
MEARS®

# Pathway to success

**Mears Group PLC**
Annual Report and Accounts 2024

# What we do

**Mears is a leading provider of services to the housing sector, providing a range of services to individuals within their homes. We manage and maintain around 450,000 homes across the UK and work predominantly with Central Government and Local Government, typically through long-term contracts. We equally consider the residents of the homes that we manage and maintain to be our customers, and we take pride in the high levels of customer satisfaction that we achieve.**

Mears currently employs over 5,000 people and provides services in every region of the UK. In partnership with our housing clients, we provide property management and maintenance services. Mears has extended its activities to provide broader housing solutions to solve the challenge posed by the lack of affordable housing and to provide accommodation and support for the most vulnerable.

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

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

## Strategic report



## Corporate governance



## Financial statements



## Shareholder information

# 2024 highlights

**The Group has continued to deliver strong operational performance, and this is mirrored in excellent financial outputs.** The Group aims to continue to develop its services underpinned by an extensive knowledge and understanding of the market and a strong empathy for our service users and tenants.

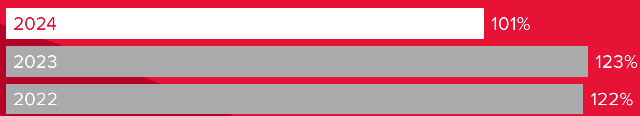
The Group has benefited over many years from its market-leading, proprietary IT system and it is an area where we have continued to invest, recognising that enhancement to the system functionality is critical to support a broader service offering to our clients.

### Group revenue

**£1,133m**
(2023: £1,089m)

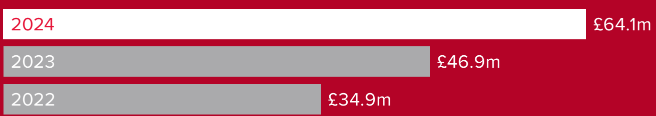

### EBITDA to operating cash conversion[1]

**101%**
(2023: 123%)




### Profit before tax

**£64.1m**
(2023: £46.9m)

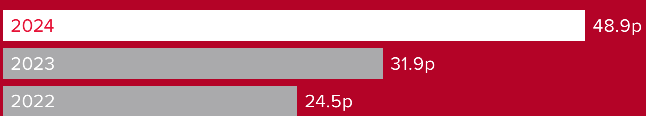



### Customer satisfaction[2]

**88%**
(2023: 89%)

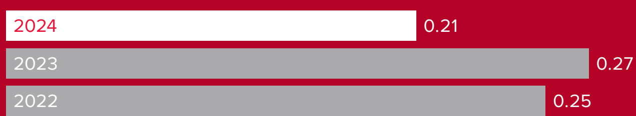

### Diluted EPS

**48.9p**
(2023: 31.9p)



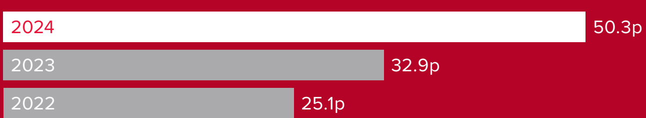

### Accident frequency rate[3]

**0.21**
(2023: 0.27)




### Basic EPS

**50.3p**
(2023: 32.9p)




### Dividend per share

**16.0p**
(2023: 13.0p)


1 EBITDA to Operating cash as defined on page 53.
2 Customer satisfaction as defined on page 20.
3 AFR as defined on page 21.

# Chairman's statement

## Introduction

I am delighted to report a period of strong operational and commercial progress that underpins an outstanding set of financial results. Our strong performance owes much to three factors in particular.

The first, and most important, is the quality of our staff. I have seen many examples of dedication, empathy and a determination to deliver a good experience for customers, not simply to execute a piece of work. The second is the strength of our client relationships, fostered by our belief that excellent customer service is the key to effective co-operative working between client and provider. Finally, our information technology platform has been integral to the delivery of our high quality, responsive service and will remain critical as we seek to broaden our services in the future. I am proud of the progress made by Mears in 2024.

We were pleased to have been recognised again in the top 10 of the Sunday Times Best Big Companies survey, achieving our highest ever position of seventh. Mears has a diverse workforce of over 5,000 staff. We have also seen increasing representation of women and ethnic minorities across the Group as our inclusive recruitment and employee development programmes progress. Training and investment in our workforce remain a priority, with our Emerge and Embed management development programmes creating our future leaders, and our apprenticeship programme was again significantly over-subscribed.

On behalf of the Board, I thank all the Group's employees for the significant part they played during another successful year for the Group. I continue to be hugely impressed by the commitment, hard work, professionalism and loyalty of our employees.

## Results

Group revenues increased by 4% to £1,133m. It is particularly pleasing that the Group reported good progress across both strands of its housing business. Securing the award of the new North Lanarkshire Council (NLC) contract for a minimum of eight years, and with an expected annual revenue of £125m, was a particular highlight. The Central Government management activities reported growth, primarily driven by new works delivered for the Ministry of Defence to provide housing and support to those travelling to the UK under the Afghan Relocation and Assistance Policy. The Group is recognised by Central Government as a housing specialist, and we are increasingly seeing opportunities to extend our service offering in this area which bodes well for the future.

As reported previously, the Group has experienced elevated revenues within its Asylum services. The Group saw some revenue reduction in this workstream during the second half and anticipates that these revenues will continue to normalise, although the timing is uncertain.

Profit before tax increased by 37% to £64.1m (2023: £46.9m), predominantly driven by an improving adjusted operating margin to 5.6% (2023: 4.7%). Notwithstanding the Group's ambitions to deliver growth, a primary financial target for the business over recent years has been to see the margin return to above 5%, which is seen as the Group's historical norm. The operational and commercial review process at a contract level has seen increased intensity, driving improvement in a number of operational measures and, pleasingly, pushing up the operating margin.

The Group continued to deliver strong cash generation, with operating cash conversion at 101% of EBITDA, reflecting the high quality of the Group's earnings. Strong working capital management remains central to our business model. The increase in profit, combined with the impact of a reducing share count resulting from the buyback, delivered diluted earnings per share of 48.9p, an increase of 53% (2023: 31.9p).

## Strategic update

During the year, the Board completed a strategic update which has unequivocally focused the Group on being the leader in the UK in providing quality housing services to the public sector. The review identified an increasing addressable market in our core housing activity and showed the Group is very well placed to deliver against those opportunities. The drivers of change going through the sector are arguably as great as at any point in recent history. The housing market continues to present opportunities for Mears to support clients both in its traditional areas and some emerging ones.

Our disciplined approach to M&A is well considered and driven by the opportunities that are available to deliver good quality sustainable growth. Whilst the Board will continue to consider acquisitions which increase operational scale or augment the Group's service offering, we are also fortunate to have other organic growth opportunities which will preserve the current strong cash position and deliver a higher return on invested capital and quality of earnings.

The Board recognises that to deliver the plan, it is essential to continue investing in our people and systems. The Group has recruited a number of new senior roles adding to our capability and bandwidth and the Board approved a significant increase in IT headcount to deliver an ambitious programme of developments to our in-house operating systems.

## Dividend and capital allocation

Our capital allocation policy remains consistent and prioritises the allocation of capital to support our organic growth strategy, augmented by modest strategic bolt-on acquisitions to further enhance our service offering and accelerate the delivery of our plan. Positively, the capital expenditure and working capital requirements of the business model are low. The strong ensuing cash generation underpins a progressive dividend, the market purchase of shares to the Employee Benefit Trust, and the return of surplus funds to shareholders. The Board recognises that our key stakeholders take comfort from the Group's strong balance sheet and Mears maintaining a modest net cash position.

Given the excellent trading performance of the Group, the continued strong cash performance and the confident outlook, the Board is pleased to propose a final dividend of 11.25p per share, bringing the total for the year to 16.00p, an increase of 23% (2023: 13.00p). It is an added benefit of the Group's share buyback activity that, whilst the Board has increased the dividend per share by 52% over the last two years, the cash cost of the dividend has only reported a modest increase of 17% over that time. The Board continues to believe that a capital allocation policy combining a progressively growing dividend within a cover range of 2.0–2.5x, with the return of any excess capital via on-market buyback purchases of shares, remains appropriate. In the short term, cognisant of the current elevated level of earnings, the Board intends to allow dividend cover to increase beyond the Board's stated range outlined above, allowing for progressive dividend payments within the Board's targeted cover over the medium term.

During FY24, the Board approved a return of surplus capital of £40m to shareholders, which was implemented through a third and fourth buyback programme of on-market purchases. This resulted in the purchase and cancellation of 10.9m ordinary shares of 1p each at an average price of 366p. Consistent with our capital allocation strategy, and reflecting the strength of our balance sheet, the Board announced a fifth buyback in January 2025 and this concluded on 28 March 2025 having completed the purchase of a further 4.3m shares, at an average price of 371p and a total consideration of £16.0m.

Over the last two years, buybacks have reduced the Group's ordinary share count by 27.4m shares at an average price of 325p and a total cash cost of £89m, representing a reduction of c.25% of the Group's issued share capital over that time. Together with dividends paid during this period, returns to shareholders have totalled £114m. In addition, during that same period, the Employee Benefit Trust (EBT) purchased a further 5.1m ordinary shares at an average price of 330p and a total cash cost of £16.7m.

## Corporate governance and Board development

Following the significant changes to the Board in recent years, 2024 was a period of stability and an opportunity to reset the way the Board operates and interfaces with the business. I believe we have made strong progress on the effectiveness of the Board, and it was encouraging that this was confirmed in a review by an external facilitator.

An important focus for the Board during 2024 was to support Lucas Critchley in his first year as Chief Executive Officer following a smooth and well-managed transition from his predecessor. The strategic review was well timed, providing Lucas with an opportunity to evaluate the Group's performance and incorporate refinements and modifications in setting the Group's strategic priorities.

Following the changes to the Employee Director arrangements during 2023, I am pleased to report continued progress in this area. This team, under the guidance of Hema Nar, has firmly established its role and purpose within the business and provides an invaluable link between the Board and the wider workforce. The development of the roles of the Deputy Employee Director and the Trade Representative has further enhanced the effectiveness of this team.

As required by governance guidelines, Dame Julia Unwin's tenure on the Board came to an end on 2 January 2025. Julia has been a key contributor to the Board for the best part of a decade and brought a unique perspective to many debates and discussions. The Board has benefited from Julia's extensive and varied experience and her contribution will be missed. On behalf of the Board, I would like to thank Julia for her many years of service and wish her well for the future.

We plan to recruit an additional Non-Executive Director during 2025 to ensure that we continue to maintain a strong, independent Board with the required skills and experience.

**Jim Clarke**
Chairman
9 April 2025

# Our value creation model

## Our enablers

### Our people and culture

We recognise the critical part that every colleague plays in delivering our strategy. Our people are our greatest asset.

**c.5,500**
**employees**

Read more on pages 28 and 29

### Our technology

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. 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.

