022: 34 days)

Shareholders and investors

What matters to them

- Strong financial performance
- Strong leadership
- Company culture
- Capital allocation
- Reputation
- ESG performance
- Risk management

How we engage across the Company

- We have a comprehensive programme of investor roadshows and meetings
- The Board approved the full and half-year statements and Annual Report
- Investor relations is a recurring agenda item at all Board meetings and shareholder feedback is collected by brokers and communicated to the Board
- The Chairman and Senior Independent Director are available to meet shareholders to discuss governance matters

Our performance

- Total shareholder return in the last 12 months +55% (2022: +15%)
- Ordinary dividend 13.00p (2022: 10.50p)

Section 172 statement

Stakeholder engagement is central to the execution of our strategy and is critical in developing a long-term sustainable business. The needs of our stakeholders, as well as the consequences of our decisions, are considered in detail by the Board.

The Board of Directors of Mears Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole in the decisions taken during the year ended 31 December 2023.

The Board recognises a wide range of stakeholder interests and seeks to create a culture whereby decisions are made with consideration to the wider impact upon the organisation as well as financial performance and strategic objectives. The Company's Directors recognise their legal duties under Section 172(1) of the Companies Act 2006 to act in the way that is most likely to promote the success of the Company for the benefit of its members as a whole whilst also having regard for the interests of employees, the success of their relationships with suppliers and customers, and the impact of our operations on the community and the environment, whilst maintaining a reputation for high standards of business conduct.

Stakeholder engagement is central to our strategy. Our key stakeholder groups are detailed on pages 20–21. The Board is mindful that it is not always possible to provide a positive outcome for all stakeholders and the Board sometimes has to make decisions based on competing priorities of stakeholders.

Section 172 factor	Annual Report disclosures and additional information
The likely consequences of any decision in the long term	• Company purpose and vision – pages 10–11 • Our value creation model – pages 16–17 • Our strategy – pages 10–11 • Performance review – pages 18–19
The interests of the Group's employees	• Our value creation model – pages 16–17 • Performance review – pages 18–19 • Listening to our stakeholders – pages 20–21 • Diversity and inclusion – page 25 • Social mobility – page 25
The success of our relationships with suppliers and customers	• Responsible payment practices – pages 21 and 98 • Modern slavery – www.mearsgroup.co.uk • Sustainability – pages 23–25 • Non-financial information statement – page 45
The impact of our operations on the community and the environment	• Task Force on Climate-related Financial Disclosures (TCFD) – pages 26–35 • ESG – pages 23–25
Maintaining high standards of business conduct	• Anti-bribery and corruption – www.mearsgroup.co.uk • Whistleblowing – www.mearsgroup.co.uk • Modern slavery – www.mearsgroup.co.uk • Risk management – pages 46–53 • Internal controls – page 73
Acting for the benefit of our shareholders	• Listening to our stakeholders – pages 20–21 • Stakeholder engagement – page 63 • Annual General Meeting – pages 63 and 97

We understand what matters to our stakeholders and we have a suite of KPIs which monitor the impact of the business on our key stakeholders. This is covered in greater detail on pages 18–19.

The principal decisions taken by the Board in the year are detailed on page 61 of the Corporate Governance section.

Sustainability

Our ESG Board acts as a “critical friend” to provide additional challenge to the Group to ensure that Mears does not lose focus and delivers against its ambitious ESG commitments.

The ESG Board's focus in 2023 is summarised below:

Healthy planet

- The Board will monitor the progress of the Our Pathway to Net Zero plan. We also expect to see the growing experience of partnerships within the Social Housing Decarbonisation Fund inform the Company's wider approach – including updates on the three contracts already being delivered and new contracts from Wave 2
- The Board will provide support and guidance to the Net Zero team on decarbonising the fleet and receiving regular updates on the process
- The Board will monitor the progress and work with the Net Zero team to provide support and guidance on how Mears can set the standard for working with landlords to develop decarbonised site stock
- The Board will provide support and challenge to the business on driving forward Scope 3 carbon reductions and use independent knowledge to advise. With a firm ESG approach now set by Mears, the Board has a clear work programme to ensure that these targets are being worked on to achieve them by set dates. We will be investing time to provide strategic and practical support and guidance outside of our quarterly meetings to enable colleagues to highlight challenges in achieving outcomes

Improving lives

- The ESG Board will monitor and support the Mears recruitment strategy to ensure that both are helping to support the levelling up strategy and the creation of sustainable employment
- We will continue to monitor, support and advise Mears on delivering high standards of service and to ensure the Mears Foundation is supporting service users
- We will support the Group in its process of seeking Diversity Development Standard accreditation and monitor the actions arising from the process of gaining accreditation
- The Board welcomes progress to date to improve working terms and conditions and recognises there is more we can consider to provide practical support to people during these challenging times
- In 2024, the Board will monitor social and economic value for new contracts already mobilised in Havering and South Cambridgeshire and pay close attention to resident benefit on the new Croydon contract to ensure best value for those communities

Good governance

- We will support and monitor Mears to develop its procurement and supplier strategy to drive fairer and more ethical procurement
- The ESG Board has heard regular updates from the Foundation and has seen its growth and ability to secure grant funding to deliver more social value
- Having supported the development of a fairness and inclusion strategy, the Board will work to actions arising to ensure implementation

“

This year has been especially significant for Mears as we oversaw the embedding of the first ESG strategy and prepare to scrutinise Mears' own transition to Net Zero. This has and will require a trusted friend and formal scrutiny due to the legal obligations involved.”

Richard Kennedy
Independent Chair of the ESG Board

Sustainability continued

Our ESG Strategic Approach 2022–2030 sets out our ambitious targets and plans in each area of environmental, social and governance.

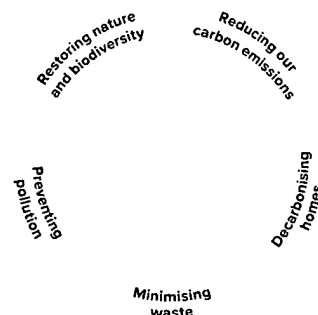
The approach, along with 2023 highlights, can be found on the ESG microsite:
<https://www.mearsgroup.co.uk/esg/esg>

The PLC Board regularly reviews progress against these targets and is supported by the well established ESG Advisory Board, made up of several independent members, whose function is to act as a trusted friend and challenge the Group in the achievement of its ESG objectives.

The latest ESG Advisory Board annual report can be found here:
<https://www.mearsgroup.co.uk/good-governance/mears-esg-board-report-2022-2023>

We are proud of the efforts which the Group has made over many years in demonstrating the positive impact which our activities can have on our workforce, our clients, and our communities and 2023 has been no different.

Healthy planet



2023 in practice

Our aim is to become a carbon neutral organisation, whilst helping clients create safe and sustainable places that will have long-lasting benefits for their communities.

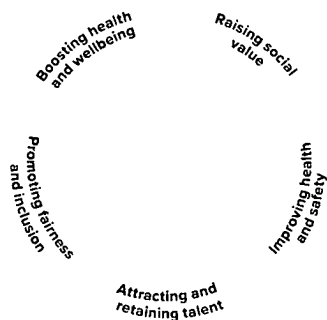
Key 2023 headlines and highlights

- As promised, we launched Our Pathway to Net Zero, which sets out the step change we will implement to achieve our vision to become Net Zero across Scope 1 and 2 carbon emissions by 2030 (Phase 1) and Net Zero across Scope 3 carbon emissions by 2045 (Phase 2)
- We maintained an impressive SHDF win rate and are now supporting nine clients to deliver domestic retrofit solutions to 3,500 homes by September 2025
- We have delivered 59 green space social value projects, which have improved communal spaces across the communities we serve
- We retained ISO 14001 accreditation
- 97.3% of waste diverted from landfill

In 2024 we will continue to focus on:

- Embedding and delivering against Our Pathway to Net Zero commitments
- Assessment and engagement on Scope 3 with supply chain
- Working towards the decarbonisation of our fleet
- SHDF Wave 2.2

Improving lives



2023 in practice

From a solid baseline, our aim is to create an environment that is “fair for all”, which enables customers, colleagues and communities to thrive by improved social impact, health, safety and wellbeing, employee value proposition and fairness and inclusion.

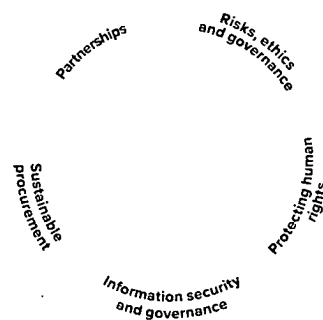
Key 2023 headlines and highlights

- We delivered £108m of economic and social value, as measured by the Social Value Portal, which equates to £20,000 per employee
- The Mears Foundation supported over 100 community projects in the year with £200k of funding allocated; these projects included work to support digital inclusion and improve the welfare of asylum seekers
- We achieved Silver status in the Diversity Development Standard accreditation – EW Group Diversity and Inclusion Standard
- We launched our fairness and inclusion policy
- We were awarded the Royal Society for the Prevention of Accidents Order of Distinction (21 consecutive Golds) Award for Health and Safety Performance
- We retained and improved our listing in the top 75 of the Social Mobility Index for the fourth year running
- We were recognised as one of the Best Big Companies to Work For category, following participation in the Best Companies b-Heard national colleague survey.

In 2024 we will continue to focus on:

- Improving social value participation and volunteering
- Keeping people safe
- Embedding and delivering our fairness and inclusion approach and policy
- Working towards a gold status in Diversity Development accreditation
- Evolving and developing our employee value proposition, supporting attraction, retention, mental health and wellbeing

Good governance



2023 in practice

The Mears Executive team works to the highest level of transparency and good governance. Our aim is to take this approach throughout our business to ensure that ethical behaviour, transparency and openness form the heart of our culture at every level.

Key 2023 headlines and highlights

- We achieved Cyber Essentials and Cyber Essentials Plus, the first security accreditation for the entire Group
- We achieved ISO 27001 accreditation for the first time in facilities management
- We improved ESG assessments for Sustainalytics, FTSE4Good and MSCI
- We launched our sustainable procurement strategy
- We won the Gold Award at this year's UK Customer Experience Awards for Best ESG Framework in Customer Experience

In 2024 we will continue to focus on:

- Ensuring all tier 1 suppliers are fully compliant with Group policy
- Building strong and lasting relationships with clients, investors and funders, holding ourselves to account through scrutiny
- Becoming service leaders, for all areas of our business, across the public sector
- Embedding and implementing our sustainable procurement approach

Task Force on Climate-related Financial Disclosures (TCFD)

In line with our strategic and operational focus on ESG, we have aligned our processes with the TCFD recommended disclosures. Our approach has been refined following a review in conjunction with our external sustainability advisers and we will continue to develop our policies, processes and approach in line with TCFD recommendations. We have considered our 'comply or explain' obligations under the UK's Financial

Conduct Authority Listing Rules and have detailed in the table below the TCFD recommended disclosures with which we fully (green) or partially (amber) comply. We are fully compliant with nine disclosures and partially compliant with two disclosures for the year ending 31 December 2023. Further improvements have been identified as part of our TCFD review which will be implemented during 2024.

Consistency with
recommended
disclosure

TCFD recommended disclosure

Disclosure 1: Describe the Board's oversight of climate related risks and opportunities.

Disclosure 2: Describe management's role in assessing and managing climate related risks and opportunities.

Disclosure 3: Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term.

Disclosure 4: Describe the impact of climate related risks and opportunities on the Company's businesses, strategy and financial planning.

Disclosure 5: Describe the resilience of the Company's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

Disclosure 6: Describe the organisation's processes for identifying and assessing climate related risks.

Disclosure 7: Describe the processes for managing climate related risks.

Disclosure 8: Describe how the processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management.

Disclosure 9: Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

Disclosure 10: Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and related risks.

Disclosure 11: Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

Disclosure 1

Responsibility for ESG and risk management is embedded within our corporate governance framework and is owned by the Board. The Audit and Risk Committee and Compliance Committee review the principal risks twice a year, of which climate change and environmental responsibility are seen as emerging risks. The Remuneration Committee determines Remuneration Policy and considers how climate related risks and opportunities can be considered when setting reward and incentives. See pages 60–61 for further details on the activities of the Board and its Committees.

Our independently chaired ESG Board oversees delivery of our ESG Strategic Approach and ensures that climate related risks and opportunities are appropriately assessed and managed, inclusive of wider management functions throughout the organisation that have climate related roles and responsibilities. For example, our Health, Safety and Environment function supports the delivery of our environmental strategy as part of our ISO14001 accreditation, with a particular focus on waste management, recycling and broader environmental management.

The scrutiny provided by the ESG Board is detailed on page 23. It provides additional focus and challenge to the business and ensures the Group's ESG strategy is appropriate and that plans are in place and are being closely monitored. The ESG Board interacts closely with the senior management team on ESG related risks and opportunities, including climate related issues. Governance arrangements for ESG have been enhanced to incorporate Our Pathway to Net Zero within a Healthy Planet delivery group of the ESG Board with additional Improving Lives and Good Governance delivery groups to ensure a joined-up approach across the business on delivery and reporting.

Our approach to climate related risks and opportunities is fully supported by the Group net zero strategy – Our Pathway to Net Zero, launched in 2023. The strategy is a living document updated annually as our thinking and approach evolves further. The Executive Directors are responsible for delivering this plan. See pages 33–35 for further detail on 2023 net zero activity and plans for 2024.

The senior management team will continue to embed climate related roles and responsibilities throughout our functions and operations during 2024 and ongoing.

Disclosure 2

The Executive Directors provide strategic direction to the Group and carry ultimate responsibility for operational delivery, ESG, and financial performance. The single focus of the business as a leading provider of specialist housing services means that the senior management team is highly knowledgeable as to the needs of its stakeholders and associated operational challenges. The senior management team holds a deep understanding of the housing market and how it is likely to develop in the future, often driven by regulatory and political changes. Positively, given the single strategic focus, the senior management team can more easily identify and react to climate related risks and opportunities. Senior management team members are individually responsible for reviewing, confirming, and mitigating risks in their own areas, including those relating to climate. The Executive Directors consider climate related issues when

considering business opportunities given the impact climate targets will have on our operations, which is further reflected in the risks and opportunities detailed in Disclosure 3.

The organisational risk management structure and inter-relationships between governance structures on management of risk and opportunities are detailed on page 46.

Disclosure 3

Climate risks are assessed as part of our integrated risk management framework detailed on pages 46–49. Whilst climate related risks are not considered principal risks given the likelihood of occurrence and severity of the impact assessed during our review, the Board recognises climate change and environmental responsibility as emerging risks. The Board also recognises the importance that the Group identifies and manages the risks associated with changes in environmental legislation relating to housing, transportation, and corporate reporting requirements.

The Board recognises that the Group is well placed to benefit from new revenue opportunities that this brings and there is a risk that the Group does not maximise the opportunities presented by domestic retrofit energy efficiency in the affordable housing sector.

Identified climate related risks and opportunities have been categorised over the following timescales: short term (within 12 months/by 2025), to reflect the potential for immediate impact), medium term (within 10 years/by 2030, aligned to our target to achieve net zero across Scope 1 and 2 emissions by 2030) and long term (10+ years/by 2045, aligned to our target to achieve net zero across Scope 3 emissions by 2045). Greater focus has been placed on those risks and opportunities categorised as short and medium term, as these may impact within the time horizon modelled by the Board in respect of the five-year plan and the Viability Review. Those risks anticipated to develop over the long term will be monitored by the Board over time and through the governance arrangements outlined above, including a focus on where there are geographical differences in the risk profile.

Task Force on Climate-related Financial Disclosures (TCFD) continued

Disclosure 3 continued

Risk description	Type	Impact	Potential unmitigated financial impact			Mitigation
			Short term (2025)	Medium term (2030)	Long term (2045)	
Extreme weather events. Heatwaves, extreme cold, flooding impacting on Mears colleagues, customers/ service users, and damage to assets.	Physical (Acute)	Increased costs and service disruption	Low	Medium	Medium	- Enhanced health and safety standards and processes. - Planned preventative maintenance schedules aligned to seasonal changes and project level risk registers. - Business continuity plans will be adapted at Group and local level.
Carbon pricing, taxes and levies. Increase in petrol/diesel costs of Mears corporate fleet during fleet decarbonisation transition. Service and cost risk associated with fossil fuel van and electric van availability and associated infrastructure requirements.	Transition (Policy and Legal)	Increased costs	Medium	High	High	- Strategy in place to transition 100% of Mears corporate car fleet and 95% of Mears corporate van fleet to zero emission alternatives by 2028 and 2030 respectively, alongside appropriate charging infrastructure requirements prioritising lowest risk transition initially. - Additional activity on fleet utilisation review, deployment efficiency and other sustainable travel options. - See Our Pathway to Net Zero for further details on pages 33–35.
Increase in materials costs and reduced availability, including low carbon alternatives required to transition. Expected UK Carbon Border Adjustment Mechanism legislation will place a carbon price on emissions-intensive products.	Transition (Market, Policy and Legal)	Increased costs and service disruption	Medium	Medium	High	- Sustainable procurement plan in place to monitor and mitigate risk with supply chain partners. - Scope 3 screening assessment and mapping exercise being undertaken to establish further opportunities to work with our supply chain partners to reduce emissions, support climate adaptation, and mitigate risk.
Reduced investor and stakeholder confidence on failure to deliver ESG, net zero and related sustainability and climate related strategies, regulatory and reporting requirements.	Transition (Reputation)	Reduced investment and reputational damage	Medium	High	High	- ESG Strategic Approach established with robust governance arrangements and oversight from Board. - Our Pathway to Net Zero strategy in place to achieve net zero by 2030 (Scope 1 and 2) and 2045 (Scope 3). - Utilisation of external sustainability specialist to support strategy implementation and provide independent verification of Mears GHG carbon footprint annually.
Offsetting and removal of residual emissions.	Transition (Chronic, Reputation)	Financial risk and reputational damage	Low	High	High	Specific milestone requirement for the ongoing monitoring of voluntary and compliance carbon offsetting and removal solution within Our Pathway to Net Zero.

Opportunity	Type	Impact	Potential unmitigated financial impact			Mitigation
			Short term (2025)	Medium term (2030)	Long term (2045)	
Increased customer demand and growth due to climate change. Significant opportunities in the growing field of domestic retrofit to support UK Government 2050 net zero target (and devolved Scottish Government 2045 target), which is complementary and additive to the services already provided by Mears.	Transition (Market, Reputation)	Increased revenue, profit and reputation	High	High	High	- Specialist net zero team in place and established domestic retrofit service to design solutions and support clients to reduce carbon emissions of their housing stock, reduce energy bills for customers and maximise available Government funding. - Capacity and capability enhanced through acquisitions. - Development of a 'Green Skills Academy' being explored to provide a hub to develop our expertise. - Recruitment strategy in place to support green skills attraction and recruitment.
Reduced energy costs. Significant opportunities to mitigate rising energy costs by transitioning our Mears corporate estate and fleet to low and/or zero carbon alternatives.	Transition (Policy and Legal, Reputation)	Reduced costs and increased reputation	Medium	High	High	- Strategy in place to transition 100% of Mears corporate car fleet and 95% of Mears corporate van fleet to zero emission alternatives by 2028 and 2030 respectively, alongside appropriate charging infrastructure requirements prioritising lowest risk transition initially. - Strategy in place to decarbonise our corporate estate to maximise energy efficiency and renewable energy generation.
Climate thought leadership. Opportunity to enhance Mears standing and influence policy direction on climate related challenges with UK Government, devolved administrations, industry bodies and clients.	Transition (Reputation)	Increased reputation	Medium	High	High	- Mears is an active member of industry and UK Government domestic retrofit policy development and technical advisory forums, including the National Home Decarbonisation Group. - External thought leadership strategy in place to influence policy and raise Mears' profile as a thought leader in domestic retrofit and climate related areas. - Embedding a net zero culture an explicit theme within Our Pathway to Net Zero strategy.

Task Force on Climate-related Financial Disclosures (TCFD) continued

Disclosure 4

The impacts of climate related risks and opportunities highlighted in Disclosure 3 are incorporated into Mears' business, strategy and financial planning. Our approach to climate risk is incorporated within our five-year strategic plan, which clearly states the Board's aspiration to become leaders in domestic retrofit within social housing and achieve net zero.

Our in-house specialist net zero team makes us an integral part of the green economy. Mears has successfully supported 13 clients to date to design investable propositions that have secured public funding. Mears is supporting those clients to deliver domestic retrofit improvements to around 3,500 homes to reduce customers' energy bills and improve their quality of life, as detailed within the Chief Executive Officer's Review on pages 6–9. Mears will continue to work with our network of clients and partners to further support them realise their net zero and climate related ambitions, which will support business growth for Mears.

Our Pathway to Net Zero will bring about significant benefits for Mears in reducing our carbon emissions and energy costs as well as developing our standing as a thought leader on climate related issues. Achieving net zero is one element of our overall approach to sustainability developed within our ESG strategic approach, which is summarised on pages 33–35, enabling Mears to have a more joined up and integrated approach to achieving our net zero commitments alongside our wider ESG priorities.

The nature of the business model provides partial protection from negative financial risk where existing contractual mechanisms are in place. This will continue to change in the medium term as customers develop and embed more stringent procurement evaluation criteria and commercial contractual clauses in line with the developing climate agenda. To monitor this, the Group participates in relevant industry body working groups and technical advisory panels.

A further benefit will be to demonstrate to investors with a focus on ESG, that Mears is an attractive investment, that we take climate related risks seriously and have a robust plan to achieve net zero and wider positive sustainability outcomes, and that our expertise will present a competitive advantage when tendering for contracts. In addition, Mears has a significant opportunity to continue working closely with our clients to support them to achieve their wider net zero and climate related ambitions.

We recognise the impact that climate change may have on our strategy, operations, and financial planning and are taking action to address the implications of climate related risks on service delivery, physical assets, supply chain, corporate reputation, and the regulatory environment as detailed in Disclosure 3.

Disclosure 5

It is imperative that Mears responds quickly to disruptive events, whether planned or unexpected. Our climate change related risks and opportunities have been informed by recognised climate change scenarios which are consistent with the 2°C or lower ambition for climate change, based on a 2050-time horizon. These scenarios and recognised best practice guidance have also helped to inform the development of Our Pathway to Net Zero strategy. To support the development of the strategy, we have completed the development of a series of carbon reduction scenarios within our trajectory analysis covering our Scope 1 and Scope 2 GHG emissions. Following recognised best practice, each scenario is benchmarked against the Science Based Targets Initiative's 1.5°C reduction pathway and is reviewed and updated annually as part of the ongoing development and evolution of the strategy.

The business has performed a limited qualitative assessment to start to consider more widely the impact of climate related risks on the business based on a 2 degree or lower climate change scenario. Our Pathway to Net Zero strategy was informed by a trajectory analysis as part of our modelling to reduce Scope 1 and 2 emissions to achieve net zero by 2030. The trajectory analysis was also benchmarked against the Paris Agreement to limit global warming to 1.5°C. The scenarios are summarised below with scenario 3 adopted:

- Business as usual – no active decarbonisation activity
- Initial behaviour change and fleet deployment efficiency
- Enhanced behaviour change, fleet deployment efficiency, office energy efficiency and fleet EV transition (Adopted scenario)

As part of the above, Mears has carried more detailed work to consider the impact of actions linked to switching from fossil fuels to low-carbon alternatives for fleet operations. Transition risks associated with fleet are recognised as a priority area given the significant impact to Mears over a relatively short term. The business has not yet completed a quantitative climate change scenario analysis, and this will be subject to a future assessment once a more detailed qualitative assessment has been performed. This will consider the wider impact of climate related risks and opportunities on our business, for example on our supply chain, and build on the work undertaken to date.

The Board recognises the criticality of remotely managing frontline operatives and the Group's dependence upon our supply chain, both of which can be disrupted by extreme weather events and related risks. The Group's business model and operating strategy have low reliance on capital assets, and the leasing model for the Group's property assets, many of which can be terminated at short notice at no cost, ensures risk from physical damage and environmental obligations remain with the ultimate asset owner. As our climate related risks and opportunities evolve, Mears will revise our strategies and operational models where required, to ensure that impacts are mitigated, and opportunities are maximised as much as possible.

Further improvements to this disclosure have been identified and will be implemented during 2024 including further detail on impact on how our strategies, policies and processes have been impacted and updated due to climate related risks and opportunities and updated trajectory analysis.

Disclosures 6, 7 and 8

The senior management team, supported by the enhanced ESG governance framework detailed on page 23, reviews and identifies the key risks, and climate related risks and opportunities are considered as part of that process. Climate related risks are not considered in isolation, and the process is integrated into the Group's overall risk management approach. Additionally, climate related risks are identified via existing risk management processes at divisional and departmental level within business continuity plans, division and departmental risk registers, and through ISO 14001 compliance. Mears will continue to further enhance these management processes moving forwards.

The Board has carried out a robust assessment of the principal risks, including climate related risks, facing the Group, and risks that threaten the business model, strategy, and future performance (see Disclosure 3). Risks are prioritised based on the likelihood of occurrence and the severity of the impact on the Group. This severity is measured using various criteria such as financial, customer service, growth, regulatory compliance, and reputational criteria. Opportunities are also considered using the same methodology. This demonstrates that Mears measures more than simply the financial impact of the risk and our approach is used to escalate risks and drive our mitigation plans.

Disclosures 9, 10 and 11

The Board recognises the importance of continuing to monitor our climate related targets, and further key performance measures will be considered in due course.

The Group's carbon emissions data is reported on page 32. The Group is committed to undertaking annual external independent verification of our GHG emissions and to implement recommendations for improvement in monitoring as part of our best practice carbon management approach.

The Group has set other climate related metrics and targets in our wider ESG plan. Notably the Group monitors waste diverted from landfill, as detailed on page 24, and is working in partnership with our National Waste partner to embed improvements to achieve an improved Zero Waste index score which is monitored and reported quarterly, aligned with the ESG Strategic Approach goals. In addition, emissions from waste have been included in our GHG emissions reporting for 2023 to further enhance our reporting approach and transparency.

This first phase of Our Pathway to Net Zero will focus on reducing our Scope 1 and 2 emissions. Our 2021 footprint is our baseline year used to inform target setting and act as benchmark to monitor progress against.

The approach to decarbonising our emissions sources will differ based on the level of direct control and ownership of each GHG emissions source. As such, we will focus initial decarbonisation efforts on GHG emissions arising from activities within our direct control. Our Pathway to Net Zero is detailed on pages 33–35 and will take a theme-based approach. By identifying different activity streams across the business, our Net Zero vision is broken down into manageable action areas which can be carried out across all our operations, enabling collaboration and accountability.

Mears Group's GHG emissions were calculated for the 2023 calendar year and include Scope 1 and 2 GHG emissions and selected Scope 3 emissions. Emissions for this period were 50,155 tonnes CO₂e in total across Scope 1, 2 and 3 emissions (increased Scope 3 emissions recognising enhancements to Scope 3 GHG emissions measurement and reporting in 2023), of which 15,041 tonnes CO₂e related to Scope 1 and 2 emissions – a reduction of 6.6% against Our Pathway to Net Zero phase 1 baseline.

Mears enhanced its measurement and reporting of Scope 3 emissions during 2023 and is in the process of completing a Scope 3 screening assessment and mapping exercise to better understand the type and accuracy of data that is available to support reporting. The assessment will consider all Scope 3 categories (as outlined by the GHG Protocol), including upstream and downstream transportation and purchased goods and services within our supply chain which are currently not included within our footprint.

We will update our carbon footprint across Scope 1, 2 and 3 if any material change is identified as part of our strategy development and delivery to ensure full transparency. This will ensure we can maximise opportunities in reducing our emissions and amplify our chances of success in delivering our strategy.

The Company does not fully align with Disclosure 10, as Scope 3 emissions are partially collected. Our Scope 3 screening assessment will establish our broader organisational boundary to be followed by a mapping exercise to strengthen our understanding of wider Scope 3 emissions (including from those sources reported below) and better quantify our indirect emissions impact. This allows Mears to identify any additional climate related risks and opportunities and develop actions to reduce Scope 3 emissions.

Mears actively participates in external sustainability reporting programmes and our climate related scores have increased in 2023 following implementation of the activities highlighted above.

Further improvements to Disclosure 11 have been identified in relation to Scope 3 emissions and will be implemented during 2024 to consistently improve our emissions reporting, better quantify the impact on our indirect operations and identify actions to influence their reduction.

Task Force on Climate-related Financial Disclosures (TCFD) continued

Greenhouse gas emissions

The Group's carbon emissions data for 2023 is provided below.

The data set out in these tables represents emissions and energy use for which Mears Group PLC is responsible and is incorporated by reference in the Directors' Report. To calculate our Group emissions, we have used the main requirements of the GHG Protocol Corporate Standard.

These figures have been generated from independently provided reports of carbon emissions or energy usage from a variety of sources and, where necessary, energy usage has been converted into carbon emissions using the UK Government GHG Conversion Factors for Company Reporting.

We have also calculated our Scope 2 emissions using the market-based methodology to recognise the purchasing of zero carbon energy.

Our reporting follows the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, applying the operational control approach (organisational boundary). It was determined that an operational approach would be most appropriate given the nature of our business operations and ability to directly control or influence carbon reduction activities.

This enables us to have more opportunities over time at a local level to impact and reduce our carbon footprint to meet our Net Zero carbon aspirations.

The Group takes active steps to drive improvements in energy efficiency.

Our policy is to restate carbon and energy figures in consideration of changes in methodologies, improvements in accuracy or discovery of errors in previous years' data. Emissions data has been restated this year in respect of a change in methodology along with some minor improvements in accuracy.

Our gross carbon emissions have been classified in the following way:

Scope 1 – Direct emissions from: vehicle use (owned and leased) and heating fuels used in buildings.

Scope 2 – Indirect emissions from: electricity used in our buildings. We report location-based emissions (considering the UK grid average).

Scope 3 – Indirect emissions from energy use in buildings outside of our control; business travel by air and taxi; hotel stays; water supply; and waste recycling and disposal.

Out of Scope – Indirect emissions from: biofuel usage from all divisions in line with Defra reporting guidelines.

Scope	Units	2023	2022	2021
Scope 1 – UK	Tonnes CO ₂ e	14,104	14,364	15,373
Scope 2 – UK location based	Tonnes CO ₂ e	753	956	734
Scope 2 – UK market based	Tonnes CO ₂ e	–	–	150
Scope	Units	2023	2022	2021
Intensity	Tonnes CO ₂ e/£m revenue	13.64	15.96	18.34
Energy consumption	MWh	63,306	65,514	68,883

Our Pathway to Net Zero

Our Pathway to Net Zero is an integral part of our ESG Strategic Approach and supports the UK Government's aim to achieve Net Zero by 2050 and sets out the step change we are implementing to achieve our vision to become:

- Net Zero across Scope 1 and 2 carbon emissions by 2030 (Phase 1)
- Net Zero across Scope 3 carbon emissions by 2045 (Phase 2)

Our first phase is focusing on our commitment to achieve Net Zero across Scope 1 and 2 carbon emissions by 2030. We are taking this phased approach as Scope 1 and 2 emissions are in our direct control and are better understood, which in turn enables us to tackle them more effectively.

This approach is enabling us to prepare the groundwork of activity to inform Phase 2 to achieve Net Zero across Scope 3 emissions by 2045. Mears is in the process of undertaking a Scope 3 screening assessment to better understand the type and accuracy of data that is available to support reporting.

2023 has been a key year to put the foundations in place for Phase 1 of our strategy which will form the basis for future actions to reduce our emissions and achieve our priorities.

- ✓ Launched Our Pathway to Net Zero on the Mears website
- ✓ Development of detailed plans to transition our fleet of company vehicles to electric alternatives by 2030 – this is critical to the success of our strategy as 96% of our Scope 1 emissions (and 91% when combined with Scope 1 and 2) are from our fleet. This project involved:
 - Engagement of specialist external resource to support creation of the detailed transition plan
 - Extensive engagement with our colleague company vehicle drivers to inform our planning so that it can be tailored to individual colleague needs
 - Identification of priority available charging infrastructure requirements within Mears
 - Creation of clear transition plan to decarbonise our fleet within the trajectory set out within Our Pathway to Net Zero for implementation from 2024 onwards

- ✓ Implemented a salary sacrifice green car scheme to provide colleagues with discounted access to electric vehicle and hybrid vehicles to reduce our travel emissions in non-company vehicles
- ✓ Recruited a Net Zero Manager to co-ordinate delivery of Our Pathway to Net Zero
- ✓ Updated our Fleet Environmental Policy
- ✓ Commenced a Scope 3 screening assessment to establish our organisational boundary for Scope 3 emissions which will be followed by a phased Scope 3 mapping process during 2024/25
- ✓ Enhanced our approach to best practice carbon management emissions mapping and reporting
- ✓ Completed an external independent verification of our 2023 GHG carbon footprint. Recommendations as part of the independent external verification are being considered and will be actioned in 2024
- ✓ Updated our Carbon Reduction Plan pursuant to Procurement Policy Note 06/21 to reflect Our Pathway to Net Zero and continue to refine it as our strategy evolves
- ✓ Developed a "Carbon Disclosure Framework" to provide data to our clients on carbon emissions and support a growing number of clients with their carbon reporting needs
- ✓ Commenced development of minimum level energy performance expectations for Mears corporate estate
- ✓ Enhanced our governance arrangements for ESG and Our Pathway to Net Zero to ensure a joined-up approach across the business on reporting for implementation in 2024
- ✓ Commenced work with procurement and our supply chain partners to create a "Sustainable Sourcing" policy and commitment statement

Task Force on Climate-related Financial Disclosures (TCFD) continued

Our Pathway to Net Zero continued

Our Pathway to Net Zero is taking a theme-based approach. The table below summarises the five key themes or green thread of Our Pathway to Net Zero strategy and includes a description of each theme and what success looks like by 2030 to achieve 90% reduction in carbon emissions by 2030 in Phase 1.

Theme	Aim	Primary emissions reduction impact	Expected outcome by 2030 (Phase 1)
Creating a Net Zero culture	Embed a Net Zero culture across Mears Group with colleagues, partners, residents and suppliers	Scope: 1, 2, 3	An embedded Net Zero culture that is a "green thread" in all policies and practice, demonstrated by our colleagues through our service delivery
Green travel and transport	Reducing and removing emissions arising from owned/leased fleet and supporting our own staff to utilise sustainable travel options	Scope 1, 3	Transitioned 95% of our corporate fleet of vehicles to electric and implemented charging infrastructure at our offices and colleagues' homes. Sustainable travel and transport policies and behaviours are embedded across the organisation and within our supply chain
Climate conscious service delivery	Service design that reduces emissions across our operations whilst still delivering an excellent customer experience	Scope: 1, 2, 3	All Mears service areas have adapted and contributed to reducing our organisational carbon footprint and can demonstrate positive sustainability outcomes for clients, customers, communities and the climate
Efficient buildings and estate planning	Reducing and removing emissions from existing office/property portfolio, improved approach to strategic estate planning	Scope 1, 2	A highly efficient corporate office estate characterised by low energy consumption and renewable energy generation as standard
Sustainable procurement and supply chain	Increasing the renewable energy provision and working with our supply chain partners to identify emissions hotspots to inform a programme of supplier engagement, influence and support to reduce emissions across the services we deliver	Scope: 1, 2, 3	Mears uses 100% renewable energy and continues to work in partnership with our supply chain partners to reduce their carbon emissions across all services delivered for our clients, customers and communities

It is critical that we continue to keep up momentum going forward and build on the solid base created in 2023 following launch of our strategy.

Priorities identified for 2024 include:

- Commence implementation of our fleet transition plan following the conclusion of our detailed fleet transition plan to include:
 - Phased implementation of home charging infrastructure
 - Colleague electric vehicle charging reimbursement arrangements
 - Pilot electric vehicle transition at Mears contract estates
 - Strategic charging location pilots with partners and clients
 - Fleet deployment efficiency programme to reduce unnecessary and inefficient travel
- Commence the creation of bespoke tailored electric vehicle transition plans with Mears clients to effectively manage the transition to electric vehicle and improve deployment efficiency of the fleet

- Complete pilot Mears office energy audits to inform toolkits to reduce energy consumption, emissions and costs to include:
 - Decarbonisation of our buildings to reduce energy consumption, emissions and cost
 - Identify service-related changes we can implement to reduce emissions
 - Identify behaviour-related changes our colleagues can undertake to reduce emissions and inform the creation of a toolkit of practical measures
 - Link with fleet electric vehicle charging infrastructure and electric vehicle transition pilot
 - Create a bespoke tailored carbon reduction plan for the building, fleet and services delivered to clients from that location
 - Provide a blueprint for other Mears corporate contract and office estate and services decarbonisation activity
- Commence implementation of toolkits following pilots to reduce energy consumption, emissions and costs across our corporate estate
- Recruit additional in-house specialist expertise in the Net Zero team to deliver the strategy and support our clients, partners and communities
- Complete Scope 3 screening assessment, agree organisational boundary and commence Scope 3 mapping exercise internally across the business and externally with our supply chain partners
- Continue to work with our supply chain partners to understand and reduce our Scope 3 emissions associated with services they deliver on our behalf
- Continue to enhance our approach to reporting, best practice carbon management using IT and systems as an enabler
- Continue annual independent external verification of our GHG carbon footprint
- Implement a corporate estate leasing policy to minimise energy consumption and costs
- Develop and implement further learning and development programmes for Mears colleagues to embed a Net Zero culture
- Implement enhanced governance arrangements for ESG and Our Pathway to Net Zero to enable a more joined-up approach across the business on reporting
- Embed climate-related social value activity with strategic projects in communities
- Update Our Pathway to Net Zero strategy in Q4 2024

Routemap

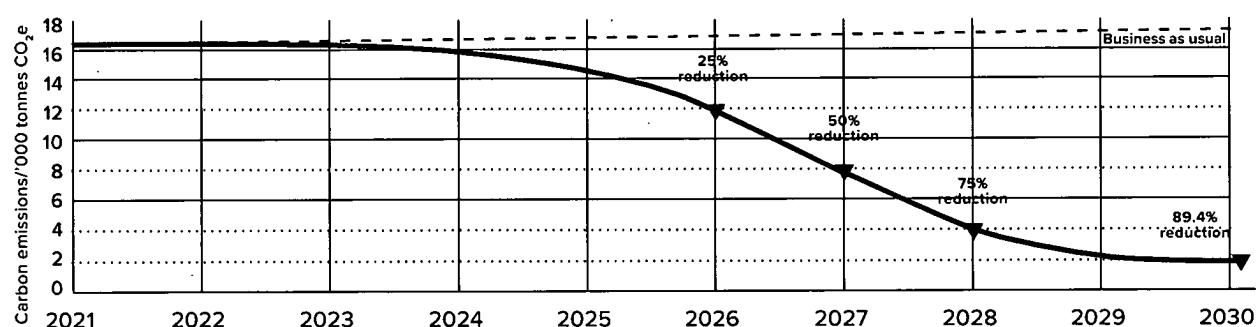
By 2030 we aim to reduce our Scope 1 and 2 emissions by c.90%

Key milestones 2023–2027:

- 5% reduction in fleet emissions through deployment efficiency by 2025
- 100% electric vehicle company car transition by 2026
- 25% reduction in gas and electricity consumption in our offices by 2027
- 40% electric vehicle van transition by 2027
- Embedded Net Zero culture across our business

Key milestones by 2030:

- 26% reduction in fleet emissions through deployment efficiency
- 58% reduction in gas and electricity consumption
- 85% transition to electric vehicle vans
- 100% renewable energy in our offices
- Offset residual emissions



Financial review

“

Mears fosters a strong ‘cash culture’ which has underpinned strong cash performance over many years.”

Andrew Smith
Chief Financial Officer

Adjusted operating margins

4.7%
(2022: 3.7%)

Adjusted diluted EPS

31.24p
(2022: 24.69p)

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

Alternative performance measures (APMs)

The Strategic Report includes both statutory and adjusted performance measures. APMs are considered useful to stakeholders in assessing the underlying performance of the business, adjusting for items which could distort the understanding of performance in the year and between periods, and when comparing the financial outputs to those of our peers. The APMs have been set considering the requirements and views of the Group’s investors and debt funders among other stakeholders. The APMs and KPIs are aligned to the Group’s strategy and form the basis of the performance measures for remuneration.

These APMs should not be considered as a substitute for or superior to International Financial Reporting Standards (IFRS) measures, and the Board has endeavoured to report both statutory and alternative measures with equal prominence throughout the Strategic Report and financial statements.