Read more on pages 12 and 13

### Our stakeholders

#### Our clients

We hold strong relationships with Central and Local Government as well as with Housing Associations in the delivery of housing services.

**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.

**>1 million**
**tenants and service users**

#### Supply chain partners

We are selective in who we partner with and choose suppliers that share our values and meet our standards. We work closely with suppliers to develop innovative services and integrate them into our core systems.

**>500**
**suppliers**

**>750**
**subcontractors**

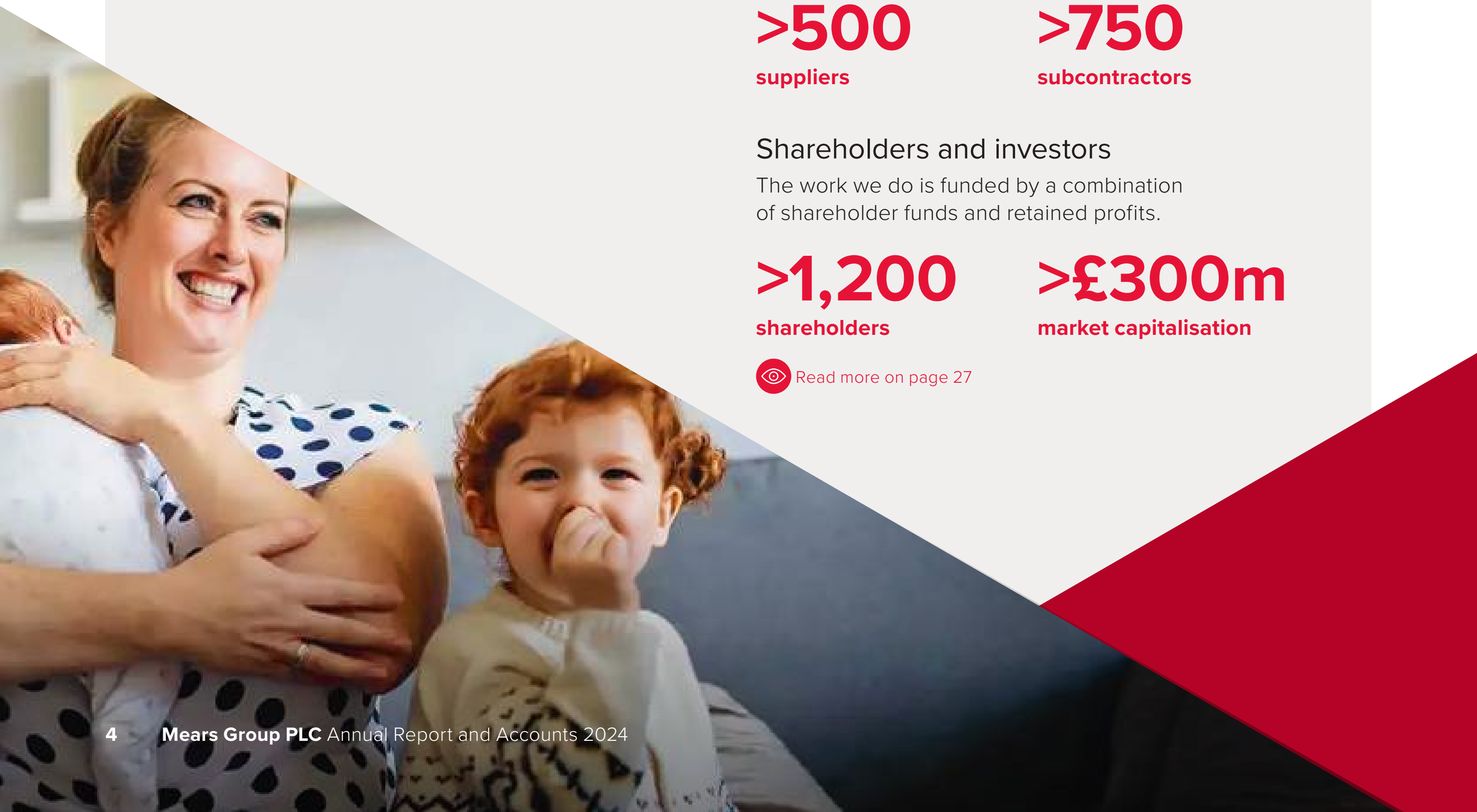
#### Shareholders and investors

The work we do is funded by a combination of shareholder funds and retained profits.

**>1,200**
**shareholders**

**>£300m**
**market capitalisation**

Read more on page 27



# How we do it


Mears is a leading provider of services to the housing sector, providing a range of services to individuals within their homes.

We manage and maintain around 450,000 homes across the UK and work predominantly with Central Government and Local Government, typically through long-term contracts. We provide property and tenancy management, whilst often providing other welfare services to the tenants.

We equally consider the residents of the homes that we manage and maintain to be our customers, and we take pride in the high levels of customer satisfaction that we achieve.

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

# The value we create

## Our people

**7th**

**Sunday Times Best Big Companies**

**19.3%**

**Employee turnover**

## Suppliers and partners

**£700m**

**Supplier payments**

## Government

**>£200m**

**Taxes paid**

## Our customers

**88%**

**Customer satisfaction**

## Our communities

**£21,000**

**Social and economic value per employee**

## Our shareholders

**16.0p**

**2024 full-year dividend**

**£40m**

**2024 share buyback (excluding costs)**

# Our strategic focus

Our strategic focus is to strengthen our position as the leading affordable housing service provider in the UK. We remain committed to Mears delivering these services in a way that enhances our reputation as a highly responsible partner which our stakeholders can trust to do business the right way.

## Our vision

We have a clear vision to be the leading provider to the resilient and growing affordable housing market in the UK, a provider that operates with a strong sense of social conscious, tackling issues that matter to people and communities.

**We have a clear strategy to achieve this vision based on four pillars:**

### Pillar 1

## Driving underlying growth

We see significant opportunity at both Central and Local Government level.

See page 8

### Pillar 2

## Placing the customer at the heart of all we do

We have a clear objective to have the highest levels of customer service in our sectors, with particular expertise in supporting more vulnerable and complex customer groups.

See page 10

### Pillar 3

## Disciplined approach to improving standards and efficiency

We will become more efficient and effective in the delivery of essential programmes and initiatives. This goal underpins our ability to achieve the other goals. This covers people, technology and change management.

See page 12

### Pillar 4

## Responsibility and sustainability

We will maintain our strategy to be seen as the most responsible large company working with the public sector; this is more important to our future success than it has ever been. ESG is central to Mears' culture and has never been a tick box exercise; this is key to what makes us different.

Every great story has something that runs through it – a thread that connects everything together. At Mears, the Red Thread does this. The Red Thread is not a set of values; it's our "way", and it's made up of four main strands. It connects everything we do and everyone who works at Mears. It isn't just a programme; it's who we are at our best. It's woven into every conversation, every action, and every improvement we make. It's how we work, support each other, and make a real difference to our clients, customers and the communities we serve.

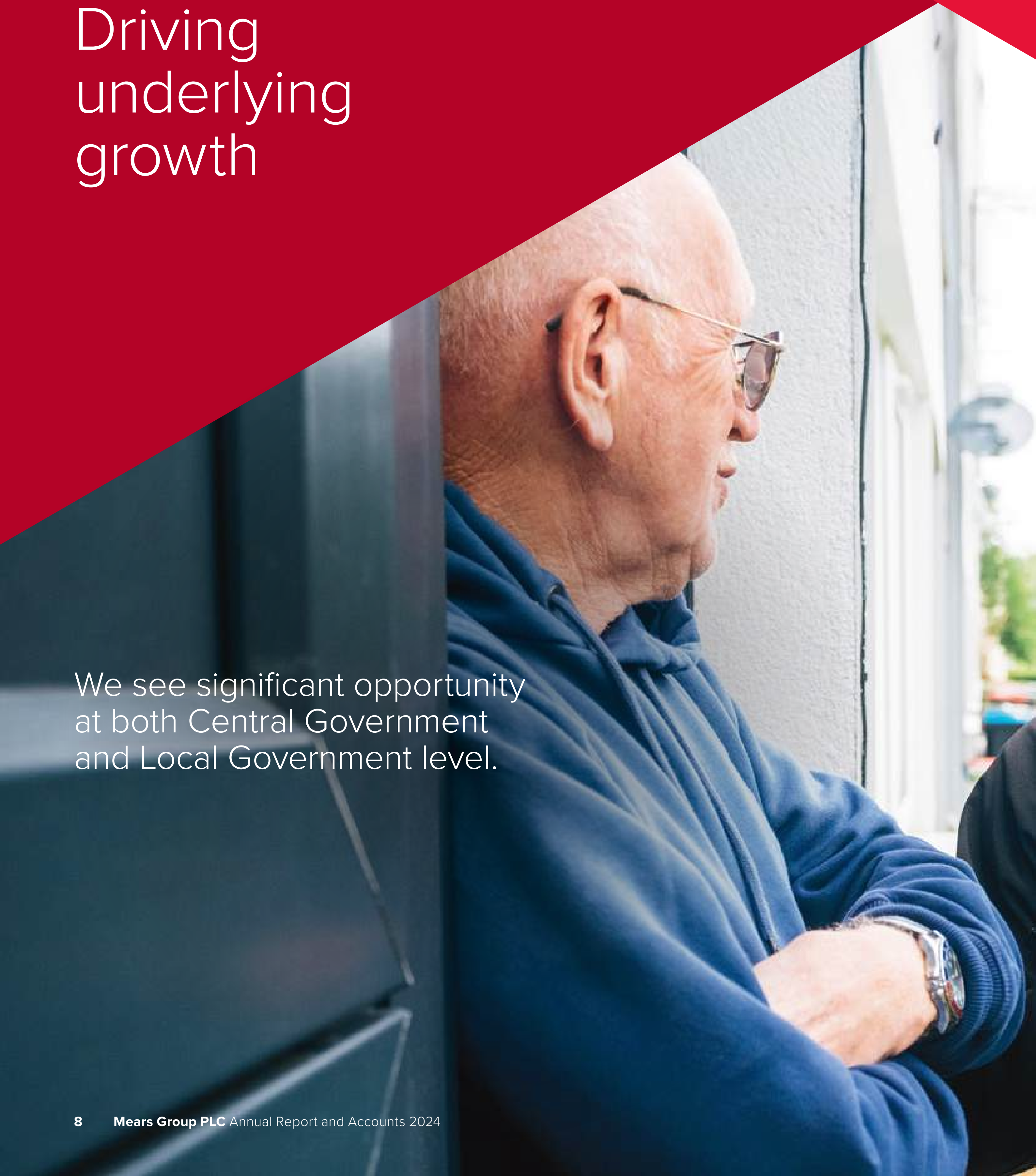
- We always put PEOPLE first
- We do the right thing with a clear PURPOSE
- We take responsibility and make it BETTER
- We work and achieve TOGETHER

See page 14

# Mears' strategy

## Pillar 1

# Driving underlying growth



We see significant opportunity at both Central Government and Local Government level.