The APMs used by the Group are detailed below with an explanation as to why management considers the APM to be useful in helping users to have a better understanding as to the Group’s underlying performance. A reconciliation is also provided to map each non-IFRS measure to its IFRS equivalent.

A reconciliation between the statutory profit measures and the alternative adjusted measures for both 2023 and 2022 is detailed below.

	Note	2023 £'000	2022 £'000
Profit before tax	Statutory	46,918	34,944
IFRS 16 profit impact	See below	9,093	2,201
Finance income (non-IFRS 16)	Note 5	(4,655)	(1,268)
Operating profit pre-IFRS 16¹	APM	51,356	35,877
Amortisation of software and acquisition intangibles	Note 13	1,879	2,300
Depreciation and loss on disposal (non-IFRS 16) ³	Note 14	7,385	8,023
EBITDA pre-IFRS 16¹	APM	60,620	46,200
IFRS 16 profit impact	See below	(9,093)	(2,201)
Finance costs (IFRS 16)	Note 5	9,898	7,610
Depreciation, loss on disposal and impairment (IFRS 16) ²	Note 15	56,951	43,259
EBITDA post-IFRS 16¹	APM	118,375	94,868
Amortisation of software and acquisition intangibles	Note 13	(1,879)	(2,300)
Depreciation, loss on disposal and impairment (IFRS 16) ²	Note 15	(56,951)	(43,259)
Depreciation and loss on disposal (non-IFRS 16) ³	Note 14	(7,385)	(8,023)
Operating profit post-IFRS 16¹	APM	52,161	41,286

1 Operating profit and EBITDA measures include share of profits of associates.

2 Includes profit on disposal of £180,000 (2022: £228,000) and impairment of £6,223,000 (2022: £nil).

3 Includes loss on disposal of £80,000 (2022: £2,000).

	Note	2023 £'000	2022 £'000
Revenue	Statutory	1,089,327	959,613
Adjusted operating profit pre IFRS 16	APM	51,356	35,877
Adjusted operating margin %	APM	4.7%	3.7%

The Group's adjusted PBT measure has historically been reported before charges for the amortisation of acquisition intangibles. The Directors consistently explained their rationale for adjusting for this charge, which is a treatment understood and supported by the Group's investors. This charge has historically been significant; for instance, in 2021 it was £7.7m. However, in the absence of significant recent acquisitions, the amortisation charge has reduced to £0.2m per annum and, at this level, is considered de minimis. As indicated in the previous year, this adjustment has not been applied in 2023 and the comparative measure for 2022 has been adjusted.

The Group provides an APM which reports results before the impact of lease accounting under IFRS 16. The Directors use the pre-IFRS 16 measure to generate the Group's headline operating margin; whilst this generates a lower operating margin, it reflects how the underlying contracts have been tendered and is also more aligned to cash generation. Management has also provided this alternative measure at the request of several shareholders and market analysts to allow those stakeholders to properly assess the results of the Group over time. In addition, this is the measure used for the purposes of assessing the Group's compliance with its banking covenants.

Financial review continued

Earnings per share (EPS)

The alternative earnings measure is adjusted to reflect a full corporation tax charge of 23.5% (2022: 19.0%), which will increase to 25.0% in 2024. The Directors believe this aids consistency when comparing to historical results and provides less incentive for the Group to participate in artificial schemes where the primary intention is to reduce the tax charge. A reconciliation between the statutory measure for profit for the year attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	2023 p	2022 p	2023 p	2022 p	2023 p	2022 p
Earnings per share	31.94	24.51	–	0.44	31.94	24.94
Effect of full tax charge adjustment	(0.70)	(0.22)	–	(0.05)	(0.70)	(0.26)
Normalised earnings per share	31.24	24.29	–	0.39	31.24	24.69

	Continuing		Discontinued		Continuing and discontinued	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Profit attributable to shareholders	35,204	27,813	–	494	35,204	28,307
Full tax adjustment	(768)	(245)	–	(55)	(768)	(300)
Normalised earnings	34,436	27,568	–	439	34,436	28,007

Net cash/(debt)

The Group excludes the financial impact of IFRS 16 from its adjusted net cash/(debt) measure. This adjusted net cash/(debt) measure has been introduced to align the net borrowing definition to the Group's banking covenants, which are required to be stated before the impact of IFRS 16.

The Group does not recognise lease obligations as traditional debt instruments given a significant proportion of these leases have break provisions which allow the Group to cancel the associated lease obligation with minimal associated cost. A reconciliation between the reported net cash/(debt) and the adjusted measure is detailed below:

	Note	2023 £'000	2022 £'000
Cash and cash equivalents		138,756	98,138
Short-term financial assets		7,090	1,963
Overdrafts and other credit facilities		(36,699)	–
Adjusted net cash	APM	109,147	100,101
Lease liabilities (current)	Note 20	(54,492)	(44,376)
Lease liabilities (non-current)	Note 20	(199,948)	(181,045)
Net debt (including IFRS 16 lease obligations)	Statutory	(145,293)	(125,320)

IFRS 16 – lease accounting

The profit impact in respect of IFRS 16, which was included within the APM analysis above, is detailed below:

	2023 £'000	2022 £'000
Charge to income statement on a post-IFRS 16 basis	(60,626)	(50,869)
Charge to income statement on a pre-IFRS 16 basis	(57,756)	(48,668)
Profit impact from the adoption of IFRS 16 and before impairment	(2,870)	(2,201)
Impairment of right of use assets	(6,223)	–
Profit impact from the adoption of IFRS 16	(9,093)	(2,201)

Leasing properties has become an integral part of the Group's service offering. The Group delivers a number of contracts to Central Government which include the provision of over 10,000 individual residential properties as part of a wider service offering. In addition, the Group provides over 2,000 property units for rental as part of the Group's Community Housing activities to address Local Authority demand for temporary housing. The associated customer contracts are typically long-term, and the underlying commercial pricing mechanism applies a margin to the annual lease payment. Revenue is broadly consistent over time, increasing by an annual indexation adjustment with the associated lease payments following a similar mechanism.

Accounting standards require that, where a contract is identified as a lease under the rules of IFRS 16, the Group recognises its right to use a leased asset and a lease liability representing its obligation to make lease payments. The depreciation cost of the leased asset is typically charged to profit within cost of sales, whilst the interest cost of the newly recognised lease liability is charged to finance costs. On the basis that depreciation is required to be charged on a straight-line basis, whilst the interest element is charged on an amortised cost basis, this results in a higher charge being applied to the income statement in the early years of a lease, with this impact reversing over the later years. Ultimately, IFRS 16 has no impact on the lifetime profitability of the contracts and there are no cash flow impacts, but the standard alters the phasing over time, front-loading the cost.

Where leasing arrangements are over the long-term, the differential in the charge applied to the income statement under IFRS 16 compared to the lease payment can be significant, whilst the revenue recognition associated with these leases remains at a consistent level, aligned to the respective lease payment. It is for this reason that the Group has consistently utilised an APM to report profits on a pre-IFRS 16 basis. In doing so, the mismatch between the recognition of revenue and the associated cost is addressed.

IFRS 16 and IAS 36; depreciation and impairment of right of use asset

Under IAS 36, the Directors are required to carry out an impairment review at 31 December 2023, for each asset or group of assets with separately identifiable cash inflows, if there is considered to be an indication of impairment. The Directors recognise that for each Community Housing scheme, the relevant group of right of use assets has identifiable cash inflows and therefore the Directors are required to assess whether there are any indicators of impairment for each of these housing schemes. Notably, the Directors recognise that:

- Property yields have increased during FY23. This measure is closely correlated to discount rates, and an increasing discount rate will result in a reduction in the Value in Use.
- The Directors also note that property maintenance costs have increased during FY23, impacted by increasing regulation attached to affordable housing. An increase in the costs attached to property leasing, to the extent that it cannot be passed onto the customer or recovered through other mechanisms mentioned above, will reduce the Value in Use. Property costs are not expected to reduce, and the Directors recognise that an ageing asset may incur further cost over time.
- Largely as a result of the above, a number of the Community Housing schemes have delivered shortfalls against previous forecasts.

The Directors identified indicators of impairment on a number of Community Housing scheme assets and the future cash flows were modelled on those assets in order to derive a measurement for the Value in Use which was compared to the carrying value of the respective assets; the significant majority of the carrying value relates to right of use assets and to a much lesser extent, some leasehold improvements in tangible assets. In aggregate, an impairment charge of £6.2m was applied in the year. The additional charge applied to FY23 will be mirrored by a reduction in depreciation in future periods and ultimately has no impact on the lifetime profitability of any of the underlying contracts.

IFRS 16 carrying values

The table below highlights the acceleration of the recognition of cost through the adoption of IFRS 16; the right of use asset is being charged on a straight-line basis whilst the interest element is charged on the remaining balance outstanding. This position would be expected to reverse over the remaining lease terms, resulting in a reduced charge to the income statement:

	Note	2023 £'000	2022 £'000
Lease obligations at 31 December	20	254,440	225,421
Right of use asset at 31 December	15	233,649	213,432
Future lifetime profit impact as at the balance sheet date, from the adoption of IFRS 16 compared to the future lease payment		20,791	11,989

Financial review continued

Taxation

Mears does not engage in artificial tax planning arrangements but takes advantage of available tax reliefs. The tax position in any transaction is aligned with the commercial reality and any tax planning is consistent with the spirit as well as the letter of tax law. Mears has a low appetite for risk and, when making decisions regarding tax, reputational and commercial as well as financial risks are considered. Given the Group's activities are largely involved in servicing public sector clients, the risk of reputational damage flowing from a tax compliance failure is higher than in other sectors. This leads the Group to take a risk averse approach if there is an element of uncertainty regarding a particular treatment.

The Group normalises its headline EPS measure to reflect a full tax charge. In so doing, the Board has removed from its primary performance measure any potentially positive impact that could be achieved through reducing the Group's Corporation Tax charge.

Further detail in respect of the taxes paid during 2023 are detailed below:

	Taxes borne £m	Tax collected £m	Total £m
Corporation Tax	10.9	–	10.9
VAT and Insurance Premium Tax ¹	0.6	117.9	118.5
Construction Industry Scheme	–	6.2	6.2
Income taxes	0.9	26.6	27.5
National Insurance	17.8	11.8	29.6
Total	30.2	162.5	192.7

1 VAT excludes the disallowance of input tax recovery on the Group's exempt supplies.

Balance sheet

The Group reported a reduction in net assets from £213.8m to £200.6m. The significant distribution to shareholders through both ordinary dividends and share buybacks has reduced the net asset position in the year, but the strong profit generation has ensured a robust position has been maintained. The key movements are detailed below:

	£m
Net assets at 1 January 2023	213.8
Profit after tax	36.7
Dividends	(11.8)
Share buybacks including purchases by EBT	(38.2)
Reduction in pension net surplus	(4.4)
Other equity movements	4.5
Net assets at 31 December 2023	200.6

The key balance sheet categories are reported below together with a brief note to provide further explanation:

Assets

	2023 £m	2022 £m
Goodwill	121.9	121.9
Intangible assets	7.0	7.5
Property, plant and equipment ('PPE')	38.5	20.2
Right of use assets	233.6	213.4
Investments and loan notes	5.1	5.3
Pension assets	19.8	26.8
Total non-current assets	426.0	395.1
Inventories	1.5	6.9
Trade receivables	126.7	128.3
Corporation tax asset	–	0.5
Bank, cash and short-term financial assets	145.8	100.1
Total current assets	274.0	235.8
Total assets	700.0	630.8

- Goodwill was generated from previous acquisitions and is tested annually for impairment.
- Intangible assets primarily relate to in-house developments to the key operational IT platforms and are amortised over their useful economic life of c.5 years.
- PPE additions are typically low given the Mears operating model is not capital intensive. During FY23, the Group made property additions of £22.1m to support the requirements of the AASC.
- As detailed above, leasing properties has become an integral part of the Group's service offering. The Group recognises its right to use a leased asset in accordance with IFRS 16.
- Loan notes of £4.5m were received on the disposal of Terraquest in 2020 and include interest accruing annually at 10%.
- Investments relate primarily to our A2 Dominion partnership over which the Group has significant influence but which it does not control.
- Pension accounting is covered in detail below.
- Working capital balances include trade receivables and inventories; further explanation is provided below. The net cash balance is also detailed below, combining the bank, cash and short-term financial assets with the overdraft and other credit facilities.

Liabilities

	2023 £m	2022 £m
Overdraft and other credit facilities	(36.7)	–
Trade payables	(187.0)	(171.0)
Current lease liabilities	(54.5)	(44.4)
Provisions	(8.4)	(8.8)
Total current liabilities	(286.6)	(224.2)
Pension liabilities	(0.2)	(3.1)
Deferred tax liability	(2.9)	(4.9)
Non-current lease liabilities	(199.9)	(181.0)
Other non-current liabilities	–	(0.7)
Non-current provisions	(9.8)	(3.1)
Total non-current liabilities	(212.8)	(192.9)
Total liabilities	(499.4)	(417.0)
Total net assets	200.6	213.8

- As detailed above, leasing properties has become an integral part of the Group's service offering. Where a contract is identified as a lease under the rules of IFRS 16, the Group recognises a lease liability representing its obligation to make lease payments. Liabilities falling due within 12 months are categorised as current, with the remainder non-current.
- All Group profits are chargeable to corporation tax at the headline rate of 23.5% (2022: 19.0%), which increases to 25% for 2024. The Group is required to make quarterly payments, meaning any creditor outstanding at the period end is relatively low.
- A provision is a liability of uncertain timing or amount. Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. The opening provision of £8.8m predominantly relates to a number of legal claims. The closing provision predominantly relates to onerous contract provisioning where the Directors have made an assessment as to the likely future loss. Additional detail is provided within note 21 to the financial statements.
- Non-current provision relates to insurance losses which the Group chooses to self-insure.

- A deferred tax liability of £2.9m (2022: £4.9m) is recognised on temporary differences between the treatment of items for tax and accounting purposes.

Defined benefit pension arrangements

The Group's defined benefit pension arrangement can be categorised three ways:

- Two principal Group pension schemes, where the Group is fully at risk over the long term.
- Four schemes where the Group has received Admitted Body status in a Local Government Pension Scheme ('LGPS'), but where the Group holds a back-to-back indemnity under the associated customer contract, which removes the Group's exposure to changes in pension contributions and any future deficit risk.
- Nine other schemes, the majority of which are LGPS, but where there is no indemnity in place. However, the risk attached to these schemes matches the time horizon of the underlying contract; whilst not removing risk, it reduces the period over which deficit can arise, and therefore the Group is fully at risk over the medium-term.

The Directors are comfortable with the position on both the guaranteed and other schemes. The Group enjoys a significant surplus on many of these schemes, but these are not recognised as assets as there is uncertainty around the ability to recover a surplus.

The two principal Group schemes enjoy a strong financial position and have done consistently over the last 10 years. Both schemes are relatively mature, and most assets held are matched to the underlying obligations. It was pleasing to reach a position where both Group schemes can be considered largely self-sufficient. The Directors are really pleased with the performance of the scheme managers and trustees who have managed this pension risk so well over many years to reach the position reported today.

The pension disclosure is split on the face of the balance sheet between non-current assets and non-current liabilities. In addition, the pension guarantee assets in respect of the four indemnified schemes are reported separately from their associated liabilities.

	2023 Group £'000	2023 Guarantee £'000	2023 Other £'000	2023 Total £'000
Total scheme assets	129,494	54,137	57,426	241,057
Total obligations	(109,659)	(40,890)	(42,452)	(193,001)
Funded status	19,835	13,247	14,974	48,056
Surpluses not recognised as assets	–	(13,247)	(15,146)	(28,393)
Pension surplus / (liability)	19,835	–	(172)	19,663

Financial review continued

Cash flow and working capital management

The Group has delivered excellent operating cash flows over recent years with strong underlying EBITDA to operating cash conversion. Mears fosters a strong “cash culture”, whereby the Group’s front-line operations understand that invoicing and cash collection are intrinsically linked, and that a works order is not complete until the monies are banked. This culture has underpinned strong cash performance over many years. The impact of the increase in provisioning, which by its nature is a non-cash item in the period, has driven a further increase in the reported cash conversion measure. However, without this enhancement, the Group would still have delivered EBITDA to operating cash of c.110%.

	2023 £'000	2022 £'000
Profit before tax	46,918	34,944
Net finance costs	5,242	6,341
Depreciation and amortisation	9,264	10,323
Right of use asset depreciation and impairment	56,951	43,259
EBITDA	118,375	94,868
Other adjustments	(204)	376
Change in inventories	5,416	15,991
Change in operating receivables	1,290	13,855
Change in operating payables and provisions	20,346	(9,760)
Operating cash flow	145,224	115,330
EBITDA to operating cash conversion	123%	122%

The Group reported an adjusted net cash position at the year-end of £109.1m (2022: £100.1m). Whilst it is pleasing to report a strong cash position within the year-end balance sheet, of much greater significance is the performance over the 365-day period. Positively, the strong year end performance is also mirrored in the average daily adjusted net cash for the year at £76.5m (2022: £42.9m). During FY23, the Group implemented a share buyback programme of on-market purchases which resulted in the purchase and cancellation of 12.2m ordinary shares of 1p each at an average price of 272.7p, a cash outflow of c.£33m. In addition, the Group acquired 1.7m shares for a cash consideration of £4.7m on behalf of the Employee Benefit Trust. The average daily net cash, adjusted for a full-year impact of the share buyback, was £50.3m, which the Board consider to be a better indication of the opening liquidity position moving into FY24.

	2023 £'000	2022 £'000
Average daily adjusted net cash	76,515	42,880
Adjusted net cash at 31 December	109,147	100,101

Share buybacks

During FY23, the Board approved and completed a return of surplus capital of c.£33m to shareholders, being implemented through a buyback programme of on-market purchases. The buyback saw the purchase and cancellation of 12.2m ordinary shares over an eight-month period, representing c.11.0% of the Group’s issued share capital at the start of the year. Whilst the Board was pleased to have delivered a significant buyback over a relatively short period, the majority of purchases were during the second-half and, as such, much of the EPS accretion will not be seen until FY24. This is shown in the table below:

	Number '000
Number of shares in issue at 1 January 2023	111,001
Part-year impact of share buybacks and cancellations	(3,922)
Part-year impact of option exercises	300
Weighted average number of shares in issue in FY23 for calculating earnings per share in FY23	107,379
Full-year impact of share movements in 2023	(5,828)
Number of shares in issue at 31 December 2023 which will form the basis for calculating earnings per share in FY24	101,551

Banking and financial covenants

The Group has a simple approach to its debt funding arrangements, holding a single revolving credit facility (RCF) which provides a total commitment of £70m but allows the Group to draw down monies as required, mirroring an overdraft facility. The Group also has an overdraft facility which is carved out from this facility to provide additional flexibility. The Board is grateful for the tremendous support that has been provided to the Group by its banking partners over several decades.

The financial covenants included within the RCF, which are tested twice-yearly on 30 June and 31 December, are detailed below. Given the Group traded on a net cash basis throughout 2023, and enjoyed an associated finance credit, there is significant headroom. Nevertheless, the Directors have completed a Viability Review and stress tested the Group’s resilience given several downside scenarios.

Covenant	Formulae	Covenant ratio
Leverage	Consolidated net borrowing divided by adjusted consolidated EBITDA*	3.00x
Interest cover	Adjusted consolidated EBITDA* divided by consolidated net finance charges**	3.50x

* Adjusted EBITDA on a rolling 12-month basis, pre IFRS 16, and stated before non-underlying items and share-based payments.

** Net finance charges are stated on a pre-IFRS 16 basis and comprise all commission, fees, and other finance charges payable in respect of financial indebtedness. This excludes income/costs relating to Group pension arrangements.

A margin ratchet ranging from 1.75–2.75% is applied to drawdowns under the RCF, determined by the Group’s leverage ratio at each quarter end. This margin is payable in addition to the Sterling Overnight Index Average (SONIA). Given the strong liquidity and cash performance, the Board’s expectation would be for the margin payable during 2024 to be at the bottom end of the range.

Financial viability review

In accordance with C.2.2 of the UK Corporate Governance Code 2014, the Directors are required to assess the viability of the Group over the medium to longer term. A period of five years has been chosen as it reflects the average contract length (excluding extensions) of the Group's contract estate. Unhelpfully, the remaining duration on several of the Group's largest contracts is now less than three years which brings greater uncertainty when completing previous Viability Reviews; this is addressed within the scenario analysis. Whilst the Group holds contracts which extend beyond this five-year time horizon, a period of greater than five years was considered too long, given the inherent uncertainties of forecasting to distant time horizons.

In making this statement, the Board has considered its principal risks. The principal risks are set out on pages 46–53 and are those which are considered to threaten the Group's future performance, solvency and liquidity. Risks are identified as "principal" based on the likelihood of occurrence and the severity of the impact on the Group. This assessment includes the availability and effectiveness of mitigating actions that could realistically be taken to reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the Board also takes comfort from the work of the Audit and Risk Committee for monitoring and reviewing the integrity and effectiveness of the Group's overall systems for risk management as detailed on pages 68–75.

Consideration has been given to the impact of climate change, which identified an increase in costs of external specialists, a low level of capital investment linked to the electrification of the vehicle fleet and regulatory requirement within the assessment period. An in-depth assessment of climate risk is progressing providing greater insight into such risk, and while this work remains ongoing, it is not believed that climate-related risks would have a significant impact on the business within the five-year Viability Review period.

These base case projections for viability purposes have been made using prudent assumptions:

- Forecast built up on a contract-by-contract basis for the next twelve months and extended for the following four years. The forecast for 2024 is based upon revenues generated from existing customer relationships, and a business that is generating contract margins that are in line with recent run rates.
- The forecast assumes no new work is secured. The base case assumes that contracts are resecured on retender, but reflects some revenue reduction from existing clients, when it is currently anticipated that there may be no further opportunity upon expiry of the current contract.
- The model also reflects the normalisation of the asylum contract, with revenues reducing to a level closer to the original expectation.
- The model assumes no significant changes in working capital performance.
- The model assumes small scale property purchases to augment the delivery of the AASC.
- Future dividends continue in line with current policy.
- A share buyback programme is assumed to be completed equating to 10% of the issued share capital at the start of the current financial year. No further buybacks have been assumed beyond the current shareholder authority.
- No changes to Group structure.

The resulting financial model assesses the ability of the Group to remain within financial covenants and liquidity headroom of existing committed facilities.

A range of scenarios that encompass the principal risks were applied to the base case and are set out in the tables below. These downside cases were prepared by management to illustrate the impact of adverse changes in key variables used within the base case forecast and projections. These downside cases were intended to illustrate a reasonable worst-case scenario which could affect solvency or liquidity in "severe but plausible" scenarios.

Financial viability review continued

The Directors have considered four scenarios and the following sensitivities have been applied to each downside case:

Scenario	Assumption	Associated principal risk
1 Significant deterioration in the Group's bidding success on contract rebids	Failure to resecure any material contracts on rebid in 2025 resulting in £140m of annual revenue lost.	• Risk 1: Contract failure • Risk 6: Political and market disruptions • Risk 7: Ability to resource • Risk 8: Damage to brand • Risk 9: Failure to manage subcontractors • Risk 10: Discrimination
2a and 2b Significant negative impact to AASC revenues	(a) The loss of the AASC upon a hypothetical rebid in Q4 2026. (b) A significant reduction in revenues (and where the forecast annual revenue run rate reduces by 50%).	• Risk 1: Contract failure • Risk 6: Political and market disruptions • Risk 7: Ability to resource • Risk 8: Damage to brand • Risk 9: Failure to manage subcontractors
3 Inflation/employee/supply chain disruption	Deficit between sales rate increases compared to cost base resulting in a 1.5% reduction in operating margin. Given the low-margin nature of the business, a small increase in the cost base which is not recovered in charge rate increases can cause significant margin dilution.	• Risk 6: Political and market disruptions • Risk 7: Ability to resource • Risk 9: Failure to manage subcontractors
4 Cyber	Cyber breach impacting upon lead operating systems causing an additional 20 days' revenue tied up in working capital.	• Risk 2: Breach in data security • Risk 5: Business continuity

No mitigating actions were included within either scenario which was considered conservative and not entirely realistic. Mitigating actions that would be available to management include a reduction in central overheads, a reduction in discretionary capital expenditure, changes to capital allocation policy (including the ordinary dividend) and more robust working capital management around covenant test dates. In addition, upsides that are available to the base case include generating an improved margin at a local contract level over and above the current run rate and securing new contract awards.

In addition to the four scenarios, the Board considered all the severe but plausible scenarios simultaneously materialising, in conjunction with mitigating actions. Any combination of scenarios which results in the Group reporting a negative EBITDA will typically result in a hypothetical covenant breach. The Directors recognise that each selected scenario is extreme, and a combination of these scenarios becomes implausible.

In addition, a reverse stress test was conducted to identify the magnitude of trading profit decline required before the Group breaches its debt covenants. In respect of Scenario 1 (contract retention) and Scenario 2a (loss of AASC), both scenarios are already at their most extreme level. In respect of Scenario 3, which models for a deterioration in the operating margin, ultimately any modelled outcome which results in a negative EBITDA will typically result in a hypothetical covenant breach; however, this is at levels which are considered extreme and implausible.

The Viability Review also considered the risk that fines can be levied upon companies for non-compliance in areas such as health and safety and data protection. The fines applied are discretionary based on the nature, gravity and culpability of the Company but fines are applied based upon a percentage of Group revenue. In a low margin business such as Mears, any single fine could have a significant, and would have a disproportionate, impact upon retained profits. Whilst such an event could be damaging, it would not be expected to ultimately impact on the long-term viability of the Group. Both health and safety and IT and data feature high on the Group's risk register and we continually review our mitigating actions to ensure that we minimise our residual risk.

The Group's existing debt facilities run to December 2026. The future Viability Review extends beyond this date and therefore assumes that there will be enough appetite from our existing or new funders to provide the required level of funding on similar terms.

The Directors recognise that there is naturally uncertainty within any forecast and this uncertainty increases as the projections extend across the five-year period. Based on this assessment and as detailed above, the Directors have a reasonable expectation that the Group will continue in operation and would be well placed to withstand possible significant negative events over the period and be able to meet its liabilities as they fall due over the review period.

Non-financial information and sustainability statement

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
Stakeholders (customers, suppliers, etc.)	- Responsible Business Charter - Data protection - Responses to the Social Housing White Paper, Procurement Green Paper and Decent Homes Review - Scottish Business Pledge - ISO 44001 (collaboration in contract management) - Monitoring right first time, customer complaints and customer satisfaction	- Board activities – page 61 - Section 172 Statement – page 22 - Business model – pages 16–17 - Customer satisfaction – pages 18 and 20 - Stakeholder engagement – pages 20–21
Environmental matters	- ESG approach - Our Pathway to Net Zero document - FTSE4Good membership - ISO 14001 (Environmental Management System) certification	- ESG reporting website – www.mearsgroup.co.uk - ESG approach – pages 23–25 - TCFD statement – pages 26–35 - Carbon emissions statement – page 32 - Our Pathway to Net Zero – pages 33–35 - Environment and waste recycling – page 24
Employees	- Whistleblowing - Family Friendly policy - Safeguarding - Equality, diversity and inclusion - Approach to labour standards compliance - Launch of a socially responsible business plan to attract and retain staff and go further on our diversity and inclusion plans 2025 Strategy - Health and safety - Red Thread approach - Royal Society for the Prevention of Accidents Order of Distinction	- Our people – page 21 - Gender Pay Gap Report – www.mearsgroup.co.uk - Corporate governance – pages 54–100 - Remuneration Report – pages 76–96
Human rights	- Modern slavery and human trafficking - Preventing engagement of child labour - Whistleblowing policy - Family Friendly policy	- Modern Slavery Act – www.mearsgroup.co.uk - Corporate governance – pages 54–100
Anti-bribery and corruption	- Anti-bribery and corruption - Independent research into ethical procurement sponsored by Mears - Responsible Business Charter	- Anti-Fraud and Anti-Bribery policy – www.mearsgroup.co.uk - Report of the Audit and Risk Committee – pages 68–75
Social matters	- ESG approach - ESG Board - Our Pathway to Net Zero document - Social Value UK Certificate Level 2 - FTSE4Good Index - Mears Scrutiny Board - Social Mobility Index	- ESG approach – pages 23–25 - Our Pathway to Net Zero – pages 33–35 - Governance – pages 54–100 - Stakeholder engagement – pages 20–21
Description of principal risks and impact of business activity		- Risk management – pages 46–49 - Principal risks – pages 50–53 - Business model – pages 16–17
Description of business model		Business model – pages 16–17
Non-financial key performance indicators		Key performance measures – pages 18–19

Risk management

Mears' strategic objectives can only be achieved by taking an appropriate level of risk in accordance with our risk appetite. Effective management of risks and opportunities is essential to the delivery of the Group's strategic objectives, whilst protecting our employees and other key stakeholders.

Risk governance structure

Independent assurance

- Board
- Audit and Risk Committee
- Customer Scrutiny Board
- Internal audit
- The Board has overall responsibility for setting the risk appetite
- The Audit and Risk Committee monitors the key risks identified and reports its findings to the Board. It also reviews in detail the effectiveness of the Group's system of internal control policies and procedures for the identification, assessment and reporting of risk
- The outsourced provider of internal audit services provides independent assurance on internal controls and risk management processes
- Further external assurance is provided by the statutory auditor in respect of the financial statements and other external specialists as required

3rd
line of defence

Risk oversight

- Compliance Committee
- The Audit and Risk Committee has a very active sub-committee. This reflects the significant focus that the Group gives to dealing with health, safety and environmental risks
- The extent to which the full integration of health, safety and environmental risks is now embedded in the governance structures of the Group is highlighted by the members of the Compliance Committee, who include the Group's Chief Executive Officer, Health and Safety Director and internal health and safety legal adviser

2nd
line of defence

Risk ownership

- Senior operational management
- Central support functions
- Structured risk management framework operated at a business unit, function and Group level
- Senior management team reviews and identifies key risks
- Nature of risk reviewed, considering triggering events and aggregated impacts before setting mitigation strategies directed as the causes and consequences
- A strong risk management culture with a clear tone from the top being set by the senior management team
- The control environment is underpinned by a detailed Scheme of Delegated Authority that defines processes and procedures for the approval process in respect of decision making

1st
line of defence

Read more in the **Audit and Risk Committee Report** on pages 68–75

Risk management process

Risk management process

The responsibility for risk identification, analysis, evaluation and mitigation rests with the senior management team. This team is also responsible for reporting and monitoring key risks in accordance with established processes under the Group operational policies.

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

We continue to drive improvements in our risk management process. We also review our business model, core markets and business processes to ensure that we have properly identified all risks. As part of this review, climate-related risks are considered in both the Group and operational risk registers; their severity is not considered to be significant but they are identified as an emerging risk. The regulatory risks in respect of climate are included within this assessment. We continually review our mitigating actions to ensure that they are sufficient to minimise our residual risk. Key financial and non-financial risks identified by the business from the risk assessment processes are collated and reviewed by the Audit and Risk Committee and are regularly reviewed to monitor the status and progression of mitigation plans; the key risks are reported to the Board on a regular basis.

Principal risks and uncertainties

The Board has carried out a robust assessment of the principal risks facing the Group, including those that threaten the business model, strategy, future performance, solvency and liquidity. Risks have been identified as "principal" based on the likelihood of occurrence and the severity of the impact on the Group.

The Group's principal risks are identified on the pages that follow, together with how we mitigate those risks. Each principal risk is considered in the context of how it relates to the achievement of the Group's strategic objectives. The risk discussion includes assessment of gross risk and net risk. Gross risk reflects the exposure and risk landscape before considering the mitigations in place, with net risk being the residual risk after mitigations. The movement in gross risk from the prior year for each principal risk has been assessed and is presented on the pages that follow. Mitigations in place supporting the management of the risk to a net risk position are also described for each principal risk.

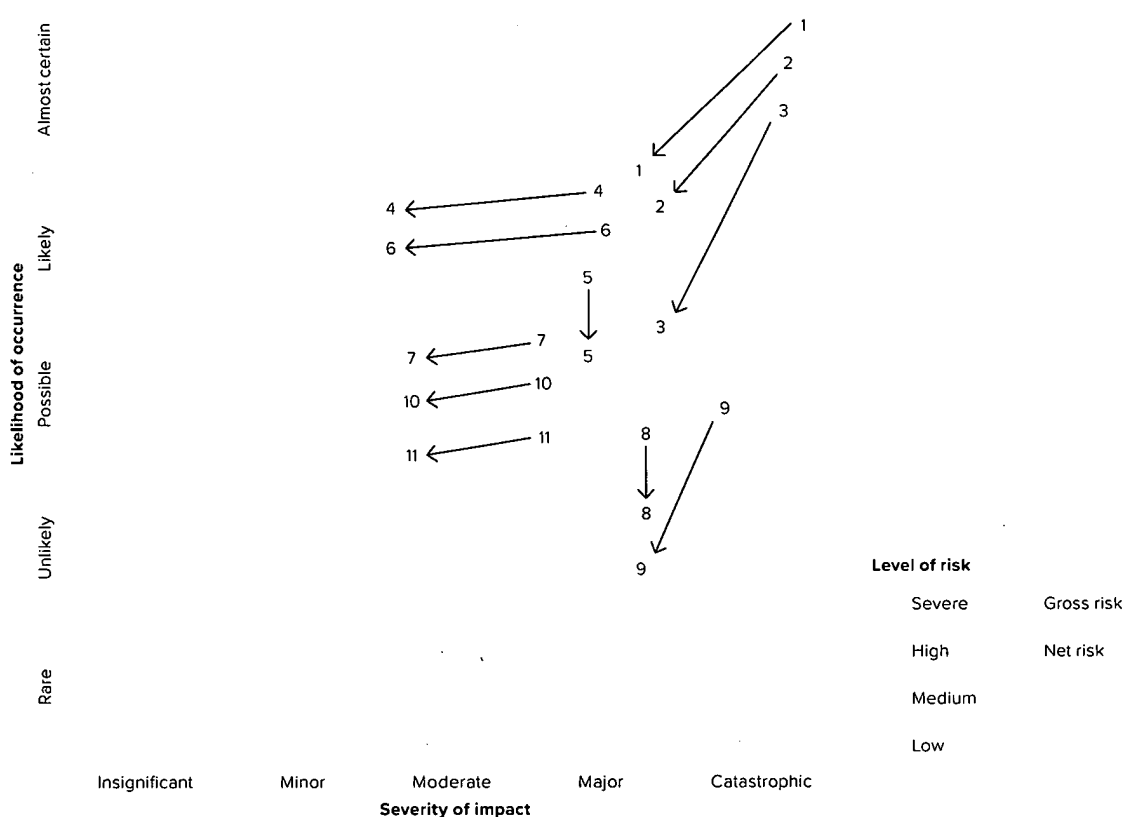
Risk management continued

Risk management process continued

Principal risk heat map

The Mears principal risk heat map as at 31 December 2023 is illustrated below:

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



Read more in the **Corporate Governance** section on pages 54–100

Read more in the **Report of the Audit and Risk Committee** on pages 68–75

No.	Risk title	Risk	Risk owner	Link to strategy
1	Delivery failure (AASC – IA)	Failure to successfully deliver the Asylum Accommodation and Support Contract (AASC): initial accommodation.	Chief Executive Officer	1 2 4
2	Delivery failure (AASC – DA)	Failure to successfully deliver the AASC: dispersal accommodation.	Chief Executive Officer	1 2 4
3	Political changes and market disruption	Uncertainty from political changes and market disruptions, in the short and long term, resulting in changes to regulation and Government policies placing pressure on business revenue and overhead costs.	Chief Executive Officer	1 2 4
4	Data protection	Major breach of information or data security, including ransomware attacks.	IT Director and Company Secretary	1 3 4

No.	Risk title	Risk	Risk owner	Link to strategy		
5	Health and safety	Failure to manage the impact of a health and safety incident leads to reputational damage and/or high financial penalties.	HSE Director	1	4	5
6	Internal control	Failure in governance, control, processes, systems and structure, including managing the new Ministry of Justice contract and in particular the impact on Housing Officers.	Divisional Chief Operating Officer	1	2	4
7	Disaster recovery	Failure to recover operations in a disaster or crisis (business continuity).	IT Director and Company Secretary	1	2	4 5
8	People attraction and retention	Ensuring that the business has the right people with the right skills and effectively manages risks such as succession planning and inflationary pressures, the latter particularly in the context of shortages and a highly competitive market for skilled labour.	HR Director	2	5	
9	Public relations	Serious damage to, or loss of, brand integrity, including due to poor management of publicity and external communications.	Chief Executive Officer	1	4	
10	Subcontractor management	Serious failure to manage housing subcontractors.	Divisional Chief Operating Officer	1	4	
11	Discrimination	Risk of perceived and actual discrimination leading to reputational damage and financial penalties.	HR Director	1	5	

Our principal risks independently or in combination may impact on the Group's ability to deliver on its strategy. The above table indicates the components of our strategy that are most likely to be impacted as a result of each principal risk.

Link to strategy

- | | | |
|--|---|---|
| 1 To be recognised as the most trusted large private provider working with the public sector | 3 To embrace innovation that drives positive change such as digital and carbon reduction | 5 To attract and retain a committed and engaged workforce |
| 2 To have the highest levels of customer service in the affordable housing sector where we operate | 4 To maintain and grow a resilient business with long-term partnerships underpinned by a strong balance sheet and cash position | |

Emerging risks

In addition to known risks, we identify and analyse emerging risks and the need for mitigation as part of our existing risk management processes. Emerging risks are events that present uncertainty. They may potentially impact us in the longer term but there is currently insufficient information to understand and assess the likely scale or impact, or for the senior management team to set out an appropriate risk response. In some cases, emerging risks are superseded by others, or cease to be relevant, as the environment in which we operate changes and evolves.

The Board has considered the following areas and their risk to the Company:

Climate change	Climate change presents risks and opportunities for the Group. For example, there is a risk that Mears does not identify/manage the risks associated with changes in environmental legislation relating to housing, transportation and corporate reporting requirements (including decarbonisation, especially relating to fleet of vehicles and social housing). There is also a risk that the Group does not maximise opportunities presented by climate-related changes in its business environment.
Succession planning at executive level	Failure to adequately plan for changes at executive level resulting in business disruption and/or barriers to deliver strategic objectives.
Delivering growth strategy	The risk that the Group fails to develop and deliver a sustainable growth strategy, mitigating future risk through correct investment of its cash reserves.
Legislative changes	Changes to building and/or fire safety legislation that result in higher cost to comply with requirements and/or increased scrutiny from regulators. Failure to comply with data protection legislation and the General Data Protection Regulation (GDPR).

Principal risks and uncertainties

The Board has carried out a robust assessment of the principal risks facing the Group. Risks have been identified as “principal” based on the likelihood of occurrence and the severity of the impact on the Group.

1 2

Damage to reputation

Failure to successfully deliver the Asylum Accommodation and Support Contract (AASC).

Risk level Severe

How we manage and mitigate the risk

- Business as usual risk register is maintained for AASC which is reported to Home Office on a monthly basis and acts as a basis for questioning Mears
- Mobilisation, transition and delivery planning led by senior management team and close attention from Group Executive
- Weekly Teams call including Chief Executive Officer and Chief Financial Officer to ensure all senior team members are aligned
- Various projects around IT system set-up, GDPR, HR and training

3

Damage to financial viability

Uncertainty from political changes and market disruptions, in the short and long term, resulting in changes to regulation and Government policies placing pressure on business revenue and overhead costs.

Risk level Severe

How we manage and mitigate the risk

- There is regular Board level monitoring of the political climate
- Regular one-to-one meetings between CEO and Members of Parliament to improve mutual understanding
- The business is diversified to become a registered provider of social housing
- Close working relationships are developed with Local Government organisations

4

Damage to reputation

Major breach of information or data security, including ransomware attacks.

Risk level High

How we manage and mitigate the risk

- Information Security team in place. Meetings are attended by Information Security Group and information asset owners on a monthly basis. The asset owners are held responsible for their respective departments' actions
- Penetration testing is undertaken by an external specialist company
- Third party review and support for training in terms of GDPR requirements
- On some of the Group's most sensitive contracts, the client conducts audits that review physical access, security of hard copies of files and IT system security
- Compliance with ISO 27001

5 Damage to reputation

Failure to manage the impact of a health and safety incident leads to reputational damage and/or high financial penalties.