**Revenues**

# £1,133m

(2023: £1,089m)

**Order book**

# £3.0bn

(2023: £2.5bn)

**Orders secured in period (excluding North Lanarkshire Council)**

# £220m

at a conversion rate of 41% (by value) (2023: £175m; 70% conversion)


We see significant opportunity at both Central and Local Government level.

All the Group's Central Government clients have confirmed the requirement for an increasing number of property units. This covers the Home Office, Ministry of Justice and Ministry of Defence. Rising world tensions and pressures on the UK prison system can only create further demand. Our focus is on ensuring that we maintain high quality service delivery and growing the number of properties under our management. This will leave us well placed to not only retain but potentially expand relationships with these three key Government departments into the next decade, as contracts are renewed.

Local Government and Housing Association demand growth is arising from greater regulation, rising housing standards and compliance requirements. We plan to create a market-leading full-service compliance offer. Recent regulatory changes as well as quality issues, such as damp and mould, have created a requirement for much stronger compliance systems. This covers traditional areas, being fire, gas, electrical, water, asbestos and lifts, along with new tangible services such as damp and mould, EPC and retrofit compliance.

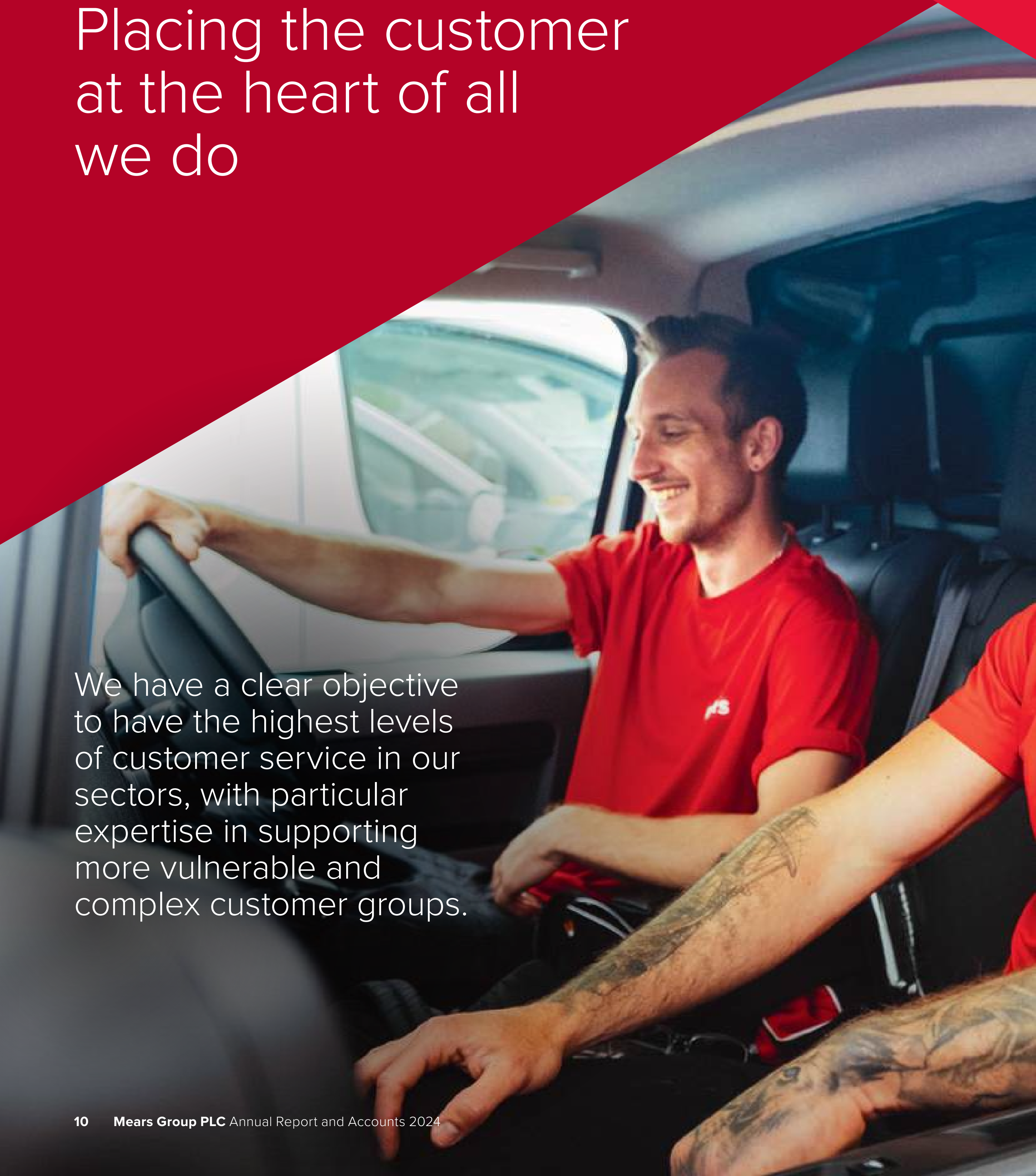
Retrofit also demands stronger compliance management and reporting and the new Consumer Regulation standards demand that more is known about the tenants living in these properties. We will invest in people and systems to achieve this ambition. A strong compliance offer needs to be combined with other asset data to inform long-term thinking around the housing portfolio. We will create this data and strategic expertise, building on our long-established technology capability.

We will combine this capability with greater focus on planned maintenance works than has been the case for Mears historically. Planned works account for around a half of the total repairs and maintenance market spend and, given Mears' current market share of this work type is low, we see this as a significant opportunity to increase the addressable market and deliver growth.

## **Mears' strategy** continued

**Pillar 2**

# Placing the customer at the heart of all we do



We have a clear objective to have the highest levels of customer service in our sectors, with particular expertise in supporting more vulnerable and complex customer groups.

**Customer satisfaction**

# 88%

(2023: 89%)

**Customer complaints per 1,000**

# 1.7

(2023: 1.9)

**Social and economic value per employee as measured via the Social Value Portal**

# 21,000

(2023: £20,000)


We have a clear objective to have the highest levels of customer service in our sectors, with particular expertise in supporting more vulnerable and complex customer groups.

Our overall customer satisfaction level is 88% despite operating in some very challenging market environments.

Great service at Mears derives from a strong partnership working with the client, a service culture embedded over 25 years, investment in people and systems and a rigorous approach to collecting and learning from customer feedback. We believe these four factors are already core strengths for Mears, which have driven our historical success, and will underpin the delivery of our strategic plan.

Whilst we also strive to deliver improvements, this is not an area where Mears needs to fundamentally change or develop new practice. However, the role of technology to enable real time communication with clients and service users is creating new opportunity to enhance service delivery. Mears is already able to enable tenants to report and track their repair digitally. Mears will continue to enhance its mobile offer across all its clients through the life of the next strategic plan.

Asylum presents the greatest challenge given the numerous difficulties often faced by our service users, but, even in this space, our customer entrenched culture has meant we have been proud of the service that we have developed.

Investment in key account management is also important given the desire of clients to work with us to find solutions to existing and emerging challenges. As such, we have chosen to invest in a number of additional roles to support both Central and Local Government clients. While we will retain a highly selective approach to bidding, we will be bidding more over the next few years, given the likely level of demand and our ambition to grow, in particular, our planned, retrofit and compliance services.

# **Mears' strategy** continued

## Pillar 3

# Disciplined approach to improving standards and efficiency

Mears has set an objective to deliver an adjusted operating margin[1] of 6.0% by the end of 2028, in combination with seeing progress in underlying revenue growth and service levels.

1 Adjusted operating margin %, as defined on page 21.

**Adjusted operating margin**

**5.6%**

(2023: 4.7%)

**Works orders with post inspections**

**12.4%**

**Works orders with detailed job review**

**98.4%**

**Appointments kept**

**94.0%**

Mears has set an objective to deliver an adjusted operating margin of 6.0% by the end of 2028, in combination with seeing progress in underlying revenue growth and service levels.

Our established commercial review process provides a rigorous platform for demanding strict, Group-wide adherence to business processes, covering operational, financial and compliance disciplines. This ensures that the Group's best-in-class operating systems are fully utilised, raising the bar on a contract-by-contract basis. This review process investigates in granular detail as to where operational and commercial performance can be improved. We will further embed this key programme to ensure that our margin aspiration is achieved. Positively, this process also benefits other areas such as risk management, compliance, and the consistency of service delivery.

Technology investment will be primarily through our in-house operating system, Mears Contract Management (MCM). We will look to further develop MCM to become a complete housing system, able to deliver fully on asset management and compliance. All MCM functionality will be moved to the MCMView platform, meaning MCM will be available securely anywhere, anytime for all users.

High standards of security will be maintained, building upon ISO 27001, Cyber Essentials Plus (CE+) and ARK Data Centres.

Mears prides itself on its ability to respond flexibly and quickly to changing client requirements. As we drive significant new service capability, such as with compliance services, we recognise that investment in change management will help get these developments to market more effectively. We have already employed a Change Lead for the Group and created a Change Management Steering Group to have clear oversight across key developments.

Mears has always maintained a disciplined approach to cash management. This will be maintained through the next strategic plan life cycle, and given the strong generation of cash flows, we anticipate being able to make the required investments without having to resort to debt.

## **Mears' strategy** continued

**Pillar 4**

# Responsibility and sustainability

We will maintain our strategy to be seen as the most responsible large company working with the public sector; this is more important to our future success than it has ever been. ESG is central to Mears' culture and has never been a tick box exercise; this is key to what makes us different.

**Scope 1 and 2 emissions**

**14,245**
(2023: 14,857)

**Women in management positions**

**36%**
(2023: 37%)

**Waste diverted from landfill**

**97.9%**
(2023: 97.3%)

**Social mobility Index**

**Top 75**
19th place
(2023: 38th place)

We will maintain our strategy to be seen as the most responsible large company working with the public sector. ESG is central to Mears' culture and has never been a tick box exercise; this is key to what makes us different.

## Environmental responsibility

We see the environmental space delivering significant opportunities for Mears, given the enormous investment needed to reduce carbon produced by housing. Our Pathway to Net Zero plan documents our intention to achieve Net Zero emissions across Scope 1 and 2 by 2030, driven by the conversion of our vehicle fleet to EVs as infrastructure across the UK improves.

## Social commitment

Mears has always regarded it as fundamental to give back to the communities in which it operates. Every client partnership must have a social value plan that sets out what areas Mears will support. It is helpful that client procurement approaches increasingly require social value to be an integral part of the tender score.

## Governance and people

Mears prides itself on being one of the best large companies to work for in the UK. The status of employee engagement will continue to be measured annually through the Best Companies survey.

To ensure a rounded approach is adopted, the senior management team works closely with our Employee Director and our employee representative team to provide an additional dimension to capturing the opinions of our workforce when developing and implementing people policies.

Fairness and inclusion sit at the heart of our culture and run through all aspects of the employee life cycle. We are proud that we already have a very diverse workforce, and our ambition now is to see this fully reflected in the senior team.

Our significant apprenticeship programme will help ensure that we have the workforce needed for tomorrow. Every branch has a people plan which considers both current and future needs.

Strategy in action


## Case study

# Mears secures largest contract of its type in the UK

Following a two-year procurement process, North Lanarkshire Council (NLC) awarded Mears the North Lanarkshire Housing and Corporate Maintenance and Investment Works contract, covering 37,000 social homes and 1,200 council buildings, earlier this year.

Estimated to be worth up to £1.8bn over the duration of the contract, this is the largest contract of its type to be awarded to a single provider in the sector. The contract will run for up to 12 years with an annual value, once fully mobilised, of over £125m.

Working in partnership, we'll support North Lanarkshire to deliver its ambition around shared priorities which includes delivering long-term growth, prosperity and inclusion across its local communities and providing an innovative approach and end-to-end customer solution to enhance service delivery and social value at scale.

Our teams in Scotland have been providing a well-run and robust housing maintenance service to NLC for over a decade. This put us in a strong position to be awarded a contract of this scale. The new contract, which started in July 2024, covers core services such as reactive and planned maintenance, compliance, and gas servicing across NLC housing and corporate properties, as well as a programme of planned investment works.

Through this contract we have been able to not only retain 500 existing jobs within our North Lanarkshire branch, but it also creates significant opportunities for new local jobs and apprenticeships.

"We are committed to delivering 660 new apprenticeships over the contract term, which will be one of the largest apprenticeship programmes of its kind in Scotland and builds on the huge success in this space over the life of the existing contract.

This will make an enormous difference to the lives of so many young people, while at the same time future-proofing our workforce, helping to contribute to the much-needed skills required in our industry."

**Lucas Critchley**
**Chief Executive Officer**
Mears Group

**Annual revenue**

# >£125m

**Region**

North Lanarkshire

**Contract length**

Up to 12 years

**Contract type**

Corporate maintenance and investment works

**Properties**

# 37,000
social homes

# 1,200
council buildings

**Employees**

# 500

**Apprenticeship opportunities**

# 660
over the contract term

## Case study

# Reducing carbon emissions in partnership with Milton Keynes City Council

Working in partnership with Milton Keynes City Council and having secured a £2.8m grant under the Social Housing Decarbonisation Fund (SHDF) Wave 1, we delivered energy efficiency measures to 240 homes across the council's housing stock between April 2022 and March 2024.

Totalling £10m in project spend, we successfully created warmer, healthier homes by retrofitting external wall and cavity insulation, roofing and loft insulation, as well as fitting new windows, doors and ventilation to properties across the council's housing stock.

Funding was awarded by the Department for Energy Security and Net Zero (DESNZ), which supports collaboration across the housing sector to work towards achieving carbon neutral homes – a major driver in the Government's "Net Zero" carbon reduction plans.

Our decarbonisation retrofit service used data analysis and surveys to improve the council's properties to EPC band C. We used a fabric first approach throughout the project which has improved space heating demand by 38% and carbon emissions by 31%, which in turn reduced tenant energy costs by around 28%.

The programme forms part of the longstanding partnership we hold with the council, where we deliver asset management services to Milton Keynes' 11,000 properties, including 1,600 leaseholders. The wider contract includes management of housing stock typically comprising traditional and non-traditional built housing from the 1960s and 1970s.

### Key Net Zero headlines

- Established a six-stage approach to developing and delivering high quality, end-to-end domestic retrofit programmes. Focusing on customer satisfaction, the programmes are also PAS 2035 and funding compliant
- Successfully supported clients and partners to secure over £53m in SHDF funding, installing energy efficiency measures to more than 6,000 homes

**SHDF funding**

**£2.8m**

**Region**

Milton Keynes

**Project duration**

April 2022–March 2024

**Homes retrofitted with energy efficiency measures**

**240**

**Reduction in carbon emissions**

**31%**

**Reduction in tenant energy costs**

**28%**


# **Strategy in action** continued

Case study

## Pathway to Net Zero

Our Pathway to Net Zero is integral to our strategic approach and supports the UK's aim to achieve Net Zero by 2050. Embedding a Net Zero culture and adapting our policies and the services we provide are key to achieving this ambition.

Our approach to fleet management is undergoing a comprehensive review and will inform our fleet transition plans to electric alternatives. Transitioning to electric vehicles is both a challenge and an opportunity. Our approach is pragmatic, focusing on transitioning vehicles methodically to minimise the risk to the business and ensuring tailored solutions for a smooth transition.

We have completed a Scope 3 screening assessment to increase our understanding of indirect emissions within our supply chain. We continue to work with our partners to map their emissions and identify actions to influence their reduction for services they deliver on our behalf.

Our Pathway to Net Zero will be refreshed in 2025 and we are committed to reducing our emissions across Scope 1, 2 and 3 to achieve our Net Zero aspirations to achieve positive outcomes for clients, communities and the climate.

Mears supported clients to successfully secure c.£50m of SHDF Wave 2 funding to retrofit c.5,000 homes, improving the energy efficiency and reducing energy bills for residents.

**Net Zero carbon targets**

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

Net Zero carbon emissions across Scope 3 emissions by 2045 (Phase 2)

**Mears' carbon emissions for 2024**

Detailed on page 43

**Mears supported clients to submit funding applications under the Social Housing Fund Wave 3 amounting to**

**c.£42m**

which will support retrofit works in 2026/27 to improve the energy efficiency of c.7,500 properties

Case study

# Mears secures Community Accommodation Service contracts with the Ministry of Justice

We operate three contracts for the Ministry of Justice (MoJ), providing temporary accommodation in communities. The service is aimed at people leaving prison who would otherwise be at risk of street homelessness and reoffending. We offer them a safe place to stay for an initial three months and tailored support to help achieve a positive move on.

This is one part of a wider project to reduce reoffending, through the provision of temporary accommodation. The contract accommodates and provides services to people on probation; this means adult offenders of all genders, who are homeless on release from prison following a custodial sentence.

Our aim is to provide quality homes and the support services that people need to settle into the communities where they live. During their stay, we create a pathway to settled accommodation, providing support to the service user with the goal of moving on to permanent accommodation. This contract is about second chances, fresh beginnings and a lot of compassion.

Mears was initially awarded two regions as part of a pilot. Given the successful outcomes delivered through the pilot, Mears was successful in securing work over an expanded geographical area for the longer term.

A team of 60 dedicated Welfare Officers work hard to ensure that vulnerable individuals have a safe and secure home, helping them to move on with their lives and into stable move-on accommodation. Tailored support ranges from ensuring personal care plans are in place to support with moving into employment.

> CAS3 has helped me massively since leaving prison. I've gained stability that I haven't had in a very long time, and I can't imagine where I would be if I didn't have it."

**Community Accommodation Service Tier 3**
Service user

**Annual revenue**

£16m

**Regions**

North West, Yorkshire and the Humber, North East

**Contract length**

Three years (plus a two-year extension option)

**Bed spaces**

573

with a revised target of 745

**Service users supported in year**

4,500

# Key performance indicators

## Non-financial

### Customer satisfaction

In order for customers to recommend us, we must deliver excellent service. In 2024, the Group completed over 1.3m repairs and received over 50,000 responses from customers against which we measure satisfaction. Importantly, we also post-inspect over 12% of works orders to monitor the quality of our service delivery. Whilst our customer satisfaction is already at a high level, we aspire to see satisfaction levels move above 90%.

**Results from the year**

**88%**


Link to strategy

### 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 completed. Whilst we consider the performance in the year to be excellent, our aspiration is to see a further reduction next year.

**Results from the year**

**1.7** per 1,000


Link to strategy

### Employee turnover

Retaining a workforce that is motivated and feels valued is critical. The strong progress in this area reflects the continued investment we make in the workforce covering reward, recognition and development.

**Results from the year**

**19%**


Link to strategy

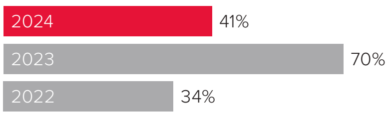
## Business development

### New contract success

Contract success is measured by the total revenues secured as a proportion of the total value of tenders submitted. We have excluded the North Lanarkshire Council award from this measure given its size. The Group secured new contracts valued at £220m in the year against a total value bid of £530m. Overall, 2024 was a quiet year for bidding. This measure includes 100% conversion on retention bids. The Group failed to secure one key growth bidding target valued at £150m, which diluted this measure.

**Results from the year**

**41% (excluding NLC)**




Link to strategy

### Order book

The order book estimates a value for orders which are contractually secured and takes no account for contract extensions or future inflation. The increase in the period reflects the new North Lanarkshire contract, valued at £1bn over the initial eight-year term, together with other contract wins of £220m. Over the course of 2024, the value of the order book reduced as secured works orders were delivered.

**Results from the year**

**£3.0bn**


Link to strategy

Key to strategy

- Driving underlying growth
- Placing the customer at the heart of all we do
- Disciplined approach to improving standards and efficiency
- Responsibility and sustainability

## 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. The excellent performance reflects strict business processes and an ingrained culture which demands safe working practices.

**Results from the year**

**0.21**


Link to strategy

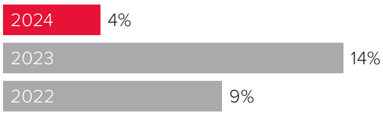
## Financial performance

### Revenue growth (continuing activities)

This is measured as the reported revenues in the latest year as an increase (or decrease) on the previous year. This comprises 2% growth in maintenance-led activities where the Group made solid progress but which was diluted by the full-year impact of contract attrition from 2023. The management-led activities delivered growth of 6%, predominantly driven by additional work under the Afghan Relocation work on behalf of the MOD. The Board anticipates some revenue reduction over the near term as the Group's Asylum activities normalise from their current elevated level.

**Results from the year**

**+4%**



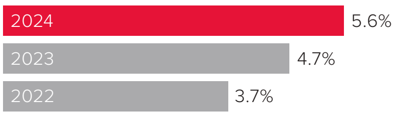

Link to strategy

### Adjusted operating margin

Operating margin is the KPI used to measure and understand the profitability of our activities. A key factor for improving operating margins is due to a reinvigorated commercial review process which demands strict adherence to business systems and processes and is delivering improved productivity. The elevated management-led revenues have also delivered additional economies and overhead recovery, which have been further factors behind an increasing operating margin.

**Results from the year**

**5.6%**



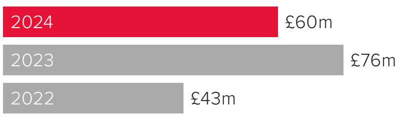

Link to strategy

### Average daily net cash (excluding lease obligations)

This metric is the average daily cash and cash equivalent balance over the 365 day period excluding IFRS 16 lease obligations. Whilst it is pleasing to report a strong position at the year end, of much greater significance is the performance throughout the year. Over the last two completed financial years, the Group has purchased c.£30m in properties to provide additional support to the AASC contract, purchased its own shares at a cost of c.£90m, and paid out c.£25m in ordinary dividends, whilst registering only a small reduction in the adjusted net cash balance over that period.