Risk level High

How we manage and mitigate the risk

- The Group's Health and Safety function provides a second line of defence and carries out regular branch audits
- Monthly branch inspection of performance against KPIs with business improvement records issued to managers and action completions being tracked
- Accidents are reported within 24 hours. Investigations are performed for every case and recommendations are provided where applicable
- Safety, Health, Environment and Quality Report submitted to Compliance Committee covering key areas (safety, health, environmental, waste, quality, compliance and trend analysis on accident statistics)

6 Damage to reputation and financial viability

Failure in governance, control, processes, systems and structure, in contracts where the Group is acting as landlord.

Risk level High

How we manage and mitigate the risk

- Registered providers have own Board structure which includes five Non-Executive Directors and an Independent Chair
- Sub-Committee (Assurance and Operations) meetings are held which focus on key contract details
- The registered providers have been subject to audit by the Regulator of Social Housing
- Regular Committee meetings are held on key areas: performance updates, customer service performance, compliance (gas, fire, electrical and asbestos risk assessments) and complaints update

Level of risk

Severe

Medium

High

Low

Principal risks and uncertainties continued

7 **Damage to reputation**

Failure to recover operations in a disaster or crisis (business continuity).

Risk level Medium

How we manage and mitigate the risk

- A crisis management policy is in place
- A business continuity plan is in place for each branch

8 **Ability to retain and recruit**

Ensuring that the business has the right people with the right skills and effectively manages risks such as succession planning and a highly competitive market for skilled labour.

Risk level High

How we manage and mitigate the risk

- A Workforce Strategy Group consisting of senior employees is in operation, to address key matters associated with the remit of data analysis, action planning and implementation monitoring
- Rigorous process ensures that all annual appraisals above grade 5 (mid-management) are reviewed by senior management team
- Mears' internal training department implements learning and development strategy
- There is an executive backed culture of retaining and developing the Group's talent

9 **Damage to reputation**

Serious damage to, or loss of, brand integrity, including due to poor management of publicity and external communications.

Risk level Medium

How we manage and mitigate the risk

- Engagement of external public relations advisory
- All staff are required to follow the social media policy
- There is a dedicated Group Head of Public Relations
- Whistleblowing policy and procedures in place (for some potential adverse publicity events)
- Staff are given clear directions as to how to deal with a press enquiry

Chairman's introduction

As detailed in my Chairman's Statement, I am delighted at the continued strong performance of the Group during a period where the economic backdrop has been particularly challenging.

The robust operational and resilient financial performance owes much to the quality and dedication of our people, but also the strength of our governance ensuring that our services are delivered responsibly and safely to the benefit of all our stakeholders. We believe that we are well placed to deliver our strategic objectives which will be underpinned by our robust governance framework which ensures strong oversight and management of our principal risks.

On behalf of the Board, I am pleased to introduce the Corporate Governance Report for 2023. The overall purpose of this report is to brief stakeholders on how the Board undertakes its responsibilities for the leadership of the Company and for the promotion of its long-term sustainable success. During 2023, the Board considers that it was compliant with the principles of good governance set out in the UK Corporate Governance Code 2018 (the 'Code') with the exception relating to independence which is covered in greater detail below. However, this single point of non-compliance was rectified before the year end.

Executive succession

Succession planning has been a key area of focus for the Board in recent years. The transition of the CEO role from David Miles to Lucas Critchley has been well communicated over the previous 18 months and the Board has overseen this changeover, which has gone smoothly. The Board recognises

the pivotal role that David has played in driving the culture of the business and his close attachment to the Mears brand brought additional risks which the Board has monitored closely. The transition of the CEO duties to Lucas is now complete, and David stepped off the PLC Board on 31 December 2023. David remains a key member of the senior management team, and has committed to continue to provide support to the business with particular focus on client engagement, customer service and driving commercial performance over the medium term, and the transition of other elements of David's responsibilities will continue to other senior team members over the course of 2024.

The Board and Nominations Committee will continue to focus on succession planning across the senior executive team. Since being appointed Chairman, I have met, individually, with all the senior executive team and I am impressed by the quality and strength we have in the Group, sitting immediately below the Board level. The Group has a strong track record in developing talent internally, evidenced by both Lucas and Andrew having both grown within the business prior to their Board appointments. I can already see a number of the senior team who will, in time, have opportunity to develop further as leaders of the business over the long term.

Employee Director

On 1 January 2023, the Group announced the appointment of Hema Nar as the new Employee Director, providing a key link between the Board and the workforce. This was a position that was originally created in 2016 and it is a role that has taken several years to develop and has, over time, developed into an increasingly valuable channel of communication.

During 2023, this function has been greatly enhanced with the addition of both a Deputy Employee Director and a Trade Representative. These three individuals work closely together and perform regular branch visits, are highly visible throughout the business and are in frequent contact with the Executive team. Hema is an active participant at all Board meetings. At the end of 2023, Hema elected for her position to become a non-statutory appointment as the classification as a statutory Director was felt by both Hema and the Board to bring unreasonable personal risks. Whilst Hema is no longer classified as a Director from a regulatory standpoint, she will continue to attend and present at every Board meeting, and the change to a non-statutory position will not dilute the importance or significance of the role.

Other Board changes

The year saw a number of changes on the Board. Late in 2022, Kieran Murphy indicated that he wished to pursue new opportunities elsewhere and, accordingly, he did not seek re-election at the Group's Annual General Meeting (AGM) in June 2023. Chris Loughlin, Non-Executive Director, who it was anticipated would take on the role of Chairman, subsequently took the decision to step down from the Board immediately prior to the AGM. Notwithstanding that proxy votes received suggest that this resolution would have passed with a majority in favour, there were a number of proxy votes against his appointment.

The Board recognised the concerns and challenges raised by a number of investors in the lead up to the 2023 AGM, and whilst this was a difficult period for the Board, I believe the current Board structure is wholly appropriate for the foreseeable future.

In December 2023, the Board welcomed the arrival of Nick Wharton as a Non-Executive Director and Chair of the Audit and Risk Committee. Nick holds extensive finance and corporate governance experience and further improves the balance of skills and capabilities held by the Board.

Compliance with the Code

The unexpected Board changes resulted in a short-term imbalance between independent and non-independent Board members which was not compliant with Provision 11 of the UK Corporate Governance Code which states that at least half the Board should be Independent Non-Executive Directors (NEDs). In addition, a number of investors chose to classify the Employee Director as a non-independent position, which does not reflect the way that role is performed but added further to this imbalance. Following the changes detailed above, at 31 December 2023, the Board comprises three independent members (excluding the Chairman), two non-independent Executive Directors, and the Employee Director role which carries the same gravitas as other Board roles but which is categorised as a non-statutory position from the perspective of the Companies Act.

Following Chris Loughlin's departure, I carried out the role of Interim Chairman whilst also remaining as a member of the Audit and Risk Committee. Under Provision 24 of the UK Corporate Governance Code, the Chairman of the Board should not be a member of the Audit and Risk Committee. However, given I was the member of the Audit and Risk Committee with financial experience, as required under both the Code and the Disclosure Guidance and Transparency Rules (DTR), it was not considered appropriate for me to step off the Audit and Risk Committee. The Board considered the most appropriate solution was to appoint Julia Unwin as Interim Chair of the Audit and Risk Committee, whilst retaining my membership of that Committee to provide support and expertise in this area.

Although the current Board is smaller in terms of headcount, I believe there is a strong cultural alignment with the business, and the Board has the requisite skills and experience to operate effectively in the coming years.

Our culture

The Board recognises that it has ultimate responsibility for ensuring that the appropriate culture is set in order to deliver our strategic objectives and create value for our stakeholders. Mears' strong corporate culture is key to the Company's long-term sustainable success and, accordingly, the promotion of this culture is an important element of the debates that take place at each Board meeting. The wellbeing of our workforce and our customers is paramount and underpins the creation of long-term value for stakeholders and shareholders. At each Board meeting, there is a discussion of key workforce issues, illuminated by staff survey data, workforce diversity analysis, staff training and development information, and the report of the Employee Director. In a similar vein, each Board meeting examines data on customer complaints and commendations. In addition, the Board reviews the annual report of the Mears Customer Scrutiny Board.

Shareholder relations

The Company, primarily through the management team but also at Chairman level, maintains a close dialogue with its major shareholders. Each Board meeting receives a report on investor relations issues, with a discussion on changes and trends, and there is a discussion about anything of importance that has emerged. It is important that all Board members understand the main reasons why major shareholders are supporters of the Group and what their key issues are so as to ensure that the voice of the owners is also brought into boardroom discussions and decision making.

Annual General Meeting

At our AGM this year, in line with our policy, all Directors will be standing for election. I look forward to meeting in person any shareholders who wish to come to the forthcoming Annual General Meeting.

Jim Clarke
Chairman
10 April 2024

Board of Directors

Jim Clarke Chairman	Skills and experience Jim is a very experienced company Chief Financial Officer. He qualified as a Chartered Accountant in 1984. He has spent much of his career in senior finance roles in consumer-facing industries, having been Chief Financial Officer at David Lloyd Leisure, JD Wetherspoon and Countrywide.	Principal external appointments None Committee membership N R Tenure Four years
Lucas Critchley Chief Executive Officer	Skills and experience Lucas graduated with a BA in Business and Commerce, joining the Company as a business apprentice in 2004. He has worked his way up through business development and operational roles within the Group to join the Executive Board in 2023. He has hands-on experience of running contracts throughout his time at Mears, becoming Operations Director in 2017 and Group Chief Operating Officer in 2021. Lucas stepped up to Chief Executive on 31 December 2023 following the retirement of David Miles.	Principal external appointments None Tenure 19 years (Joined the Board on 1 January 2023)
Andrew Smith Chief Financial Officer	Skills and experience Andrew joined Mears in 1999 and, prior to his appointment to the Board, was Chief Financial Officer covering the Group's subsidiaries. Andrew qualified as a Chartered Accountant in 1994 and worked in professional practice prior to joining Mears.	Principal external appointments None Tenure 24 years (Joined the Board on 9 March 2007)
Dame Julia Unwin Independent Non-Executive Director	Skills and experience Julia is former Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust. She has significant experience in the housing and care sectors, having been a member of the Housing Corporation Board for 10 years and Chair of the Refugee Council. She was appointed Dame Commander of the Order of the British Empire in January 2020 for service to civil society.	Principal external appointments Yorkshire Water, York St John University, Smart Data Foundry (University of Edinburgh) Committee membership AR N R Tenure Eight years
Angela Lockwood Non-Executive Director	Skills and experience Angela has extensive experience gained from a career in housing spanning 30 years. Starting her career at Sunderland Council, Angela then worked for Home Housing and subsequently joined Endeavour Housing Association, firstly as Housing Director and then Managing Director. She joined North Star in 2009, holding the position of CEO. Angela holds an MBA and is a Fellow of the Chartered Institute of Housing.	Principal external appointments CEO of North Star Housing, National Housing Federation Board, North East Advisory Board of Business in the Community Committee membership AR N R Tenure Two years

Committee key

N	Nominations Committee	R	Remuneration Committee
AR	Audit and Risk Committee		Committee Chair

Nick Wharton Non-Executive Director	Skills and experience Nick is a Chartered Accountant with extensive finance and corporate governance experience gained, both in the UK and internationally, through executive and non-executive positions in consumer companies under both public and private equity ownership. Nick has been Group Chief Financial Officer (CFO) at three public companies and Audit Committee Chair at four businesses including three FTSE listed companies. Nick was formerly CFO of Pepco NV, Superdry plc and Halfords Group plc and was also Chief Executive Officer at Dunelm plc.	Principal external appointments Oriflame Investment Holding AG (Warsaw listed), AG Barr plc Committee membership AR N R Tenure Appointed December 2023
Hema Nar Employee Director (non-statutory)	Skills and experience Hema read Law at university and has over 20 years' bid management experience, predominantly in the social housing sector. She has worked for Mears since 2020 as a Bid Manager in the central business development function as well as previously from 2014–2018 and before that worked for a Housing Association.	Principal external appointments None Tenure Four years (Joined the Board on 1 January 2023)
Ben Westran Company Secretary	Skills and experience Ben is a Chartered Accountant and, prior to his appointment as Company Secretary, was Group Financial Controller and Director of a number of the Group's subsidiaries. Ben joined the Group in 2004, having previously worked in professional practice.	Principal external appointments None Tenure 20 years (Joined the Board on 28 January 2014)

Board changes during the year

David Miles Chief Executive Officer Stepped down from the Board on 31 December 2023, having served as a Director since January 2007. David has been a central figure within the Group since 1996 and continues to be a key member of the senior management team.	Kieran Murphy Chairman Stepped down from the Board on 26 June 2023, having served as a Director since 2019.	Chris Loughlin Non-Executive Director Stepped down from the Board on 26 June 2023, having served as a Director since 2019.
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Roles and responsibilities

Role	Responsibilities include:
Chairman Jim Clarke	• Promoting a culture of challenge, debate, openness, support and mutual respect • Leadership of the Board, setting its agenda and ensuring effective information flow and time management • Ensuring that Directors contribute effectively and allocate sufficient time to the Company • Ensuring that the Board listens to the views of shareholders, the workforce, customers and other stakeholders • Ensuring that the Board both monitors and demonstrates culture, values and behaviours of the Group • Ensuring that the Board determines the nature and extent of risk and reward in strategy execution • Ensuring effective Board evaluation
Senior Independent Director Dame Julia Unwin	• Leading the annual performance evaluation of the Chairman • Providing a sounding board for the Chairman • Available to shareholders as a channel for them to raise Board level issues
Independent Non-Executive Directors Dame Julia Unwin Angela Lockwood Nick Wharton	• Promoting the highest standards of integrity, probity and corporate governance throughout the Group • Constructively challenging decisions proposed by the Executive Directors • Ensuring stakeholder views are debated and considered • Assisting in developing proposals on strategy • Contributing to the performance evaluation of the Chairman • Briefing the Board on decisions made and key issues from each Committee Chair
Employee Director (non-statutory) Hema Nar	• Promoting the highest standards of integrity and probity • Assisting in developing proposals on strategy • Assisting the Board to receive full, open and honest insight and views from its workforce on how strategic initiatives are being implemented • Helping to provide the wider workforce with a better understanding of how the Board operates
Chief Executive Officer Lucas Critchley	• Managing the day-to-day running of the business in line with the strategy and objectives set by the Board • Ensuring the Board is supplied with sufficient and appropriate information on a timely basis • Leading the business within the scope set by the Board • Developing strategy and setting objectives to meet the Group strategy approved by the Board • Managing the Group's operations to ensure they meet the risk appetite set by the Board
Chief Financial Officer Andrew Smith	• Supporting the Chief Executive Officer in developing strategy and meeting objectives • Bringing a commercial and financial perspective to the Board • Leading the finance function and establishing strong control processes • Managing the treasury activities in accordance with the credit risk appetite set by the Board • Supporting the Chief Executive Officer with investor relations • Leading the development of talent within the finance function

Our corporate governance compliance statement

The long-term success of the Group is dependent upon maintaining high standards of corporate governance and the Board is guided in its approach through the application of the UK Corporate Governance Code 2018 (the 'Code'). We recognise that strong governance provides confidence to all our key stakeholders.

As at 31 December 2023, we are fully compliant with the provisions of the Code. As detailed in the Chairman's introduction, due to an unforeseen change to the composition of the Board, and given the planned transition to a new CEO, the Group became non-compliant in respect of Board and Committee composition. This was resolved prior to the year end.

The table below shows where stakeholders can evaluate how the Company has applied the principles of the Code, and where content can be found in this report.

Board leadership and Company purpose

- The role of the Board is set out on page 58.
- The Group's purpose, values and strategy are set out on pages 10–17.
- The Group's governance framework is detailed on page 60.
- How the Board engages with stakeholders is detailed on pages 20–21.
- The Board's Section 172 Statement is on page 22.
- The Group's approach to risk management is detailed on pages 46–53.
- The Viability Statement is set out on pages 43–44.
- The Group's policies and practices are listed on page 45.

Division of responsibilities

- The governance framework on page 60 provides an overview of the Board Committees. Further details of each Committee are provided within their respective reports.
- The division of responsibilities is detailed on page 58. This also shows the clear division of responsibilities between the leadership of the Board and the executive leadership of the business.
- The activities of the Board during 2023 are detailed on page 61.

Composition, succession and evaluation

The Report of the Nominations Committee can be found on pages 66–67 and details:

- the rigorous process adopted in respect of new Board appointments;
- the Board's approach to succession planning; and
- the annual evaluation process which considers Board effectiveness, composition and diversity.

Audit, risk and internal control

The Report of the Audit and Risk Committee can be found on pages 68–75 and details:

- how the Board ensures the independence and effectiveness of internal and external audit functions;
- how the Committee considers the significant accounting judgements underpinning the financial results and ensures that the financial statements present a fair, balanced and understandable assessment of the Group's position and prospects; and
- how the Board determines its appetite for risk in order to achieve its long-term strategic objectives, and the procedures established to manage those risks.

Remuneration

The Report of the Remuneration Committee can be found on pages 76–96 which details the approach to remuneration which is aligned to the Company purpose, values and support strategy and promotes long-term sustainable success.

Corporate governance framework

Board and Committee governance

The Board is the principal decision making body of the Company. Certain matters, for example relating to strategy, financial structure, communications and policy approvals, are matters reserved for the Board to decide. Authority for other specific matters is formally delegated by the Board to three Board Committees – Audit and Risk, Remuneration, and Nominations – and to executive management.

A summary of the roles of each element of our corporate governance regime is set out below.

The Board

The key purpose of the Board is collectively to lead the Company and to promote its long-term sustainable success, so generating value for shareholders and other stakeholders, and contributing to wider society. The principal responsibility of the Chairman is to lead the Board and to ensure its effective operation.

The Board's key functions are:

- a. leadership: establishing Company purpose and values, strategy, financial structure, adequacy of human and financial resources, and workforce policies;
- b. oversight: of corporate practice and behaviour, financial controls, implementation of workforce policies, risk and management performance, and succession;
- c. relationships: understanding views of shareholders, other stakeholders and the workforce, and the means to influence those views; and
- d. decision making: to take effective decisions on those matters reserved to it, ensuring it has the appropriate mix of skills and experience and the information, time and resources to do so.

The matters reserved for decision by the Board are:

- a. strategy and management: approval of the strategic plan and annual budget, any changes in the scope of activities, and review of performance against plans;
- b. financial structure, capital allocation, dividend policy and listing;
- c. approval of financial and other major communications and resolutions for general meetings;
- d. approval of major contracts;
- e. changes to the composition of the Board and its Committees and appointment of the external auditor;
- f. remuneration and other corporate policies; and
- g. risk appetite and review of strategic risk.

The Board's activities in 2023 are set out on page 61. The composition of the Board is set out on page 58. The Chairman's Review of 2023 is set out on pages 2–3 of this Annual Report.

The Audit and Risk Committee

The key purpose of the Audit and Risk Committee is to assist the Board in its function of oversight of risk, financial controls and reporting. The Committee:

- a. oversees the development of the Company's strategic risk register and makes an assessment of the effectiveness of the Company's risk management;
- b. assesses the Company's financial systems of control, accounting policies and key judgements, and compliance with regulatory requirements;
- c. oversees the work of both the internal and external auditors; and
- d. reviews the Company's policies on fraud, bribery, whistleblowing, etc.

A report of the Audit and Risk Committee's activities in 2023 is set out on pages 68–75.

The Remuneration Committee

The Committee's key function is to determine the Remuneration Policy for executive management and oversee the appropriateness and effectiveness of Group-wide remuneration policies. It:

- a. determines the remuneration of Executive Directors and the Chairman;
- b. reviews and decides on awards under all share incentive schemes;
- c. reviews the application of pay and pension policies across the Company; and
- d. reviews Group-wide human resources strategy.

The report of the business of the Remuneration Committee in 2023 is set out on pages 76–96.

The Nominations Committee

The Committee reviews the composition, structure and size of the Board and oversees the process of recruitment to the Board. It also reviews executive management succession plans. A report on its activities in 2023 is set out on pages 66–67.

The Chief Executive and senior executive team

The CEO has responsibility for the day-to-day operations of the Group and authority for all decisions which are not reserved to the Board or its Committees. The key role of the CEO is to:

- a. ensure that the resources of the Company are effectively directed to the execution of the agreed strategy, that key performance metrics are in place, and that progress against those metrics is measured and reported to the Board;
- b. lead, inspire and support Company employees, through developing a high performing management team and effective Company-wide communication;
- c. lead the Company's relationships with shareholders, customers, suppliers, other stakeholders and the wider community; and
- d. ensure that adequate processes are in place to manage risk.

The Chief Executive Officer's Review is set out on pages 6–9 of this Annual Report.

Board activities

January 2023

- Non-Executive Director site visit: Residential Living Accommodation Project contract

February 2023 Board meeting

- Board review and considered Our Pathway to Net Zero
- Board received feedback on CEO meetings with Members of Parliament
- Board considered and approved Going Concern and Viability Statement
- Asylum Accommodation Support Contract Property Funding appraisal

March 2023 Short meeting

- Board considered additional capital returns to shareholders

April 2023 Remuneration Committee

- Finalisation of Long Term Incentive Plan and annual bonus targets for 2023

April 2023 Board meeting

- Asylum Accommodation Support Contract deep dive
- Considered the results of the staff survey
- Approval of Annual Report 2022 and associated market announcements
- Approval of final dividend for 2022
- Approval of share buyback (programme one)
- Approval of Notice of Meeting for 2023 AGM

May 2023 Audit and Risk Committee

- Approval to commence external audit retender for FY24

June 2023 Board meeting

- Consideration of community interest corporate models

July 2023 Audit and Risk Committee

- Consideration of key estimates and judgements relating to interim results

December 2023

- Non-Executive Director site visit: Milton Keynes and Spennymoor

December 2023 Board meeting

- Approval of 2024 Business Plan

November 2023 Audit and Risk Committee

- Approved the Group risk register
- Agreed the internal audit plan for 2024

November 2023 Nominations Committee

- Finalisation of proposal to Board for appointment of new Non-Executive Director, Nick Wharton
- Presentation to Board by Employee Representative team

November 2023 Board meeting

- Review of Draft 2024 Business Plan and discussion around key assumptions, risks and opportunities

September 2023 Board meeting

- Approval of tax strategy
- Approval of capital reduction documentation
- Board received feedback on CEO meetings with Members of Parliament
- Board effectiveness update (internally facilitated)

August 2023 Nominations Committee

- Finalisation of proposal to Board for appointment of Jim Clarke as permanent Chairman

July 2023 Board meeting

- Approval of half-year results announcement
- Approval of interim dividend for 2023

Board activities continued

Board meetings

Full Board meetings are typically held in person whereas shorter meetings to deal with singular time-critical items are often set up at shorter notice and typically held virtually. The success of different meeting formats is regularly debated and members have agreed that, while it is practicable to make effective decisions and exercise effective oversight in the virtual format, the quality of overall Board discussion is typically better when we meet in person.

The Board agenda is set by the Chairman with support from the Company Secretary. Early in 2023, a plan was produced and approved by the Board which set out the proposed discussion areas for each meeting. Inevitably, the plan evolved and changed during the year.

A typical Board meeting will typically comprise the following elements:

- performance reports for each of the Executive Directors in relation to the activities for which they have responsibility;
- a report and a verbal summary from the Employee Director;
- deep dive reports into areas of particular focus for that meeting; and
- a verbal update from the Chairs of each of the three Board Committees on activity which has occurred since the last Board meeting together with Committee minutes.

In this way, the Board is assured that at each meeting it is provided with an up-to-date understanding of strategic and sector related developments, operational issues and successes, major contract performance, customer feedback, health and safety performance, financial matters, investor relations, workforce issues, successes and awards, progress on new business wins, public relations, and communications.

Board and Committee member attendance 2023

Director	Position	Board	Audit and Risk Committee	Nominations Committee	Remuneration Committee
Jim Clarke	Chairman	13/13	4/4	1/1	7/7
Kieran Murphy	Ex-Chairman	9/9	0/0	0/0	3/4
Lucas Critchley	CEO	13/13	0/0	0/0	0/0
David Miles	Ex-CEO	13/13	0/0	0/0	0/0
Andrew Smith	CFO	13/13	0/0	0/0	0/0
Hema Nar	Employee Director (non-statutory)	13/13	0/0	0/0	0/0
Julia Unwin	Independent Non-Executive Director	11/13	4/4	1/2	6/7
Angela Lockwood	Independent Non-Executive Director	13/13	4/4	2/2	6/7
Nick Wharton	Independent Non-Executive Director	0/0	0/0	0/0	0/0
Chris Loughlin	Ex-Independent Non-Executive Director	8/9	1/2	0/0	4/4

Stakeholder engagement

Board engagement with key stakeholders

Within the Strategic Report, we detail how we consider our key stakeholders, what matters to them, how the Company and the Board engages with them, and our key performance measures. The Board recognises that engagement with key stakeholder groups strengthens our relationships and is an ongoing part of the operational management of the Group. The Board receives regular updates from senior management on insights and feedback from stakeholders, which allows the Board to understand and consider the perspectives of key stakeholders in decision making. Our Section 172 Statement on page 22 and the full Strategic Report provides further detail as to how the needs of our stakeholders, as well as the consequences of our decisions, are considered in detail by the Board.

Investor meetings

Investor meetings are predominantly attended by the Group Chief Executive Officer and Chief Financial Officer although other senior executives may attend. There is an active programme of communication with existing and potential shareholders, with "City Days" scheduled on a monthly basis (outside of closed periods), which provides any shareholder an opportunity for a meeting with management. There is increased dialogue following the publication of final and interim results, which is facilitated through a series of formal presentations, and management allocates a full week at those times to ensure all shareholders can be accommodated. The Chairman is also available for discussions with shareholders as and when they so wish and a number of such discussions took place during the year.

The Chairman regularly engages with major shareholders to canvass their views on governance and performance against

strategy. Committee Chairs will engage with shareholders where a particular matter relates to their area of responsibility. The Group also has regular dialogue with its banking partners. The Group has a committed £70m revolving credit debt facility to December 2026. The Directors value the close relationship with Barclays, HSBC and Citi Bank.

Annual General Meeting

Shareholder participation at each Annual General Meeting is usually encouraged. Full details of the 2024 Annual General Meeting will be set out in the Notice of Meeting. In normal circumstances, all shareholders are invited to attend the Company's Annual General Meeting, at which point they have the opportunity to meet the Board and raise questions. Shareholders who are unable to attend are invited to email questions in advance to company.secretary@mearsgroup.co.uk.

Annual Report and other communications

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

Corporate website

The Group website has a dedicated investor section which provides an overview of Mears, whilst also providing access to historical Annual Reports and shareholder presentations. The Group regularly receives and responds to questions raised by small private shareholders through the investor enquiry portal within the Group's website.

Shareholders holding over 2.5% of issued share capital	Holding at March 2024 % IC	Holding at March 2023 % IC
Fidelity Management & Research	9.0%	10.0%
Shareholder Value Management	8.0%	7.0%
JP Morgan Asset Management	7.8%	0.2%
LOYS AG	6.4%	9.2%
Heronbridge Investment Management	6.4%	5.9%
Dimensional Fund Advisors	4.9%	4.4%
Huntington Management	4.6%	4.1%
Milkwood Capital	4.5%	4.5%
Gresham House Asset Management	4.2%	0.5%
Artemis Investment Management	3.1%	5.8%
Liontrust Asset Management	3.0%	4.0%
Schroders Investment Management	2.6%	1.5%

Board composition, development and evaluation

1. Composition and development

It is critical to the success of the Board that it has the optimal mix of skills, knowledge, experience and diversity to produce an informed debate and a high quality of decision making. Directors offer themselves for re-election annually. The Board considers that each of the Non-Executive Directors applies their time and experience so as to make an effective contribution to the deliberations of the Board.

a) Independence

In accordance with the Code, the Chairman was independent at the time of his appointment to the Board in 2019. The other three Non-Executive Directors (Angela Lockwood, Julia Unwin and Nick Wharton) are all considered to be independent for the purposes of the Code. The two Executive Directors (by virtue of their employment in an executive role within the Group) are not considered to be independent. The Employee Director, Hema Nar, has changed to a non-statutory position, meaning her appointment is no longer registered at Companies House. Within Board meetings, the Employee Director holds equal status as any other Board member.

The year saw a number of changes on the Board. Kieran Murphy did not seek re-election at the Group's Annual General Meeting in June 2023. Chris Loughlin, Non-Executive Director, who it was anticipated would take on the role of Chairman, subsequently took the decision to step down from the Board immediately prior to the Annual General Meeting. These unexpected Board changes resulted in a short-term imbalance between independent and non-independent Board members which was not compliant with the Code which requires that at least half the Board should be Independent Non-Executive Directors. Following the appointment of Nick Wharton in December 2023, the Company considers that it is in compliance with the Code requirements as to independence.

The Board reviews the independence of its Non-Executive Directors as part of the annual evaluation process. The Nominations Committee also considers this as part of its ongoing review of the Board composition. The Board considered all Non-Executive Directors to be independent.

The Board operates a policy to identify and manage situations declared by Directors in which they or their connected persons have, or may have, an actual or potential conflict of interest with the Company. No Director conflict situation currently exists or existed at any time during the year.

b) Tenure

All Directors are subject to annual re-election by shareholders at the Annual General Meeting. The length of service of each Director as at the end of 2023 is set out in their biographies on pages 56–57.

c) Skills and experience

The Nominations Committee regularly assesses the skills and experience mix of the Non-Executive Directors. The Board requires a range of views, skills and experience in order to ensure that it can effectively challenge management's ideas and delivery but also contribute positively to Company strategy and corporate development more generally. The balance of those skills and capabilities is kept under review to ensure that the

Board can supply effective leadership and that, in particular, it has both extensive commercial private sector experience and a good understanding of the dynamics and processes which drive the behaviour of its client base.

d) Diversity

As at the end of 2023, the Board had six Directors, three of whom were female. Of the Non-Executive Directors (including the Chairman), one is male and two female. The Employee Director is from an ethnic minority background.

Mears will continue to work to secure a balanced Board to broaden the range of perspectives and expertise around the table, and ultimately benefit the services and clients we seek to support. We will follow the principles set out in the FTSE Women Leaders Review, which aims to increase opportunities for women at the top of Britain's largest companies.

e) Induction

In view of the appointment of Nick Wharton, the Chairman and the Company Secretary reviewed the Company's induction programme. This now provides for a comprehensive series of meetings with each of the Directors and senior managers in the Group, access to the Board and Committee papers prepared and discussed over the last 12 months, a programme of visits to some of the Group's key operating locations, and access to tailored external training and education programmes. This is covered in greater detail below.

f) Commitment

The Directors, Executive and Non-Executive, are required to devote as much time as is reasonably required to discharge their duties effectively and the Board is satisfied that the Directors do so. Attendance at Board and Committee meetings, which are each comprised of all of the Non-Executive Directors, continued at very high levels. Directors wishing to take up additional external appointments require the permission of the Board, acting through the Chairman.

g) Processes

All Directors have access to the Company Secretary, who is responsible for ensuring compliance with law and regulation and that Directors are kept abreast of changes in relevant corporate legislation. Directors, collectively or individually, have access through the Company Secretary to appropriate external professional advice should that be needed.

In accordance with the Articles of Association, and to the extent permitted by law, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. The indemnity does not cover Directors or Officers in the event of their behaving fraudulently or dishonestly.

2. Evaluation

During 2022, an updated evaluation of the effectiveness of the Board was undertaken. Given the significant number of Board changes that took place in 2023, both in respect of Board members and also in respect of changing roles, all Board members recognised a need for the new team to become bedded in before a more detailed effectiveness review could add value.

It is currently expected that the next evaluation will take place towards the end of 2024.

Induction in focus

1. Introductory meeting with Chairman

Nick Wharton
Non-Executive Director

6. Visit to Gloucester, location of central finance and HR services

2. Access to Board papers and materials

Access to Board reporting software which included:

- Five-year strategy paper approved in March 2022
- Draft budget for 2024
- Board papers for last 12 months
- Broker notes published in 2023
- Shareholder register analysis
- Company governance documents including matters reserved for Board and role of Board, Chairman and Chief Executive Officer

5. Branch deep dives hosted by respective senior operational executives

- Milton Keynes (flagship maintenance operation)
- Basingstoke site visit (Residential Living Accommodation Project contract)
- Darlington site visit (Asylum Accommodation Support Contract site location)

3. Introductory virtual meetings with Non-Executive Officers

- Julia Unwin (Interim Audit and Risk Committee Chair and Senior Independent Director)
- Angela Lockwood (Remuneration Committee Chair)

4. In-person meetings with senior executives

- Outgoing Chief Executive Officer – David Miles
- Incoming Chief Executive Officer – Lucas Critchley
- Chief Financial Officer – Andrew Smith
- Employee Director – Hema Nar
- Company Secretary – Ben Westran
- Group Director of Health, Safety and Compliance – Jason Burt

Report of the Nominations Committee

“

The Group has a strong track record in developing talent internally and I am impressed by the quality and strength we have in the Group, sitting immediately below the Board level.”

Jim Clarke

Nominations Committee Chair

Meeting attendance

Jim Clarke	1/1
Julia Unwin	1/2
Angela Lockwood	2/2
Nick Wharton (appointed December 2023)	0/0
Kieran Murphy (stepped down June 2023)	0/0

This report briefly describes the key issues debated by the Committee in 2023.

Introduction

This report details the role of the Nominations Committee and the important work it has undertaken during the year. It highlights the actions taken to ensure that the Board has the appropriate balance of skills, experience, knowledge and diversity to provide the Company with the strong leadership required to support its workforce and deliver long-term sustainable success.

Notably, 2023 saw a number of significant changes to the composition of the Board, including the planned retirement of both David Miles, our long-standing CEO, and Kieran Murphy, who had been Chairman since 2019. In addition, Chris Loughlin stepped down from the Board in June 2023.

Executive succession

Following the nomination of Lucas Critchley to succeed David Miles as Group CEO, a key focus for the Nominations Committee and Board was to oversee the transition of the CEO role. As part of this process, Lucas was appointed as a Director of the Company with effect from 1 January 2023. It is pleasing that the succession process has been so well managed, and the staged process has mitigated much of the risk when such a long-standing business leader steps down. David finally stepped off the Board on 31 December 2023.

The Nominations Committee recognises that David has been the driving force behind the culture which underpins all that Mears does, combining the need to generate profit with the need to provide value to all our stakeholders, staff, clients and service users, and the communities in which we operate. At times in the past, the Group has been over-reliant on this single individual, which is not ideal and brought risk. It is pleasing that the transition of David's activities has resulted in a wider devolution of responsibility and a succession process that has extended across several members of the senior management team.

David remains a key member of the senior management team and has committed to continue to provide support to the business with particular focus on client engagement, customer service and driving commercial performance over the medium term. The transition of other elements of David's responsibilities will continue to other senior team members over the course of 2024.

The Board and Nominations Committee will continue to focus on succession planning across the senior executive team. I have met, individually, with all the senior executive team and I am impressed by the quality and strength we have in the Group, sitting immediately below the Board level. The balance of skills is more evenly spread than in the past. The Group has a strong track record in developing talent internally, evidenced by both Lucas and Andrew having grown within the business prior to their Board appointments. I can already see a number of the senior team who will, in time, have opportunity to develop further as leaders of the business over the long term.

Chairman succession

Late in 2022, Kieran Murphy indicated that he would not be seeking re-election at the Group's AGM in June 2023. Chris Loughlin, Non-Executive Director, who it was anticipated would take on the role of Chairman, subsequently took the decision to step down from the Board immediately prior to the AGM in June 2023.

The Nominations Committee recognised the concerns and challenges raised by a number of investors in the lead up to the 2023 AGM. Given a conflict of interest, my Non-Executive colleagues canvassed the views of the Executive team, who were aligned in their desire for continuity rather than the risks brought by a new appointment. I was subsequently appointed as permanent Chairman, having been delivering the role on an interim basis following the AGM.

Non-Executive Director appointment

Following my appointment as Group Chairman, and to be in compliance with the Code, I was required to step off the Audit and Risk Committee. The Committee immediately commenced a process for the recruitment of an additional Non-Executive Director possessing the requisite financial experience and skills to also chair the Audit and Risk Committee.

The Board was delighted that in December 2023, following a rigorous external search and selection processes, we welcomed the arrival of Nick Wharton as a Non-Executive Director and Chair of the Audit and Risk Committee. Nick is a Chartered Accountant with extensive finance and corporate governance experience gained both in the UK and internationally, through executive and non-executive positions under both public and private equity ownership, and further improves the balance of skills and capabilities held by the Board.

Employee Director

A selection process was completed in 2022 to identify a replacement for the incumbent Employee Director. As a result of this process, Hema Nar was appointed, with effect from 1 January 2023, as the Company's new Employee Director. Hema has been a Mears employee since 2020 and is a Bid Manager in the Business Development function. During 2023, the Group has greatly enhanced this function, with the addition of both a Deputy Employee Director and a Trade Representative. These three individuals perform regular branch visits, are highly visible and are in frequent contact with the Executive team which has become an increasingly valuable channel of communication. At the end of 2023, Hema elected for her position to become a non-statutory appointment as the classification as a statutory Director was felt by both Hema and the Board to bring unreasonable personal risks. Whilst Hema is no longer classified as a Director from a regulatory standpoint, she will continue to attend and present at every Board meeting, and the change to a non-statutory position will not dilute the importance or significance of the role.

Diversity

We believe that our business success is dependent on the quality of our people. Key to this is embracing diversity and ensuring that our workforce is representative of the communities in which we work. We strive to create a transparently fair environment that evidences equality, diversity and inclusion for all.

I am pleased to report that the Company complies with the targets outlined within the Listing Rules, with 50% of the current Board Directors (including the non-statutory Employee Director) being women. In addition, on the same basis, one Board member is from a non-White ethnic minority background.

Non-Executive Directors

The terms and conditions of each of the Non-Executive Directors are available for inspection at the AGM and can be made available to shareholders by request to the Company Secretary.

Jim Clarke

Nominations Committee Chair

10 April 2024

Report of the Audit and Risk Committee

“

There has been good sponsorship of internal audit from the senior management team, and it is pleasing to observe the positive tone at the top in terms of openness to discussion of issues, agreement of action plans, and a commitment to doing the right thing.”

Nick Wharton

Audit and Risk Committee Chair

Composition, meetings and meeting attendance

The Non-Executive Directors who served on the Audit and Risk Committee (ARC) during the year are detailed in the table below.

Nick Wharton (appointed December 2023) ¹	0/0
Julia Unwin	4/4
Angela Lockwood	4/4
Jim Clarke	4/4
Chris Loughlin (stepped down June 2023)	1/2

¹ Due to a conflict with a pre-existing Board commitment, Nick Wharton was unable to attend the December Audit and Risk Committee meeting, the only meeting held after his appointment as Chair of the Committee.

Introduction

On behalf of the Audit and Risk Committee, I am pleased to present this report for the year ended 31 December 2023. This report aims to give stakeholders a clear insight into the work carried out by the Committee to provide challenge and assurance in the reported financial outputs and briefly describes the key issues debated by the Committee in 2023 and the manner in which it has discharged its accountabilities.

Throughout the year, the Committee Chair, at that point, regularly held discussions with both the internal auditor and external auditor to discuss any issues that had arisen. In addition, our regular programme of meetings and discussions, supported by interactions with the Company's management and external and internal auditors, and the quality of the reports and information provided to us, enabled the Committee members to effectively discharge their duties and responsibilities.

Given my appointment to the Board in December 2023, much of the work carried out by the Committee was performed before my arrival. I am greatly indebted to both Jim Clarke, who held the position of Chair until his appointment as Chairman of the Board in June 2023, and Julia Unwin, who held the position of Interim Chair until my appointment. Both Jim and Julia have contributed to this report to ensure that it accurately reflects the work carried out across the year.

Audit and Risk Committee (ARC)

At the year end the Committee is chaired by Nick Wharton. As a Chartered Accountant with extensive finance and corporate governance experience, having been CFO at three public companies and Audit Committee Chair at four businesses including three FTSE listed companies, the Board considers him to have recent and relevant financial experience as required by provision 24 of the 2018 Corporate Governance Code.

Julia Unwin has held senior roles within the housing and care sectors which bring industry specific expertise, whilst also being currently engaged by the Financial Reporting Council. Angela Lockwood has held senior roles within the housing sector, bringing further industry specific expertise.

The Board has determined that the current composition of the ARC as a whole has competence relevant to the sector in which the Company operates, to enable it to deal effectively with the matters it is required to address and to challenge management when necessary.