**Results from the year**

**£60m**



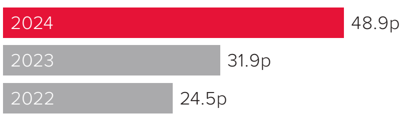

Link to strategy

### Diluted earnings per share (EPS)

Diluted EPS reported an increase of 17.7p which is primarily driven by the increase in profit in the year combined with the reduction in the weighted average number of shares as a result of the share buyback programme.

**Results from the year**

**48.9p**




Link to strategy

# Chief Executive Officer's review

## Introduction

I am pleased to report on another strong year for the Group. The strategic update completed during the period has provided fresh impetus, refining our approach to maximise the addressable opportunity.

A strong period of contract retention has bolstered the order book and provides improved revenue visibility over the medium term. An increased operational focus has delivered improved service metrics and is also evident in the continued progress in operating margin. The Group is recognised as a housing specialist with a track record of delivering reliable and innovative solutions across our range of services and will continue to develop its service offering to address new and evolving challenges faced by our clients.

## Operational review

| | **2024 £m** | 2023 £m | Change |
|---|---|---|---|
| **Revenue** | | | |
| Maintenance-led | **555.8** | 543.3 | +2% |
| Management-led | **576.7** | 543.3 | +6% |
| Development | **–** | 2.7 | |
| **Total** | **1,132.5** | 1,089.3 | +4% |
| **Operating profit before tax measures:** | | | |
| Statutory operating profit | **72.6** | 52.2 | +39% |
| Statutory operating margin | **6.4%** | 4.8% | |
| Adjusted operating profit (pre-IFRS 16)[1] | **63.6** | 51.4 | +24% |
| Adjusted operating margin (pre-IFRS 16) | **5.6%** | 4.7% | |
| **Profit before tax measure** | | | |
| Statutory profit before tax | **64.1** | 46.9 | +37% |

1 Adjusted measures are defined in the Alternative Performance Measures section of the Financial Review.

The Group delivered strong financial performance in the year; revenues increased by 4% to £1.13bn (2023: £1.09bn), operating profit increased by 39% to £72.6m (2023: £52.2m) and diluted EPS increased by 53% to 48.9p (2023: 31.9p).

It is particularly pleasing to report further strengthening in operating margins given the emphasis that the senior management team has placed on this since the pandemic. The statutory operating margin increased to 6.4% (2023: 4.8%). The Group also reports an adjusted operating margin, stated before the impact of IFRS 16, of 5.6% (2023: 4.7%), which is considered to be more closely aligned with how contracts are priced at tender and reflects how operational performance is analysed. A key factor in the improved operating margins is the reinvigorated commercial review process which undertakes a detailed monthly review of operational performance, demanding strict adherence to business systems and processes. Whilst the primary focus of these reviews is not financial, the impact upon margin and working capital has been particularly pleasing. The Executive team is also mindful that the elevated management-led revenues have delivered additional economies of scale and an increased level of overhead recovery, which has been a further factor behind an increasing operating margin across recent periods. The Executive team is confident that, as the elevated management-led revenues normalise and some of this increased overhead recovery diminishes, this will be mitigated by efficiency improvements within the business.

Maintenance-led revenues delivered growth of 2% to £555.8m (2023: £543.3m). A key highlight of the year was the successful mobilisation of the new North Lanarkshire Council (NLC) contract which is discussed in greater detail below. The new NLC contract, which is significantly larger than the previous contract, mobilised in July 2024 and all the workstreams are due to move across over a two-year period. The gas compliance work was the first new service to transfer across. Given the phasing of the transition, the new contract only delivered a small increase in revenues in the period to £66m. The year also saw increased decarbonisation revenues, as works linked to supporting clients in securing grant funding through SHDF Wave 2 became active projects on site. Whilst the Executive team is pleased with the strong underlying progress made within the maintenance-led activities, this is masked by the full-year impact of some residual contract attrition from 2023. The Group has seen 100% retention on contracts subject to re-bid during the period which provides the business excellent revenue visibility for the coming year and beyond.

Management-led activities saw revenues grow by 6% to £576.7m, primarily driven by new works delivered for the Ministry of Defence to provide housing and support to those travelling to the UK under the Afghan Relocation and Assistance Policy. In addition, the Group secured an additional contract area to deliver temporary accommodation for prison leavers on behalf of the Ministry of Justice. The Group sees further opportunities to provide additional services to both of these important clients. The Asylum Accommodation and Support Contract (AASC) contract delivered revenues at a

## Capital allocation

Balance sheet strength provides a range of options to deliver shareholder value.

| | Target leverage | Organic growth | Strategic M&A | Ordinary dividend | Other returns |
|---|---|---|---|---|---|
| 2024 performance | • Average daily adjusted net cash £66.4m (2023: £57.4m) | • £4m maintenance capex<br>• £10m AASC property acquisitions net of sale and leaseback proceeds | • Short list of potential targets<br>• Preliminary assessment and review | • 16.0p full-year dividend (2023: 13.0p) | • £40m of buybacks (2023: £33m)<br>• EBT purchases of £12m (2023: £5m) |
| Medium-term guidance | Maintaining a modest net cash position. | Modest levels of working capital to fund extending service capabilities.<br>Property purchases on AASC; looking to recycle capital already allocated. | Highly selective. Primary focus is organic growth but will look to small-scale acquisitions to complement this strategy. | Progressive ordinary dividend. Targeting dividend cover over medium term of 2x to 2.5x; cognisant of alternative distribution options. | Continue to keep returns of future surplus cash under review. |

level consistent with the prior year. The run-rate reached a peak during the first half of 2024, but this has reduced significantly during the course of the second half and the annual run-rate upon exiting 2024 is c.£60m below its peak level. The focus remains upon securing sufficient residential property to remove the requirement for short-term contingent solutions. The Executive team anticipates that AASC revenues will continue to normalise, although the timing is uncertain.

## Strategic update

During the year, the business carried out a full strategic update and it is pleasing to see an immediate impact of this, even at an early stage. Our new five-year plan (FY24–FY28) will strengthen Mears' position as the leading provider of housing services in the UK. We remain committed to Mears delivering these services in a way that enhances our reputation as a highly responsible partner which our stakeholders can trust to do business the right way.

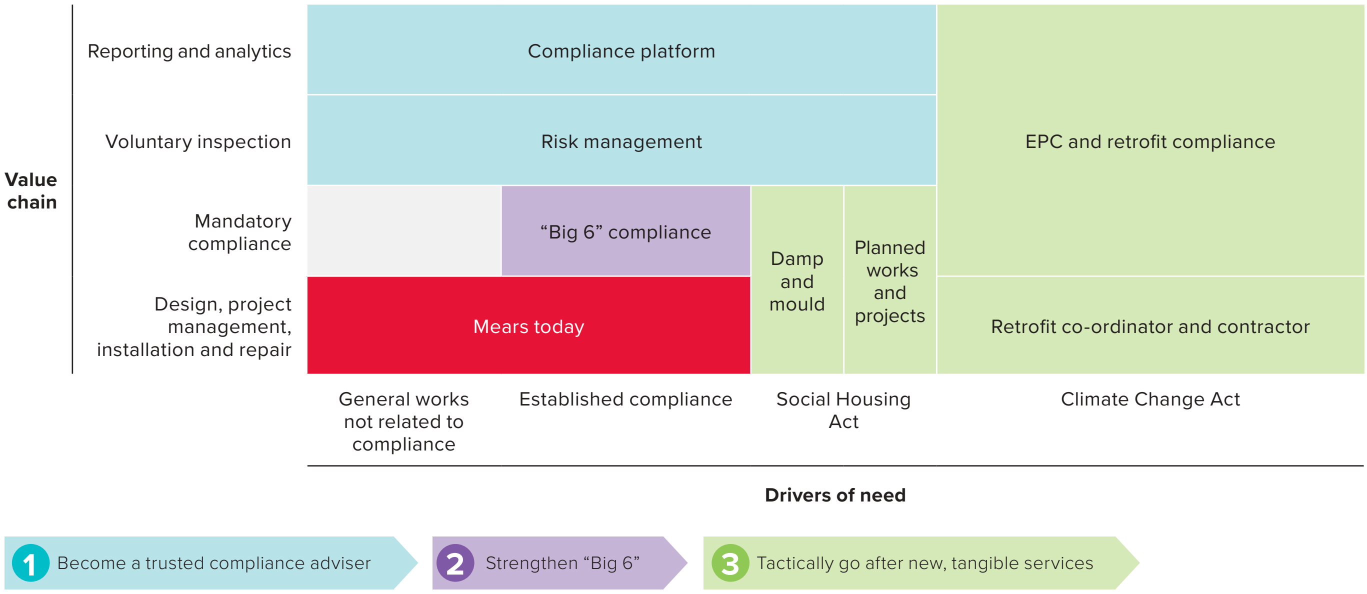
We continue to see significant opportunities within the affordable housing sector. Whilst the senior executive team, supported by external industry expertise, considered a number of adjacencies and new markets, it is really pleasing to identify significant untapped opportunities in our existing sector, with some expansion of capability to reflect current and emerging opportunities.

We expect to deliver growth in our Local Government work (including Housing Associations) in terms of both revenue and margin. Whilst we will continue to be highly selective and disciplined in terms of what we tender for, the strategic update highlighted that we were, at times, being too risk averse, and that there were significant opportunities that we were not addressing. It is worth remembering that at the time of the previous business planning process, a key focus of the business was pruning the contract estate, removing suboptimal arrangements and driving efficiencies at the contract level. The Group delivered strongly against that plan. This strategic update showed that we were only previously active in around one-third of the total market, and regulatory drivers in the areas of compliance and retrofit are expected to increase the market size further. In addition, over half of responsive repairs and maintenance are delivered through direct labour organisations (DLOs) with which we had not previously identified a meaningful way to partner.

We intend to become leaders in compliance and develop a full asset management capability. The social housing sector, despite its vital role, faces a multitude of challenges. A lack of affordable housing and declining Government funding have led to inconsistent asset investment and have contributed to a deteriorating stock condition. Recent and proposed regulatory amendments focusing on building safety, compliance and quality standards, place greater financial and reputational risk upon Registered Providers. The sector traditionally has a fragmented approach to this area, which can lead to an inconsistent service and customer experience, and also impedes data capture, making it difficult to record, analyse and use the data effectively.

# Chief Executive Officer’s review continued

## Mears growth opportunities




## Strategic update continued

Mears recognises these challenges and the limitations of the current approach. Our proposed solution is to develop a fully integrated housing compliance and asset management strategy and address these issues head on. Mears has a clear vision for this strategic plan, recognising the need to invest additional resources in people and technology.

Over recent years, Mears has looked to create an end-to-end decarbonisation service to support our clients with the huge challenge of improving social housing stock. The Group has performed well in supporting clients secure grants through the Social Housing Decarbonisation Fund (SHDF). The original Government commitment was to provide £3.8bn of funding over a 10-year period, to be released in “waves” over that period. To date, funding of c.£2.25bn has been awarded across the first three waves. Since the launch of SHDF in 2023, the Group has secured grant funding for its clients of £85m, leveraging a clear end-to-end capability developed post the acquisition of IRT. There are additional opportunities under the ECO funding stream that we intend to address going forward through the internal development of our Net Zero team. Under the new plan, the Group intends to develop its operational and commercial expertise to deliver standalone planned works, including retrofit, to non-existing clients; both of these areas were excluded from the previous plan.

Over the next five years, we intend to deliver additional services to our key Central Government clients: the Home Office (AASC), Ministry of Defence (RLAP) and Ministry of Justice (CAS3). Whilst the elevated revenues being delivered on the AASC contract mean that we may see a reduction in revenue over the course of the five-year plan, there are a number of significant new bidding opportunities with each of those clients which would allow the Group to broaden and extend its service offer. We place emphasis on ensuring we are performing at a high level and understanding the developing needs and requirements of Ministers and Central Government, working in partnership to achieve agreed outcomes. We are ensuring that our positive contribution is known and understood. The Mears team recognises that our existing work will, over the course of this next strategic cycle, become the subject of a new round of procurement. We believe that we are well positioned to secure work through the next iteration of those contracts.

Notwithstanding our stated desire to grow the business, Mears will remain highly selective and disciplined in approaching new opportunities and operating margin will remain paramount. Maintaining a sustainable operating margin in the 5.0–6.0% range (on an adjusted pre-IFRS 16 basis) or 5.9–6.9% (on a post-IFRS 16 basis) remains central to the new plan.

Historically, our approach to change and project management has not been as effective as we would have liked. Our new plan requires a more disciplined approach to change management, without wishing to lose the flexibility and ability to react that has played an important part in our success. During 2024, the Group formed a Group-wide Change Management Steering Group with a newly appointed senior hire to lead on this area and who will put in place clear change and project management procedures, with an emphasis given to IT projects. Through 2025 onwards, we will look to cascade solid change management procedures down to a local level, thereby increasing the overall capability of the Group. Success will be measured by our ability to achieve designated outcomes, on time and to budget.

## Business development

As we entered 2024, the Group faced the prospect of around one-third of the Group's maintenance-led contracts being subject to a re-bid during a single calendar year, as a number of long-term and flagship customer relationships were approaching expiry. The Group has a strong record of retaining contracts, but re-bids naturally bring some risk and require a shift in focus from bidding new works. It is therefore extremely significant that the Group was able to celebrate new long-term contracts with our North Lanarkshire, Medway, Folkestone, Thanet and Dover clients, whilst securing contract extensions in the case of Rotherham, Islington and Thurrock. . The quality of our service delivery and client satisfaction is reflected in our ability to retain work on re-bid. To report 100% retention on such a high number of contracts that were subject to re-bid in 2024 reflects exceptional performance and positions the Group strongly for the year ahead. There remains a single material contract still subject to re-bid that could impact upon 2025, which is Milton Keynes.

The award of the new contract with North Lanarkshire Council (NLC) was a key highlight and an indication of the strength of the Group's partnership with NLC over many years, a shared commitment to deliver excellent services to residents, and the quality of our service offering. The contract covers a wide range of services including reactive and planned maintenance, compliance and gas servicing for 37,000 homes and 1,200 council buildings, with an annual value of more than £125m over up to 12 years. Importantly, the mobilisation phase of this new contract has gone well.

Late in the year, the Group secured an emergency contract with Moat, covering c.22,000 homes in the South East of England. This new contract is for a period of 18 months, with an estimated contract value of £12m, under which Mears will deliver responsive and void maintenance services. Mears' relationship with Moat dates back to 2009, and the Board was disappointed when the Group was unsuccessful in the procurement process in 2022. It is a clear example that maintaining a disciplined bidding approach does not disadvantage the Group over the longer term. The Group will invest in this contract to ensure that Mears is well positioned to secure works beyond the initial period.

The strong contract retention performance, combined with the new workstreams secured through NLC and Moat which will come online during 2025 provides a strong organic tailwind over the coming year.

The SHDF Wave 3 saw Mears submit applications on behalf of clients which has secured £30m of grant funding, contributing to a total works value of over £60m to be delivered over the course of 2026 and 2027. 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 next Wave 4 of the SHDF funding applications.

As reported previously, the Group used its balance sheet strength to fund property acquisitions, providing an additional source of good quality accommodation to support the urgent requirements of the Asylum contract. Leveraging the Group's strong balance sheet position in this way was a short-term step and it was pleasing to complete the sale and leaseback of the first tranche of properties, enabling those monies to be recycled to acquire further properties. This approach has played a critical role in delivering against the objectives of one of our key clients.

## Property compliance services

Since launching the integrated property compliance strategy, we have focused on establishing an in-house capability to deliver core compliance activities, securing essential third-party certification and enhancing business intelligence. We are on track to establish a high quality, self-sufficient compliance function. Our initial service offer has focused on core compliance workstreams, including gas servicing, electrical testing, fire safety, and damp and mould compliance and asset condition surveys. This phased approach ensures that the Group is laying a strong foundation for operational efficiency and growth. Over time, the Group will broaden its service offer.

The development of Mears Contract Management, the proprietary IT front-line system, is critical to success in this area. Phase 1 is now complete, having focused on addressing the core compliance workstreams, establishing a robust foundation for consistent delivery. Phase 2 will look to broaden the platform's capabilities to further enhance operational efficiency and introduce advanced automation features, ensuring streamlined workflows and adherence to high service standards.

## Outlook

Our focus in 2025 remains on strengthening Mears' position as the leading provider of housing services. The demand for our services remains strong. We continue to place emphasis on winning good quality contracts that can achieve sustainable margins whilst at the same time providing a first-class service.

The Group has made a strong start to FY25. We anticipate delivering solid growth in our Local Government maintenance work, following a strong period of contract retention and further augmented by additional compliance services and through extending our focus to planned and retrofit activities. We remain well positioned to deliver additional services to our Central Government clients whilst recognising that over the short term, we may see a reduction in revenues in the management-led division reflecting some normalisation in AASC revenues, although the reduction so far in 2025 has been slower than previously expected.

We remain confident that the Group is well positioned to maintain adjusted pre-IFRS 16 operating margins within the range of 5–6% (post-IFRS 16 operating margin 5.9–6.9%) underpinned by a disciplined approach to new contract bidding, and a strict approach to operational and commercial management.

We expect to continue to deliver strong underlying cash generation, reflecting the quality of earnings and the low capital intensity nature of our operating model.

**Lucas Critchley**
**Chief Executive Officer**
9 April 2025

# Market drivers

The housing market continues to present opportunity for Mears to support clients both in its traditional areas and some emerging ones. The changes going through the sector are arguably as great as at any point in recent history.

## Political

- "Awaab's Law": Registered Providers (RPs) required to evidence awareness of property condition and defect rectification within approved timescales
- Greater power to tenants to hold landlords to account
- Social Housing Regulation Bill: Competence and Conduct Standard for landlords of social housing

## Economic

- Increasing budgetary pressures:
  - Rising maintenance costs
  - Reduction in new build development investment
  - Investment directed towards essential services: compliance, damp, mould and condensation, disrepair, and tenant health and safety

## Social

- Pandemic hangover still prevalent
- Significant skills gaps and labour shortages
- Resident groups and tenant associations becoming more prevalent
- Social value will increase in tenders and bids to combat resident disillusionment
- Demographic change: growing and ageing population in the UK is a key long-term driver

## Technical

- Weak asset data and asset management IT systems
- Desire for a whole house approach to planned maintenance supported by quality data
- Regulator for social housing annual data returns and inspections will demand accurate RP data, management systems and skilled staff

## Environmental

- UK carbon reduction targets stimulating investment:
  - Grant funding with schemes such as SHDF and ECO
  - Replacement of gas boilers
- Climate change creating more extreme weather conditions which will continue to impact on housing placement and standards

# Our stakeholders

## Understanding what matters to our stakeholders

Engaging with our stakeholders is essential to understanding what matters to them. Understanding the needs and expectations of each stakeholder group is important when making key decisions and to the delivery of our strategy.

### Our clients

- 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

### Our customers and communities

- Rising expectations for customer service
- Increased understanding by tenants of poor housing and its health effects
- Local employment
- Cost of living
- Local Government agenda

### Our people

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

### Suppliers and partners

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

### Shareholders and investors

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

# Our people and culture

## Vision

We aim to be the leading provider to the resilient and growing affordable housing market in the UK. We intend to operate with a strong sense of social consciousness, tackling issues that matter to people and communities.

## Our diverse people

### Gender and ethnicity data

| Category | Male | Female | Total | |
|---|---|---|---|---|
| White and other British | 3,062 | 1,433 | **4,495** | **80%** |
| Asian | 111 | 66 | **177** | **3%** |
| Black | 222 | 163 | **385** | **7%** |
| Mixed | 62 | 48 | **110** | **2%** |
| Not specified | 341 | 108 | **449** | **8%** |
| Total | 3,798 | 1,818 | **5,616** | |
| Total % | 68% | 32% | | |

See page 79 for the gender and ethnicity split of our Board members and senior managers.

## We have created a culture that delivers our vision

For Mears this means a culture that embodies:

**Being a highly responsible partner**
The most trusted large private provider working with the public sector.

**Innovation**
Solutions based, embracing digital, carbon and, increasingly, compliance and the broader asset management challenges.

**Commitment to the customer**
Highest levels of customer service in our sectors, with particular expertise in supporting more vulnerable and complex customer groups.

**A thorough approach**
An organisation that is close to the detail and keeps its promises.

We are and will continue to be a great place to work, given the importance of the work we do, our ethical approach and our commitment to give all staff the best opportunity to improve their own futures.

For more than a decade we have expressed our culture through our Red Thread programme, which we continue to nurture and keep at the heart of our business.

The Red Thread recognises that, while every contract will have its particular requirements, there are ways of working that need to be at the heart of our approach. We understand that when a branch or team improves its approach against the Red Thread, this consistently delivers improvements in customer, employee and financial outcomes.

"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."

**Jim Clarke**
Chairman

## How we measure our culture, and the delivery of positive outcomes to our stakeholders

Our key indicators cross-monitor the outcomes on our people, clients, customers, communities and the natural environment.

### People

Measures that give us clear feedback from our colleagues on our performance as a diverse company that is great to work for:

**Accident frequency rate**
**0.21**
(2023: 0.27)

**Employee turnover**
**19%**
(2023: 21%)

**Sunday Times Best Big Companies**
**7th**

**Social Mobility Index**
**19th place**
(2023: 38th place)

**Women in management positions***
**36%**
(2023: 37%)

* Senior management and direct reports.