During the year, the Committee held four meetings. These meetings were also attended by the CEO and CFO. The internal and external auditors are also routinely invited to all meetings. The Company Secretary acts as secretary to the Committee.

The Audit and Risk Committee Chair meets with the external auditor and lead internal auditor regularly throughout the year and, periodically, the ARC will meet with the internal and external auditors without management present.

Compliance Committee (CC)

The Compliance Committee, which was set up in 2019 as a sub-committee to the Audit and Risk Committee, plays a pivotal role in recognising and mitigating many of the most significant risk areas faced by the Group. The Group's ethos of ensuring the health, safety and wellbeing of our people and those we serve is the central theme within their terms of reference. The extent to which the full integration of health, safety and environmental risks is now embedded in the governance structures of the Group is highlighted by the members of the Compliance Committee, who include the CEO, Health and Safety Director and internal health and safety legal adviser. Others are called upon to attend as required.

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

Roles and responsibilities

The primary role of the ARC, which incorporates the CC, is to assist the Board in fulfilling its oversight responsibilities and regularly reports to the Board on how it has discharged its responsibilities. These include, but are not limited to:

Financial reporting

- Monitoring the integrity of the annual and interim financial statements and formal announcements relating to the Group's financial performance and reviewing any significant financial reporting judgements and disclosures which they contain
- If requested by the Board, providing advice on whether the Annual Report and Accounts is fair, balanced and understandable
- Reporting to the Board on the appropriateness of the accounting policies and practices

Internal control and risk management

- Reviewing and monitoring the effectiveness of the internal control and risk management systems
- Reviewing and monitoring the effectiveness of the internal audit function, which is resourced externally by KPMG, and management's responsiveness to any findings and recommendations

Significant events during the year

Audit tender

On the recommendation of the Audit and Risk Committee, the Group decided to run a tender process for the external audit engagement for the 2024 statutory year end. Following the completion of the tender process, which is detailed later within this report, the Audit and Risk Committee recommended the appointment of PricewaterhouseCoopers LLP (PwC). The Committee was impressed by the quality and engagement of the audit partner, Nick Stevenson, and with the strength in depth of the wider PwC team. The Committee and Mears' senior management also recognised the strong cultural alignment between the two organisations and were impressed by PwC's existing IT and data analytics capabilities and the significant further investment that is being made in these areas to drive ongoing improvements to audit quality and efficiency over the long term.

AQR

The Financial Reporting Council's Audit Quality Review team (AQR) selected for review the EY audit of the Group's financial statements for FY22 as part of the normal process for reviewing the quality of external audit processes. AQR has issued its findings and I am pleased to report that the review was largely positive and there were no significant areas for improvement. There were a small number of recommendations which were incorporated into the audit for 2023.

Asylum seekers – accommodation provision

The well publicised issue of significantly increased numbers of asylum seekers entering the country and requiring accommodation in hotels and other establishments has caused a number of challenges for the Group. The Committee worked closely with the operational team and key stakeholders outside the business, to ensure the Group is in a position to effectively respond to the inherent challenges and ensure our service provision remains safe, compliant and of high quality.

Reform of UK Audit and Corporate Governance Framework

The Committee is mindful of the potential reform to the UK's audit and corporate governance framework. In preparation, the Group had carried out significant work in respect of the proposed changes. Following the withdrawal of the proposed changes we will await any revised recommendations. However, we are confident that the Committee has a good understanding of the key risks and the controls in place and will continue to place significant emphasis on evidencing the effectiveness of internal controls.

Report of the Audit and Risk Committee continued

Roles and responsibilities continued

Policies and procedures

- Reviewing and approving the terms of reference for key operating committees (e.g. Treasury)
- Reviewing the Scheme of Delegated Authority limits
- Reviewing and monitoring the key policies, e.g. tax risk management policy and anti-facilitation of tax evasion policy

- Reviewing and monitoring the appropriateness of the anti-bribery policy and procedures
- Approving the appointment and removal of the internal auditor and making recommendations to the Board in relation to appointment and removal of the external auditor, confirming its independence and approving its remuneration and terms of engagement

Activities of the Audit and Risk Committee

In respect of the year to 31 December 2023 the Audit and Risk Committee and the Compliance Committee activities are detailed below:

Risk management

- Received reports from the Chair of the Compliance Committee
- Reviewed and approved the Group's risk register
- Reviewed and validated the effectiveness of the system of internal controls
- Monitored fraud reporting and incidents of whistleblowing
- Overseen and monitored the Group's compliance with the Bribery Act 2010

Financial reporting

- Reviewed the basis of preparation of the financial statements as a going concern and the long-term Viability Review
- Reviewed and discussed reports from the CFO on the financial statements and considered the significant accounting judgements or where there is estimation uncertainty. The approach to addressing these judgements is detailed on page 71 of this report
- Considered reports from the external auditor in respect of the suitability of the accounting policies and the integrity of the financial reporting
- Reviewed the 2023 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, it complies with the 2018 Code principle to be fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model, and strategy
- Reviewed and considered the Executive Directors' assessment of the long-term viability for the Group, the conclusions from which are detailed within the Viability Review on pages 43–44. The excellent cash performance and liquidity provide strong foundations for the business and enabled the Committee to stress test the business in the event of a number of downside scenarios

Internal audit

- Reviewed and monitored progress against the 2023 internal audit plan
- Reviewed the quality and effectiveness of the outsourced arrangement
- Reviewed the internal audit plan for 2024

External auditor

- Reviewed recommendations arising from the 2022 statutory audit
- Agreed the audit fee for the year ended 31 December 2023
- Reviewed the proposed audit plan for the 2023 statutory audit

Compliance Committee

- Monitoring and review of the Group's policies in relation to health, safety and environmental (HSE) matters
- Review of HSE risks and risk assessments on the risk register and mitigating actions and controls related thereto, including subcontractor controls and related procurement
- Oversight of the Group's response to the Building Safety Act which is progressing well
- Overseeing policies linked to Mental health and wellbeing (MHW)
- Considering any other significant HSE matters, including emerging risks and unforeseen risks as they arose
- Ensuring robust governance policies and procedures were embedded into the Ministry of Justice contract
- Continue to enhance our data security enhancing the level of information available to the main Board. The implementation of a revised security strategy resulted in an enhanced number of key operational areas receiving ISO 27001 accreditation
- Significant focus was applied to the AASC, reflecting the elevated activities, the challenging operational environment within short-term hotel accommodation, and the extremely vulnerable service user groups

Significant issues considered and addressed in relation to the financial statements

The Committee reviewed and discussed reports from the CFO on the financial statements and considered the key areas of the financial statements that required significant accounting judgements or where there is estimation uncertainty. These are explained in greater detail within the notes to the consolidated financial statements. The Audit and Risk Committee received detailed reports from the CFO and the external auditor on these areas and other matters which they believed should be drawn to the attention of the Committee.

The Committee discussed the range of possible treatments both with management and with the external auditor, confirming that the judgements made by management were robust and supportable. For all the significant issues detailed below, it was concluded that the treatment adopted was the most appropriate.

Significant issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and long-term viability statement	• See Going Concern section in Directors' Report on page 99 and note 1 of the financial statements • See Our Business Model on pages 16–17, and Principal Risks and Uncertainties on pages 48–53 • See the Viability Review on page 43–44 • See page 155–156 of the Independent Auditor's Report • The Committee reviewed and challenged the assumptions underpinning the FY24 annual budget • The Committee reviewed the viability forecasting, considering severe but plausible scenarios modelled in relation to principal risks, and considering the stress testing performed by management and the potential mitigating actions identified
Revenue recognition	• See note 2 and note 18 of the financial statements detailing the accounting policy, critical judgements and key sources of estimation uncertainty in respect of revenue and contract assets • See page 158 of the Independent Auditor's Report • EY carried out substantive testing of the amounts recoverable on contracts, adopting a blend of risk-based and random sampling approaches to testing, and provided detailed feedback to the Committee in this area • The Committee reviewed the key judgements report prepared by management, which provided a detailed explanation in respect of the valuation of unbilled works and the recognition of revenues • The Committee took comfort from the contract management system which is central in generating the valuation of works (both billed and unbilled) and the integrated process that follows to ensure an accurate cut-off so that revenue is appropriately matched to cost
Onerous contract provisions	• See note 21 of the financial statements detailing the accounting policy, critical judgements and key sources of estimation uncertainty in respect of provisions • See page 160 of the Independent Auditor's Report • The Committee reviewed a report prepared by the CFO which included a detailed review of all loss-making contracts which provided a detailed explanation and commercial assessment. This paper also included a detailed assessment of the suitable discount rates to be applied • EY provided additional challenge, having reviewed the supporting documentation and expert opinions in detail, and provided detailed feedback to the Committee in this area
Impairment of the right of use assets utilised within the Community Housing schemes	• See note 2 of the financial statements for the accounting policy and the key sources of estimation uncertainty • See page 161 of the Independent Auditor's Report • The Committee reviewed a report prepared by the CFO which included a detailed review of the methodology applied in estimating value in use calculations, and comparison to the carrying values. This paper also included a detailed assessment of the discount rates utilised on a scheme-by-scheme basis which was recognised as a key source of estimation uncertainty • EY provided additional challenge, having reviewed the supporting documentation and applying its own specialist to consider the positions taken, and providing detailed feedback to the Committee in this area

Report of the Audit and Risk Committee continued

External audit

The Group's external auditor is EY LLP. The current audit partner is Nigel Meredith, who was appointed during the FY22 audit and remained in the position for FY23 which provided good continuity. A number of changes were made within the audit team with a view to improving the quality and experience of the team, whilst also looking to retain much of the learning and knowledge accumulated since their appointment.

Effectiveness

An important part of the Committee's work is to oversee the Group's relationship with the external auditor to ensure the independence, objectivity, quality, rigour and challenge of the external audit process is maintained. The Committee reviews the effectiveness of the audit throughout the year and obtained feedback from EY and management to inform this review process.

Independence and non-audit services

The Committee regards independence of the external auditor as absolutely critical in safeguarding the integrity of the audit process. Annually, the Committee reviews the external auditor's audit plan and reviews and assesses information provided by it confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards. The Company has adopted a strict policy of prohibiting the external auditor from carrying out non-audit services, to safeguard audit objectivity and independence. The Committee is responsible for approval of all non-audit services provided by EY; however, this is in exceptional circumstances only. In such an exceptional event, the Audit and Risk Committee would approve such work only where the Company would be disadvantaged by engaging an alternative provider, for instance where EY possesses detailed knowledge of the structure of the business or an understanding of the markets within which the Group operates. No non-audit services were provided by EY during 2023.

Audit tender – summary

Following a review of the effectiveness of recent external audits, the Board recognised the merits in running a tender process, to review the strengths of other audit firms whilst allowing the incumbent an opportunity to refresh its current service offering. The Board considered this tender to be in the best interests of the Company and shareholders and was carried out in respect of the external audit engagement for the 2024.

Based on the output of a robust external audit tender process, the Committee recommended, and the Board confirmed, the appointment of PwC as the new external auditor for the year ended 31 December 2024. The appointment of PwC requires shareholder approval and will be proposed to shareholders at the 2024 AGM. The audit tender process and transition arrangements are detailed below.

Audit tender – process

In order to provide a spectrum of audit propositions to be considered, Mears approached a number of prospective bidders covering audit firms classed as Big 4, and other medium-sized challenger firms to understand their appetite and willingness to participate in the tender process. To facilitate this process and to provide a fair baseline of information to these non-incumbent firms, meetings were arranged with the CEO and CEO designate and with the Company and Audit and Risk Committee Chair for the bidder to receive a detailed introduction to the Group.

A tender timeline was issued to prospective bidders detailing eight interactive sessions providing an opportunity for bidders to increase their knowledge of Mears, whilst debating key themes including transition and audit approach, technical sessions in respect of IFRS 15 and IFRS 16, IT systems, Annual Report disclosures and ESG. A combination of the CFO, Company Secretary and Group Financial Controller were present at all these interactive sessions. A detailed, formal tender submission was received following the conclusion of these sessions.

Having considered all of the information outlined above, Committee members undertook a formal assessment of the credentials and experience of PwC, which focused on areas such as the firm's:

- approach to ensuring overall audit quality, independence and objectivity;
- capabilities to undertake the audit including resourcing;
- culture and how well it would fit with Mears;
- experience of the Group's key audit matters;
- cultural alignment to the Group's ESG commitment; and
- experience with other similar UK-focused listed businesses.

Pricing formed no part of the selection criteria.

Having identified PwC as our preferred new audit firm to enter a final competitive tender stage, at this point EY were invited to participate. However, EY notified the Company that it did not wish to tender for the audit.

The Committee confirmed compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Audit transition plan

As part of the tender process, the Committee completed a review of the non-audit services provided by potential bidders to Mears and the necessary steps to ensure auditor independence.

The proposed external auditor, PwC, is undertaking activity in preparation for the external audit of the Group for the 2024 audit cycle. This will aid a smooth transition and allow it to embark on the 2024 audit as well prepared as possible. This activity includes:

- liaising with the outgoing external auditor during the 2023 audit cycle, including shadowing at key audit meetings;
- review of papers prepared by management relating to critical judgements and key sources of estimation uncertainty; and
- site visits and meetings with key members of the Mears senior management team.

PwC will complete a review of the half-year results and audit for the full year ending 31 December 2024. The Committee will monitor the transition of the auditor throughout the year to ensure the effectiveness and independence of PwC. The Board will seek approval for PwC to be elected as external auditor at the 2024 AGM.

Internal control and risk management

Overview

The Board is responsible for establishing the Group's overall risk appetite and ensuring that there is an adequate system of internal controls. However, in accordance with the requirements of the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the responsibility of monitoring and reviewing the integrity and effectiveness of the overall systems of internal controls and risk management has been delegated to the Committee.

Accordingly, the Committee provides the Board with the assurance that the risk management and internal control systems, including strategic, financial, operational and compliance controls, are sufficiently robust to mitigate the principal and emerging risks that may impact the Company.

System of internal controls

The system of internal controls encompasses the culture, behaviours, organisation design, policies, standards, procedures and systems that, taken together, facilitate its effective and efficient operation. These internal controls are based on the "three lines of defence" principles as detailed on page 46 of the Strategic Report. It includes all controls including financial, operational and compliance controls and risk management procedures. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, fraud or other loss. The risks include health and safety, people, legal compliance, quality assurance, insurance, security, reputational, social, ethical and environmental risks.

The Group's principal risk report captures and assesses the principal risks faced. This forms part of the Group's framework for determining risk and risk appetite. This document is updated regularly both to ensure its accuracy and to consider emerging risks that have the potential to damage the Group's business model and is considered at both Committee and Board level throughout the year. Further details are included within the Strategic Report on pages 48–53.

The Board has adopted a Scheme of Delegated Authority, with defined financial and other authorisation limits and setting procedures for approving capital and investment expenditure. The Board also approves detailed annual budgets. It subsequently reviews performance against targets set forth in these plans and budgets.

Effectiveness of internal control

In relation to risk management and internal controls, the Board and Audit and Risk Committee are mindful of the importance of continuing to improve both control and output in this area. The co-sourcing between the internal Mears team and KPMG is believed to provide better and more focused audits, allowing KPMG to bring in specialists to complete a specific audit. We believe this to be a more effective and cost-effective approach when compared to employment of such specialists. The overall lead for our internal audit work continues to sit with KPMG, and there has been good continuity in personnel through the period. This was KPMG's third year under this co-sourced arrangement and saw the final year of the initial three-year plan. The work carried out during 2023, and the Committee's priorities for 2024, are detailed within this report.

As at the end of the period covered by this report, the Audit and Risk Committee, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of disclosure controls and procedures designed to ensure that information required to be disclosed in financial reports is recorded, processed, summarised and reported within specified time periods.

Report of the Audit and Risk Committee continued

Internal control and risk management continued

Effectiveness of internal control continued

We have conducted an annual review of the effectiveness of our risk management and internal control systems in accordance with the Code. Part of this review involves regular review of our financial, operational and compliance controls, following which we report back to the Board on our work and findings as described above. This allowed us to provide positive assurance to the Board to assist it in making the statements that our risk management and internal control systems are effective, as required by the Code.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the process for the preparation of the consolidated financial statements. The consolidated financial statements are supported by detailed working papers. The Audit and Risk Committee is responsible for overseeing and monitoring these processes, which are designed to ensure that the Company complies with relevant regulatory reporting and filing requirements.

Principal risk description	Inherent risk rating	Residual risk rating	FY22	FY23	FY24F
1 & 2. Failure to successfully deliver the AASC			✓	✓	✓
3. Uncertainty from political changes and market disruptions			X	✓	X
4. Major breach of information or data security			✓	✓	✓
5. Failure to manage the impact of a health and safety incident, including Covid-19 related, leads to reputational damage and/or high financial penalties			✓	✓	✓
6. Failure in governance, control, processes, systems and structure, including managing the new MoJ contract and in particular the impact on Housing Officers			✓	✓	X
7. Failure to recover operations on a disaster or crisis (business continuity)			✓	✓	X
8. Ensuring that the business has the right people with the right skills, particularly in the context of the shortages and a highly competitive market for skilled labour			✓	X	X
9. Serious damage to or loss of brand integrity including to poor management of publicity and external communications			✓	X	✓
10. Serious failure to manage the housing subcontractors			✓	✓	✓
11. Risk of perceived and actual discrimination leading to reputational damage and financial penalties			✓	X	X
Level of risk					
Severe	High	Medium			

Internal audit

The internal audit function carries out work across the Group, providing independent assurance, advice and insight to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The audit plan coverage is based on risk, strategic priorities and consideration of the strength of the control environment. The internal audit function prepares audit reports and recommendations following each audit, and appropriate measures are then taken to ensure that all recommendations are implemented. Significant issues, if any, are raised at once.

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. The Committee is pleased with the additional support provided by KPMG.

At the beginning of each year, an internal audit plan is developed by the internal auditor following meetings with Directors and senior managers within the business and with reference to the significant risks contained within the Group's risk register, risks audited in prior years and identified controls. The ARC approves the internal audit plan and receives updates on progress against the plan and the recommendations arising from the internal audits throughout the year, together with updates on management's progress against outstanding actions.

The internal audit plan for 2023 comprised the following audits:

Risk management

- Refresh of principal risks, mitigating actions and assurance review

Core controls

- Taxation
- Scheme of Delegated Authority

Specific risk areas

- Management of key contracts, with particular focus on AASC
- Health and safety – a targeted follow-up from previous year audit
- Subcontractor management
- IT resilience

There has been good sponsorship of internal audit from the senior management team, and it is pleasing to observe the positive tone at the top in terms of openness to discussion of issues, agreement of action plans, and a commitment to doing the right thing.

From the core controls work completed to date, no high priority gaps were identified; however, in a number of areas there is a need to ensure that processes are being followed and for control activity to be formally documented and evidenced. This is also important within the wider regulatory context where there are emerging requirements for public interest entities to have a documented control framework and in due course an articulated Audit and Assurance Policy.

The 2024 programme was considered and approved by the Committee in December 2023 and performance against this plan will be reported in next year's Annual Report.

Nick Wharton

Audit and Risk Committee Chair
10 April 2024

Report of the Remuneration Committee

“

Mears had a very successful year and the Committee is satisfied that pay outcomes reflect the strong performance of the business during the year.”

Angela Lockwood
Remuneration Committee Chair

Meeting attendance

Angela Lockwood	6/7
Jim Clarke	7/7
Julia Unwin	6/7
Nick Wharton (appointed December 2023)	0/0
Kieran Murphy (stepped down June 2023)	3/4
Chris Loughlin (stepped down June 2023)	4/4

This report sets out the key matters which were addressed by the Committee in 2023.

Dear shareholders

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2023, my first since becoming Chair of the Remuneration Committee in June 2023.

This report is made up of three parts:

- This Annual Statement, where I set out details of the key decisions of the Remuneration Committee and the business context within which they were taken.
- A copy of the Directors' Remuneration Policy (the 'Policy') which was approved by shareholders at the 2023 Annual General Meeting and has a three-year term.
- The Annual Report on Remuneration, which sets out details of: (i) remuneration earned by Directors and the link between Company performance and pay in the year ended 31 December 2023; and (ii) how we intend to implement the Directors' Remuneration Policy in 2024.

As well as the binding vote on the Policy, there will be the usual advisory shareholder vote on the Annual Statement and the Annual Report on Remuneration at the 2023 AGM.

Business context

2023 saw strong revenue recovery with Group revenues up 14%. The business has continued to report strong progression in its adjusted operating margin, with the headline measure increasing to 4.6% (2022: 3.8%). This is a result of the strategic redirection of the business over the last five years, along with the exit from a number of non-core activities and the application of a rigorous approach to improving operating margins.

The Group has again delivered excellent operating cash flows with strong underlying EBITDA to operating cash conversion. Mears continues to foster a strong “cash culture”, whereby the Group's front-line operations understand that invoicing and cash collection are intrinsically linked. This culture has underpinned strong cash performance over many years.

We are delighted to be listed in the top 10 of the UK's Best Large Companies to Work For in the UK, with our 2023 score higher than the previous three years. The commitment to our workforce starts at Board level, evidenced by the appointment several years ago of an Employee Director who works closely with a Deputy Employee Director and Trade Representative to ensure that our people are at the forefront of our decision making and that the Board has a good understanding as to the feeling on the ground.

Incentive outcomes for 2023

Annual bonus

As set out in the business context section above, the Group delivered a very strong operational and financial performance during the year.

The 2023 annual bonus was based 40% on Group adjusted profit before tax, 10% on operating profit margin, 20% on cash conversion (EBITDA to operating cash flow), and 30% on strategic objectives relating to customers, employees and the generation of social value. These targets were set early in the year and were not adjusted at any point thereafter. The achievements against the targets were as follows:

Profit before tax (40%)

- The Group delivered adjusted profit before tax of £46.9m, which was above the maximum target of £38.0m and reflected a 29% increase over prior year earnings. We benefited from strong revenue growth (up 14% over the prior year which included increased volumes within the AASC) and delivered a modest increase in operating margins. This reflects the positive steps taken by the Group over the previous two years, actions which have at times resulted in a reduction in revenues but improved profitability. As a result, this element of the bonus will pay out in full.

Operating profit margin (10%)

- Increasing operating margin was a key objective in 2023. Our operating margin was 4.6% which was above the maximum target set (4.0%) and higher than last year (3.8%). Notwithstanding the Group's strategic ambitions to deliver revenue growth, the primary focus of the senior team over recent years has been to see the operating margin return towards its historical level of 5.0%. The actions taken to exit non-core activities, prune the contract estate to remove suboptimal arrangements, drive efficiencies at a contract level and maintain a disciplined approach to securing new works all continue to drive improvement to the operating margin. This part of the bonus was also fully met.

Cash conversion (20%)

- The Group reported EBITDA to operating cash conversion of 124%, ahead of the maximum target set of 100%. The Group reported an adjusted net cash position at the year end of £109.1m (2022: £100.1m). Whilst it is pleasing to report a strong cash position within the year-end balance sheet, of much greater significance is the performance over the 365-day period. Positively, the strong year-end performance is also mirrored in the average daily adjusted net cash for the year at £76.5m (2022: £42.9m). The outperformance was largely down to excellent working capital management. Therefore, this part of the bonus was also fully met.

Employee engagement, customer satisfaction and social value generated (30%)

- Our employee engagement criterion was measured by reference to the independent scoring awarded by the UK's Best Large Companies to Work For. This was achieved, at scoring which implied further improvement versus previous years.
- The customer satisfaction criterion based on the net promoter score ('NPS') and our score of 89.0% was between the threshold and maximum targets. Further detail is given in the strategy and KPI outcomes on page 18.
- The economic and social value generated for the communities in which we serve is measured as social value created per Mears employee. For 2023, we generated value in excess of the maximum stretch target as detailed on page 25.

Overall, the strong performance over the year resulted in a formulaic bonus outcome of 98.4% of the maximum. In line with our Policy, 67% of the bonus will be paid in cash, with the balance deferred in shares for a period of three years.

The Remuneration Committee believes this outcome is appropriate and fully reflects the strong financial and operating performance of the Group during the year.

LTIP outcome

LTIP awards were granted to Executive Directors in June 2021. These awards vest subject to performance conditions – relative TSR and earnings per share – measured over a three-year performance period to 31 December 2023. Mears delivered a TSR over the period of 124.6% which ranked the Company in the top quartile of the peer group. EPS for 2023, stated before the impact of share-based payments, was 32p which was above the maximum target of 25p.

This strong performance against both measures will result in 100% of the awards vesting in June 2024. Vested awards will be subject to a further two-year holding period.

The Committee believes this vesting outcome is a fair representation of performance taking into account financial delivery, share price performance, customer satisfaction and our employees. No discretion has been used to amend the vesting outcome.

Report of the Remuneration Committee continued

Board changes

After nearly 17 years on the Board at Mears, David Miles stepped off the Board on 31 December 2023. David remains an employee of the Group and still plays an important role in supporting the Executive team. Having worked the full 2023 financial year, he will receive an annual bonus for 2023 performance as set out above. David's LTIP awards will continue to vest on their normal vesting dates (and if he ceases employment, they will be pro-rated to reflect the relevant periods of service). David will not receive an LTIP award in 2024.

As previously announced, Lucas Critchley took up the role of CEO on 1 January 2023. The Committee has set Lucas' base salary at £315,000, a significant discount to his predecessor. It is anticipated that, subject to experience and good performance in the role, his salary will increase to £365,000 in 2025.

Mears-wide pay review

At a time when unemployment is low and where competition for labour resources is high, it has never been more important for Mears to continue its commitment to being a great place to work for our staff. Mears is committed to fine-tuning its employee brand proposition, emphasising more clearly the benefits of working for Mears. We will continue our progressive approach of enhancing packages to enhance retention.

We recognise the financial pressures people are under as the cost of living continues to rise and we work hard to do our best for our people. Once again we brought forward our annual review from 1 April 2024 and applied the increase from 1 January 2024. This resulted in a 5% increase for all our employees (except where employees' pay is linked to national or local agreements). We also introduced life assurance for employees who were not previously covered (except where employees' terms are linked to national or local agreements).

Applying the Policy in 2024

Base salaries

The Committee has set Lucas Critchley's base salary at £315,000. Andrew Smith's salary will increase in line with the workforce rate of 5%, from £300,000 to £315,000.

Annual bonus 2024

The Committee has decided that PBT should continue to apply to 50% of the bonus and that average daily net cash/debt will apply to 20% of the bonus. The remaining 30% will continue to be based on strategic objectives. The Committee has added an additional strategic measure resulting in measures of customer satisfaction (7.5%), employee engagement (7.5%), accident frequency (7.5%) and social value (7.5%). In addition, the Committee will continue to consider whether any adjustment is required to the bonus outcome in the event of a health and safety issue during the year. The specific targets for each of these measures have also been set to reflect the achievements in 2023 and forecasts for 2024. The actual targets for 2024 and performance outcomes will be reported retrospectively in next year's report.

LTIP 2024

Executive Directors will receive awards at the Policy level of 100% of salary. The 2024 LTIP will continue to consist of two measures, being EPS growth relating to targets for FY26 and total shareholder return (TSR) measured relative to the FTSE SmallCap (excluding investment trusts, financial services and natural resource companies). The Committee has decided that 75% will be based on EPS and 25% on TSR to reflect the Board's priority to focus on financial performance and earnings. The Committee will consider return on capital employed (ROCE) performance in assessing the outcome for the EPS component and the Committee has the ability to reduce the vesting outcome if performance is inconsistent with the performance of the business or individual during the three-year performance period.

While we have a significant minority of our annual bonus scheme based on important ESG objectives, the Committee is aware that there are no environmental objectives in either the annual bonus or LTIP schemes. The Committee will consider over the course of the year how it might incorporate an environmental measure into the 2025 incentives.

Conclusion

The strengthening trading performance is evidence that the strategic actions of recent years and Mears' resilient operating platform and market leadership continue to deliver results and position the Group well for sustainable growth over the medium term.

I believe the Committee has considered carefully the pay outcomes for the year to ensure there is an appropriate link between reward, financial and strategic delivery, and stakeholders' interests. I hope you find the report informative and will be supportive of the advisory pay resolution which will be tabled at the 2024 AGM.

If you have any questions on this report or any remuneration matters more generally, please get in touch with me directly, or via the Company Secretary, Ben Westran.

Angela Lockwood

Remuneration Committee Chair

10 April 2024

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy (the 'Policy') which was approved by shareholders at the 2023 AGM. The Policy took binding effect from the date of that meeting and shall be in place for three years unless a new Policy is presented to shareholders before its expiry. All payments to Directors during the Policy period will be consistent with the approved Policy. This Policy takes into account the provisions of the 2018 UK Corporate Governance Code (the 'Code') and other good practice guidelines from institutional shareholders and shareholder bodies.

In developing our Policy, we were careful to take full account of the provisions of the Code and it will continue to be a key touchstone for the Committee. In summary, with regard to how we have sought to comply with the six factors outlined in Provision 40 of the Code, we believe the following are worthy of particular note:

- **Clarity** – the Policy is well understood by our Directors and has been clearly articulated to shareholders and proxy voting agencies.
- **Simplicity** – the remuneration structure is simple and transparent and we have purposefully avoided any complex structures which have the potential to deliver unintended outcomes.
- **Risk** – our Policy and approach to target setting seek to discourage any inappropriate risk taking. A balanced scorecard of financial and non-financial objectives applies to the annual bonus scheme and the targets are appropriately stretching, to mitigate the risk of inappropriate actions being taken. Malus and clawback provisions apply.
- **Predictability** – Executives' incentive arrangements are subject to individual participation caps. An indication of the range of values in packages is provided in the illustration of Policy scenario charts. Deferred bonus and LTIP awards provide alignment with the share price and their values will depend on share price at the time of vesting.
- **Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance.
- **Alignment to culture** – pay and policies cascade down the organisation and are fully aligned to Mears' culture.

Remuneration Policy table

The following table summarises the main elements of the Executive Directors' Remuneration Policy for 2023 onwards, along with the key features of each element and their purpose and linkage to our strategy. The policy for the Chairman and Non-Executive Directors is set out on page 85.

Objective and link to strategy	Operation
Base salary The purpose of the base salary is to: • help recruit and retain individuals of the necessary calibre to execute the business strategy; • reflect the individual's experience, role and contribution within the Group; and • ensure fair reward for "doing the job".	Salaries will be eligible for increases during the three-year period that the Remuneration Policy operates. The Committee reviews base salaries annually with any change typically effective from 1 January. The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate. When determining base salaries and whether to increase levels the Committee will take the following into consideration: • the performance of the individual Executive Director; • the individual Executive Director's experience and responsibilities; • the impact on fixed costs of any increase; • pay and conditions throughout the Group; and • the economic environment. When setting the salary levels for the Executive Directors, in addition to the factors summarised above, salary levels paid by companies of a similar size and complexity to Mears are taken into account. The Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take into account relevant market movements.

Report of the Remuneration Committee continued

Directors' Remuneration Policy continued

Remuneration Policy table continued

Objective and link to strategy	Operation
Pension To provide a framework to save for retirement that is appropriately competitive.	The Company may contribute directly into an occupational pension scheme (an Executive Director's personal pension) or pay a salary supplement in lieu of pension. If appropriate, a salary sacrifice arrangement can apply. Only the base salary is pensionable. Since 1 January 2023, Executive Directors' contribution rates are aligned with the workforce contribution rate. The current estimate of the workforce rate is 6% of base salary looking at current contribution rates across the business. The average workforce rate may change over the life of the Policy.
Annual bonus To reward and incentivise the achievement of annual targets linked to the delivery of the Company's strategic priorities for the year.	Bonus measures and targets are reviewed annually, and any payout is determined by the Committee after the end of the financial year, based on performance against targets set for the period. Maximum bonus potential is capped at 100% of salary for Executive Directors. Up to 67% of any bonus that becomes payable is paid in cash with the remainder deferred into shares for three years. Deferred bonus share awards typically vest subject to continued employment only. Individuals may be able to receive a dividend equivalent payment on deferred bonus shares at the time of vesting equal to the value of dividends which would have accrued during the vesting period. The dividend equivalent payment may assume the reinvestment of dividends on a cumulative basis. In the event that there was: (i) a material misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions that was based on incorrect information; (iii) misconduct on behalf of an individual; (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events, malus and/or clawback provisions may apply for three years from the date of payment of any bonus or the grant of any deferred bonus share award. Bonus performance measures are set annually and will be predominantly based on challenging financial targets set in line with the Group's strategic priorities and tailored to each individual role as appropriate, for example targets relating to adjusted earnings. For a minority of the bonus, strategic, ESG or operational objectives may operate. The Committee has the discretion to vary the performance measures used from year to year depending on the strategic priorities at the start of each year. Details of the performance measures for the relevant financial year will be provided in the Annual Report on Remuneration and actual targets will be disclosed retrospectively. For financial targets, and where practicable in respect of operational or strategic targets, bonus starts to accrue once the threshold target is met (up to 20% payable) rising on a graduated scale to 100% for stretch performance. The Committee may adjust bonus outcomes, based on the application of the bonus formula set at the start of the relevant year, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the year. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual Report on Remuneration.
Benefits To provide benefits that are valued by the recipient and are appropriately competitive.	The Executive Directors may receive benefits including a Company-provided car or an allowance in lieu, life assurance and private medical insurance. Other additional benefits may be provided where appropriate. Benefits in kind are not pensionable. Benefit values vary year on year depending on premiums and the maximum potential value is the cost of these provisions.

Objective and link to strategy	Operation
Long Term Incentive Plan Its purpose is to incentivise and reward the delivery of strategic priorities and sustained performance over the longer term. To provide greater alignment with shareholders' interests.	The LTIP provides for awards of free shares (i.e. either conditional shares or nil or nominal cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. In any financial year, performance shares with a face value of up to 100% of salary (or 150% of salary on an exceptional basis, such as in recruitment cases) may be granted to an Executive Director. Vested awards are subject to a two-year post-vesting holding period. In exceptional circumstances such as due to regulatory or legal reasons, vested awards may also be settled in cash. Dividend equivalent payments may be made on vested LTIP awards and may assume the reinvestment of dividends, on a cumulative basis. In the event that there was: (i) a material misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions based on incorrect information; (iii) misconduct on behalf of an individual; (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events, malus and/or clawback provisions may apply for three years from an award becoming eligible to vest. The Committee may set such performance conditions as it considers appropriate reflecting the medium-term priorities of the Group. The choice of measures and their weightings will be determined prior to each grant. Up to 25% of awards will vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets. No awards vest for performance below threshold. A graduated vesting scale operates between threshold and maximum performance levels. The Committee may adjust LTIP vesting outcomes, based on the result of testing the performance condition, if it considers the quantum to be inconsistent with the performance of the Company, business or individual during the three-year performance period. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual Report on Remuneration.
All-employee share plans Encourage employees to own shares in order to increase alignment over the longer term. Under the SIP, Sharesave plan and CSOP, the maximum amount is equal to the HMRC limits set from time to time.	All employees are eligible to participate in the Company's Share Incentive Plan (SIP) and Sharesave plan (Save As You Earn). Under the terms of the Sharesave plan, all employees can apply for three or five-year options to acquire the Company's shares priced at a discount of up to 20%. Under the terms of the SIP, the Company can choose to offer free shares, partnership shares, matching shares (up to two for one on any partnership shares purchased), and/or dividend shares. In addition, the Company operates a discretionary unapproved share plan and a Company Share Option Plan (CSOP). No awards to Executive Directors are proposed under these plans.

Shareholding guidelines

The shareholding guidelines secure a long-term locked-in alignment between the Executive Directors and shareholders, ensuring that they build up and maintain a minimum level of shareholding throughout their employment with the Company. The in-employment shareholding guideline for Executive Directors is 200% of base salary.

The shareholding requirement will operate in the following manner:

- Shares unconditionally owned by the Executive Director will count towards the requirement.
- Unvested deferred bonus shares or vested LTIP shares which are subject to a holding period may count towards the guideline on a net of tax basis.

- All vested deferred bonus and LTIP awards must be retained until the guideline has been achieved, unless the Committee believes that there are exceptional circumstances.

Executive Directors are normally required to hold shares at a level equal to the lower of their shareholding at cessation and 200% of salary for two years after ceasing to be a Director. For this purpose, an Executive Director's shareholding shall exclude shares purchased with own funds and any shares acquired from share plan awards made before the approval of this Policy (2023).

Report of the Remuneration Committee continued

Directors' Remuneration Policy continued

Reasons for selecting performance measures

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

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

Adjusted Group profit before tax is a key metric for the Group and ensures management is focused on delivering sustained profits. Alongside this, cash flow continues to be important as management focuses on achieving the optimal capital structure and managing working capital.

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

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

Differences in remuneration policy for all employees

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

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

Committee discretions

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

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

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

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

Report of the Remuneration Committee continued

Directors' Remuneration Policy continued

Approach to recruitment remuneration continued

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

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

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

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

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

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

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

Service contracts and payment for loss of office

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

If an Executive Director's employment is to be terminated, the Committee's policy in respect of the contract of employment, in the absence of a breach of the service agreement by the Executive Director, is to agree a termination payment based

on the value of base salary and benefits that would have accrued to the Executive Director during the contractual notice period. The policy is that, as is considered appropriate at the time, the departing Executive Director may work, or be placed on garden leave, for all or part of their notice period, or receive a payment in lieu of notice in accordance with the service agreement.

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

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

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

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

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

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

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

Chairman and Non-Executive Director fees

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

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

Objective and link to strategy	Operation
To provide compensation that attracts individuals with appropriate knowledge and experience.	Fee levels are reviewed periodically taking into account independent advice and the time commitment required of Non-Executive Directors. The fees paid to the Chairman and the fees of the other Non-Executive Directors aim to be competitive with other listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity. Non-Executive Directors receive a base fee and additional responsibility fees such as for undertaking the role of Senior Independent Director or for membership and/or chairmanship of certain Committees. Non-Executive Director fees are not performance related. Non-Executive Directors do not receive any variable remuneration element. In exceptional circumstances, if there is a temporary yet material increase in the time commitment for Non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload involved. The Chairman receives a single fee and does not receive any additional fees for membership and/or chairship of Committees. Non-Executives (excluding Employee Directors) are encouraged to build a meaningful shareholding in Mears Group. Any increase in Non-Executive Director base fees or additional responsibility fees may be above the level awarded to other employees, given that they may only be reviewed periodically and may need to reflect any changes to time commitments or responsibilities. The Company will pay reasonable expenses incurred by Non-Executive Directors.

Other non-executive appointments

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

Consideration of employment conditions elsewhere in the Group in developing policy

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

Consideration of shareholder views

The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements. We remain sensitive to the views of shareholders and consult shareholders regarding any material changes to the Policy or to how it is being implemented. The Company will continue to monitor shareholder comments and retain an open dialogue as necessary.

Report of the Remuneration Committee continued

Directors' Remuneration Policy continued

Remuneration framework – at a glance

The following section sets out our remuneration framework, a summary of how our Policy was applied in 2023 in the context of our business performance, and from pages 94–95 details of how the Committee intends to implement the Policy in 2024.

Strategic alignment of remuneration

The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance related, and the performance conditions applying to incentive arrangements should support the delivery of the Company's strategy. The following table sets out how the annual bonus scheme and LTIP reflect the Group's strategic priorities:

Our strategy

1	2	3	4	5
Deepening our client relationships	Increasing quality leadership	Growing and improving our business	Developing our people	Continuing to innovate

How we have measured progress against these objectives

Good health and safety performance, with the Group being awarded its 21st consecutive RoSPA Gold Award and retaining its place on RoSPA's Order of Merit	Excellent progression in operating profit margins	Strong customer satisfaction whilst noting a small increase in the level of complaints	Top 10 in the Sunday Times' Best Big Companies to Work For survey
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How our strategic objectives are linked to our incentive plan

Annual bonus (capped at 100% of salary: 67% paid in cash, 33% deferred shares)

Adjusted profit and profit margin (50%)	Cash conversion (20%)	Customer satisfaction (7.5%)	Employee engagement (7.5%)	Social value creation (7.5%)	Health and Safety (7.5%)
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LTIP (capped at 100% of salary with three-year performance targets)

Total shareholder return	Earnings per share
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Annual report on remuneration

This section of the Directors' Remuneration Report contains details of how the Company's Directors' Remuneration Policy was implemented during the financial year ended 31 December 2023 and how it will be implemented for the 2024 financial year.