**Apprentices**
**>200**

### Clients and customers

Measures that show how we monitor the service we deliver to customers and clients:

**Customer satisfaction**
**88%**
(2023: 89%)

**Customer complaints (per 1,000 works orders)**
**1.7**
(2023: 1.9)

**Appointments kept**
**94%**

### Communities and the natural environment

Measures that show our service impacts and our commitment to supporting local causes:

**Social and economic value per employee**
**£21,000**
(2023: £20,000)

**Waste diverted from landfill**
**97.9%**
(2023: 97.3%)

**Reduction in Scope 1 and 2 $CO_2$ emissions**
**-4%**
(2023: -3%)

# 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 2024.

## The likely consequences of any decision in the long term

Relevant s172(1) disclosures

**Our strategy**
Pages 6 to 15

**Board activities and governance**
Pages 66 to 77

**Risk management**
Pages 58 to 65

## The interests of the Group's employees

Relevant s172(1) disclosures

**Listening to our stakeholders**
Pages 27 and 76

**Our people and culture**
Pages 28 and 29

## The success of our relationships with suppliers and customers

Relevant s172(1) disclosures

**Responsible payment practices**
Page 111

**Sustainability**
Pages 32 and 33

**Non-Financial and Sustainability Information Statement**
Page 57

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 page 27

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. Our Board is also focused on the wider social context in which our business operates. Examples of how stakeholder engagement and s172 matters have influenced Board discussions and decision making can be found in the Board activities section.

On page 29, see how we measure the impact of our decisions on the outcomes to our stakeholders.

## The impact of our operations on the community and the environment

Relevant s172(1) disclosures

**Task Force on Climate-related Financial Disclosures**
Pages 34 to 45

**Sustainability**
Pages 32 and 33

## Maintaining high standards of business conduct

Relevant s172(1) disclosures

**Board activities and governance**
Pages 66 to 77

**Risk management**
Pages 58 to 65

**Internal controls**
Pages 85 to 87

## Acting for the benefit of our shareholders

Relevant s172(1) disclosures

**Listening to our stakeholders**
Pages 27 and 76

**Stakeholder engagement**
Pages 27 and 76

**Annual General Meeting**
Page 110

# Sustainability

## 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 2024 highlights, can be found on the ESG microsite:
**www.mearsgroup.co.uk/esg/esg**

Our ESG Board includes independent specialist leads for each of the themes in our ESG Strategic Approach of Healthy Planet, Improving Lives and Good Governance alongside senior Mears leaders. The Board oversees delivery of our ambitious ESG commitments and challenges the Group to continuously improve and evolve Mears' approach to ESG.

The ESG Strategic Approach 2022–2030 was launched in 2022 and will be reviewed and refreshed in 2025 to ensure we continuously improve and demonstrate best practice in our approach. The broader ESG Board focus in 2025 is summarised below.

This year has seen significant progress in our ESG Strategic Approach and commitments. In 2025 we will begin to implement our refreshed strategy and, while recognising our successes, we will continue to improve and evolve our approach to support Mears' ambition to be recognised as the most trusted large private provider working with the public sector.

## Healthy planet


Our aim is to achieve Net Zero across Scope 1 and 2 emissions by 2030 and across Scope 3 emissions by 2045 and be the leading provider of retrofit solutions in the social housing sector, demonstrating positive outcomes for customers, clients, communities and the climate.

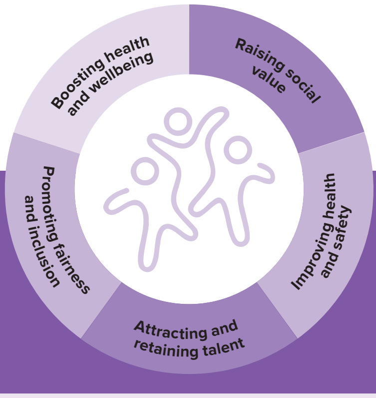
### Key highlights delivered by the business in 2024:

- Delivered 34 projects through the Mears Foundation to maximise use of green spaces and support community wellbeing
- Diverted 97.9% of waste from landfill and improved our zero waste index score
- Retained our ISO 14001: Environmental Management Systems accreditation
- Enhanced our Scope 3 emissions reporting including emissions from waste
- Recognised for the Best Operational Project at the 2024 Partnerships Awards for the energy saving work delivered with Alpha Schools in the Highlands. The low energy lighting project has reduced 364 tonnes of $CO_2e$ – a reduction of 36%
- The Mears-established Domestic Retrofit Service supported our clients to secure further SHDF funding, maintaining our 100% success rate. To date, Mears has supported clients to secure c.£53m of funding to decarbonise c.6,000 homes, install over 20,000 energy efficiency measures and reduce energy bills for residents by c.£270 p.a. by March 2026

### The ESG Board's focus in 2025:

- Monitor the progress of the Our Pathway to Net Zero strategy to achieve Net Zero across Scope 1 and 2 emissions by 2030 and across Scope 3 emissions by 2045
- Monitor updates on the progress of Mears-established Domestic Retrofit Service to social housing providers that saw continued success with the award of further SHDF Wave 2.2
- Provide support and guidance to the Net Zero and fleet teams on transitioning the Mears corporate fleet of vehicles to electric alternatives by 2030
- Oversee the evolution of Mears' approach to restoring nature and maximising green spaces to support community wellbeing, protect ecosystems and facilitate future offsetting solutions
- Support Mears to build resilience to climate change by overseeing our approach to mitigating climate-related risks and maximising opportunities

# Improving lives




Our aim is to operate ethically and responsibly to meet the expectations of our workforce and other key stakeholders; we strive to build a fair, compassionate and inclusive culture where we can impact local communities and society in a transparent way.

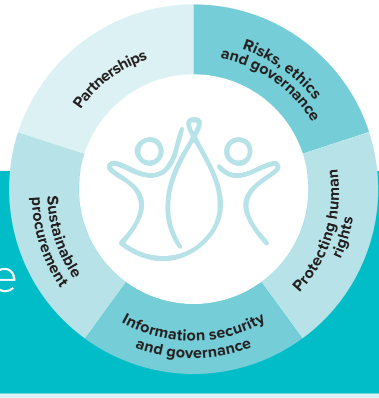
**Key highlights delivered by the business in 2024:**

- Remain focused upon improving our diversity measures with 36.3% women in management positions (2023: 37.0%)
- Provided training to all employees on fairness and inclusion through a tailored approach
- Achieved Silver status in the Mind Workplace Wellbeing Index
- Achieved Level 2 Disability Confident employer status
- Retained and improved our ranking in the top 75 of the Social Mobility Index for the fourth year running, moving up to 19th (2023: 38th)
- Delivered £118m of economic and social value, as measured by the Social Value Portal (2023: £108m), which equates to over £21,000 per employee
- The Mears Foundation awarded £289,000 of grant funding for projects to tackle food poverty, digital poverty and social isolation
- Capturing feedback from our workforce by increasing and building on employee network groups supported by our employee representative team. Groups include those helping to create awareness of challenges and supporting the improvement of policies for women, sexuality, ethnicity, wellbeing and mental health
- 1,266 hours of school and college engagement
- 26,422 volunteering hours to support community projects
- 21,211 apprenticeship hours
- 890 hours supporting unemployed people into work

**The ESG Board's focus in 2025:**

- Monitor and support the Mears recruitment strategy to ensure that this addresses the levelling up agenda and the creation of sustainable employment
- Support the Group in its process of reaccreditation of the Diversity Development Standard
- Build upon the improvements to working terms and conditions

# Good governance




Our aim is to be a trusted organisation, upholding the highest standards of ethics, transparency and risk management. We strive for excellence in information security, governance and sustainable procurement. By building strong partnerships, we hold ourselves accountable and deliver lasting value in the public sector.

**Key highlights delivered by the business in 2024:**

- Retained our Cyber Essentials and Cyber Essentials Plus security accreditations
- Retained our ISO 27001 accreditation in facilities management
- Improved ESG assessments for Sustainalytics, FTSE4Good and MSCI
- Recognised as one of the Best Big Companies to Work For following participation in the Sunday Times Best Big Companies survey – ranked seventh with 76% of colleagues sharing their views
- Delivered a significant reduction in the accident frequency rate to 0.21 (2023: 0.27)
- Reviewed and refined measures with updated SMART objectives and linked tasks, spanning procurement, governance, customer excellence and information security
- Introduced new risk management tasks and measures to enhance the Group risk management framework
- Implemented an improved governance review process for new Group policies and piloted with the new Group Fairness and Inclusion policy

**The ESG Board's focus in 2025:**

- Support and monitor the development of the Group's procurement and supplier strategy to drive fairer and more ethical procurement
- Oversee the effective ongoing implementation and outcomes of the Mears fairness and inclusion strategy
- Continue working towards becoming service leaders, for all areas of our business, across the public sector

# 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 with our external sustainability adviser and we will continue developing our processes in line with the TCFD framework, in preparation for IFRS S2 ahead of its potential mandatory implementation. Our TCFD Report aligns with the TCFD Annex. This guidance has also informed our assessment of risks and opportunities and our scenario analysis.

Our Pathway to Net Zero strategy, published separately, supports this report by highlighting our broader climate aspirations and Net Zero targets. Our Pathway to Net Zero strategy provides valuable context in support of the TCFD disclosures and is a supplementary document and does not replace the TCFD disclosures included in this report.

We have considered our "report or explain" obligations under the Financial Conduct Authority's UK Listing Rules (FCA's UKLRs) and detailed in the table below the TCFD recommended disclosures, all of which are now fully consistent (green) with TCFD requirements. Mears has enhanced reporting in this disclosure for 2024 with the inclusion of Scope 3 emissions within Disclosure 10 (metrics and targets). This ensures all disclosures are consistent with TCFD requirements. Further improvements have been identified as part of our TCFD review which will be implemented in future TCFD reporting.