Single total figure of remuneration (audited)

Executive Directors

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

Executive Director (£'000)	Year	Salary ¹	Taxable benefits ¹	Pension ²	Fixed pay and benefits sub-total	Annual bonus ³	Long-term incentives ⁴	Variable pay sub-total	Total remuneration
L Critchley ⁵	2023	221	11	13	245	217	–	217	462
	2022	–	–	–	–	–	–	–	–
A C M Smith	2023	300	11	18	329	295	431	726	1,055
	2022	269	11	40	320	258	–	258	578
D J Miles ⁶	2023	404	10	24	438	398	647	1,045	1,483
	2022	404	10	61	475	388	–	388	863
A Long ⁷	2023	–	–	–	–	–	–	–	–
	2022	221	10	33	264	212	–	212	476

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

2 Andrew Smith, David Miles and Alan Long received a cash allowance in lieu of pension. The pension contribution was reduced to 6% of salary from 1 January 2023.

3 Full details of the annual bonus outcomes are set out in the section below. No discretion was used in determining the bonus outcome.

4 LTIP awards were granted in June 2021 which were based on performance for the three-year period ended 31 December 2023. The performance measures attached to these awards were met and therefore these awards will vest in full. As the vesting share price is not known at the time of signing off this report, the value of the awards has been estimated using the three-month average share price to 31 December 2023 (275p) and includes the value of accrued dividends. The actual value at the date of vesting will be shown in next year's report. 28.6% of the value is attributable to share price growth from the date of grant to 31 December 2023. No discretion was applied to the formulaic vesting outcome.

5 Lucas Critchley was promoted and joined the Mears Board as COO on 1 January 2023.

6 David Miles stepped down from the Mears Board on 31 December 2023 and remains an employee of the Group.

7 Alan Long stepped down from the Mears Board on 31 December 2022 and remains an employee of the Group.

2023 annual bonus outcome (audited)

The performance measures and targets for the annual bonus for the year ended 31 December 2023 are detailed below.

The annual bonus measures chosen for 2023 were dependent upon the achievement of a number of objectives detailed below; 70% of the annual bonus was linked to financial measures with the remaining 30% based on strategic objectives relating to customer satisfaction, employee engagement and monetary social value generated. The actual performance achieved in respect of the annual bonus for 2023 is also summarised below against each target.

Measure	Weighting (% of salary)	Threshold (20% payable)	Maximum (100% payable)	Actual performance for 2023	Bonus outcome (% of maximum)
Adjusted Group PBT ¹	40%	£34.4m	£38.0m	£46.9m	100%
Operating profit margin % (pre-IFRS 16)	10%	3.8%	4.0%	4.7%	100%
EBITDA to operating cash flow	20%	85%	100%	123%	100%
Customer satisfaction ²	10%	85%	90%	89%	84%
Employee engagement: UK's Best Large Companies score ³	10%	675	680	690	100%
Creation of social value ⁴	10%	£1,430	£1,575	£2,396	100%
Total					98.4%

1 Adjusted Group PBT is stated before the amortisation of acquisition intangibles and non-underlying items. There were no adjustments made to profits in FY23.

2 Customer satisfaction is based on the percentage of customers that rate Mears' service at 7 out of 10 or above, with methodology signed off by the independent Customer Scrutiny Board.

3 The employee engagement measure is set against the overall score awarded to the Group by the UK's Best Big Companies to Work For awards.

4 Social value is independently assessed utilising a social value measurement tool and is expressed as an amount generated per employee.

Report of the Remuneration Committee continued

Annual report on remuneration continued

2023 annual bonus outcome (audited) continued

Adjusted Group PBT for the year of £46.9m was ahead of the maximum target set by the Committee and benefited from higher Group revenues and operating margin. The management-led activities have reported strong growth, with revenues growing by 34% to £543.3m. It is a tremendous achievement that an area of the business which the Group entered less than 10 years ago, and has been grown almost entirely organically, now comprises around half the Group's revenues. Cash conversion for the year was 130% which was ahead of the maximum target. Mears fosters a strong "cash culture", whereby the Group's front-line operations understand that invoicing and cash collection are intrinsically linked, and that a works order is not complete until the monies are banked. This culture has underpinned strong cash performance over many years. The impact of an increase in provisioning, which by its nature is a non-cash item in the period, has driven a further increase in the reported cash conversion measure. However, without this enhancement, the Group would still have delivered EBITDA to operating cash of more than 110%.

The non-financial measures were based on customer satisfaction, employee engagement and creation of social value. The customer satisfaction score of 89% was between threshold and maximum, employee engagement was measured by a Best Big Companies score of 690, and the Group delivered £2,396 of social value per employee. Overall, performance against the non-financial measures resulted in a payout of 28.4% out of 30%.

The annual bonus outcome resulted in an overall bonus of 98.4% of maximum. The Committee believes this high outcome is a fair reflection of the strategic actions of recent years and Mears' resilient operating platform and market leadership. No discretion was used in determining the bonus outcome.

The aggregate bonus entitlement across the three Executive Directors was £0.9m and is included within the single total figure of remuneration. Two-thirds of this entitlement is paid in cash and one-third of the bonus will be deferred in shares for a period of three years.

	Bonus earned (% of salary)	Bonus earned (£'000)	Cash element (£'000)	Deferred element (£'000)
L Critchley	98.4%	217	145	72
A C M Smith	98.4%	295	198	97
D J Miles	98.4%	398	267	131

2021 LTIP vesting (audited)

LTIP awards were granted to Executive Directors on 10 June 2021.

The awards were granted in the form of nominal cost options and are exercisable on 10 June 2024 subject to the achievement of relative total shareholder return (50%) and earnings per share (50%) performance conditions measured over the three-year performance period ended 31 December 2023. The performance outcomes for the 2021 LTIP are set out below:

	Weighting	Threshold	Maximum	Actual	% vesting (out of 100%)	% vesting (out of total award)
EPS (2023)	50%	20p	25p	32.0p	100%	50%
Relative TSR ¹	50%	Median rank	Upper quartile rank	TSR of 124.6% ranked at 6.9 out of 98 companies	100%	50%

¹ TSR was measured against the constituents of the FTSE SmallCap (excluding investment trusts, financial services and natural resource companies) as at the start of the performance period.

During the three year vesting period, Mears undertook a share buyback programme which reduced the number of shares in issue. 2023 earnings per share, excluding the impact of the share buyback programmes, was 30.7p which was ahead of the 25p maximum target. The EPS measure is also subject to the Committee's assessment of return on capital employed over the period expressed as a percentage of adjusted operating profit divided by average capital employed for the period. The Group's ROCE increased from 17.0% in 2021 to 27.6% in 2023. In light of this, the Committee determined that no adjustment to the EPS performance outcome was required.

Mears delivered a total shareholder return of 124.6% over the three-year performance period which ranked the Group in the upper quartile of the peer group. Therefore, both performance metrics were met in full. No discretion has been used in determining the 2021 LTIP vesting outcome.

Details of the value of vested awards are set out below:

	Number of awards granted	Performance assessment	Value of shares at vesting ¹ (£'000)	Dividend equivalents (£'000)	Value of vested awards (single figure) (£'000)	Impact of share price growth/ (reduction) (£'000)
D J Miles	213,876	100% vesting	585	62	647	185
A C M Smith	142,603	100% vesting	390	41	431	123

1 The value of shares at vesting is estimated using the three-month average share price to 31 December 2023 of 275p.

Vested awards are exercisable on 10 June 2024 and will be subject to a further two-year holding period.

This was the first LTIP vesting in eight years and it reflects the increase in earnings delivered by the business and shareholder returns over the three-year period. The Committee believes this is a fair reflection of performance and no discretion has been applied to the formulaic outcome.

Non-Executive Directors' single total figure of remuneration

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

Chairman and Non-Executive Director (£'000)	Year	Salary/ fees ⁷	Taxable benefits	Fixed pay sub-total	Total remuneration
Current Directors					
J Clarke ¹	2023	120	–	120	120
	2022	76	–	76	76
J Unwin	2023	67	–	67	67
	2022	66	–	66	66
A Lockwood ²	2023	72	–	72	72
	2022	66	–	66	66
N Wharton ³	2023	4	–	4	4
	2022	–	–	–	–
Former Directors					
C Loughlin ⁴	2023	75	–	75	75
	2022	76	–	76	76
K Murphy ⁴	2023	81	–	81	81
	2022	161	–	161	161
H Nar ⁵	2023	69	–	69	69
	2022	–	–	–	–
C Gibbard ⁶	2023	–	–	–	–
	2022	56	2	58	58

1 Jim Clarke moved from Non-Executive Director to Interim Chairman of the Board in June 2023 and to Chairman in September 2023.

2 Angela Lockwood joined the Board in January 2022.

3 Nick Wharton joined the Board in December 2023.

4 Kieran Murphy and Chris Loughlin stepped down from the Board at the May 2023 AGM.

5 Hema Nar joined the Board in January 2023 and stepped down from the Board in December 2023.

6 Claire Gibbard stepped down from the Board on 31 December 2022. Her remuneration for 2022 included a £2,300 car benefit.

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

Report of the Remuneration Committee continued

Annual report on remuneration continued

Share awards made during the year

The following LTIP awards were granted on 4 May 2023:

Director	Face value as % of salary	Face value ¹	Number of shares	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
David Miles	100%	£404,043	179,708	25%	100%	31 December 2025
Andrew Smith	100%	£300,000	133,432	25%	100%	31 December 2025
L Critchley	100%	£221,000	98,295	25%	100%	31 December 2025

¹ The face value of the awards is based on a share price of 224.83p, being the three-day average share price directly prior to the grant of the award.

The awards have been granted in the form of nominal cost options and will normally become exercisable on 4 May 2026. Awards may become exercisable subject to the achievement of relative TSR (50%) and EPS (50%) performance conditions.

Description	Weighting	Calculation	Targets
Total shareholder return	50%	Relative TSR versus the constituents of the FTSE SmallCap (excluding investment trusts, financial services and natural resources companies) measured over a three-year performance period.	Threshold: median (25% vests) Maximum: upper quartile (100% vests)
Earnings per share	50%	Adjusted EPS target relating to the 2025 financial year. None of this part of the award will vest if 2025 EPS is less than 25p; 25% shall vest for EPS of 25p, increasing to full vesting for 28p or higher. The Committee will consider ROCE performance over the performance period and may reduce the EPS vesting outcome if the Committee is not satisfied that the level of EPS vesting is justified on account of the Group's ROCE over the performance period.	Threshold: 25p (25% vests) Maximum: 28p (100% vests)

In addition, the Committee retains discretion to reduce the overall LTIP vesting level if it considers that the underlying business performance of the Company does not justify vesting (taking into consideration a range of factors, including, for example, ROCE performance). If the Committee is not satisfied that the formulaic vesting outcome is aligned with underlying Group performance, then it may reduce (potentially to zero) the vesting outcome.

Awards granted to Executive Directors are additionally subject to a two-year holding period following the vesting date.

The following deferred bonus share awards were granted during the year in respect of bonus earned for performance relating to the 2022 financial year:

Director	Date of grant	Number of deferred shares granted ¹	Vesting date
D J Miles	4 May 2023	57,051	4 May 2026
A C M Smith	4 May 2023	38,114	4 May 2026

¹ The face value of the awards is based on a share price of 224.83p, being the three-day average share price directly prior to the grant of the award.

Awards were granted in the form of nominal cost options and will vest subject to continued employment.

Statement of Directors' shareholding and share interests (audited)

Directors' share interests as at 31 December 2023 are set out below:

Director	Number of beneficially owned shares	Options vested but not exercised	Options subject to performance conditions	Unvested deferred bonus awards	Total interests held at year end	Shareholding guideline met?
D J Miles	336,769	–	593,276	147,058	1,077,103	Yes
A C M Smith	270,000	–	409,444	98,126	777,570	Yes
L Critchley	4,166	–	98,295	–	102,461	No

There were no changes to the holdings set out above from the period 31 December 2023 to the date of this report.

J Clarke holds 30,000 beneficially owned shares. No other Non-Executive Director holds an interest in shares.

The current Executive Directors have a shareholding requirement of 200% of salary.

As at 31 December 2023, based on beneficially owned shares and deferred bonus awards (on a net of tax basis), David Miles, Andrew Smith and Lucas Critchley had shareholdings equal to 320%, 335%, and 6% respectively of their base salaries (based on a share price of £3.10).

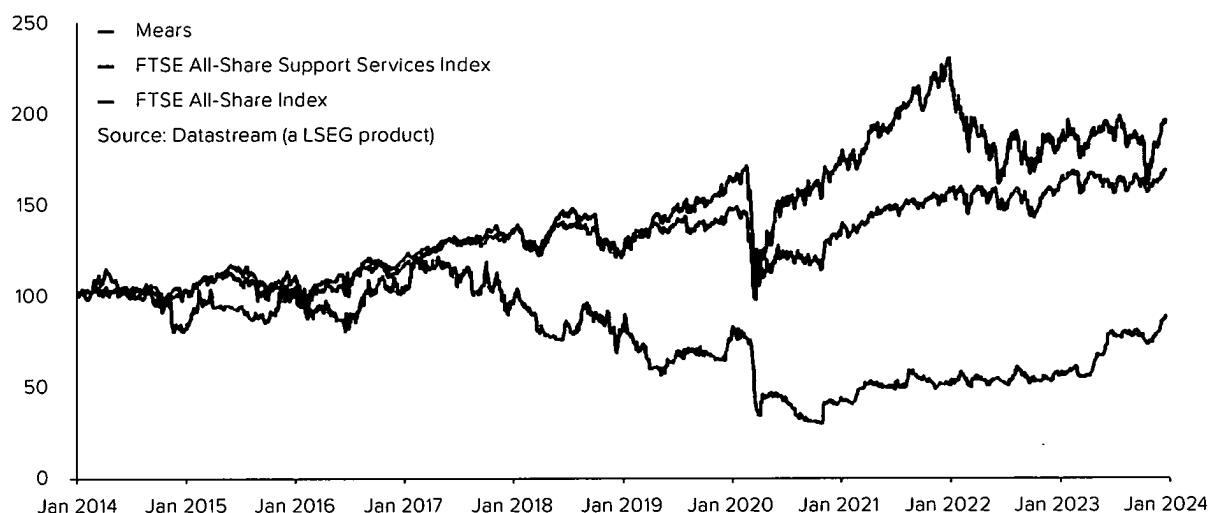
Shareholder dilution

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

Performance graph and table (unaudited)

The graph below shows the Group's performance, measured by TSR, compared with the constituents of the FTSE All-Share Index and the FTSE All-Share Support Services Index over the past 10 years. The Company is a constituent of both indices and these peer groups are considered to provide relevant comparisons.

Total shareholder return



The table below shows the Chief Executive Officer's remuneration package over the past 10 years, together with incentive payout/vesting as compared to the maximum opportunity.

Year	Name	Single figure of total remuneration (£'000)	Bonus payout (as % of maximum opportunity)	Long-term incentive vesting (as % of maximum opportunity)
2023	D J Miles	1,483	98.4%	100%
2022	D J Miles	863	96.2%	—
2021	D J Miles	838	88.0%	—
2020	D J Miles	600	46.6%	—
2019	D J Miles	469	—	—
2018	D J Miles	455	—	—
2017	D J Miles	443	—	—
2016	D J Miles	436	—	—
2015	D J Miles	436	—	20%
2014	D J Miles	412	—	35%
2013	D J Miles	825	—	100%

Report of the Remuneration Committee continued

Annual report on remuneration continued

Percentage change in remuneration of Directors compared with other employees (unaudited)

The table below compares the percentage change in the remuneration of the Directors with that of the wider employee population for the last three years.

	Remuneration											
	Salary/fee ³				Benefits				Annual bonus			
	2023	2022	2021	2020	2023	2022	2021	2020	2023	2022	2021	2020
L Critchley	41.1%	–	–	–	0.6%	–	–	–	100%	–	–	–
A C M Smith	11.1%	0.6%	2.0%	2.0%	0.6%	–	22.0%	–	13.6%	10%	187%	–
J Unwin	–	2.5%	–	–	–	–	–	–	–	–	–	–
J Clarke ¹	–	2.1%	–	–	–	–	–	–	–	–	–	–
A Lockwood ²	–	–	–	–	–	–	–	–	–	–	–	–
N Wharton ²	–	–	–	–	–	–	–	–	–	–	–	–
All employees' salaries	6.9%	3.7%	2.0%	2.0%	–	–	–	–	–	–	–	–

1 Jim Clarke became Interim Chairman in June 2023 and Chairman in September 2023.

2 Angela Lockwood and Nick Wharton joined the Board in January 2022 and December 2023 respectively.

3 Percentage change in Non-Executive Director fees is adjusted to exclude the voluntary election in 2020 to take a 20% reduction in fees between April and October 2020 to reflect the challenges faced by the business from the Covid-19 pandemic. The percentage change reflects any change in entitlement as compared with the actual remuneration received.

CEO to employee pay ratio (unaudited)

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

Year	Method	25th percentile	Median	75th percentile
2023	B	60.6:1	36.4:1	29.6:1
2022	B	38.2:1	20.1:1	19.2:1
2021	B	29.7:1	27.8:1	22.1:1
2020	B	23:1	21:1	19:1

The 25th, 50th (median) and 75th percentile ranked individuals have been identified using the gender pay gap survey data for 2023, i.e. as allowed for under method B of the UK reporting requirements. This was deemed to be the most reasonable and practical approach to identifying the relevant individuals for the purposes of this disclosure. The day by reference to which the 25th, 50th (median) and 75th percentile employees were determined was 6 April 2023. The CEO pay figure is the total remuneration figure as set out in the single figure table on page 87 and equivalent figures (on a full-time equivalent basis) have been calculated for the relevant 25th, 50th (median) and 75th percentile employees. The Remuneration Committee is comfortable that the resulting calculations are representative of pay levels at the respective quartiles.

The total pay and benefits figures used to calculate the ratios for each of the 25th percentile, 50th (median) and 75th percentile employees are £24,488, £40,754, and £50,184 respectively. The salary elements for each of these figures are £23,979, £39,749, and £49,002 respectively.

The increase in the CEO pay ratio for 2023 is largely due to the first LTIP vesting in eight years and the increase in value of the 2021 LTIP awards from the strong share price performance in recent years. The Committee believes the ratio is reflective of the strong performance of the business and the pay mix across the Group which is weighted more towards variable pay for senior employees.

Relative importance of spend on pay (unaudited)

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

Significant distributions	2023 £'000	2022 £'000	% change
Total spend on employee pay	201,855	190,940	5.7%
Profit distributed by way of dividend ¹	13,272	11,532	31.4%
Operating profit before non-underlying items (continuing activities) ²	52,160	41,285	23.3%

1 Profit distributed by way of dividend includes proposed final dividend of 9.3p in 2023 and 7.25p per share in 2022.

2 The Group's adjusted PBT measure has historically been reported before charges for the amortisation of acquisition intangibles. The Directors consistently explained their rationale for adjusting for this charge, which is a treatment understood and supported by the Group's investors. This charge has historically been significant; for instance in 2021 it was £7.7m. However, in the absence of significant recent acquisitions, the amortisation charge has reduced to £0.2m per annum and, at this level, is considered de minimis. This adjustment has not been applied in 2023 and the comparative measure for 2022 has been adjusted.

Details of service contracts and letters of appointment

Director	Date of contract/letter of appointment	Notice period by Company or Director
Executive		
A C M Smith	June 2008	Twelve months
L Critchley	January 2023	Twelve months
Chairman/Non-Executive		
J Clarke	July 2019	Six months
J Unwin	January 2016	Six months
A Lockwood	January 2022	Six months
N Wharton	December 2023	Six months

Payments to past Directors and payments for loss of office (audited)

David Miles stepped off the Board on 31 December 2023. David remains an employee of the Group and still plays an important role at Mears and in supporting the Executive team. Having worked the full 2023 financial year, he will receive an annual bonus for 2023 performance which will be delivered 67% in cash and 33% in deferred share awards. David holds unvested deferred bonus shares which will be retained and may continue to vest at their normal vesting dates. David's unvested LTIP awards will be retained and may continue to vest at their normal vesting dates, with vesting subject to performance and a pro-rata reduction to reflect his period of employment – this includes his 2021 LTIP award, for which performance was met and is due to vest in June 2024. To the extent that awards vest, dividend equivalents will be payable and a further two-year holding period will apply. David will not receive an LTIP award in 2024. Details of the value of the vested 2021 LTIP award are set out earlier in the report.

Alan Long stepped off the Board on 31 December 2022. Alan remains an employee of the Group and still plays an important role at Mears and in supporting the Executive team. Alan holds unvested deferred bonus shares which will be retained and may continue to vest at their normal vesting dates. Alan's unvested LTIP awards will be retained and may continue to vest at their normal vesting dates, with vesting subject to performance and a pro-rata reduction to reflect his period of employment – this includes his 2021 LTIP award, for which performance was met and is due to vest in June 2024. To the extent that awards vest, dividend equivalents will be payable and a further two-year holding period will apply. Alan received no LTIP awards after stepping off the Board. Details of the value of the vested 2021 LTIP award are set out below:

	Number of awards granted	Performance assessment	Value of shares at vesting (£'000) ¹	Dividend equivalents (£'000)	Value of vested awards (single figure) (£'000)	Impact of share price growth/ (reduction) (£'000)
A Long	116,675	100% vesting	319	34	353	101

1 The value of shares at vesting is estimated using the three-month average share price to 31 December 2023 of 275p.

Vested awards are exercisable on 10 June 2024 and will be subject to a further two-year holding period.

Report of the Remuneration Committee continued

Annual report on remuneration continued

Statement of implementation of Remuneration Policy in the 2024 financial year

Executive Directors

Base salary

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

Executive Director	2024 £'000	2023 £'000	% change
L Critchley	315,000	221,000	n/a
A C M Smith	315,000	300,000	5.0%

Lucas Critchley's base salary as Chief Executive Officer since 1 January 2024 has been set at £315,000 which compares to the former CEO's base salary of £404,044. The Committee has positioned the salary at a modest level and intends, subject to performance in the role, to increase it to £365,000 during 2025.

Andrew Smith received a 5% salary increase on 1 January 2024 which is in line with the wider workforce increase.

Pension

Details of pension contributions for the year commencing 1 January 2024 are set out below:

Executive Director	Pension
L Critchley	6%
A C M Smith	6%

The pension contribution rate is aligned with the average workforce rate across the Company.

Annual bonus 2024

The maximum bonus potential will be 100% of salary and will be dependent upon the following performance measures:

- profit before tax (50%);
- average daily net debt/cash (20%); and
- strategic objectives (30%) relating to customer satisfaction (7.5%), employee engagement (7.5%), accident frequency rate (7.5%), and monetary social value generated (7.5%).

Profit expansion remains a key metric for the business and the cash measure has been set as average daily net debt/cash. This helps the Group's front-line operations understand that invoicing and cash collection are intrinsically linked and that a works order is not completed until the monies are banked.

The strategic objectives are built around the Group's strategy for customer success which is supported by our independently chaired Customer Scrutiny Board. These measures reflect the Group's commitment to serving our clients and customers; to further developing our social value offer to add value in the communities we serve; and to securing high levels of positive employee engagement through net promoter scores and validation by external accreditation. This year the accident frequency rate has been added to the strategic measures to further emphasise the importance of this within our Group.

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

Any bonus payable will be delivered in a mix of cash (67%) and deferred share awards (33%) which will vest after three years from grant.

LTIP for 2024

It is intended that awards will be made at 100% of salary to each of the Executive Directors. In 2024, the LTIP population has been increased to include senior Mears employees. This helps provide greater alignment with shareholders and Company goals. The measures will remain EPS and TSR targets but for 2024 there will be greater focus on earnings per share. The measures, weightings and targets will be as follows:

Description	Weighting	Calculation	Targets
Total shareholder return	25%	Relative TSR target against the constituents of the FTSE SmallCap (excluding investment trusts, financial services, and natural resources companies) measured over a three-year performance period.	Threshold: median (25% vests) Maximum: upper quartile (100% vests)
Earnings per share	75%	Adjusted EPS target relating to the 2026 financial year, i.e. the third year of the three-year performance period. The Committee will consider ROCE performance over the performance period and may reduce the EPS vesting outcome if the Committee is not satisfied that the level of EPS vesting is justified on account of the Group's ROCE over the performance period.	Threshold: 26p (25% vests) Maximum: 29p (100% vests)

The Remuneration Committee believes the use of TSR and EPS provides an appropriate balance between focusing on share price recovery and delivering financial returns. The EPS targets have been set by reference to internal forecasts and market consensus and, in the Committee's view, are a challenging range.

Vesting will be on a pro-rata basis between the threshold and maximum vesting figures. In addition, the Committee retains discretion to reduce the overall LTIP vesting level if it considers that the underlying business performance of the Company does not justify vesting (taking into consideration a range of factors, including, for example, ROCE performance). If the Committee is not satisfied that the formulaic vesting outcome is aligned with underlying Group performance then it may reduce (potentially to zero) the vesting outcome.

Any shares which vest from this award will be subject to a two-year post-vesting holding period.

Non-Executive Directors

The following table sets out the fee rates for the Non-Executive Directors (which are effective from 1 April of each year, and for the following 12 months):

	2024 £'000	2023 £'000	% change
Chairman fee	169,690	161,600	5.0
Base fee	54,180	51,600	5.0
Committee Chairman fee	15,750	15,000	5.0
Committee membership fee	5,250	5,000	5.0

J Clarke's fee was set at the same as his predecessor's upon moving to the role of Chairman during 2023.

The NED fees were increased by 5% on 1 January 2024, which is in line with the wider workforce increase.

Report of the Remuneration Committee continued

Annual report on remuneration continued

Role of the Committee and activities

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

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

The Remuneration Committee's responsibilities include:

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

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

During the year the Committee addressed the following main topics:

- reviewed base salaries for the Executive Directors and senior executives;
- reviewed and approved the remuneration packages for our joining and departing Executive Directors;
- reviewed guidance from investor bodies and institutional shareholders;
- assessed whether our remuneration framework is appropriately aligned with our culture and values, and motivates our leaders to achieve the Group's strategic objectives;
- finalised the annual bonus payments for the 2023 financial year to the Executive Directors;
- received an update on the performance of inflight LTIP awards including the 2021 award which is due to vest in June 2024; and
- determined the measures, weightings and targets for the 2023 annual bonus plan and for the 2023 grant of long-term incentive awards under the LTIP.

Composition of the Remuneration Committee

The members of the Committee during the year were Angela Lockwood (Chair since 28 June 2023), Julia Unwin and Jim Clarke. Chris Loughlin and Kieran Murphy were members of the Committee until they stepped down from the Board.

Support to the Remuneration Committee

By invitation of the Committee, meetings are also attended by the Company Secretary (who acts as secretary to the Committee) and the HR Director, who are consulted on matters discussed by the Committee, unless those matters relate to their own remuneration. The Committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers. During the year, the Committee was assisted in its work by FIT Remuneration Consultants LLP. FIT was appointed following a tender process and has provided advice in 2023 in relation to a review of the Remuneration Policy, remuneration in relation to Board succession, market updates on pay trends and governance, Remuneration Report drafting and advice on target setting. Fees paid to FIT in relation to advice to the Committee in 2023 were £39,559 (excluding VAT). FIT also provided share plan implementation services to the Company. FIT is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it received from FIT is objective and independent.

Statement of voting at the Annual General Meeting

The table below shows the voting outcome in respect of the remuneration related resolutions at the 2023 AGM.

Item	Votes for	%	Votes against	%	Votes withheld
To approve the Directors' Remuneration Policy	86,106,493	92.9%	6,546,645	7.1%	7,006
To approve the Directors' Remuneration Report	91,999,114	99.3%	657,413	0.7%	3,617

The Committee was pleased with the high level of support provided by shareholders at the 2023 AGM.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2023.

Principal activities

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

Business review

The Company is required to set out a fair review of the business of the Group during the reporting period. The information that fulfils this requirement can be found in the Strategic Report, Chief Executive Officer's Review and Financial Review. The results of the Group can be found within the Consolidated Income Statement. Information required to be disclosed in respect of emissions and future developments is included within the Strategic Report.

Dividend

An interim dividend in respect of 2023 of 3.70p per share was paid to shareholders in October 2023. The Directors recommend a final dividend of 9.30p per share for payment in June 2024. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2023.

Corporate governance

Details of the Group's corporate governance are set out on pages 54–96.

Key performance indicators

We focus on a range of key indicators to assess our performance. Our performance indicators are both financial and non-financial and ensure that the Group targets its resources around its customers, employees, operations and finance. Collectively they form an integral part of the way that we manage the business to deliver our strategic goals. Our primary performance indicators are detailed on pages 18–19.

Directors

The present membership of the Board is set out with the biographical detail on pages 56–57.

In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the Annual General Meeting in June 2023. Any person appointed by the Directors must retire at the next Annual General Meeting but will be eligible for re-election at that meeting.

The beneficial interests of the Directors in the shares of the Company at 31 December 2023 are detailed within the Remuneration Report on page 90.

The process governing the appointment and replacement of Directors is detailed within the Report of the Nominations Committee.

Amendment to Articles of Association

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

Share capital authorisations

The 2023 Annual General Meeting held in June 2023 authorised:

- the Directors to allot shares within defined limits. The Companies Act 2006 requires directors to seek this authority and, following changes to Financial Services Authority (FSA) rules and institutional guidelines, the authority was limited to one-third of the issued share capital, a total of £370,121 plus an additional one-third of the issued share capital of £369,606 that can only be used for a rights issue or similar fundraising;
- the Directors to issue shares for cash on a non-pre-emptive basis. This authority was limited to 5% of the issued share capital of £55,518 and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and
- the purchase of up to 10% of the issued ordinary share capital of the Company. The resolution specified a maximum number of shares of 11,103,647, and also placed a minimum and maximum price at which they may be bought, based upon market pricing at the time of the transaction.

Further details of these authorisations are available in the notes to the 2023 Notice of Annual General Meeting. Shareholders are also referred to the 2024 Notice of Annual General Meeting, which contains similar provisions in respect of the Company's equity share capital.

Annual General Meeting

The 2024 Annual General Meeting will be held in June 2024. A formal Notice of Meeting and Form of Proxy will be issued in advance. The ordinary business to be conducted will include the reappointment of all Directors.

Principal risks and uncertainties

Risk is an accepted part of doing business. The Group's financial risk management is based on sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal controls within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail within the Corporate Governance Statement. The key risks and mitigating factors are set out on pages 48–53. Details of financial risk management and exposure to price risk, credit risk and liquidity risk are given in note 22 to the consolidated financial statements.

Report of the Directors continued

Contracts of significance

The Group is party to significant contracts. The Group's largest single customer relationship is in respect of the Asylum Accommodation and Support Contract (AASC) with the Home Office. At the time that this contract was won, the Group expected to report annual revenues of around £120m, which would, under normal conditions, amount to around 15% of Group revenues. The AASC has experienced elevated volumes as a result of a backlog linked to the challenges of the Covid-19 pandemic. As a result, this customer relationship accounted for over 40% of Group revenues in 2023 and this elevated position has continued into 2024. In the longer term, this contract is expected to reduce back to a normal level. No other customer comprises more than 10% of reported revenue. The Directors do not consider that any single contract is essential in its own right to the continuation of the Group's activities. As detailed within the Strategic Report on pages 43–44, the Directors completed a long-term assessment of the Group's financial viability and the loss of a number of key contracts was modelled as one possible downside scenario, but the Group remained viable in such an event.

Payment policy

The Company acts purely as a holding company and as such is non-trading. Accordingly, no payment policy has been defined. However, the policy for Group trading companies is to set the terms of payment with suppliers when entering into a transaction and to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 32 days (2022: 34 days) of average supplies for the year.

Capital structure

The Group is financed through both equity share capital and debt. Details of changes to the Company's share capital are given in note 26 to the consolidated financial statements. The Company has a single class of shares – ordinary 1p shares – with no right to any fixed income and with each share carrying the right to one vote at the general meetings of the Company. Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the Annual General Meeting. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution but such dividend cannot exceed the amount recommended by the Board.

Capital reduction

During the year, the Company cancelled the entire amount standing to the credit of its share premium account by means of a Court-approved capital reduction. Cancelling the amount standing to the credit of the share premium account has increased the Company's distributable reserves, which can be used for purposes such as the payment of dividends and share buybacks, thus providing greater flexibility going forward. The capital reduction did not involve a return of capital to shareholders nor any reduction in the Company's net assets.

Share purchases

Following the authority conveyed at the 2022 and 2023 AGMs, during the year the Directors completed the purchase and cancellation of 12,162,838 ordinary shares at an average price of 273p per share. In addition, the Employee Benefit Trust purchased 1,691,588 shares at an average price of 279p, and combined with previous purchases holds 1,890,708 shares as at 31 December 2023 which are treated as treasury shares and will be utilised in the future to service new share allotments resulting from the Company's employee share schemes.

Substantial shareholdings

As at 31 March 2024 the Company has been notified of, or is aware of, the shareholders holding 2.5% or more of the issued share capital of the Company. These shareholders are detailed on page 63.

Disabled employees

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

Greenhouse gas emissions

The Group's carbon emissions data for the year is provided within the Task Force on Climate-related Financial Disclosures section on page 32.

Employee information and consultation

The Group continues to involve its staff in the future development of the business. Information is provided to employees through a daily news email, the Group website and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

CREST

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

Going concern and Financial viability

The Group's Going concern review can be found on pages 106–108. In making its Going concern assessment, the Directors are required to consider whether there is reasonable expectation that the Group and Company have adequate resources to continue in operational existence for at least 12-months following the signing of these financial statements.

The Group's viability review can be found on pages 43–44. In assessing the Group's viability, the Directors have considered the Group's ability to manage realistic 'what if' scenarios over the medium to longer term.

Auditor

The Board is proposing that the appointment of PricewaterhouseCoopers LLP (PwC) will be recommended to shareholders for approval at the 2024 Annual General Meeting for the financial year starting on 1 January 2024.

By order of the Board



Ben Westran

Company Secretary

10 April 2024

Statement of Directors' responsibilities

The Directors are required to prepare the financial statements for the Company and the Group at the end of each financial year in accordance with all applicable laws and regulations. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable;
- state whether the consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IFRS) and in conformity with the Companies Act 2006;
- state for the Company financial statements whether United Kingdom Accounting Standards and applicable law, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company to enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the consolidated financial statements, IFRS. The Directors are also responsible for the system of internal controls, for safeguarding the assets of the Group and the Company, and taking reasonable steps to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors confirm that:

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

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

The Board confirms that to the best of its knowledge:

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

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

On behalf of the Board

A C M Smith
Chief Financial Officer
10 April 2024



Consolidated statement of profit or loss

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Continuing operations			
Sales revenue	2	1,089,327	959,613
Cost of sales		(870,557)	(763,927)
Gross profit		218,770	195,686
Administrative expenses		(167,096)	(155,259)
Operating profit	4	51,674	40,427
Share of profits of associates	16	486	858
Finance income	5	5,939	2,033
Finance costs	5	(11,181)	(8,374)
Profit for the year before tax		46,918	34,944
Tax expense	8	(10,258)	(6,441)
Profit for the year from continuing operations		36,660	28,503
Discontinued operations			
Profit from discontinued operations	9	–	542
Tax charge on discontinued operations	8	–	(48)
Profit for the year after tax from discontinued operations		–	494
Profit for the year from continuing and discontinued operations		36,660	28,997
Attributable to:			
Owners of Mears Group PLC		35,204	28,307
Non-controlling interest		1,456	690
Profit for the year		36,660	28,997
Earnings per share – from continuing operations			
Basic	11	32.90p	25.07p
Diluted	11	31.94p	24.51p
Earnings per share – from continuing and discontinued operations			
Basic	11	32.90p	25.51p
Diluted	11	31.94p	24.94p

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

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Profit for the year		36,660	28,997
Other comprehensive income that will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Actuarial loss on defined benefit pension schemes	26	(5,521)	(3,041)
Pension guarantee asset movements in respect of actuarial gain	26	(408)	(6,754)
Deferred tax credit in respect of defined benefit pension schemes	23	1,482	2,449
Other comprehensive income for the year		(4,447)	(7,346)
Total comprehensive income for the year		32,213	21,651
Attributable to:			
Owners of Mears Group PLC		30,757	20,961
Non-controlling interest		1,456	690
Total comprehensive income for the year		32,213	21,651
Total comprehensive income for the year attributable to owners of Mears Group PLC arises from:			
Continuing operations		30,757	20,467
Discontinued operations		–	494
Total comprehensive income for the year attributable to owners of Mears Group PLC		30,757	20,961

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

Consolidated balance sheet

As at 31 December 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current			
Goodwill	12	121,868	121,868
Intangible assets	13	7,046	7,452
Property, plant and equipment	14	38,533	20,188
Right of use assets	15	233,649	213,432
Investments	16	622	1,271
Loan notes and other non-current receivables	22	4,458	4,073
Pension and other employee benefits	26	19,835	23,672
Pension guarantee assets	26	–	3,136
		426,011	395,092
Current			
Inventories	17	1,463	6,879
Trade and other receivables	18	126,690	128,334
Current tax assets		–	459
Short-term financial assets	22	7,090	1,963
Cash and cash equivalents	22	138,756	98,138
		273,999	235,773
Total assets		700,010	630,865
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	24	1,016	1,110
Share premium account	24	2,332	82,351
Share-based payment reserve		1,883	1,801
Treasury shares	24	(5,122)	–
Merger reserve		7,971	7,971
Retained earnings		189,428	119,100
Total equity attributable to the shareholders of Mears Group PLC		197,508	212,333
Non-controlling interest		2,948	1,492
Total equity		200,456	213,825
Liabilities			
Non-current			
Pension and other employee benefits	26	172	3,136
Deferred tax liabilities	23	2,905	4,898
Lease liabilities	20	199,948	181,045
Other non-current liabilities		–	682
Non-current provisions	21	9,785	3,110
		212,810	192,871
Current			
Overdraft and other short-term borrowings	22	36,699	–
Trade and other payables	19	187,035	171,013
Lease liabilities	20	54,492	44,376
Provisions	21	8,406	8,780
Current tax liabilities		112	–
Current liabilities		286,744	224,169
Total liabilities		499,554	417,040
Total equity and liabilities		700,010	630,865

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 10 April 2024.

L J Critchley
Director

A C M Smith
Director

Company number: 03232863

L. CRITCHLEY

A SMITH

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

Consolidated cash flow statement

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Operating activities			
Result for the year before tax		46,918	34,944
Adjustments	25	71,253	60,524
Change in inventories		5,416	15,991
Change in trade and other receivables		1,290	13,855
Change in trade, other payables and provisions		20,346	(9,760)
Cash inflow from operating activities of continuing operations before taxation		145,223	115,554
Taxes paid		(9,330)	(4,128)
Net cash inflow from operating activities of continuing operations		135,893	111,426
Net cash outflow from operating activities of discontinued operations	9	–	(494)
Net cash inflow from operating activities		135,893	110,932
Investing activities			
Additions to property, plant and equipment		(24,347)	(8,052)
Additions to other intangible assets		(1,499)	(1,364)
Proceeds from disposals of property, plant and equipment		17	–
Expenditure on acquisition of subsidiary, net of cash acquired		–	(2,928)
Distributions from associates	16	1,135	300
Movement in short-term cash deposits held for investment purposes	22	(5,127)	(1,963)
Interest received		4,167	764
Net cash outflow from investing activities of continuing operations		(25,654)	(13,243)
Net cash inflow from investing activities of discontinued operations	9	–	7,333
Net cash outflow from investing activities		(25,654)	(5,910)
Financing activities			
Proceeds from share issue		2,557	87
Purchase of own shares		(37,887)	–
Net cash inflow from other credit facilities	25	11,244	–
Loans provided to other entities (non-controlled)		–	(225)
Repayment of loan acquired with subsidiary		–	(37)
Discharge of lease liabilities		(48,149)	(43,169)
Interest paid		(11,081)	(8,425)
Dividends paid – Mears Group shareholders	10	(11,760)	(9,692)
Net cash outflow from financing activities of continuing operations		(95,076)	(61,461)
Net cash outflow from financing activities of discontinued operations	9	–	(55)
Net cash outflow from financing activities		(95,076)	(61,516)
Cash and cash equivalents, beginning of year	25	98,138	54,632
Net increase in cash and cash equivalents		15,163	43,506
Cash and cash equivalents, end of year	25	113,301	98,138

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Attributable to equity shareholders of the Company							Total equity £'000
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury reserve £'000	Merger reserve £'000	Retained earnings £'000	Non-controlling interest £'000	
At 1 January 2022	1,109	82,265	1,313	–	7,971	107,578	802	201,038
Net result for the year	–	–	–	–	–	28,307	690	28,997
Other comprehensive income	–	–	–	–	–	(7,346)	–	(7,346)
Total comprehensive income for the year	–	–	–	–	–	20,961	690	21,651
Tax charge on share-based payments	–	–	–	–	–	142	–	142
Issue of shares	1	86	–	–	–	–	–	87
Share options – value of employee services	–	–	599	–	–	–	–	599
Share options – exercised or lapsed	–	–	(111)	–	–	111	–	–
Dividends	–	–	–	–	–	(9,692)	–	(9,692)
At 1 January 2023	1,110	82,351	1,801	–	7,971	119,100	1,492	213,825
Net result for the year	–	–	–	–	–	35,204	1,456	36,660
Other comprehensive income	–	–	–	–	–	(4,447)	–	(4,447)
Total comprehensive income for the year	–	–	–	–	–	30,757	1,456	32,213
Tax credit on share-based payments	–	–	–	–	–	867	–	867
Issue of shares	27	2,530	–	–	–	–	–	2,557
Purchase of treasury shares	–	–	–	(5,122)	–	–	–	(5,122)
Cancellation of shares	(121)	–	–	–	–	(33,043)	–	(33,164)
Capital reduction	–	(82,549)	–	–	–	82,549	–	–
Share options – value of employee services	–	–	1,040	–	–	–	–	1,040
Share options – exercised or lapsed	–	–	(958)	–	–	958	–	–
Dividends	–	–	–	–	–	(11,760)	–	(11,760)
At 31 December 2023	1,016	2,332	1,883	(5,122)	7,971	189,428	2,948	200,456

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

Notes to the financial statements – Group

For the year ended 31 December 2023

1. Accounting policies

Accounting policies are detailed in their respective notes, where relevant. Policies that are not specific to a particular note are detailed below.

Basis of preparation

The consolidated financial statements of the Group have been prepared in conformity with the requirements of the Companies Act 2006 and in accordance with United Kingdom adopted International Accounting Standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of contingent consideration and assets in the Group's defined benefit pension schemes. They are presented in Sterling and all values are rounded to the nearest thousand (£'000).

The accounting policies remain unchanged from the previous year except for the modification of a number of standards with effect from 1 January 2023. The adoption of these amendments had no material effect on the Group's financial statements.

The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Although these estimates are based on management's best knowledge of the amounts, actual results may ultimately differ from those estimates. The most significant judgements and estimates made by management in these financial statements are set out in the accounting policies to which they relate.

Government and societal responses to climate change are still developing and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. There were no material impacts of climate change in determining asset and liability valuations and the timing of future cash flows to be incorporated into these financial statements.

Mears Group PLC is the ultimate parent company of the Group. It is incorporated and resident in England and Wales (registration number 03232863). Its registered office and principal place of business is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH. Mears Group PLC's shares are listed on the Main Market of the London Stock Exchange.

Basis of consolidation

The Consolidated Balance Sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2023. Entities for which the Group has the ability to exercise control over financial and operating policies are accounted for as subsidiaries. Control is achieved where the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholders' share of changes in equity since the date of the combination.

A joint venture is a joint arrangement whereby the parties that have joint control have the rights to the net assets of the arrangement. Associates are entities over which the Group does not have control, but has significant influence. Investments in joint ventures and associates are accounted for using the equity method of accounting. Under this method, the Group's share of post-acquisition profits or losses is recognised in the Consolidated Statement of Profit or Loss; the cost of the investment in a given joint venture or associate, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included in investments within the Consolidated Balance Sheet.

Going concern

The Directors do not consider going concern to be a critical accounting judgement. In reaching this determination, the Directors have taken account of the Group's trading for 2023 and the budget for 2024.

The Group reported a net cash position of £109.1m on 31 December 2023, but the Directors believe that the average daily net cash, after adjusting for the full year impact of the share buybacks, averaged £50m during 2023, provides a better indication of the underlying position and is a better indicator of the Group's liquidity. The Group has modelled its cash flow outlook for the period to 30 June 2025 and the base forecast indicates significant liquidity headroom will be maintained above the Group's borrowing facilities and that financial covenants will be met throughout the period, including the covenant tests on 30 June 2024, 31 December 2024 and 30 June 2025.

The Board approved a budget for 2024 which reflects margin and profit growth compared to the prior year. The 2024 budget is considered to be the base case projection for assessing Going Concern and is based on the following assumptions:

- Forecast built up on a contract-by-contract basis for the next twelve months and rolled forward. The forecast for 2024 is based upon revenues generated from existing customer relationships, and a business that is generating contract margins that are in line with recent run rates.

1. Accounting policies continued

Going concern continued

- The forecast assumes no new work is secured. The base case assumes that contracts are resecured on retender, but reflects some revenue reduction from existing clients, when it is currently anticipated that there may be no further opportunity upon expiry of the current contract.
- The model also reflects the normalisation of the Asylum (AASC) contract, with revenues reducing to a level closer to the original expectation.
- The model assumes no significant changes in working capital performance.
- The model assumes small scale property purchases to augment the delivery of the AASC contract.
- Future dividends continue in line with current policy.
- A share buyback programme is assumed to be completed equating to 10% of the issued share capital at the start of the current financial year. No further buybacks have been assumed beyond the current shareholder authority.

The Group is well positioned, underpinned by the non-discretionary nature of the Group's activities and public sector client group. The Board has communicated its capital allocation policy to stakeholders, and a key pillar of this policy is to maintain a net cash position on a daily basis.

In making their going concern assessment, the Directors are required to consider whether there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for at least 12 months following the signing of these financial statements. The Directors have adopted a going concern period for this purpose up to 30 June 2025. This assessment considers whether the Group will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants applicable to those facilities, which will be measured on 30 June 2024, 31 December 2024 and 30 June 2025. On 31 December 2023, the Group held £70m of committed borrowing facilities, maturing in December 2026. The principal borrowing facilities are subject to covenants as detailed in the Finance Review on page 42 of the Strategic Report. The Strategic Report also details the principal risks and uncertainties and how the Group manages its risks.

In making its assessment of Going Concern, the Board has confirmed that there have been no post balance sheet changes that have a material impact on the business or affect liquidity.

A range of scenarios that encompass the principal risks have been applied to the base case and are set out below. These downside cases were prepared by management to illustrate the impact of adverse changes in key variables used within the base case forecast and projections. These downside cases were intended to illustrate a reasonable worst-case scenario that could affect solvency or liquidity in "severe but plausible" scenarios.

The Directors have considered three scenarios and the following sensitivities have been applied to each downside case:

- Downside case 1: a significant reduction of 50% in revenue relating to the Group's largest contract (AASC).
- Downside case 2: a significant margin dilution event, possibly caused by significant operational failure, labour shortages or supply chain disruption. The downside scenario modelled a 1.5% reduction in operating margin. Given the low-margin nature of the business, a small increase in the cost base which is not recovered in charge rate increases can cause significant margin dilution.
- Downside case 3: an event linked to a Cyber breach, impacting upon lead operating systems causing an additional 20-days revenue tied up in working capital.

No mitigating actions were included within any of these downside scenarios, which was considered conservative and unrealistic. Before applying mitigations, none of the three downside cases detailed above resulted in the Group exhausting its liquidity or breaching covenants. Mitigating actions that would be available to management include a reduction in central overheads, a reduction in discretionary capital expenditure, changes to capital allocation policy (including the ordinary dividend) and more robust working capital management around covenant test dates. In addition, upsides that are available to the base case includes generating an improved margin at a local contract level over and above the current run-rate and securing new contract awards.

The Viability Review concluded that climate-related risks would not have a significant impact on the business within the five-year viability review period. As such, climate was not modelled in respect of the shorter Going Concern review period.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to £nil. The Directors carried out reverse stress testing, increasing the severity of the assumptions to measure the trigger points at which the going concern of the Group could be impacted. A reverse stress test was conducted to identify the magnitude of trading profit decline required before the Group breaches its debt covenants. All stress test scenarios would require a very severe deterioration compared to the base case forecasts.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

1. Accounting policies continued

Going concern continued

In the most extreme reverse stress test:

- The Directors modelled a reduction in profit which would trigger a breach in covenants. The base case annualised profit of c.£40m would need to decline to an annualised loss in excess of £40m. This profit reduction is considered to be remote given Mears' long-term historical performance. During a Covid-impacted year ended 31 December 2020, Mears reported a loss before tax of c.£15m.
- The Directors modelled a reduction in revenue which would trigger a breach in covenants. Revenue would need to decline by in excess of 40% when compared to the base case, to result in a breach of covenants. This revenue reduction is considered to be remote given the high proportion of Mears' revenue that is attached to long-term contractual arrangements. During a Covid-impacted year ended 31 December 2020, Mears' revenue declined by less than 10%.

After making these assessments, the Directors consider any scenario or combination of scenarios which could cause the business to be no longer a going concern to be remote. The Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence until 30 June 2025. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Fair value

The Group measures certain assets and liabilities at fair value on a recurring basis, including contingent consideration and assets in the Group's defined benefit pension schemes.

Trade and other receivables, trade and other payables and other loans are initially measured at fair value and are subsequently held at amortised cost. Other assets are measured at fair value when they are assessed for impairment or on classification as held for sale.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses valuation techniques that maximise the use of relevant observable inputs using the following valuation hierarchy, ordered from highest to lowest priority:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included in level 1 that are observable either directly or indirectly.

Level 3 – Unobservable inputs, typically derived from the Group's own information with any necessary adjustments to eliminate factors specific to the Group.

For assets and liabilities measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by assessing the lowest level input that is significant to the most recent measurement.

Details of the particular valuation techniques used by the Group are provided in the relevant notes for each type of asset or liability measured at fair value.

Use of judgements and estimates

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

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

In the preparation of these consolidated financial statements, key estimates and judgements have been made by management concerning the following:

- provisions necessary for certain liabilities, including discount rates used in estimating such provisions;
- estimates used in forecasts used to assess future profitability;
- discount rates used when conducting impairment reviews;
- the discounts used and other judgements involved in the recognition of right of use assets for lease accounting;
- the timing of revenue recognition;
- the recoverability of contract assets; and
- actuarial estimates in respect of defined benefit pension schemes.

Actual amounts could differ from those estimates. Further details of key estimates and judgements are provided in the appropriate notes.

1. Accounting policies continued

New standards and interpretations not yet applied

A number of standards have been modified with effect for accounting periods commencing on or after 1 January 2024. These include IAS 1 'Presentation of Financial Statements', IAS 7 'Statement of Cash Flows' and IFRS 16 'Leases'. None of these amendments are expected to have a material effect on the Group's financial statements.

2. Revenue

Accounting policy

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. It is based on the transfer of control of goods and services to customers. The detail below sets out the principal types of contract and how the revenue is recognised in accordance with IFRS 15.

Repair and maintenance contracts

For contracts in this category, the customer raises orders on demand, for example to carry out responsive repairs. Revenue is derived from a mixture of lump-sum periodic payments and task-based payments depending on the terms of the individual contract.

Where a lump-sum payment is in place it may cover the administrative element of the contract or may cover the majority of the tasks undertaken within that contract with exclusions to this being charged in addition to the lump-sum charge. For the works covered by the lump-sum payment, the performance obligation is being available to deliver the goods and services in the scope of the contract, not the performance of the individual works orders themselves. Revenue is recognised on a straight-line basis as performance obligations are being met over time.

For works orders not covered by a lump-sum payment, each works order represents a distinct performance obligation and, as the customer controls the asset being enhanced through the works, the performance obligation is satisfied over time. Each works order can be broken down into one or more distinct tasks which are either complete or not complete. The stage of completion of the works order is assessed by looking at which tasks are complete. The transaction price for partly completed works orders is recognised as cost plus expected margin. The transaction price for completed works orders is the invoice value, which is typically determined by a pricing schedule referred to as a Schedule of Rates that provides a transaction price for each particular task.

Some contracts may include an element of variable revenue based on certain key performance indicators (KPIs). These are recognised either at a point in time or over time, depending on the nature of the KPI and the contractual agreement in which it is contained. Where there is uncertainty in the measurement of variable consideration, at both the start of the contract and subsequently, management will consider the facts and circumstances of the contract in determining either the most likely amount of variable consideration when the outcome is binary, or the expected value based on a range of possible considerations. Included within this assessment will be the extent to which there is a high probability that a significant reversal in variable consideration revenues will not occur once the uncertainty is subsequently resolved. This assessment will include consideration of the following factors: the total amount of the variable consideration; the proportion of consideration susceptible to judgements of customers or third parties, for example KPIs; the length of time expected before resolution of the uncertainty; and the Group's previous experience of similar contracts.

Contracting projects

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

Property income

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

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

Where the Group is providing an accommodation and support service, revenue is recognised at a point in time for each night that the accommodation is occupied.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

2. Revenue continued

Property income continued

Some contracts may include an element of variable revenue based on certain KPIs. This is recognised on the same basis as above.

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

Care services

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

From time to time, care contracts with customers include a fixed fee per period for performing a consistent scope of care services. For these contract types, the revenue recognition is consistent with lump-sum payments included in repair and maintenance contracts, as described above.

Other

From time to time, the Group receives revenue that does not fall within any of the categories above but is not individually significant enough to require a specific policy. In these cases, the revenue is considered separately and recognised in accordance with IFRS 15.

Key sources of estimation uncertainty

Contract recoverability

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

Critical judgements in applying the Group's accounting policies

Revenue recognition

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

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

	2023 £'000	2022 £'000
Revenue from contracts with customers		
Repairs and maintenance	453,981	451,063
Contracting	70,980	83,463
Property income	516,769	376,296
Care services	20,058	19,544
Other	1,005	345
	1,062,793	930,711
Lease income	26,534	28,902
	1,089,327	959,613

Repairs and maintenance and care service revenue is typically invoiced between 1 and 30 days from completion of the performance obligation. Contracting revenue is typically invoiced based on the stage of completion of the overall contract. Property income is typically invoiced monthly in advance. Payment terms for revenue invoiced are typically 30 to 60 days from the date of invoice.

2. Revenue continued

A maturity analysis of future minimum lessor income as at 31 December is shown in the table below:

	2023 £'000	2022 £'000
Less than 1 year	4,591	3,245
Between 1 and 2 years	2,871	1,537
Between 2 and 3 years	2,871	1,531
Between 3 and 4 years	2,163	1,531
Between 4 and 5 years	1,282	1,150
Over 5 years	5,178	393
	18,956	9,387

3. Segment reporting

Accounting policy

Segment information is presented in respect of the Group's operating segments based on the format that the Group reports to its chief operating decision maker for the purpose of allocating resources and assessing performance.

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

The Executive Directors manage the Group as a single Housing business, but information provided to the Board and historically to stakeholders has included a split between Maintenance, Management and Development. Therefore, management has concluded that providing segmental information along the same lines would be helpful to the users of the financial statements.

	2023				2022			
	Maintenance £'000	Management £'000	Development £'000	Total £'000	Maintenance £'000	Management £'000	Development £'000	Total £'000
Revenue	543,279	543,345	2,703	1,089,327	535,336	405,776	18,501	959,613
Impairments of right of use assets	–	6,223	–	6,223	–	–	–	–
Profit/(loss) before tax	22,061	25,711	(854)	46,918	11,777	24,281	(1,114)	34,944
Tax expense				(10,258)				(6,441)
Profit for the year				36,660				28,503

All revenue and all non-current assets arise within the United Kingdom. All of the revenue reported is external to the Group. The Group's largest single customer relationship is in respect of the Asylum Accommodation and Support Contract (AASC) with the Home Office, included within the Management segment. At the time that this contract was won, the Group expected to report annual revenues of around £120m, which would, under normal conditions, amount to around 15% of Group revenues. The AASC has experienced elevated volumes as a result of a backlog linked to the challenges of the Covid-19 pandemic. As a result, this customer relationship accounted for over 40% of Group revenues in 2023 and this elevated position has continued into 2024. In the longer term, this contract is expected to reduce back to a normal level. No other customer comprises more than 10% of reported revenue.

For the purposes of the disaggregation of revenue in note 2, all property income and lease income is included within the Management segment and the Development segment contains only contracting revenue. All other revenue is included within the Maintenance segment.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

4. Operating costs

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

	Note	2023 £'000	2022 £'000
Share-based payments	7	1,040	599
Depreciation of property, plant and equipment	14	7,305	8,021
Depreciation of right of use assets	15	50,908	43,486
Impairment of right of use assets	15	6,223	–
Amortisation of acquisition intangibles	13	244	245
Amortisation of other intangibles	13	1,635	2,055
Loss on disposal of property, plant and equipment		54	2
Loss on disposal of intangibles		26	–
Profit on disposal of right of use assets		(180)	(227)
Increase in onerous contract provisions	21	8,784	–
Increase in other provisions	21	5,738	3,617

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

	2023 £'000	2022 £'000
In respect of continuing activities:		
Fees payable to the auditor for the audit of the Group's financial statements	457	416
Other fees payable to the auditor in respect of:		
– auditing of accounts of subsidiary undertakings pursuant to legislation	550	500
– additional fees in respect of the prior year audit	145	65
Total auditor's remuneration	1,152	981

5. Finance income and finance costs

	2023 £'000	2022 £'000
Interest charge on overdrafts and loans	(638)	(625)
Interest on lease obligations	(9,899)	(7,617)
Finance costs on bank loans, overdrafts and leases	(10,537)	(8,242)
Other interest	(642)	(58)
Interest charge on defined benefit pension obligation	(2)	(74)
Total finance costs	(11,181)	(8,374)
Interest income resulting from short-term deposits	4,360	870
Interest income resulting from defined benefit pension asset	1,164	769
Other interest income	415	394
Total finance income	5,939	2,033
Net finance charge	(5,242)	(6,341)

6. Employees

Staff costs during the year were as follows:

	2023 £'000	2022 £'000
Wages and salaries	176,226	165,348
Social security costs	18,666	16,795
Other pension costs	6,963	8,797
	201,855	190,940

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

	2023	2022
Site workers	2,443	2,482
Carers	559	558
Office and management	2,134	1,950
	5,136	4,990

7. Share-based employee remuneration

Accounting policy

All share-based payment arrangements are recognised in the consolidated financial statements in accordance with IFRS 2.

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

All share-based remuneration is ultimately recognised as an expense in the Consolidated Statement of Profit or Loss. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve.

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

As at 31 December 2023 the Group maintained four (2022: three) active share-based payment schemes for employee remuneration.

Details of the share options outstanding and movement during the year are as follows:

	2023		2022	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	4,552	99	4,827	110
Granted	1,132	1	442	1
Forfeited or lapsed	(418)	177	(643)	108
Exercised	(2,713)	94	(74)	116
Outstanding at 31 December	2,553	48	4,552	99

The weighted average share price at the date of exercise for share options exercised during the period was 279p. At 31 December 2023, 0.5m options had vested and were still exercisable at prices between 1p and 429p. These options had a weighted average exercise price of 238p and a weighted average remaining contractual life of 4.5 years.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

7. Share-based employee remuneration continued

The fair values of options granted were determined using the Monte Carlo option pricing model. Significant inputs into the calculation include the market price at the date of grant, the exercise price and share price volatility. Furthermore, the calculation incorporates an estimate of the future dividend yield and the risk-free interest rate. The share price volatility was determined from the daily log-normal distributions of the Company share price over a period commensurate with the expected life as calculated back from the date of grant. The risk-free interest rate utilised the zero-coupon bond yield derived from UK Government bonds as at the date of calculation for a life commensurate with the expected life. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions.

There were 1.13m options granted during the year and 0.42m options that lapsed during the year. The market price at 31 December 2023 was 310p and the range during 2023 was 195p to 311p.

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

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

	2023 £'000	2022 £'000
Giving rise to share-based payment reserve:		
All-employee schemes	188	165
Executive schemes	852	434
	1,040	599

The Group is currently running four active schemes, detailed below:

Sharesave plan (All-employee scheme)

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

Company Share Option Plan (Executive scheme)

The Company operates a discretionary unapproved share plan and a Company Share Option Plan. Options are exercisable at a price below market value at the date of grant and often at nominal value. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves Mears Group before the options vest. No awards to Executive Directors are proposed under these plans.

Long-Term Incentive Plan (Executive scheme)

The Long-Term Incentive Plan provides for awards of free shares (i.e. either conditional shares or nominal cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. The first award under this scheme was made during 2021. Options are granted under this scheme to key senior management subject to performance conditions as detailed on page 92 of the Remuneration Report.

Deferred Share Bonus Plan (Executive scheme)

The Deferred Share Bonus Plan relates to annual bonus payments where typically 33% are deferred into shares and vest subject to continued employment. Individuals may be able to receive a dividend equivalent payment on deferred bonus shares at the time of vesting equal to the value of dividends that would have accrued during the vesting period. The dividend equivalent payment may assume the reinvestment of dividends on a cumulative basis. Clawback provisions may apply for three years from the date of payment of any bonus or the grant of any deferred bonus share award.

Further details of schemes relating to the Directors can be found in the Report of the Remuneration Committee on pages 76 to 96.

8. Tax expense

Accounting policy

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

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

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

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

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

Tax recognised in the Consolidated Statement of Profit or Loss:

	2023 £'000	2022 £'000
United Kingdom corporation tax	10,854	6,449
Adjustment in respect of previous periods	39	(675)
Total current tax charge recognised in Consolidated Statement of Profit or Loss	10,893	5,774
Deferred taxation charge:		
– on defined benefit pension obligations	480	(41)
– on share-based payments	(119)	27
– on capital allowances	(483)	65
– on amortisation of acquisition intangibles	(75)	(65)
– on short-term temporary timing differences	–	149
– on corporate tax losses	–	264
– other timing differences	57	18
Adjustment in respect of previous periods	(495)	250
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	(635)	667
Total tax charge recognised in Consolidated Statement of Profit or Loss on continuing operations	10,258	6,441
Total tax charge recognised in Consolidated Statement of Profit or Loss on discontinued operations	–	48
Total tax charge recognised in Consolidated Statement of Profit or Loss	10,258	6,489

Notes to the financial statements – Group continued

For the year ended 31 December 2023

8. Tax expense continued

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

	2023 £'000	2022 £'000
Profit for the year on continuing operations before tax	46,918	34,944
Profit for the year on discontinued operations before tax	–	542
Result for the year before tax	46,918	35,486
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 23.5% (2022: 19.0%)	11,039	6,742
Effect of:		
– expenses not deductible for tax purposes	88	362
– income not subject to tax	(352)	(264)
– tax impact of employee share schemes	(61)	129
– adjustment in respect of prior periods	(456)	(480)
Actual tax charge	10,258	6,489

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

Tax losses generated in previous years which are expected to be utilised against future profits are recognised as a deferred tax asset and a subsequent charge arises as those losses are utilised. No deferred tax asset is recognised in respect of losses of £1.4m (2022: £25.5m) across several entities in the Group as it is not expected that they will be eligible to be utilised against profits in the future. The reduction in unrecognised losses during the year is due to those in respect of two dormant Group entities being written off, as there was no prospect of them being utilised in future.

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

Relief is provided from UK Corporation Tax on the difference between the exercise price of share options exercised by employees and their market value at the point of exercise. During 2023, an all-employee share scheme vested that had been granted in 2020 when the Group's share price was significantly lower. This resulted in significant relief on the exercise of the share options that is not anticipated to reoccur.

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

	2023 £'000	2022 £'000
Deferred tax credit recognised in other comprehensive income		
– on defined benefit pension obligations	(1,482)	(2,449)
Total deferred tax credit recognised in other comprehensive income	(1,482)	(2,449)
Current tax credit recognised directly in equity		
– on share-based payments	(991)	–
Total current tax credit recognised in equity	(991)	–
Deferred tax charge/(credit) recognised directly in equity		
– on share-based payments	124	(142)
Total deferred tax charge/(credit) recognised in equity	124	(142)

BEPS Pillar Two

Pillar Two legislation has been enacted in the UK and will be effective for the Group's financial year beginning 1 January 2024. The Group has performed an assessment of its potential exposure to Pillar Two income taxes based on the most recent information available regarding the financial performance of the constituent entities in the Group. Based on the assessment performed, the Pillar Two effective tax rate is above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Group does not expect a potential exposure to Pillar Two top-up taxes.

9. Discontinued activities

During 2020, the Group completed the disposal of its Domiciliary Care business and disposed of its Planning Solutions business. The 2022 financial statements recognised profit after tax and operating cash outflows of £0.5m in respect of discontinued activities, as well as a £7.3m cash inflow representing the final receipt of contingent consideration in respect of the Planning Solutions business. There are no amounts recognised in 2023 and further details of the disposals are available in the prior year financial statements.

10. Dividends

Accounting policy

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

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

	2023 £'000	2022 £'000
Final 2022 dividend of 7.25p (2022: final 2021 dividend of 5.50p) per share	7,932	6,092
Interim 2023 dividend of 3.70p (2022: interim 2022 dividend of 3.25p) per share	3,828	3,600
	11,760	9,692

The Directors recommend a final dividend of 9.30p per share. This has not been recognised within the consolidated financial statements as no obligation existed at 31 December 2023.

11. Earnings per share

	Continuing		Discontinued		Continuing and discontinued	
	2023 p	2022 p	2023 p	2022 p	2023 p	2022 p
Earnings per share	32.90	25.07	–	0.44	32.90	25.51
Diluted earnings per share	31.94	24.51	–	0.43	31.94	24.94

For the purpose of calculating earnings per share (EPS), earnings have been calculated as follows:

	Continuing		Discontinued		Continuing and discontinued	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Profit for the year	36,660	28,503	–	494	36,660	28,997
Attributable to non-controlling interests	(1,456)	(690)	–	–	(1,456)	(690)
Earnings	35,204	27,813	–	494	35,204	28,307

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. IAS 33 defines dilutive options as those whose exercise would decrease earnings per share or increase loss per share from continuing operations.

	2023 Millions	2022 Millions
Weighted average number of shares in issue:	106.99	110.96
Dilutive effect of share options	3.23	2.52
Weighted average number of shares for calculating diluted earnings per share	110.22	113.48

The opening number of shares in issue for 2024 is shown below:

	2024 Millions
Opening number of shares in issue	101.55
Treasury shares to exclude	(1.89)
Opening number of shares in issue for calculating earnings per share	99.66

12. Goodwill

Accounting policy

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

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

Notes to the financial statements – Group continued

For the year ended 31 December 2023

12. Goodwill continued

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows: Cash Generating Units (CGUs). Goodwill is allocated to those groups of CGUs, that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

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

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

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2022	114,831	4,042	118,873
Acquisition of subsidiary	2,995	–	2,995
At 1 January 2023 and 31 December 2023	117,826	4,042	121,868
Accumulated impairment losses			
At 1 January 2022, 1 January 2023 and 31 December 2023	–	–	–
Carrying amount			
At 31 December 2023	117,826	4,042	121,868
At 31 December 2022	117,826	4,042	121,868

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

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

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

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

	Goodwill arising on consolidation		Purchased goodwill		Total	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Maintenance (excluding Housing with Care)	65,290	65,290	4,042	4,042	69,332	69,332
Management	33,447	33,447	–	–	33,447	33,447
Housing with Care	19,089	19,089	–	–	19,089	19,089
	117,826	117,826	4,042	4,042	121,868	121,868

The Group's cash inflows are largely independent at the individual branch level and each branch is therefore considered a CGU. However, the goodwill of the Group contributes to the cash inflows of multiple CGUs. It is therefore allocated to groups of CGUs and monitored for internal management purposes primarily at the operating segment level. The goodwill of Housing with Care is separately monitored and therefore allocated to a separate group of CGUs to which it relates.

An asset is impaired if the carrying value exceeds the CGU's recoverable amount, which is based on value in use. At 30 September 2023 impairment reviews were performed by comparing the carrying value with the value in use for the groups of CGUs to which goodwill has been allocated.

The value in use for each group of CGUs is calculated from the Board-approved one-year budgeted cash flows and extrapolated cash flows for the next four years discounted at a post-tax discount rate over a five-year period with a terminal value. The impairment reviews incorporated a terminal growth assumption, which is conservative when compared with the UK long-term growth rate and the underlying demographics, which will be positive for the Group's core markets.

12. Goodwill continued

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

Management considers that reasonably possible changes in these assumptions would not cause the carrying amount of a group of CGUs to exceed its recoverable amount.

The rates used were as follows:

	Post-tax discount rate	Pre-tax discount rate	Volume growth rate (years 1–5)	Terminal growth rate
Maintenance	10.90%	14.93%	2.00%	1.50%
Management	10.90%	13.21%	2.00%	1.50%
Housing with Care	10.90%	15.00%	3.00%	1.50%

13. Other intangible assets

Accounting policy

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

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

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

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

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

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

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

Order book	– over the period of the order book
Client relationships	– over the period expected to benefit
Supplier relationships	– over the period expected to benefit
Development expenditure	– over the useful life of the resulting software, typically five to ten years
Software	– 25% p.a., reducing balance

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

Notes to the financial statements – Group continued

For the year ended 31 December 2023

13. Other intangible assets continued

	Acquisition intangibles				Development expenditure £'000	Software £'000	Total intangibles £'000
	Client relationships £'000	Order book £'000	Supplier relationships £'000	Total acquisition intangibles £'000			
Gross carrying amount							
At 1 January 2022	65,987	17,770	2,172	85,929	21,142	–	107,071
Reclassification	–	–	–	–	–	6,087	6,087
Additions	–	–	–	–	1,090	274	1,364
Acquired with subsidiary	–	–	–	–	1,117	–	1,117
Disposals	(61,097)	(17,770)	(2,172)	(81,039)	–	(85)	(81,124)
At 1 January 2023	4,890	–	–	4,890	23,349	6,276	34,515
Additions	–	–	–	–	1,041	458	1,499
Disposals	–	–	–	–	(5,996)	(4,012)	(10,008)
At 31 December 2023	4,890	–	–	4,890	18,394	2,722	26,006
Amortisation							
At 1 January 2022	63,338	17,770	2,172	83,280	17,181	–	100,461
Reclassification	–	–	–	–	–	5,426	5,426
Provided in the year	245	–	–	245	1,849	206	2,300
Eliminated on disposal	(61,097)	(17,770)	(2,172)	(81,039)	–	(85)	(81,124)
At 1 January 2023	2,486	–	–	2,486	19,030	5,547	27,063
Provided in the year	244	–	–	244	1,415	220	1,879
Eliminated on disposal	–	–	–	–	(5,996)	(3,986)	(9,982)
At 31 December 2023	2,730	–	–	2,730	14,449	1,781	18,960
Carrying amount							
At 31 December 2023	2,160	–	–	2,160	3,945	941	7,046
At 31 December 2022	2,404	–	–	2,404	4,319	729	7,452

Development expenditure is an internally developed intangible asset and relates to the development of the Group's Housing job management system and decarbonisation assessment software.

Development expenditure is amortised over its useful economic life of either five or ten years, depending on the resulting software. The weighted average remaining economic life of the asset is 3.8 years (2022: 3.9 years).

All amortisation is included within other administrative expenses.

14. Property, plant and equipment

Accounting policy

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

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

Freehold buildings	– 2% p.a., straight line
Leasehold improvements	– over the period of the lease or expected useful life of the improvements, straight line
Plant and machinery	– 20% p.a., straight line
Equipment	– 20% p.a., straight line
Fixtures and fittings	– 50% p.a., straight line
Motor vehicles	– 25% p.a., reducing balance

14. Property, plant and equipment continued

Accounting policy continued

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

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

Identifying whether there are indicators of impairment in respect of property, plant and equipment involves some judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance at both a contract and business level, and any significant changes to the markets in which we operate. This is not considered to be a critical judgement or an area of significant uncertainty.

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Gross carrying amount						
At 1 January 2022	1,027	24,395	1,558	29,355	984	57,319
Reclassification	–	–	–	(6,087)	–	(6,087)
Additions	1,635	4,508	–	1,988	–	8,131
Acquired with subsidiary	–	–	–	10	19	29
Disposals	–	(2)	(1,166)	(10,386)	(488)	(12,042)
At 1 January 2023	2,662	28,901	392	14,880	515	47,350
Additions	22,126	682	–	2,893	44	25,745
Disposals	–	(2,839)	(209)	(2,375)	–	(5,423)
At 31 December 2023	24,788	26,744	183	15,398	559	67,672
Depreciation						
At 1 January 2022	98	12,129	1,243	22,166	971	36,607
Reclassification	–	–	–	(5,426)	–	(5,426)
Provided in the year	17	3,914	227	3,856	7	8,021
Eliminated on disposals	–	(2)	(1,166)	(10,384)	(488)	(12,040)
At 1 January 2023	115	16,041	304	10,212	490	27,162
Provided in the year	220	5,172	40	1,850	23	7,305
Eliminated on disposals	–	(2,839)	(200)	(2,289)	–	(5,328)
At 31 December 2023	335	18,374	144	9,773	513	29,139
Carrying amount						
At 31 December 2023	24,453	8,370	39	5,625	46	38,533
At 31 December 2022	2,547	12,860	88	4,668	25	20,188

Notes to the financial statements – Group continued

For the year ended 31 December 2023

15. Right of use assets

Accounting policy

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

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

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

In the Statement of Financial Position, right of use assets and lease liabilities are presented separately.

Critical judgements in applying the Group's accounting policies

The Group holds more than 15,000 leases across its portfolio of residential properties, offices and vehicles. Whilst the Group endeavours to standardise the form of leases, operational demands dictate that many leases have specific wording to address particular operational needs and also to manage the associated operational and financial risks. As such, each lease requires individual assessment and the Group is required to make key judgements which include:

- the identification of a lease;
- assessing the right to direct the use of the underlying asset;
- determining the lease term; and
- an assessment as to the level of future lease payments, including fixed and variable payments.

The most typical challenges encountered and which form the key judgements are:

- where the lease contains a one-way no-fault break in Mears' favour, the Group measures the obligation based on the Group's best estimate of its future intentions;
- where the lessor has a right of substitution meaning that the lessor can swap one property for another without Mears' approval;
- where Mears does not in practice have the right to control the use of the asset and the key decision making rights are retained by the supplier;
- where a wider agreement for a supply of services includes a lease component which meets the definition of a lease under IFRS16; and
- the assessment of the fixed lease payments where the lease obligation to the landlord is based on a pass-through arrangement in which Mears only makes lease payments to the owner to the extent that the property is occupied and to the extent that rents are received from the tenant.

Key sources of estimation uncertainty

Additions and remeasurements to right of use assets in respect of lease agreements are equivalent to the present value (or change in present value) of the relevant lease obligation. Unless there is an interest rate implicit in the lease itself, the Group's Incremental Borrowing Rate (IBR) is used to calculate the present value of future lease payments. Estimation is required in deriving an appropriate IBR. Management believe that the best approximation for IBR is the currently applicable margin from the grid contained within the Group's rolling credit facility (RCF) agreement, added to an appropriate base rate. The Group's RCF is linked to SONIA so that is considered the most appropriate base rate to use.

The sensitivity of the lease liability to the assumption used in these estimations is indicated in note 20.

Investment property

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

15. Right of use assets continued

	Investment property	Assets that are used directly within the business			
	Residential property £'000	Residential property £'000	Offices £'000	Motor vehicles £'000	Total £'000
Gross carrying amount					
At 1 January 2022	141,134	103,466	11,428	31,040	287,068
Additions*	5,631	38,441	608	8,008	52,688
Disposals	(3,019)	(5,921)	(1,529)	(1,491)	(11,960)
At 1 January 2023	143,746	135,986	10,507	37,557	327,796
Additions*	8,816	59,148	869	10,073	78,906
Disposals	(998)	(4,877)	(992)	(2,956)	(9,823)
At 31 December 2023	151,564	190,257	10,384	44,674	396,879
Depreciation					
At 1 January 2022	26,203	40,406	5,399	10,111	82,119
Provided in the year	9,043	25,422	1,799	7,222	43,486
Eliminated on disposals	(2,901)	(5,516)	(1,529)	(1,295)	(11,241)
At 1 January 2023	32,345	60,312	5,669	16,038	114,364
Provided in the year	8,747	32,183	1,710	8,268	50,908
Impairments	6,223	–	–	–	6,223
Eliminated on disposals	(930)	(3,960)	(992)	(2,383)	(8,265)
At 31 December 2023	46,385	88,535	6,387	21,923	163,230
Carrying amount					
At 31 December 2023	105,179	101,722	3,997	22,751	233,649
At 31 December 2022	111,401	75,674	4,838	21,519	213,432

* Additions includes both new underlying assets and remeasurement of the right of use asset for changes in the lease terms.

The Group previously sub-divided assets that are sub-leased to customers between investment property and other residential property. Having reviewed the details of other residential properties, management considers that all sub-leased properties meet the definition of investment property.

Investment property included above represents properties held by the Group primarily to earn rentals, rather than for use in the Group's other activities. The amount included in lease income in note 2 in respect of these properties is £26.5m (2022: £28.9m). Direct operating expenses of £24.0m (2022: £25.8m), excluding impairments, arose from investment property that generated rental income during the period. The carrying value of the right of use asset in respect of investment property is considered to be approximately equal to its fair value.

Impairment

In respect of its investment property, the Group has seen a deterioration in trading, predominantly as a result of increased regulation together with above-inflation maintenance and service cost increases. The poor financial performance combined with increasing interest rates were recognised by management as an indicator of impairment on certain portfolios of investment property assets.

In carrying out impairment assessments, management prepared detailed cash flow forecasts for the life of the underlying leases on these properties and discounted them using an appropriate rate, in order to estimate the value in use.

In many cases, the Group's customer contract associated with these portfolios benefits from Nominations Agreements with Local Authorities, which contain income protection clauses. The discount rate for each portfolio of properties was therefore set by reference to publicly available market yield information, adjusted for the relative risk associated with each scheme, taking account of any income protections, as well as other risk factors such as maintenance responsibilities. This resulted in a range of discount rates being applied, from 6.6% to 7.5%.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

15. Right of use assets continued

Impairment continued

As a result of management's impairment review, several portfolios were identified where the value in use was lower than the carrying amount of the right of use asset. As such, an impairment has been applied to those properties as detailed in the table above. The impact of the impairment on the Statement of profit or loss has been recognised within cost of sales.

Included within the impairment above were two individually significant properties. The first is due to run until 2041 and its future cash flow forecast was discounted at 6.6%, resulting in an impairment of £3.3m. The second is due to continue until 2038 and its future cash flow forecast was discounted at 7.2%, resulting in an impairment of £1.8m. All other impairments in aggregate totalled £1.1m.

If all discount rates used had been 0.5 percentage points lower, the overall impairment would have been £0.8m lower. If annual net cash inflows were 10% (or £0.3m) higher across all properties, the impairment would have been £2.3m lower.

16. Investments

Accounting policy

Investments include those over which the Group has significant influence but which it does not control. These are categorised as associates. It is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. The Group also holds investments in joint ventures where the Group and other parties have joint control over their activities.

The basis by which associates and joint ventures are consolidated in the Group financial statements is through the equity method, as outlined in the basis of consolidation.

In addition to associates and joint ventures, the Group holds investments in entities over which it does not exert significant influence. These are accounted for at fair value through profit or loss.

	Associates £'000	Other investments £'000	Total £'000
At 1 January 2022	648	65	713
Share of profit	858	–	858
Distributions received	(300)	–	(300)
At 1 January 2023	1,206	65	1,271
Share of profit	486	–	486
Distributions received	(1,135)	–	(1,135)
At 31 December 2023	557	65	622

Other investments represents the Group's 6.16% holding in Mason Topco Limited, which is mandatorily held at fair value through profit or loss. There have been no changes in the fair value of the investment during the year (2022: none).

Associates

Set out below is the investment in an associate as at 31 December 2023, which in management's opinion is significant to the Group:

	Nature of relationship	Proportion held	Country of registration	Carrying value	
				2023 £'000	2022 £'000
Pyramid Plus South LLP	Associate	30%	England and Wales	557	1,206

Pyramid Plus South LLP is a repairs and maintenance service provider that is central to one of the Group's contracts. The Group's client for the contract holds the remaining 70% interest in the entity.

16. Investments continued

Associates continued

During the year, the Group received distributions of £1.1m (2022: £0.3m) from Pyramid Plus South LLP. Summarised financial information for Pyramid Plus South LLP for the year is shown below:

	2023 £'000	2022 £'000
Revenue and profits		
Revenue	24,802	21,600
Expenses	(23,183)	(18,738)
Profit for the year	1,619	2,862
Other comprehensive income	–	–
Total comprehensive income	1,619	2,862
Share of profit at 30%	486	858
Net assets		
Non-current assets	–	–
Current assets	7,497	7,795
Current liabilities	(4,666)	(3,763)
Non-current liabilities	–	–
Total assets less total liabilities	2,831	4,032

Cash and cash equivalents of £1.9m (2022: £2.5m) were included in current assets above.

The subsidiary undertakings within the Group at 31 December 2023 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited*	100%	England and Wales	Dormant
Heather Housing Limited*	100%	England and Wales	Housing provision
Helcim Group Limited	100%	England and Wales	Dormant
Helcim Homes Limited	100%	England and Wales	Dormant
IRT Energy Limited	100%	Scotland	Dormant
IRT Surveys Limited	100%	Scotland	Housing technology provider
Let to Birmingham Limited	100%	England and Wales	Housing management services
Manchester Working Limited	80%	England and Wales	Housing services
Mears Community Housing Limited	100%	Scotland	Dormant
Mears Energy Limited	100%	England and Wales	Dormant
Mears Estates Limited	100%	England and Wales	Grounds maintenance
Mears Extra Care Limited*	100%	England and Wales	Provision of care
Mears Facility Management Limited*	100%	England and Wales	Dormant
Mears Home Improvement Limited	100%	England and Wales	Housing services
Mears Homes Limited	100%	England and Wales	Dormant
Mears Housing Management Limited	100%	England and Wales	Housing management services
Mears Housing Management (Holdings) Limited*	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio 4 Limited	100%	England and Wales	Dormant
Mears Insurance Company Limited*	99.99%	Guernsey	Insurance services
Mears Learning Limited	90%	England and Wales	Dormant
Mears Limited*	100%	England and Wales	Housing services
Mears New Homes Limited	100%	England and Wales	Housebuilding
Mears Property Company Limited	100%	England and Wales	Property acquisition

Notes to the financial statements – Group continued

For the year ended 31 December 2023

16. Investments continued

	Proportion held	Country of registration	Nature of business
Mears Property Company 2 Limited	100%	Scotland	Property acquisition
Mears Scotland (Housing) Limited	100%	Scotland	Dormant
Mears Scotland LLP	66.67%	Scotland	Housing services
Mears Social Housing Limited	100%	England and Wales	Dormant
Mears Supported Living Limited*	100%	Scotland	Provision of care
Mears Wales Limited	100%	England and Wales	Dormant
MHM Property Services Limited	100%	England and Wales	Maintenance services
Morrison Facilities Services Limited*	100%	Scotland	Maintenance services
MPM Housing Limited	100%	England and Wales	Dormant
MPS Housing Limited	100%	England and Wales	Housing services
O&T Developments Limited	100%	England and Wales	Housing management services
Omega Housing Limited	100%	England and Wales	Housing registered provider
Plexus UK (First Project) Limited	100%	England and Wales	Housing registered provider
RepairMyHome CIC	100%	England and Wales	Dormant
Scion Group Limited*	100%	England and Wales	Dormant
Scion Property Services Limited	100%	England and Wales	Dormant
Scion Technical Services Limited	100%	England and Wales	Maintenance services
Tando Homes Limited	100%	England and Wales	Housing management services
Tando Property Services Limited	100%	England and Wales	Housing management services

* Held directly by Mears Group PLC.

All subsidiary undertakings prepare accounts to 31 December.

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

	2023 £'000	2022 £'000
Revenue and profits		
Revenue	64,513	63,061
Expenses and taxation	(60,337)	(61,764)
Profit for the year	4,176	1,297
Other comprehensive expense	–	–
Total comprehensive income	4,176	1,297
Profit for the year allocated to non-controlling interests	1,456	690
Total comprehensive expense allocated to non-controlling interests	–	–
Net assets		
Non-current assets	65	93
Current assets	20,710	19,643
Current liabilities	(10,668)	(13,074)
Non-current liabilities	(1,232)	(1,963)
Total assets less total liabilities	8,875	4,699
Equity attributable to shareholders of Mears Group PLC	5,927	3,207
Non-controlling interests	2,948	1,492
Total equity	8,875	4,699

16. Investments continued

The following UK subsidiaries will take advantage of the audit exemption set out within Section 479A of the Companies Act 2006 for the year ended 31 December 2023:

	Registration number
Heather Housing Limited	07713632k
Helcim Group Limited	07526612
IRT Surveys Limited	SC227199
Let to Birmingham Limited	08757503
Mears Estates Limited	03720903
Mears Extra Care Limited	03689426
Mears Home Improvement Limited	03716517
Mears Housing Management Limited	03662604
Mears Housing Management (Holdings) Limited	04726480
Mears New Homes Limited	08780839
Mears Property Company Limited	14425736
Mears Property Company 2 Limited	SC750308
Mears Supported Living Limited	SC662805
MHM Property Services Limited	07448134
Morrison Facilities Services Limited	SC120550
MPM Housing Limited	03528320
MPS Housing Limited	11655167
O&T Developments Limited	05692853
Scion Group Limited	03905442
Scion Technical Services Limited	03671450
Tando Homes Limited	09260353
Tando Property Services Limited	07405761

17. Inventories

Accounting policy

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

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 new build residential construction projects where the eventual sale will be of the completed property. 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.

	2023 £'000	2022 £'000
Materials and consumables	1,463	1,329
Work in progress	–	5,550
	1,463	6,879

The Group consumed inventories totalling £86.3m during the year (2022: £93.9m). No items are being carried at fair value less costs to sell (2022: £nil).

18. Trade and other receivables

Accounting policy

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

Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

18. Trade and other receivables continued

Critical judgements and key sources of estimation uncertainty

The estimation techniques used for revenue in respect of contracting require judgements to be made about the stage of completion of certain contracts and the recovery of contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract. Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts.

	2023 £'000	2022 £'000
Current assets		
Trade receivables	23,230	21,483
Contract assets	79,703	84,797
Contract fulfilment costs	768	1,283
Prepayments and accrued income	18,929	13,257
Other debtors	4,060	7,514
Total trade and other receivables	126,690	128,334

Included in trade receivables is £3.4m (2022: £4.3m) in respect of retention payments due in more than one year.

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables and accrued income are subject to credit risk exposure.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customers are primarily a mix of Local and Central Government and Housing Associations where credit risk is minimal. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty.

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group measures loss allowances at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

The ageing analysis of trade receivables is as follows:

	2023			2022		
	Gross amount due £'000	Expected credit loss £'000	Carrying value £'000	Gross amount due £'000	Expected credit loss £'000	Carrying value £'000
Not past due	20,110	(158)	19,952	18,661	(986)	17,675
Less than three months past due	2,168	(627)	1,541	3,051	(504)	2,547
More than three months past due	2,674	(937)	1,737	1,946	(685)	1,261
Total trade receivables	24,952	(1,722)	23,230	23,658	(2,175)	21,483

For expected credit losses with large organisations, such as Government bodies or Housing Associations, expected credit losses are calculated on an individual basis, taking account of all the relevant factors applicable to the amount outstanding. The Group has no history of defaults with these types of customers, so expected credit losses relate to specific disputed balances.

For individual tenant customers, expected credit losses are calculated based on the Group's historical experience of default by applying a percentage based on the age of the customer's balance.

The movement in expected credit loss during the year is shown below:

	2023 £'000	2022 £'000
At 1 January	2,175	7,006
Changes in amounts provided	1,482	1,208
Amounts utilised	(1,935)	(6,039)
At 31 December	1,722	2,175

18. Trade and other receivables continued

The movement in contract assets during the year is shown below:

	2023 £'000	2022 £'000
At 1 January	84,797	97,680
Recognised on completion of performance obligations	1,050,778	906,415
Invoiced during the year	(1,055,872)	(919,298)
At 31 December	79,703	84,797

Included in other debtors is an amount of £2.3m (2022: £2.9m) recoverable from the Group's fronting insurers. The Group manages its insurance risk through a captive insurance company. Whilst the Group is effectively paying a premium to itself, the premium passes through a third-party fronting insurer, which results in a matching other debtor and other creditor.

19. Trade and other payables

	2023 £'000	2022 £'000
Trade payables	58,651	55,854
Accruals	72,147	60,278
Social security and other taxes	22,203	26,343
Contract liabilities	28,491	23,672
Other creditors	5,543	4,866
	187,035	171,013

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

The movement in contract liabilities during the year is shown below:

	2023 £'000	2022 £'000
At 1 January	23,672	27,843
Revenue recognised in respect of contract liabilities	(12,015)	(24,296)
Payments received in advance of performance obligations being completed	16,834	20,125
At 31 December	28,491	23,672

Contract liabilities relate to payments received from the customer on the contract, and/or amounts invoiced to the customer in advance of the Group performing its obligations on contracts where revenue is recognised either over time or at a point in time. These amounts are expected to be recognised within revenue within one year of the balance sheet date.

Included in other creditors is an amount of £2.3m (2022: £2.9m) payable to the Group's fronting insurers as described in note 18.

20. Lease liabilities

Lease liabilities are separately presented on the face of the Consolidated Statement of Financial Position as shown below:

	2023 £'000	2022 £'000
Current	54,492	44,376
Non-current	199,948	181,045
	254,440	225,421

The Group had not committed to any leases which had not commenced at 31 December 2023. The majority of the Group's property leases contain variable lease payments that vary annually either by reference to an index, such as the Consumer Prices Index (CPI), or based on market conditions each year. The potential impact of this variation depends on future events and therefore cannot be quantified, but the Group would typically expect commensurate adjustments to income derived from these properties.

A smaller number of property leases contain termination or extension options. Management has assessed whether it is reasonably certain that the extension or termination options will be exercised, which is then reflected in the valuation. In some cases, a portfolio of leases with similar lease terms is considered together and, where a rolling notice period is available to the Group, an average expected lease life may be applied.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

20. Lease liabilities continued

The Group has elected not to recognise a lease liability for short-term leases and leases of low value. Payments made under such leases are expensed on a straight-line basis. Certain leases incorporate variable lease payments that are not included in the measurement of lease liabilities in accordance with IFRS 16. The expense relating to payments not included in the measurement of the lease liability is as follows:

	2023 £'000	2022 £'000
Short-term leases	57,281	46,683
Low value leases	948	1,096
Variable lease payments	979	1,236

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

Other disclosures relating to lease liabilities are provided in the table below:

	Note	2023 £'000	2022 £'000
Depreciation of right of use assets during the year	15	50,908	43,486
Impairment of right of use assets during the year	15	6,223	–
Additions to right of use assets during the year	15	78,906	52,688
Carrying value of right of use assets at the year end	15	233,649	213,432
Interest on lease liabilities during the year	5	9,899	7,617
Total cash outflow in respect of leases during the year	25	58,048	50,827

The Group's lease liabilities are subject to changes in certain key assumptions in estimating the IBRs used to calculate the liabilities. The IBRs used during the year ranged from 5.54% to 7.47%. The impact of an increase in all IBRs applied during 2023 by 0.5 percentage points would be a £0.5m reduction in the lease liability and a £0.1m reduction in profit before tax.

21. Provisions

Critical judgements and key sources of estimation uncertainty

By definition, provisions require estimates to be made of future outcomes and the eventual outflow may differ significantly from the amount recognised at the end of the year. Management have estimated provisions based on all relevant information available to them. For individually material provisions further information has been provided on the maximum likely outflow, in addition to the best estimate.

The carrying value of each class of provisions is shown below:

	2023			2022		
	Current £'000	Non-current £'000	Total £'000	Current £'000	Non-current £'000	Total £'000
Onerous contract provisions	1,898	6,886	8,784	–	–	–
Property provisions	520	761	1,281	475	360	835
Insurance provisions	2,623	1,388	4,011	2,305	805	3,110
Legal and other provisions	3,365	750	4,115	6,000	1,945	7,945
Total provisions	8,406	9,785	18,191	8,780	3,110	11,890

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

	Onerous contract provisions £'000	Property provisions £'000	Insurance provisions £'000	Legal and other provisions £'000	Total £'000
At 1 January 2023	–	835	3,110	7,945	11,890
Provided during the year	8,784	491	2,227	3,020	14,522
Utilised during the year	–	–	(1,326)	(6,850)	(8,176)
Unused amounts reversed	–	(45)	–	–	(45)
At 31 December 2023	8,784	1,281	4,011	4,115	18,191

21. Provisions continued

Onerous contract provisions

During the year, the Group has identified a small number of contracts, with remaining terms ranging from less than 1 year to 33 years, under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received under it. These unavoidable costs are the lower of the cost of fulfilling the contract and any compensation or penalties of exiting from the contract.

The largest single component within onerous contract provisions is £4.2m relating to a single Community Housing contract which is reported within the Management segment. The remaining balance of £4.6m relates to the Maintenance segment.

In identifying the excess of costs over expected economic benefits, the Group has prepared cash flow forecasts for the lifetime of each contract, based on management's best estimates. For contracts where the time value of money is material, these cash flow forecasts have then been discounted using an appropriate discount rate. The forecasts have modelled real cash flows and as such, a real discount rate has been applied.

Recognising that by their nature there is variability in future-looking cash flow forecasts, an appropriate risk factor has been applied when selecting the discount rates, resulting in rates that are lower than the real risk-free rate. The range of discount rates used is between 0.3% and 1.5%, depending on the relative uncertainty of the cash flows.

If the discount rates used were 0.5 percentage points higher in each case, the onerous contract provision would have been £0.3m lower.

The provisions recognised are also sensitive to the underlying cash flow forecasts. If the anticipated annual net cash outflow, ranging from £0.2m to £1.3m across the difference contracts and forecast years, was 10% lower, the onerous contract provision would have been £0.9m lower.

Property provisions

Property provisions represent the expected costs of reinstating several office properties to their original condition upon termination of the lease.

Insurance provisions

The Group self-insures certain fleet and liability risks. Provisions for claims are recognised in respect of both claims received but not concluded, which are expected to be settled within one year, and claims incurred but not received, which are treated as non-current. The value of these provisions is estimated based on past experience of claims.

Legal and other provisions

Legal and other provisions primarily relate to previously completed customer contracts where management is aware of probable liabilities and future losses associated with work defects. This also includes other supply chain claims.

The opening provision at 1 January 2023 included one abnormally large claim where a former customer asserted that the Group had acted in breach of contract, the Group having previously served a notice of termination. The matter had been referred to adjudication with a total claim value of £9.3m, against which management, having considered a range of possible outcomes, had provided a sum of £5.7m, which was believed to represent the best estimate of the likely outcome. The matter concluded with a final loss of £6.6m plus interest.

The closing provision includes one customer related defects claim which is the subject of active litigation, against which management has provided £1.6m (2022: £1.5m) against a total claim value of £6.9m. Management has received external technical support and believes this provision represents the best estimate of the likely outcome. A separate supply chain claim relating to the value of works delivered is the subject of litigation, against which management has provided £0.5m (2022: £0.5m) against a claim value of £5.1m, much of which is considered to be without merit and liability denied.

The remaining claims account for a provision of £2.0m, but the range of possible outcomes is narrow and any risk to the downside is not material.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

22. Financial instruments

Accounting policy

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

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

Financial assets

Investments in unlisted equities that do not convey control or significant influence over the underlying entity are recognised at fair value. They are subsequently remeasured at fair value with any changes being recognised in the Consolidated Statement of Profit or Loss.

Contingent consideration is held by the Group in order to collect the associated cash flows but until the amount is determined, these are not solely payments of principal and interest and therefore these assets are measured both initially and subsequently at fair value, with any changes being recognised in the Consolidated Statement of Profit or Loss.

Loan notes and other non-current debtors are held by the Group in order to collect the associated cash flows and not for trading. They are therefore initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Financial assets generated from goods or services transferred to customers are presented as either trade receivables or contract assets. All of the Group's trade receivables are short-term in nature, with payments typically due within 60 days of the works being performed. The Group's contracts with its customers therefore contain no significant financing component.

Mears recognises a loss allowance for expected credit losses 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 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 are initially recorded at fair value net of transaction costs, being invoiced value less any provisional estimate for impairment should this be necessary due to a loss event. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Consolidated Statement of Profit or Loss.

Cash and cash equivalents include cash at bank and in hand and bank deposits available at short notice that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities in the Consolidated Balance Sheet but are included within cash and cash equivalents within the Statement of Cash Flows, as they are used as part of the Group's cash management process and regularly repaid. The Group also considers its revolving credit facility to be an integral part of its cash management, although this facility has not been utilised during 2022 or 2023.

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

Financial liabilities

The Group's financial liabilities are trade payables, lease liabilities, deferred and contingent consideration and other creditors. They are included in the Consolidated Balance Sheet line items 'Trade and other payables', 'Lease liabilities' and 'Other non-current liabilities'.

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.

Critical judgements

Included within financial liabilities is a credit facility arising from banking arrangements to provide supplier financing. Judgement has been required to determine whether cash flows arising from this facility are financing or operating in nature, and whether the cash flows from the financial institution are deemed to be cash flows of the Group. Management has determined that this facility is financing in nature, as it allows suppliers to receive cash earlier than they would under our normal payment cycle, and that the cash flows of the financial institution related to these transactions are, in substance, cash flows of the Group and should be reflected in the cash flow statement of the Group (see other credit facilities in note 25).

22. Financial instruments continued

Categories of financial instruments

	2023 £'000	2022 £'000
Non-current assets		
Fair value (level 3)		
Investments – other investments	65	65
Amortised cost		
Loan notes and other non-current debtors	4,458	4,073
Current assets		
Amortised cost		
Trade receivables	23,230	21,483
Other debtors	4,060	7,514
Short-term financial assets	7,090	1,963
Cash at bank and in hand	138,756	98,138
	173,136	129,098
Non-current liabilities		
Fair value (level 3)		
Contingent consideration	–	(438)
Amortised cost		
Lease liabilities	(199,948)	(181,045)
Deferred consideration	–	(244)
	(199,948)	(181,289)
Current liabilities		
Fair value (level 3)		
Contingent consideration	(581)	–
Amortised cost		
Overdrafts and other short-term borrowings	(36,699)	–
Trade payables	(58,651)	(55,854)
Lease liabilities	(54,492)	(44,376)
Other creditors	(4,710)	(4,614)
Deferred consideration	(252)	(252)
	(154,804)	(105,096)
	(177,674)	(153,587)

The amount recognised as an allowance for expected credit losses on trade receivables during 2023 was £1.5m (2022: £1.2m).

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

The fair values of investments in unlisted equity instruments are determined by reference to an assessment of the fair value of the entity to which they relate. This is typically based on a multiple of earnings of the underlying business.

There have been no transfers between levels during the year.

Fair value information

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

Financial risk management

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

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

Notes to the financial statements – Group continued

For the year ended 31 December 2023

22. Financial instruments continued

Borrowing facilities

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

The Group had a revolving credit facility of £70.0m with Barclays Bank PLC, HSBC Bank PLC and Citi. In order to assist with short-term day-to-day treasury requirements, this facility includes an overdraft carve out with Barclays Bank PLC of £10m, which was temporarily increased to £22.3m at the year end, leaving £47.7m available to draw on the revolving credit facility.

The Group pays a margin over and above SONIA on bank borrowings when it uses its facility. The margin is based on the ratio of Group consolidated net borrowings to Group consolidated adjusted EBITDA and could have varied between 1.75% and 2.75% during the year.

Details of the Group's banking covenants are provided on page 42.

Overdrafts and other short-term borrowings

At 31 December 2023, the Group had overdrafts of £25.5m (2022: £nil) and other credit facilities of £11.2m (2022: £nil). Overdrafts were utilised alongside highly liquid cash equivalents, such as money market facilities, for the purposes of cash management during the year. For the purpose of the Consolidated Cash Flow Statement overdraft facilities have been included within cash and cash equivalents.

Other credit facilities are short-term borrowings due within no more than 60 days and are also used as part of the Group's cash management process.

The entire balance of overdrafts and other short-term borrowings was repaid in full on 2 January 2024.

Interest rate risk management

The Group finances its operations through a mixture of retained profits and bank borrowings from major banking institutions at floating rates of interest based on SONIA.

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

At 31 December 2023, the Group had minimal exposure to interest rate risk relating to borrowing costs.

Liquidity risk management

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

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. This is carried out centrally for the Group as a whole in accordance with internal practice and limits.

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

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

	Within 1 year £'000	1–2 years £'000	2–5 years £'000	Over 5 years £'000	Total £'000
2023					
Non-derivative financial liabilities					
Overdrafts and other short-term borrowings	36,699	–	–	–	36,699
Trade payables	58,651	–	–	–	58,651
Lease liabilities	58,492	44,707	88,428	114,418	306,045
Other creditors	4,710	–	–	–	4,710
Deferred and contingent consideration	833	–	–	–	833
2022					
Non-derivative financial liabilities					
Trade payables	55,854	–	–	–	55,854
Lease liabilities	47,320	37,821	68,502	116,218	269,861
Other creditors	4,614	–	–	–	4,614
Deferred and contingent consideration	260	860	–	–	1,120

22. Financial instruments continued

Credit risk management

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

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

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

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

Details of the ageing of trade receivables are shown in note 18.

Loan notes receivable

The loan notes included within non-current assets were received as part of the disposal of the Terraquest Group. They are repayable in December 2028 and accrue interest at 10% per annum. Their carrying value including accumulated interest at 31 December 2023 was £4.2m (2022: £3.8m).

Short-term financial assets

Short-term financial assets are fixed-term deposits with financial institutions held for investment purposes rather than for cash management. All short-term financial assets have a maturity at inception of 12 months or less and are held for the purpose of generating returns.

Contingent consideration receivable

The table below shows the movements in contingent consideration receivable:

	£'000
At 1 January 2022	6,531
Movement in fair value of contingent consideration	802
Received during the year	(7,333)
At 1 January 2023 and 31 December 2023	–

Deferred and contingent consideration payable

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

	Deferred £'000	Contingent £'000	Total £'000
At 1 January 2022	–	–	–
Fair value of deferred and contingent consideration on acquisition of IRT Surveys Limited	496	438	934
At 1 January 2023	496	438	934
Unwinding of discount on deferred consideration	16	–	16
Movement in fair value of contingent consideration	–	143	143
Paid during the year	(260)	–	(260)
At 31 December 2023	252	581	833

Deferred consideration payable is initially measured at fair value by discounting the contractual amount due using a discount rate based on the assessed cost of debt for the Group. It is subsequently measured at amortised cost.

Contingent consideration payable is measured at fair value based on management's expectation of the amount that will be payable. This figure is then discounted at an appropriate rate. The value of contingent consideration could vary by up to £0.6m based on the number of active properties being managed by software developed by the acquired business at the second anniversary of acquisition.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

22. Financial instruments continued

Capital management

The Group's objectives when managing capital are:

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

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

23. Deferred taxation

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

Deferred tax relates to the following:

	Consolidated Balance Sheet		Consolidated Statement of Profit or Loss		Other movements	
	At 31 December 2023 £'000	At 31 December 2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Pension schemes	(4,799)	(5,800)	(481)	66	1,482	2,449
Share-based payments	698	704	118	(26)	(124)	142
Tax losses	–	–	–	(249)	–	–
Provisions	–	–	–	(149)	–	–
Acquisition intangibles	(540)	(601)	61	61	–	–
Capital allowances	1,295	317	978	(330)	–	–
Leases	569	625	(56)	(43)	–	–
Fair value of software development	(128)	(143)	15	3	–	(146)
	(2,905)	(4,898)	635	(667)	1,358	2,445

Other movements are recognised in the Consolidated Statement of Comprehensive Income in respect of pension schemes and in the Consolidated Statement of Changes in Equity in respect of share-based payments.

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

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

In addition to those recognised, unused tax losses totalling £1.4m (2022: £25.5m) have not been recognised as management does not consider that it is probable that they will be recovered.

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

24. Share capital and reserves

Classes of reserves

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

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

Treasury shares are equity instruments of the Group that are reacquired. They are recognised at cost and deducted from equity as a separate reserve.

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

The merger reserve relates to the difference between the nominal value and total consideration in respect of acquisitions, where the Company was entitled to the merger relief offered by the Companies Act 2006.

Share capital

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
At 1 January: 111,000,889 (2022: 110,926,510) ordinary shares of 1p each	1,110	1,109
Issue of 2,713,031 (2022: 74,379) shares on exercise of share options	27	1
Cancellation of 12,162,838 (2022: nil) shares following share buybacks	(121)	–
At 31 December: 101,551,082 (2022: 111,000,889) ordinary shares of 1p each	1,016	1,110

During the year 2,713,031 (2022: 74,379) ordinary 1p shares were issued in respect of share options exercised. In addition, 12,162,838 (2022: nil) shares were repurchased by the Group and cancelled.

Share premium

	£'000
At 1 January 2022	82,265
Issue of shares on exercise of share options	86
At 1 January 2023	82,351
Issue of shares on exercise of share options	2,530
Capital reduction	(82,549)
At 31 December 2023	2,332

On 11 October 2023, following approval by the High Court, the Group cancelled the entire amount of its share premium account, resulting in an increase in distributable reserves of £82.5m. The balance at 31 December 2023 reflects the excess of the exercise price over the nominal value of shares issued after 11 October 2023.

Treasury shares

	Thousands	£'000
At 1 January 2022 and 1 January 2023	–	–
Acquired by the EBT during the year	1,891	5,122
At 31 December 2023	1,891	5,122

Notes to the financial statements – Group continued

For the year ended 31 December 2023

25. Notes to the Consolidated Cash Flow Statement

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

	2023 £'000	2022 £'000
Depreciation	58,213	51,508
Impairment of right of use assets	6,223	–
Profit on disposal of assets	(101)	(224)
Amortisation	1,879	2,299
Share-based payments	1,040	599
IAS 19 pension movement	(758)	859
Share of profits of associates	(486)	(858)
Finance income	(5,939)	(2,033)
Finance cost	11,182	8,374
Total	71,253	60,524

Movements in financing liabilities during the year are as follows:

	Revolving credit facility £'000	Other credit facilities £'000	Lease liabilities £'000	Total £'000
At 1 January 2022	–	–	216,890	216,890
Inception of new leases*	–	–	52,688	52,688
Termination of leases	–	–	(947)	(947)
Interest	424	–	7,617	8,041
Arrangement fees	201	–	–	201
Cash outflows including in respect of capital and interest	(625)	–	(50,827)	(51,452)
At 1 January 2023	–	–	225,421	225,421
Inception of new leases*	–	–	78,907	78,907
Termination of leases	–	–	(1,739)	(1,739)
Increase in facility	–	11,244	–	11,244
Interest	502	–	9,899	10,401
Arrangement fees	38	–	–	38
Cash outflows including in respect of capital and interest	(540)	–	(58,048)	(58,588)
At 31 December 2023	–	11,244	254,440	265,684

* Including modifications to existing leases resulting in a change in lease liabilities.

Cash outflows in respect of lease liabilities include £9.9m (2022: £7.6m) in respect of interest paid and £48.1m (2022: £43.2m) in respect of discharge of the underlying lease liabilities.

Other credit facilities are banking facilities that allow suppliers to receive cash from the financial institution at a date earlier than our normal payment cycle. The increase in facility is a net movement over the year (see note 22, critical judgements).

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	2023 £'000	2022 £'000
Bank and cash	2,755	98,138
Readily available deposits	136,000	–
	138,755	98,138
Bank overdrafts	(25,454)	–
Cash and cash equivalents	113,301	98,138

26. Pensions

Accounting policy

Retirement benefit obligations

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

Defined contribution pensions

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

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

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

Defined benefit pensions

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

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

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

Where the Group has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme (LGPS) but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that guarantee asset has been recognised and disclosed. Movements in the guarantee asset are taken to the Consolidated Statement of Profit or Loss and to the Consolidated Statement of Comprehensive Income to match the movement in pension assets and liabilities.

The Group recognises the pension liability and guarantee assets separately on the face of the Consolidated Balance Sheet.

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

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

When the Group ceases its participation in a defined benefit pension scheme, the difference between the carrying value of the scheme as calculated on an IAS 19 basis and any deficit payment or surplus receipt due are recognised in the Consolidated Statement of Profit or Loss as a settlement.

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

Defined benefit assets

Assets for Group schemes are based on the latest asset information provided by the scheme administrators.

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

Defined benefit liabilities

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

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

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

Notes to the financial statements – Group continued

For the year ended 31 December 2023

26. Pensions continued

Accounting policy continued

Retirement benefit obligations continued

Defined benefit liabilities continued

Where the Group has a contractual obligation to make good any deficit in its share of an LGPS but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that asset has been recognised and disclosed. The right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. Management has 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 any cap on employer contributions to be suffered by the Group is not set so as to contribute to reducing the deficit in the scheme. Management, in conjunction with the scheme actuaries, has 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.

Key sources of estimation uncertainty

The net position on defined benefit pension schemes is a key source of estimation uncertainty. Given the importance of this area and to ensure appropriate estimates are made based on the most relevant information available, management has continued to engage with third party advisers in assessing each of the underlying assumptions. The discount rate is derived from the return on corporate bond yields, and whilst this is largely observable, any change in discount rates in the future could have a material impact on the carrying value of the defined benefit obligation. Similarly, inflation rates and mortality assumptions impact the defined benefit obligation as they are used to model future salary increases and the duration of pension payments. Whilst current assumptions use projected future inflation rates and the most up to date information available on expected mortality, if these estimates change, the defined benefit obligation could also change materially in future periods.

Defined contribution schemes

The Group operates a defined contribution Group personal pension scheme for the benefit of certain employees. The Group contributes to personal pension schemes of certain Directors and senior employees. The Group operates a stakeholder pension plan available to all employees. During the year, the Group contributed £4.5m (2022: £4.4m) to these schemes.

Defined benefit schemes

The Group participated in 16 (2022: 17) principal defined benefit schemes on behalf of a number of employees which require contributions to be made to separately administered funds.

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

The Group schemes are no longer open to new members and have no particular concentration of investments, so expose the Group only to typical risks associated with defined benefit pension schemes including the risk that investments underperform compared with movements in the scheme liabilities. The Group has an unconditional right to a refund of any surplus within the Group schemes and has therefore recognised those surpluses in accordance with IFRIC 14.

Management is aware of the High Court ruling in the case of Virgin Media Ltd v NTL Pension Trustees II Ltd & Others, regarding amendments to benefits for contracted out schemes. The Group is waiting for the outcome of an appeal scheduled for June 2024, as well as confirmation from the Government as to whether it intends to issue new regulations in response. The pension scheme administrators and trustees have not as yet carried out a search or review of historical actuarial certification dating back to 1997 and, as such, management is not in a position to assess whether either Group scheme will be impacted, or to quantify any impact. It remains unclear whether this case could have an impact on the Other schemes in which the Group participates.

In certain cases, the Group will participate under Admitted Body status in the LGPS. The Group will contribute for a finite period 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.

Upon exiting an LGPS, the surplus or deficit position of the scheme will be calculated by the Scheme Actuary on a funding basis. This is a different basis from IAS 19 and therefore may result in a different surplus or deficit position. Where the scheme is in surplus on a funding basis on exit, the pension authority has discretion over whether and to what extent the surplus will be distributed to the outgoing employer.

The disclosures in respect of the two (2022: two) Group defined benefit schemes and the 14 (2022: 15) other defined benefit schemes in this note have been aggregated. Details of movements in pension guarantee assets are presented in a separate table.

The costs and liabilities of the schemes are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2023 by qualified independent actuaries using the projected unit funding method.

26. Pensions continued

Defined benefit schemes continued

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

	2023 £'000	2022 £'000
Rate of increase of salaries	2.80%	3.00%
Rate of increase for pensions in payment – based on CPI with a cap of 5%	2.40%	2.55%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	2.70%	2.80%
Rate of increase for pensions in payment – based on CPI with a cap of 3%	2.00%	2.05%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	2.15%	2.20%
Discount rate	4.50%	4.75%
Retail prices inflation	2.80%	3.00%
Consumer prices inflation	2.40%	2.60%
Life expectancy for a 65-year-old male*	21.0 years	21.5 years
Life expectancy for a 65-year-old female*	23.6 years	24.1 years

* This assumption is set on a scheme-by-scheme basis, taking into account the demographics of the relevant members. The figures disclosed are an average across all schemes.

The amounts recognised in the Consolidated Balance Sheet are:

	2023			2022		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Quoted assets						
Equities	1,473	45,399	46,872	–	59,914	59,914
Bonds	94,184	17,576	111,760	103,829	21,380	125,209
Property	–	520	520	–	957	957
Pooled investment vehicles						
Multi-asset funds	20,381	470	20,851	17,417	1,068	18,485
Alternative asset funds	2,724	–	2,724	4,783	78	4,861
Return seeking funds	1,923	784	2,707	2,035	746	2,781
Other assets						
Equities	–	14,507	14,507	–	14,447	14,447
Bonds	–	4,121	4,121	–	4,004	4,004
Property	2,008	9,137	11,145	4,193	10,174	14,367
Derivatives	2,790	–	2,790	1,822	291	2,113
Cash and other	6,040	19,049	25,089	6,153	20,639	26,792
Investment liabilities						
Derivatives	(2,029)	–	(2,029)	(12,209)	(9)	(12,218)
Group's estimated asset share	129,494	111,563	241,057	128,023	133,689	261,712
Present value of funded scheme liabilities	(109,659)	(83,342)	(193,001)	(104,351)	(98,412)	(202,763)
Pension surplus/deficit	19,835	28,221	48,056	23,672	35,277	58,949
Scheme surpluses not recognised as assets	–	(28,393)	(28,393)	–	(38,413)	(38,413)
Pension asset/(liability) recognised	19,835	(172)	19,663	23,672	(3,136)	20,536
Pension guarantee assets	–	–	–	–	3,136	3,136

Notes to the financial statements – Group continued

For the year ended 31 December 2023

26. Pensions continued

Defined benefit schemes continued

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

	2023			2022		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Current service cost	843	1,595	2,438	1,705	3,553	5,258
Settlement and curtailment	–	58	58	–	(242)	(242)
Administration costs	347	–	347	409	–	409
Total operating charge	1,190	1,653	2,843	2,114	3,311	5,425
Net interest	(1,162)	(1,528)	(2,690)	(769)	(464)	(1,233)
Effects of limitation of recognisable surplus related to net interest	–	1,528	1,528	–	643	643
Total charged to the result for the year	28	1,653	1,681	1,345	3,490	4,835

Actuarial gains and losses recognised in other comprehensive income (OCI) are as follows:

	2023			2022		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Return on plan assets in (below)/above that recorded in net interest	(1,877)	7,741	5,864	(70,326)	(25,802)	(96,128)
Actuarial gain/(loss) arising from changes in demographic assumptions	1,840	202	2,042	8	(34)	(26)
Actuarial (loss)/gain arising from changes in financial assumptions	(2,058)	(579)	(2,637)	58,597	86,474	145,071
Actuarial loss arising from liability experience	(3,671)	(11,547)	(15,218)	(2,994)	(737)	(3,731)
Effects of limitation of recognisable surplus related to OCI movements	–	4,428	4,428	–	(48,227)	(48,227)
Total (losses)/gains recognised in OCI	(5,766)	245	(5,521)	(14,715)	11,674	(3,041)

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

	2023			2022		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Present value of obligations at 1 January	104,351	98,412	202,763	159,261	275,828	435,089
Current service cost	843	1,595	2,438	1,705	3,553	5,258
Interest on obligations	4,855	3,205	8,060	3,144	4,094	7,238
Plan participants' contributions	201	455	656	210	470	680
Benefits paid	(4,480)	(1,505)	(5,985)	(4,358)	(6,407)	(10,765)
Contract transfer	–	(30,284)	(30,284)	–	(92,419)	(92,419)
Settlements	–	(460)	(460)	–	(1,004)	(1,004)
Actuarial (gain)/loss arising from changes in demographic assumptions	(1,840)	(202)	(2,042)	(8)	34	26
Actuarial loss/(gain) arising from changes in financial assumptions	2,058	579	2,637	(58,597)	(86,474)	(145,071)
Actuarial loss arising from liability experience	3,671	11,547	15,218	2,994	737	3,731
Present value of obligations at 31 December	109,659	83,342	193,001	104,351	98,412	202,763

26. Pensions continued

Defined benefit schemes continued

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

	2023			2022		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Fair value of plan assets at 1 January	128,023	133,689	261,712	196,912	296,571	493,483
Expected return on plan assets	6,017	4,733	10,750	3,913	4,558	8,471
Employer's contributions	1,957	1,236	3,193	2,081	1,432	3,513
Plan participants' contributions	201	455	656	210	470	680
Benefits paid	(4,480)	(1,505)	(5,985)	(4,358)	(6,407)	(10,765)
Scheme administration costs	(347)	–	(347)	(409)	–	(409)
Contract transfer	–	(33,782)	(33,782)	–	(136,371)	(136,371)
Settlements	–	(1,004)	(1,004)	–	(762)	(762)
Return on plan assets (below)/above that recorded in net interest	(1,877)	7,741	5,864	(70,326)	(25,802)	(96,128)
Fair value of plan assets at 31 December	129,494	111,563	241,057	128,023	133,689	261,712

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

	2023 £'000	2022 £'000
Fair value of guarantee assets at 1 January	3,136	12,975
Transferred in on scheme entry	–	525
Transferred out on scheme exit	(3,136)	(4,768)
Recognised in the Consolidated Statement of Profit or Loss		
Guarantee asset movement in respect of service cost	408	1,053
Guarantee asset movement in respect of net interest	–	105
Recognised in other comprehensive income		
Guarantee asset movement in respect of actuarial losses	(408)	(6,754)
Fair value of guarantee assets at 31 December	–	3,136

Funding arrangements are agreed for each of the Group's defined benefit pension schemes with their respective trustees.

The employer's contributions expected to be paid during the financial year ending 31 December 2024 amount to £3.2m.

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

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below, prepared using the same methods and assumptions used above, shows how a reasonably possible increase or decrease in a particular assumption, in isolation, results in an increase or decrease in the present value of the defined benefit obligation as at 31 December 2023. This analysis excludes the impact on pension schemes with a guarantee in place as there would be no net impact on the balance sheet for these schemes.

	£'000	£'000
Rate of inflation – decrease/increase by 0.1%	(1,766)	2,415
Rate of increase in salaries – decrease/increase by 0.1%	(380)	521
Discount rate – decrease/increase by 0.1%	2,110	(2,902)
Life expectancy – decrease/increase by 1 year	(5,480)	7,321

27. Capital commitments

The Group had no capital commitments at 31 December 2023 or at 31 December 2022.

Notes to the financial statements – Group continued

For the year ended 31 December 2023

28. Contingent liabilities

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2023 these guarantees amounted to £11.1m (2022: £13.1m).

The Group had no other contingent liabilities at 31 December 2023 or at 31 December 2022.

29. Related party transactions

Identity of related parties

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

Pension schemes

Details of contributions to pension schemes are set out in note 26.

Subsidiaries

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

Transactions with key management personnel

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

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

	2023 %	2022 %
Directors	0.3	0.5

Key management personnel's compensation is as follows:

	2023 £'000	2022 £'000
Salaries including social security costs	1,783	1,714
Contributions to defined contribution pension schemes	56	134
Share-based payments	694	434
	2,533	2,282

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

Dividends totalling £0.04m (2022: £0.06m) were paid to Directors during the year.

Transactions with other related parties

During the year the Group provided maintenance services to Pyramid Plus South LLP, an entity in which the Group is a 30% member, totalling £12.1m (2022: £10.2m). Pyramid Plus South LLP also made recharges of certain staff costs to the Group totalling £0.2m (2022: £0.2m). At 31 December 2023, £1.4m (2022: £1.0m) was due to the Group in respect of these transactions. Pyramid Plus also owed the Group £0.1m (2022: £0.6m) in respect of agreed distributions.

Parent Company balance sheet

As at 31 December 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Right of use assets	6	22,884	21,828
Investments	7	139,398	139,398
Loan notes	11	4,233	3,848
Pension and other employee benefits	15	161	304
		166,676	165,378
Current assets			
Debtors	8	8,468	19,525
Cash at bank and in hand		136,000	9,407
		144,468	28,932
Creditors: amounts falling due within one year	9	(176,309)	(50,123)
Net current liabilities		(31,841)	(21,191)
Total assets less current liabilities		134,835	144,187
Creditors: amounts falling due after more than one year	10	(14,527)	(14,110)
		120,308	130,077
Capital and reserves			
Called up share capital	12	1,016	1,110
Share premium account		2,332	82,351
Share-based payment reserve		1,883	1,801
Profit and loss account		115,077	44,815
Shareholders' funds		120,308	130,077

The Parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a profit of £31.7m (2022: £14.2m) which is recognised within the financial statements of the Company.

The financial statements were approved by the Board of Directors on 10 April 2024.

L J Critchley

Director

Company number:

A C M Smith

Director

03232863

L. CRITCHLEY

A SMITH

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

Parent Company statement of changes in equity

For the year ended 31 December 2023

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2022	1,109	82,265	1,313	41,398	126,085
Net result for the year	–	–	–	14,239	14,239
Other comprehensive income	–	–	–	(1,241)	(1,241)
Total comprehensive income for the year	–	–	–	12,998	12,998
Issue of shares	1	86	–	–	87
Share options – value of employee services	–	–	599	–	599
Share options – exercised, cancelled or lapsed	–	–	(111)	111	–
Dividends	–	–	–	(9,692)	(9,692)
At 1 January 2023	1,110	82,351	1,801	44,815	130,077
Net result for the year	–	–	–	31,676	31,676
Other comprehensive income	–	–	–	(118)	(118)
Total comprehensive income for the year	–	–	–	31,558	31,558
Issue of shares	27	2,530	–	–	2,557
Cancellation of shares	(121)	–	–	(33,043)	(33,164)
Capital reduction	–	(82,549)	–	82,549	–
Share options – value of employee services	–	–	1,040	–	1,040
Share options – exercised, cancelled or lapsed	–	–	(958)	958	–
Dividends	–	–	–	(11,760)	(11,760)
At 31 December 2023	1,016	2,332	1,883	115,077	120,308

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

Notes to the financial statements – Company

For the year ended 31 December 2023

1. Accounting policies

Accounting policies are detailed in their respective notes, where relevant. Policies that are not specific to a particular note are detailed below.

Statement of compliance

Mears Group PLC is a public limited company incorporated in England and Wales. Its registered office is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 101 and the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments specified in the accounting policies below. The financial statements are presented in Sterling.

The financial statements have been prepared on a going concern basis. Further details of the considerations made by management when making this assessment are provided in note 1 to the consolidated financial statements.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 from disclosing its individual profit and loss account.

The Company has taken advantage of the reduced disclosures for subsidiaries and the ultimate parent provided for in FRS 101 and has therefore not provided a cash flow statement or certain disclosures in respect of leases and share-based payments.

The principal accounting policies of the Company are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax and laws that have been enacted or substantively enacted by the balance sheet date.

Critical judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty are disclosed in the Group's accounting policies.

2. Result for the financial year

This result for the year is stated after charging auditor's remuneration of £200,000 (2022: £200,000) relating to audit services.

3. Directors and employees

Employee benefits expense:

	2023 £'000	2022 £'000
Wages and salaries	14,877	13,234
Social security costs	2,020	1,763
Other pension costs	681	669
	17,578	15,666

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

	2023	2022
Management	314	293

Notes to the financial statements – Company continued

For the year ended 31 December 2023

3. Directors and employees continued

Remuneration in respect of Directors was as follows:

	2023 £'000	2022 £'000
Emoluments	1,442	1,429
Pension contributions to personal pension schemes	56	134
Gains on exercise of options	1	–
	1,499	1,563

During the year contributions were paid to personal pension schemes for three Directors (2022: four).

One Director exercised share options during 2023 (2022: none).

4. Share-based employee remuneration

Accounting policy

All share-based payment arrangements that were granted after 7 November 2002 are recognised in the financial statements.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair value. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Monte Carlo option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period.

Share-based remuneration in respect of employees of the Company is ultimately recognised as an expense in the profit and loss account. For equity-settled share-based payments there is a corresponding credit to the share-based payment reserve; for cash-settled share-based payments the Company recognises a liability at the balance sheet date. The Company operates share-based remuneration plans for employees of subsidiaries using the Company's equity instruments. The fair value of the compensation given in respect of these share-based compensation plans less payments received from subsidiaries in respect of those share-based payments is recognised as a capital contribution.

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

As at 31 December 2023 the Group maintained three share-based payment schemes for employee remuneration. The details of each scheme are included within note 7 to the consolidated financial statements.

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

5. Dividends

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

	2023 £'000	2022 £'000
Final 2022 dividend of 7.25p (2022: final 2021 dividend of 5.50p) per share	7,932	6,092
Interim 2023 dividend of 3.70p (2022: interim 2022 dividend of 3.25p) per share	3,828	3,600
	11,760	9,692

The Directors recommend a final dividend of 9.30p per share. This has not been recognised within the financial statements as no obligation existed at 31 December 2023.

6. Right of use assets

Accounting policy

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 any costs expected at the end of the lease, and then depreciated on a straight-line basis over the lease term.

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

The 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.

In the Statement of Financial Position, right of use assets and lease liabilities are presented separately.

	Offices £'000	Motor vehicles £'000	Total £'000
Gross carrying amount			
At 1 January 2022	1,018	31,041	32,059
Additions*	–	8,007	8,007
Disposals	–	(1,492)	(1,492)
At 1 January 2023	1,018	37,556	38,574
Additions*	–	10,074	10,074
Disposals	–	(2,956)	(2,956)
At 31 December 2023	1,018	44,674	45,692
Depreciation			
At 1 January 2022	531	10,111	10,642
Provided in the year	177	7,222	7,399
Eliminated on disposals	–	(1,295)	(1,295)
At 1 January 2023	708	16,038	16,746
Provided in the year	177	8,268	8,445
Eliminated on disposals	–	(2,383)	(2,383)
At 31 December 2023	885	21,923	22,808
Carrying amount			
At 31 December 2023	133	22,751	22,884
At 31 December 2022	310	21,518	21,828

* Additions includes both new underlying assets and remeasurement of the right of use asset for changes in the lease terms.

7. Fixed asset investments

Accounting policy

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at deemed cost less impairment. Dividends on equity securities are recognised in income when receivable.

	Investment in subsidiary undertakings £'000
At 1 January 2022, 31 December 2022 and 31 December 2023	139,398

Details of the subsidiary undertakings of the Company are shown in note 16 to the consolidated financial statements.

Notes to the financial statements – Company continued

For the year ended 31 December 2023

8. Debtors

	2023 £'000	2022 £'000
Amounts owed by Group undertakings	7,607	18,234
Prepayments and accrued income	861	891
Other debtors	–	400
	8,468	19,525

Amounts owed by Group undertakings are repayable on demand. Expected credit losses are assessed on an individual basis, taking into account all the relevant factors in respect of the counterparty.

9. Creditors: amounts falling due within one year

	2023 £'000	2022 £'000
Overdraft and other short-term borrowings	44,626	–
Trade creditors	5,716	3,655
Amounts owed to Group undertakings	114,866	36,954
Accruals	1,195	949
Corporation tax	455	577
Lease obligations	9,451	7,926
Other payables	–	62
	176,309	50,123

10. Creditors: amounts falling due in more than one year

	2023 £'000	2022 £'000
Lease obligations	14,487	14,034
Deferred tax	40	76
	14,527	14,110

11. Financial instruments

Accounting policy

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

Financial assets

Basic financial assets, including trade and other receivables, amounts due to Group companies and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled; (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party; or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party which has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Cash and cash equivalents include cash at bank and in hand and bank deposits available at short notice that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities in the Balance Sheet.

11. Financial instruments continued

Financial liabilities

Basic financial liabilities, including trade and other payables, and amounts payable to Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Bank and other borrowings are initially recognised at fair value net of transaction costs. Borrowing costs are recognised as an expense in the period in which they are incurred.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged or cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following financial instruments:

	2023 £'000	2022 £'000
Financial assets that are debt instruments measured at amortised cost:		
– loan notes	4,233	3,848
– amounts owed by Group undertakings	7,607	18,234
– other receivables	–	400
Financial liabilities that are measured at amortised cost:		
– overdrafts and other short-term borrowings	(44,626)	–
– trade creditors	(5,716)	(3,655)
– lease obligations	(23,938)	(21,960)
– amounts owed to Group undertakings	(114,866)	(36,954)
– other payables	–	(62)
	(177,306)	(40,149)

The Company would pay a margin over and above SONIA on bank borrowings had it utilised its facility. The margin is based on the ratio of Group consolidated net borrowings to Group consolidated adjusted EBITDA and could have varied between 1.75% and 2.75% during the year.

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

Management monitors rolling forecasts of the Group and Company's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows. The quantum of committed borrowing facilities of the Group and Company is regularly reviewed and is designed to exceed forecast peak gross debt levels. For short-term working capital purposes, the Group and Company utilise bank overdrafts as required. These facilities are regularly reviewed and are renegotiated ahead of their expiry date.

Loan notes

Loan notes are held as a result of the sale of the Company's holding in Terraquest Solutions Limited during 2020. The notes are repayable on the earlier of the onward sale of that business or in 2028. They attract interest at 10% per annum, payable on settlement of the loan notes.

Overdrafts

The overdraft facilities of the Company are secured against certain cash balances of its subsidiaries.

12. Share capital and reserves

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
At 1 January: 111,000,889 (2022: 110,926,510) ordinary shares of 1p each	1,110	1,109
Issue of 2,713,031 (2022: 74,379) shares on exercise of share options	27	1
Cancellation of 12,162,838 (2022: nil) shares following share buybacks	(121)	–
At 31 December: 101,551,082 (2022: 111,000,889) ordinary shares of 1p each	1,016	1,110

During the year 2,713,031 (2022: 74,379) ordinary 1p shares were issued in respect of share options exercised. In addition, 12,162,838 (2022: nil) shares were repurchased by the Company and cancelled.

Notes to the financial statements – Company continued

For the year ended 31 December 2023

12. Share capital and reserves continued

Share premium

	£'000
At 1 January 2022	82,265
Issue of shares on exercise of share options	86
At 1 January 2023	82,351
Issue of shares on exercise of share options	2,530
Capital reduction	(82,549)
At 31 December 2023	2,332

On 11 October 2023, following approval by the High Court, the Company cancelled the entire amount of its share premium account, resulting in an increase in distributable reserves of £82.5m. The balance at 31 December 2023 reflects the excess of the exercise price over the nominal value of shares issued after 11 October 2023.

Classes of reserves

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

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

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

13. Capital commitments

The Company had no capital commitments at 31 December 2023 or at 31 December 2022.

14. Contingent liabilities

The Company has guaranteed that it will complete certain Group contracts that its subsidiaries have commenced. At 31 December 2023 these guarantees amounted to £11.1m (2022: £13.1m). The Company has also provided guarantees in relation to overdraft facilities of its subsidiaries.

The Company had no other contingent liabilities at 31 December 2023 or at 31 December 2022.

15. Pensions

Accounting policy

Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

Defined benefit pensions

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

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

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

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

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

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

Defined contribution schemes

The Company contributed £0.7m (2022: £0.7m) to the personal pension schemes of certain employees.

15. Pensions continued

Defined benefit scheme

The Company operates a defined benefit pension scheme for the benefit of certain former employees of its the Group. The assets of the schemes are administered by trustees in a fund independent from the assets of the Company.

The costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed and updated to 31 December 2023 by a qualified independent actuary using the projected unit funding method.

Management is aware of the High Court ruling in the case of Virgin Media Ltd v NTL Pension Trustees II Ltd & Others, regarding amendments to benefits for contracted out schemes. The Company is waiting for the outcome of an appeal scheduled for June 2024, as well as confirmation from the Government as to whether it intends to issue new regulations in response. The pension scheme administrators and trustees have not as yet carried out a search or review of historical actuarial certification dating back to 1997 and, as such, management is not in a position to assess whether the scheme will be impacted, or to quantify any impact.

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

	2023 £'000	2022 £'000
Rate of increase of salaries	2.80%	3.00%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	2.70%	2.80%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	2.15%	2.55%
Discount rate	4.50%	4.75%
Retail prices inflation	2.80%	3.00%
Consumer prices inflation	2.40%	2.60%
Life expectancy for a 65-year-old male	21.0 years	20.9 years
Life expectancy for a 65-year-old female	23.6 years	23.7 years

The amounts recognised in the Parent Company Balance Sheet are:

	2023 £'000	2022 £'000
Quoted assets		
Equities	56	–
Bonds	6,335	6,263
Other assets		
Multi-asset funds	7,926	8,131
Alternative asset funds	939	1,284
Return seeking funds	422	330
Property	501	872
Derivatives	538	688
Cash and other	379	1,135
Investment liabilities		
Derivatives	(1,166)	(2,829)
Group's estimated asset share	15,930	15,874
Present value of funded scheme liabilities	(15,769)	(15,570)
Pension asset	161	304

The amounts recognised in the profit and loss account are as follows:

	2023 £'000	2022 £'000
Current service cost	–	–
Administration costs	131	146
Total operating charge	131	146
Net interest	(14)	(38)
Total charged to the result for the year	117	108

Notes to the financial statements – Company continued

For the year ended 31 December 2023

15. Pensions continued

Defined benefit scheme continued

	2023 £'000	2022 £'000
Present value of obligations at 1 January	15,570	22,904
Interest on obligations	723	453
Benefits paid	(707)	(503)
Actuarial gain arising from changes in demographic assumptions	(276)	(198)
Actuarial (loss)/gain arising from changes in financial assumptions	383	(7,888)
Actuarial loss arising from liability experience	76	802
Present value of obligations at 31 December	15,769	15,570

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

	2023 £'000	2022 £'000
Fair value of plan assets at 1 January	15,874	24,824
Expected return on plan assets	737	491
Employer's contributions	131	146
Benefits paid	(707)	(503)
Administration costs	(131)	(146)
Return on plan assets above that recorded in net interest	26	(8,938)
Fair value of plan assets at 31 December	15,930	15,874

The movements in the net pension liability and the amount recognised in the Parent Company Balance Sheet are as follows:

	2023 £'000	2022 £'000
Surplus in schemes at 1 January	304	1,920
Administration costs	(131)	(146)
Contributions	131	146
Other finance cost	14	38
Actuarial gain arising from changes in demographic assumptions	276	198
Actuarial (loss)/gain arising from changes in financial assumptions	(383)	7,888
Actuarial loss arising from liability experience	(76)	(802)
Return on plan assets above/(below) that recorded in net interest	26	(8,938)
Surplus in schemes at 31 December	161	304

Employer's contributions of £0.1m are expected to be paid during the financial year ending 31 December 2024.

16. Related party transactions

Identity of related parties

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

Pension schemes

Details of contributions to pension schemes are set out in note 15.

Subsidiaries

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

Transactions with key management personnel

The Group has identified key management personnel as the Directors of Mears Group PLC. Details of transactions are disclosed in note 29 to the consolidated financial statements.

Independent auditor's report

to the members of Mears Group PLC

Opinion

We have audited the financial statements of Mears Group PLC (the 'Parent Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2023 which comprise:

Group	Parent company
Consolidated statement of profit or loss	Balance sheet
Consolidated statement of comprehensive income	Statement of changes in equity
Consolidated balance sheet	Related notes 1 to 16 to the financial statements, including material accounting policy information
Consolidated cash flows statement	
Consolidated statement of changes in equity	
Related notes 1 to 29 to the financial statements, including material accounting policy information	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice). In our opinion:

- Mears Group PLC's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- testing the clerical accuracy of the model used to prepare the Group's going concern assessment.
- understanding of climate change consideration included in the forecasted cash flows.
- assessing the reasonableness of the cashflow forecast by analysing management's historical forecasting accuracy. We evaluated the key assumptions underpinning the Group's forecasts by developing our own independent stress testing and challenging management's position.
- confirming whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including goodwill impairment and deferred tax assets assessment.
- challenging, based on our own independent analysis, whether the severe downside cases prepared by management could lead either to a loss of liquidity or a covenant breach and whether these scenarios were plausible. Our assessment included consideration of the impact and likelihood of management's scenarios, including a combination of them, which were as follows:
 - a cyber breach scenario which results in additional irrecoverable costs to the business.
 - an inability to secure new work and a lack of success on contract re-bids.
 - an inability to recover additional inflationary costs.
 - a significant reduction in Asylum Accommodation and Support Contracts revenues where the total forecast annual revenue reduces by 30%.

Independent auditor's report continued

to the members of Mears Group PLC

Conclusions relating to going concern continued

- considering the mitigating actions that management could undertake in a severe but plausible downside scenario and challenging their feasibility.
- considering, independently, a "reverse stress-test" scenario that would lead to either a loss of liquidity or a covenant breach. Our reverse stress-test scenario utilised management's scenarios and additionally assumed increased costs that could not be passed on to customers.
- we also confirmed, the cash position at 31 December 2023 by agreeing to confirmations received directly from the bank, as well as the availability of debt facilities and considered their underlying terms, including covenants, by examination of executed documentation.

Our key observations arising from the procedures are that at 31 December 2023 the Group has £109m adjusted net cash and undrawn facilities amounting to £70m which expire in December 2026. Management have prepared a base case forecast, a range of severe-downside cases and a reverse stress test. Management have concluded that the conditions that would need to exist to result in a loss of liquidity or covenant breach are remote.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period to 30 June 2025.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Materiality	• Overall Group materiality of £2.25m which represents 5% of profit before tax.
Audit scope	• We performed an audit on the consolidated financial statements of the Group to the materiality and performance materiality described below. The audits of all the companies within the Group are undertaken by one audit team. • We have performed audit procedures on the Group balances as a whole for each significant account using Group materiality. This approach has covered 100% of the Group's profit before tax, revenue and total assets.
Key audit matters	• Appropriateness of revenue recognition including contract accounting and contract assets • Management override of controls: Misstatement due to fraud or error • Onerous contract provision • Impairment of community housing property assets • Valuation of the Group and Parent's defined benefit pension obligation and the valuation of material hard to value assets in the two defined benefit Group schemes • Appropriateness of lease accounting under IFRS 16

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures. We determined materiality for the Group to be £2.2 million (2022: £1.7 million), which is 5% (2022: 5%) of profit before tax. We believe that profit before tax provides us with the most relevant performance measure to the stakeholders of the Group.

We determined materiality for the Parent Company to be £2.2 million (2022: £1.7 million), which is 5% (2022: 5%) of profit before tax.

During the course of our audit, we reassessed initial materiality and adjusted our final materiality to reflect the final profit before tax for 2023.

Our application of materiality continued

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022: 50%) of our planning materiality, namely £1.7m (2022: £0.85m). We have set performance materiality at this percentage due to the absence of significant audit differences identified in the prior year.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £110,000 (2022: £85,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk and our evaluation of materiality, taken together, this enables us to form an opinion on the consolidated Group financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent Internal audit results when assessing the level of work to be performed for the Group.

In the current year we have performed audit procedures on the Group balance as a whole for each significant account, using Group materiality. In assessing the risk of material misstatement to the Group audit, we considered that all significant elements of the Group's finance and accounting function are situated and managed centrally in Gloucester, UK and operate under one common internal control environment; and all operations of the Group are also managed from this location together with UK branches. All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Changes from the prior year

As explained in tailoring our scope above, in the current year we have performed audit procedures on the Group balances as a whole for each significant account, using Group materiality as compared to the component based approach in the previous year. This approach has covered 100% of the Group's profit before tax, revenue and total assets. We have also identified two specific risks of management override of controls surrounding onerous contract provisions and the impairment of community housing during the year, which we have included in the key audit matters section of the report.

Climate change

Stakeholders are increasingly interested in how climate change will impact Mears Group PLC. The Group has determined that the most significant future impacts from climate change on their operations will be from the desire to achieve net zero status by 2050. These are explained on pages 26–35 in the Task Force On Climate Related Financial Disclosures and on pages 49 in emerging risks within the risk management section. They have also explained their climate commitments on pages 32–35. All of these disclosures form part of the "Other information", rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in note 1 their articulation of how climate change has been reflected in the financial statements and how they have reflected the impact of climate change in their financial statements. Significant judgements and estimates relating to climate change are included in note 1.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 28 to 29 and the significant judgements and estimates disclosed in note 1 and whether these have been appropriately reflected. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

Independent auditor's report continued

to the members of Mears Group PLC

An overview of the scope of the Parent Company and Group audits continued

Climate change continued

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Appropriateness of revenue recognition including contract accounting and contract assets Group Revenue: £1,089m, (2022: £959.6m) <i>Refer to the Audit Committee Report (page 68); Accounting policies (page 109); and Note 2 of the Group financial statements (pages 109–111)</i> Mears has 4 different patterns of revenue each with its own revenue accounting policy. Determining the amount of revenue to be recognised requires management to make significant judgements and estimates in the application of IFRS 15, including the stage of completion of certain contracts and the recoverability of contract assets. There is considered to be a risk of material error and management override in making this assessment, which makes this a significant risk to the audit.	We performed audit procedures over this risk area which covered 100% of the risk amount. Our procedures included: We performed walkthroughs of the revenue recognition process for all material patterns of revenue to assess the design and implementation of key controls. We used data analysis tools on 100% of revenue transactions in the year to test the correlation between revenue, trade debtors and cash receipts to verify the occurrence of revenue. We tested non-correlating journal entries by obtaining underlying supporting evidence and explanations for the correlation difference for a sample of revenue transactions to ensure that revenue had been appropriately recognised. We obtained the schedule of contract assets and selected a sample of contracts using the lower range of our testing threshold to include an element of unpredictability. We obtained supporting evidence including material and/or subcontractor invoices, timesheets for own labour for work completed in relation to the contract assets recognised as at the year end. We investigated the recoverability of contract assets balances by reference to post balance sheet invoicing and/or cash collection. Where the sample was not subsequently invoices/collected, we performed substantive analytical review to verify the margin added (if applicable) to value the contract asset balance. We performed ageing analysis of the contract assets, with a focus around balances over 3 months old and challenged the recovery of those items. For a sample of customers, we obtained direct confirmations to verify their contract trade terms with Mears. We selected a sample of revenue transactions recorded before and after year end to verify that the revenue had been recorded in the appropriate period. We selected a sample of credit notes issued after year-end and obtained documentation to verify that revenue adjustments after year end had been recorded appropriately. Disclosure: We assessed the adequacy of Group's disclosures in accordance with the requirements of IFRS 15. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	For the year to 31 December 2023, we conclude that based on the audit procedures performed, revenue transactions have been recognised appropriately. Our procedures did not identify instances of inappropriate management override in the recognition of revenue across the Group. We are satisfied with the adequacy of disclosure within the financial statements.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override of controls: Misstatement due to fraud or error.	We performed audit procedures over this risk area centrally.	We conclude that based on the audit procedures performed, the year-end journal entries and top-side consolidation adjustments relating to judgemental provisions (including the provision for losses raised by the Claimant) and accruals are appropriate.
There is a level of complexity within the business which necessitates high volumes of journal entries at the year end, and top-side adjustments in preparing the consolidated financial statements. This increases the risk that management will post an erroneous journal that will materially affect the financial statements.	Our procedures included: We walked through the financial statement close and consolidation processes to assess the design and implementation of key controls. We obtained an understanding of all material year-end financial statement close and consolidation journal entries posted, and specifically tested a sample of the journals to supporting evidence. We have further tested journal entries throughout the audit process using our data analytics general ledger analyser tools to identify and investigate unusual items having considered criteria that we believed indicated a higher likelihood of material misstatement. We identified 3 journal source types that in our judgement may be more susceptible to management override. We assessed that size was an important factor in relation to the risk of management override and tested all journals in these source types over £110,000 affecting accruals and provisions in the month of December 2023, as we assessed that there was greater risk of management override close to the year-end date. We also tested the same journal source types to the same threshold in January 2024 to understand if there were any unusual amendments which should have been reflected in the 2023 financial statements. We understood the nature and appropriateness of material round sum amounts in accruals and provisions at the year-end. We also ensured we understood the reason for significant movements in provisions and accruals from the prior year and challenged management where there had been no movement. Our work included corroborating the year-end accruals and provisions to supporting information, looking back at prior years to assess management's ability to estimate, and challenging the most significant assumptions. We have assessed the disclosure included within the financial statements in relation to provisions and contingent liabilities, including the disclosure of the assumptions and associated sensitives in relation to the key sources of estimation uncertainty.	Our procedures did not identify any instances of management override. As mentioned above, we have also identified two specific risks of management override of controls surrounding onerous contract provisions, and the impairment of community housing property assets during the year. Our response to these two risk areas is set out below.
There are also a number of provisions and accruals at year end that are based on management estimation.		

Independent auditor's report continued

to the members of Mears Group PLC

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Onerous Contract Provision £8.7m (2022: Nil): The Group has provided an £8.7m onerous provision in the Group consolidated accounts. During the year, the Group has undertaken an exercise on a branch-by-branch basis to identify contracts where management consider that the economic cost of fulfilling the contract is likely to exceed the economic benefits to be received. The key judgements and estimates in the provision relate to forecasting the cost to service these contracts. There is uncertainty in this given that the issues and/or the repair & maintenance work identified may not be complete, as well as the rectification cost being unknown until work is completed. Given the value of the provision and the level of estimation uncertainty, we have identified this as a new key audit matter for the current year. Refer to page 68 (Audit Committee Report) and notes 21 (pages 130–131) to the Group financial statements, including the disclosures relating to this key source of estimation uncertainty.	We performed audit procedures over this risk area which covered 100% of the risk amount Our procedures included: We have obtained an understanding of the process management have undertaken to determine this provision, which included considering any key controls in place. We have challenged the appropriateness of key inputs and assumptions used to estimate the expected future cashflows. We verified the cost assumptions to the extent possible by comparing to the actual spend in FY23 and FY22, and agreed a sample of these items to supporting documentation to assess the appropriateness and accuracy of these items. We made enquiries of relevant project managers, and regional Directors to understand the basis of their assumptions. To confirm completeness of the onerous contract provision, we obtained a complete list of branch operating margin, and challenged management where onerous contract provisions were not recognised for contracts near break even or loss making. We assessed the appropriateness of disclosures included within the consolidated financial statements in relation to this onerous provision, including the disclosure of the assumptions and associated sensitivity in relation to the key sources of estimation uncertainty.	Based on our audit procedures, we have concluded that the onerous provision is not materially misstated, and the related disclosures comply with the requirements of UK adopted International accounting standards.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of community housing property assets £6.2m (2022: NIL): <i>Refer to the Audit Committee Report (page 68); Accounting policies (page 122); and Note 15 of the Group Financial Statements (pages 122–124).</i> As set out in note 15 of the consolidated financial statements, the Group identified indicators of impairment in relation to certain portfolios of property assets. In carrying out impairment assessments, management prepared detailed cash flow forecasts for the life of the underlying leases on these properties and discounted the cashflows, to estimate the value in use. As a result of management's review, an impairment charge of £6.2m (2022: NIL) was recognised in the consolidated financial statements. Given the magnitude of impairment charge and the estimation involved in the preparation of future cashflows for impairment assessment, we have identified this as a new key audit matter.	We performed audit procedures over this risk area which covered 100% of the risk amount. Our procedures included: We walked through the impairment assessment process and the relevant controls established by the Group. We involved our internal valuation specialists to support us in challenging one of the key assumptions being the discount rate. We challenged management's cashflow forecasts by performing the following procedures: a) assessed the accuracy of management's historical forecasting ability by comparing past budgets with actuals and obtaining an understanding of unusual variances. b) challenged the appropriateness of the cashflow forecasts by establishing our independent range of forecast cashflows based on prior year actuals and external inputs. c) verified the accuracy of the impairment model by independently calculating the value in use and impairment charge using discount rates reviewed by our valuations specialists. To confirm the completeness of schemes included for impairment assessment, we agreed the total value of property assets assessed for impairment with the audited lease models relating to community housing. We assessed the appropriateness of disclosures included within the consolidated financial statements in relation to impairment of property assets, including the disclosure of the assumptions and associated sensitivity in relation to the key sources of estimation uncertainty.	Based on the audit procedures performed, we concluded that the impairment charges have been recognised appropriately in relation to the community housing property assets. We are also satisfied with the adequacy of disclosure within the financial statements.

Independent auditor's report continued

to the members of Mears Group PLC

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of the Group and Parent Company's defined benefit pension obligation and the valuation of material hard to value assets in the two Group defined benefit schemes i) pension obligation: Group: net surplus £19.8m, (2022: £20.5m); Parent Company: net surplus £0.2m, (2022: £0.3m), and ii) valuation of hard to value scheme assets: Group: £7.9m, (2022: £6.6m), Parent Company: £1.9m, (2022: £1.4m) <i>Refer to the Audit Committee Report (page 68); Accounting policies (pages 140–141); and Note 26 and 15 of the Group and Parent Company financial statements, respectively (page 140 and 152).</i> <i>The Group operates two defined benefit pension schemes ('Group schemes').</i> Subjective valuation using complex actuarial assumptions: A gross defined benefit pension liability of £109.7m was held at 31 December 2023 (2022: £202.8m) in respect of all defined benefit pension schemes. Small changes in the assumptions and estimates used to value the Group's and Parent Company's pension obligation (before deducting scheme assets) would have a significant effect on the carrying value of those pension obligations.	We performed audit procedures over this risk area centrally, which covered 100% of the risk amount. Our procedures included: Assessing management's process: We have understood management's process and methodology for calculating the pension liability for each scheme, including discussions with management's external actuaries, walkthrough of the processes, understanding the key inputs, and the design and implementation of key controls. We performed a fully substantive audit approach rather than testing the operating effectiveness of key controls. Assessing management's experts: We have assessed the independence, objectivity, and competence of the Group's external actuaries. This included understanding the scope of services being provided and considering the appropriateness of the qualifications of the external actuaries. Benchmarking assumptions: With the support of our pension actuarial specialists, we assessed and challenged the appropriateness of the assumptions adopted by the Directors by comparing them to the expectations of our pension actuarial specialists which they had derived from broader market data. Assessing source data and market trends impacting valuation We tested a sample of the membership data used by the actuaries to the Group's records. We directly confirmed the existence and valuation of pension scheme assets with asset managers and custodians. With the support of our valuation and actuarial specialists, we independently challenged the valuation of hard to value scheme assets by performing detailed testing on the samples selected. Using most recent audited financial statement and the annual performance report of each fund, we calculated the expected NAV of each fund as at 31 December 2023. We then compared the expected value of each fund as at 31 December 2023 to the NAV per the investment manager at year end to determine whether this met our expectations. Assessing historical valuation accuracy: For a sample of hard to value scheme assets, we assessed the historical accuracy of the fund managers' valuation by comparing the unaudited NAV based on the fund managers' NAV statements to the audited NAV based on the audited financial statements of each fund for the past three years (2020 to 2022). This procedure provided us assurance regarding the accuracy of unaudited NAV statements produced by fund managers, which are used in the valuation of the funds at the balance sheet date. We considered the adequacy of IAS 19 disclosures, including sensitivity of the obligation to the key assumptions. All audit work in relation to this key audit matter was undertaken by the Group engagement team with assistance from our actuarial and valuation specialists.	The two Group Schemes have different scheme liability durations. However, the financial assumptions have been set consistently across the Group schemes. All assumptions used in the assessment of scheme liabilities fell within an acceptable range except for RPI inflation which is deemed optimistic. However, there is sufficient headroom in the other assumptions to offset this. As such, the overall basis is acceptable. Our testing of the Group schemes' hard to value assets did not identify any material misstatements which required adjustment to the financial statements. We are satisfied with the adequacy of disclosure within the financial statements.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Subjective valuation using complex actuarial assumptions: continued	The effect of these matters is that, as part of our risk assessment, we determined that the Group's and Parent Company's pension obligation have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements. The Group financial statements disclose the estimation uncertainty identified by the Group and Parent Company. (<i>Group: note 26, Parent Company: note 15</i>)	
Valuation of defined benefit pension assets:	The fair value of the defined pension schemes' assets in aggregate as at 31 December 2023 was £129.5m (2022: £261.7m) including hard to value assets of Group: £7.9m, (2022: £6.6m), Parent Company: £1.9m, (2022: £1.4m). Judgement is applied in valuing the more complex, hard to value assets where market prices are not readily available.	

Independent auditor's report continued

to the members of Mears Group PLC

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Appropriateness of lease accounting under IFRS 16: Right of use ("ROU") assets in Group £233.6m (2022: £213.4m), Parent Company £22.9m (2022: £21.8m) Lease liabilities in Group £254.4m (2022: £225.4m), Parent Company £23.9m (2022: £22.0m). <i>Refer to the Audit Committee Report (page 68); Accounting policies (page 122); financial statements notes 15 and 20 (pages 122–124 and pages 129–130 respectively)</i> The accounting of IFRS 16 is complex and requires a number of estimates and judgements. The most significant estimate is the discount rate (Incremental Borrowing Rate, 'IBR') to apply to each lease. Key judgements are also made when determining the appropriate lease term at the inception of the lease, particularly where leased assets are subject to extension or termination options. Due to the financial statement impact of IFRS 16 additions or modifications, the level of estimation and judgement required in determining the appropriate lease term at the inception of the lease, we identify additions or modification in relation to IFRS 16 lease agreements as a significant risk.	We performed audit procedures over this risk area which covered 100% of the risk amount. Our procedures included: Assessing management's process: We gained an understanding through a walkthrough of the process and the controls management have in place over the additions and modifications of leases. Key estimate: We have assessed the appropriateness of the IBR by reviewing management's methodology. With the support of our valuations specialists, we reperformed the calculations and challenged their validity by comparing to observable market rates. Key judgements: We challenged the key judgements and assumptions used by management in relation to, assessing whether leasing arrangements fall within the scope of IFRS 16, and in determining the appropriate lease term at the inception of the lease where leased assets are subject to extension or termination options. We made inquiries of management, and selected a sample of leases, inspecting the arrangement terms and reaching an independent opinion on the IFRS 16 accounting treatment. Tests of detail: For a sample of lease additions and modifications, we assessed the measurement/valuation of the underlying leases by checking the key inputs used in the models to the original contract or other supporting data, and recalculating the ROU asset and corresponding lease liability. We interrogated the integrity and mechanical accuracy of the bespoke excel modelling templates used to derive the IFRS 16 journals for vehicles, residential property used directly in the business, and some of the residential property sub-leased to customers. We did this through the application of our EY Helix – Spreadsheet Analyser which highlights, amongst other things, complex sheets, hardcoded items, inconsistencies in the logical design, unexpected formula changes, and by searching the models for potential duplicate assets. The integrity and mechanical accuracy of the software package used to derive the IFRS 16 journals for office and residential fixed leases was validated by independently calculating the cash flows for a sample of leases and comparing the output to the output from the software package. We assessed the completeness of the population of leases by selecting a sample of lease payments made during the year, from the appropriate income statement general ledger codes which included all lease payments made during the year. We obtained and inspected a copy of the underlying supporting evidence and independently assessed whether management's lease identification basis is aligned with IFRS 16, by either tracing the asset through to the correct ROU model, or ensuring it was not included within any ROU models, if IFRS 16 recognition criteria were not met. We selected a sample of vendor payments to obtain an understanding of the nature of transactions by analysing the vendor accounts, and where necessary obtaining underlying supporting evidence to identify transactions which might indicate completeness issues. We considered the adequacy of IFRS16 disclosures, including sensitivity of the lease liabilities to the key assumptions.	Based on our audit procedures performed we conclude the key estimates and judgements underpinning the IFRS 16 ROU assets and lease liabilities are appropriate, and the disclosures within notes 15 and 20 are in accordance with the requirements of IFRS 16, Leases.

In the current year, we have updated our identified risk assessment in relation to onerous contract provision and impairment of community housing property assets and included these as key audit matters.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 100, including the Strategic Report, set out on pages 1 to 53, Corporate Governance set out on pages 54 to 100, and Shareholder and corporate information, set out on pages 168–169 other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 106–108;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 106–108;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 108;
- Directors' statement on fair, balanced and understandable set out on page 100;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 97;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 73; and;
- The section describing the work of the audit committee set out on page 68–75

Independent auditor's report continued

to the members of Mears Group PLC

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 100, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS101 and the Companies act 2006, the Financial Reporting Council (FRC) and the UK Corporate Governance code) and the relevant tax compliance regulations in the UK.
- We understood how Mears Group PLC is complying with those frameworks by reading internal policies and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the Chair of the Audit Committee, the Group's legal counsel and internal audit, of any known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. In light of the identified matters which required further consideration we utilised the experience of our specialists to determine that our response was appropriate.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the programs and controls that the Group and Parent Company has established to address risks identified by the entity, or that otherwise prevent, deter and detect fraud. We looked at how senior management monitor those programs and controls, evaluating conditions in the context of incentive and/or pressure to commit fraud, considering the opportunity to commit fraud and the potential rationalisation of the fraudulent act.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Group's Chief Financial Officer, the Company Secretary, the Chair of the Audit Committee, and other members of senior management including the Group Director of Health, Safety & Compliance, Group HR Director. As well as attendance and enquiry at meetings, our procedures involved a review of minutes of board meetings, internal audit reports, and other committee minutes to identify any non-compliance with laws and regulations. We planned our audit procedures to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation. Further detail of our approach to address the identified risks of management override are set out in the key audit matters section of our report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the Parent Company on 9 September 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 December 2020 to 31 December 2023.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nigel Meredith (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

11 April 2024

Five-year record (unaudited)

Consolidated Statement of Profit or Loss (continuing activities)

	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Revenue	1,089,327	959,613	878,420	805,817	881,457
Gross profit	218,770	195,686	180,487	156,287	206,109
Operating profit before exceptional costs	51,674	40,427	33,683	5,528	40,229
Exceptional items	–	–	(1,627)	(2,279)	(2,018)
Operating profit/(loss) including share of profits of associates	52,160	41,285	24,402	(6,276)	28,089
Profit/(loss) for the year before tax	46,918	34,944	16,333	(15,218)	20,253
Profit/(loss) before taxation before exceptional costs	46,918	34,944	25,614	(3,414)	32,393
Earnings per share					
Basic	32.90p	25.07p	11.72p	(10.66)p	15.72p
Diluted	31.94p	24.51p	11.50p	(10.66)p	15.64p
Normalised	31.24p	24.51p	18.23p	(2.29)p	23.74p
Dividends per share in respect of year	13.00p	10.50p	8.00p	–	3.65p

Consolidated Balance Sheet

	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Non-current assets	426,011	395,092	405,959	408,369	409,151
Current assets	273,999	235,773	227,960	267,720	284,230
Current liabilities	(286,744)	(224,169)	(230,120)	(255,318)	(326,329)
Non-current liabilities	(212,810)	(192,871)	(202,761)	(264,720)	(248,715)
Total equity	200,456	213,825	201,038	156,051	118,337
Cash and cash equivalents, including overdrafts	113,301	98,138	54,632	56,867	(50,986)

Shareholder and corporate information

Registered office

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH
Tel: 01452 634600
www.mearsgroup.co.uk

Company registration number

03232863

Company secretary

Ben Westran

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH
Tel: 01452 634600

Bankers

Barclays Bank PLC

Wales and South West
Corporate Banking
4th Floor, Bridgewater House
Counterslip
Finzels Reach
Bristol BS1 6BX
Tel: 0800 285 1152

HSBC Bank PLC

West and Wales
Corporate Banking Centre
3 Rivergate
Temple Quay
Bristol BS1 6ER
Tel: 0845 583 9796

Citi Bank plc

25–33 Canada Square
Canary Wharf
London E14 5LB
Tel: 020 7500 5000

Solicitors

Travers Smith

10 Snow Hill
London EC1A 2AL
Tel: 020 7295 3000

Auditor

Ernst & Young LLP

The Paragon
Counterslip
Bristol BS1 6BX
Tel: 0117 981 2050

Registrar

Computershare Investor Services PLC

The Pavillions
Bridgewater Road
Bristol
BS99 6ZZ
Tel: 0370 703 0084

Joint corporate brokers

Deutsche Numis

45 Gresham Street
London EC2V 7BF
Tel: 020 7260 1000

Panmure Gordon (UK) Limited

40 Gracechurch Street
London EC3V 0BT
Tel: 020 7418 8900

Internet

The Group operates a website, which can be found at www.mearsgroup.co.uk. This site is regularly updated to provide information about the Group. In particular, all of the Group's press releases and announcements can be found on the site.

Registrar

Any enquiries concerning your shareholding should be addressed to the Company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details.

Investor relations

Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the registered office.

Mears Group PLC's commitment to environmental issues is reflected in this Annual Report, which has been printed on Arena Extra White Smooth, an FSC® certified material. This document was printed by L&S using its environmental print technology, which minimises the impact of printing on the environment, with 99% of dry waste diverted from landfill. The printer is a CarbonNeutral® company.

Both the printer and the paper mill are registered to ISO 14001.