This TCFD Report aligns the requirements of the "Non-Financial and Sustainability Information Statement" under Section 414CA and subsection 2A of the Companies Act 2006. The table below summarises each TCFD recommended disclosure, the red, amber, green (RAG) status, relevant references to other sections in this report and the relevant Companies Act 2006 section.

| TCFD section | Recommended disclosure | RAG status | References and pages | Companies Act 2006 |
|---|---|---|---|---|
| Governance | 1. Describe the Board's oversight of climate related risks and opportunities. | Green | See our management's climate roles and responsibilities on pages 35 and 36. | CA s414CB (2A) (a) |
| | 2. Describe management's role in assessing and managing climate related risks and opportunities. | Green | | CA s414CB (2A) (b) |
| Strategy | 3. Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term. | Green | See our climate risks and opportunities on pages 37 to 39. | CA s414CB (2A) (c) |
| | 4. Describe the impact of climate related risks and opportunities on the Company's businesses, strategy and financial planning. | Green | | CA s414CB (2A) (d) (i) |
| | 5. Describe the resilience of the Company's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario. | Green | Our scenario analysis is detailed on pages 40 and 41. | CA s414CB (2A) (d) (ii) |
| Risk management | 6. Describe the organisation's processes for identifying and assessing climate related risks. | Green | Our process for identifying and assessing risk, including climate related risks, is detailed on page 41. | CA s414CB (2A) (e) |
| | 7. Describe the processes for managing climate related risks. | Green | | CA s414CB (2A) (f) |
| | 8. Describe how the processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management. | Green | | CA s414CB (2A) (f) |
| Metrics and targets | 9. Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process. | Green | Overview of our metrics is detailed on page 42. | CA s414CB (2A) (g) |
| | 10. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and related risks. | Green | Our emissions are detailed on page 43. | CA s414CB (2A) (g) |
| | 11. Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets. | Green | Our targets are detailed on page 42. | CA s414CB (2A) (h) |

The TCFD outlines 11 recommended disclosures for organisations to include in their climate reporting. They are structured around four core areas: **governance**, **strategy**, **risk management**, and **metrics and targets**.

**Governance**
Disclosure of the organisation's governance around climate related risks and opportunities.

**Strategy**
Disclosure of the actual and potential impacts of climate related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

**Risk management**
Disclosure of how the organisation identifies, assesses and manages climate related risks.

**Metrics and targets**
Disclosure of the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.

## Governance

**Mears Executive Board**

**Audit and Risk Committee** | **Compliance Committee** | **ESG Board** | **Remuneration Committee**

| Name | Role | Attendees | Frequency |
|---|---|---|---|
| **Mears Executive Board** | • Considers climate related risks and opportunities<br>• Receives updates on Mears' climate related matters including risks and opportunities | CEO/CFO/COO<br>Company Secretary<br>Managing Directors<br>Commercial Director<br>HR Director | Monthly |
| **Audit and Risk Committee** | • Ensures that climate related risks and opportunities are managed across the Group<br>• Oversees risk management process<br>• Identifies principal risks and emerging risks including climate related risks | Non-Executive Directors<br>PLC Chairman<br>Executive Directors<br>Compliance Committee Chair | Quarterly |
| **Compliance Committee** | • Reviews risk developments, including climate change risks and opportunities | Compliance Committee Chair<br>COO<br>Managing Directors<br>Health and Safety Director | Bi-monthly |
| **Remuneration Committee** | • Ensures the Remuneration Policy incentivises performance against sustainability and climate related targets | PLC Chairman<br>Non-Executive Directors<br>CEO | Quarterly |
| **ESG Board** | • Oversees environmental, social and governance matters<br>• Oversees ESG reporting, disclosure and assurance<br>• Reviews risk developments, including climate change risks and opportunities | CEO<br>Independent Board members | Quarterly |

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

## Governance continued

The Executive team is responsible for overseeing and managing climate related risks and opportunities as part of its strategic decision-making processes. The leadership ensures that the Company's climate strategy is aligned with its business objectives, with a focus on resource allocation, financial control and compliance. This senior leadership team is tasked with ensuring the climate matters are integrated into the overall corporate governance and risk management framework.

The Executive Directors provide strategic direction for ESG and climate related targets, being responsible for their delivery. 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 below.

The senior management team identifies and manages climate risks and opportunities across the business.

The organisational risk management structure and interrelationships between governance structures on management of risk and opportunities are detailed on page 58.

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 ISO 14001 accreditation, with a particular focus on waste management, recycling and broader environmental management.

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.

See page 32 for further details on **the activities of the ESG Board**

Our approach to climate related risks and opportunities is fully supported by the Group strategy; "Our Pathway to Net Zero" was launched in 2023 and will be updated in 2025. The Executive Directors are responsible for delivering this plan and will continue to embed climate related roles and responsibilities throughout our functions and operations during 2025 and ongoing.

See page 18 for further detail on **2024 Net Zero activity and plans for 2025**

## Strategy

In accordance with the TCFD disclosures, Mears has integrated climate scenario modelling to assess climate risks. This approach enhances our understanding of potential climate vulnerabilities within our operations, building climate resilience across our business (see the Climate Related Risks and Opportunities Scenario Modelling section on page 40).

Climate risks are reviewed as part of the risk management framework detailed on pages 58 to 62. Whilst climate related risks are not considered to be principal risks given a combination of low severity of impact and low likelihood of occurrence, this is an area which is considered to be an emerging risk and is kept under regular review and monitoring. In addition, we collaborate with our external sustainability advisers to review climate risks and opportunities, ensuring a comprehensive approach to addressing these elements.

The Board recognises opportunities for revenue but also the risk of not maximising the domestic retrofit and energy efficiency opportunities within the affordable housing sector.

Identified climate related risks and opportunities have been categorised over the following timescales:

- short term (within 12 months), to reflect the potential for immediate impact;
- medium term (within 10 years), aligned to our target to achieve Net Zero across Scope 1 and 2 emissions by 2030; and
- long term (10+ years), aligned to our target to achieve Net Zero across Scope 3 emissions by 2045.

The Board has prioritised short and medium-term risks and opportunities, as these may affect 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, revising the strategic risk register as required as climate related risks increase.

We evaluated the potential climate impacts on Mears for both transition and physical risk factors. The risk categorisation is aligned with TCFD recommendations.

For the purpose of this TCFD Report and in the context of climate risks and opportunities, significant impacts refer to those that noticeably affect our operations, delivery of services or business continuity.

| | Physical risk | Transition risk |
|---|---|---|
| **Definition** | Risks related to physical impacts of climate change:<br>• **acute** event-driven extreme weather e.g. heatwaves, drought, extreme rainfall and flooding; and<br>• **chronic** long-term climate shifts, e.g. sea level rise and sustained higher temperatures. | Risks associated with the transition to a low carbon economy:<br>• Policy and legal<br>• Market<br>• Technology<br>• Reputation |
| **Potential impacts** | Asset damage due to more frequent and severe extreme weather events. | • Reduced revenues<br>• Increased business costs<br>• Supply chain bottleneck<br>• Impacts on asset values<br>• Reputational damage |

| Risk description | Type | Impact | Financial assessment | | | Mitigation |
|---|---|---|---|---|---|---|
| | | | Short term | Medium term | Long term | |
| **Extreme weather events**<br>Increased risk of asset damage and business operation interruption due to more frequent and severe extreme weather events, including surface water flooding and heatwaves. | Physical (acute) | Increased costs and service disruption | Low | Medium | Medium | • Enhanced health and safety standards and processes<br>• Planned preventative maintenance schedules aligned to seasonal changes and project level risk registers<br>• Business continuity plans adapted at Group and local levels<br>• Ongoing scenario review |
| **Chronic**<br>Average temperatures are expected to increase. Higher temperatures can disrupt outdoor works while higher sea levels can affect coastal assets. | Physical (chronic) | Increased costs and service disruption | Low | Medium | Medium | • Enhanced health and safety standards and processes<br>• Procedures in place to ensure safe working conditions<br>• Planned preventative maintenance schedules aligned to seasonal changes and project level risk registers<br>• Business continuity plans adapted at Group and local level<br>• Ongoing scenario review |
| **Carbon pricing, taxes and levies**<br>Increase in petrol/diesel costs of Mears' corporate fleet during fleet decarbonisation transition.<br>Service and cost risk associated with fossil fuel van and electric van availability and associated infrastructure requirements. | Transition (policy and legal) | Increased costs | Low | 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<br>• Additional activity on fleet utilisation review, deployment efficiency and other sustainable travel options |

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

## Strategy continued

| Risk description | Type | Impact | Financial assessment: Short term | Financial assessment: Medium term | Financial assessment: Long term | Mitigation |
|---|---|---|---|---|---|---|
| **Reporting**<br>Enhanced reporting and disclosure requirements are expected such as IFRS.<br>Companies that fail to meet climate reporting performance standards may face increased exposure to litigation, fines and penalties due to more strict reporting requirements. | Transition (policy and legal) | Reputational damage and Increased costs | Low | Medium | Medium | • Third-party disclosure verification in place for all climate related disclosures to ensure accuracy and compliance<br>• Ongoing monitoring of current and potential/future reporting regulations<br>• Strategic planning for the implementation of IFRS reporting standards in preparation for when they become mandatory in the UK<br>• Regular review and updates to internal strategies and plans to align with changing reporting standards |
| **Supply chain**<br>Increase in material 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 | Low | Medium | High | • Sustainable procurement plan in place to monitor and mitigate risk with supply chain partners<br>• 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 |
| **Increased expectation and scrutiny**<br>Reduced investor and stakeholder confidence on failure to deliver ESG, Net Zero and related sustainability and climate strategies, and regulatory and reporting requirements. | Transition (reputation) | Reduced investment and reputational damage | Low | Medium | Medium | • ESG Strategic Approach established with robust governance arrangements and oversight from the Board<br>• Our Pathway to Net Zero strategy in place to achieve Net Zero by 2030 (Scope 1 and 2) and 2045 (Scope 3)<br>• Utilisation of external sustainability specialist to support strategy implementation and provide independent verification of Mears' GHG carbon footprint annually |
| **New technologies and innovations**<br>High costs associated with the transformation of existing technology. | Transition (technology) | Increased costs and service disruption | Low | Medium | Medium | • Embedded focused approach to innovations that can contribute to the low carbon transition<br>• Enabling testing and scaling of targeted and commercially attractive low carbon solutions<br>• Continued engagement and active dialogues with stakeholders to ensure an effective transition to a low carbon economy |
| **Net Zero emissions targets**<br>Failure to reach emissions targets, potentially causing significant reputational damage, loss of client trust, inability to access funding and legal consequences. | Transition (reputation) | Financial risk and reputational damage | Low | High | High | • Specific emissions reduction milestones within Our Pathway to Net Zero strategy for ongoing monitoring of our progress to achieve Net Zero by 2030 (Scope 1 and 2) and 2045 (Scope 3)<br>• Regular reporting and verification of emissions reductions<br>• Third-party audits to ensure transparency and accuracy in our emissions reporting<br>• Continued engagement with stakeholders to align progress and share insights to ensure effective implementation of Our Pathway to Net Zero carbon reduction measures |

| Risk description | Type | Impact | Financial assessment Short term | Medium term | Long term | Mitigation |
|---|---|---|---|---|---|---|
| **Landlord responsibilities**<br>Increasingly onerous responsibilities linked to increasing regulatory environment and requirement for higher efficiency ratings. | Transition (policy and legal) | Increased capital expenditure and operating costs | Low | High | Low | • **Existing leases:** Collaborating with lessors to improve energy efficiency in existing leased properties through retrofit programmes. The higher financial risk sits with existing leases over a medium-term time horizon<br>• **New leases:** Strategy in place to prioritise leasing agreements that include properties with high energy efficiency ratings. Established criteria for evaluating potential leases based on energy efficiency and low carbon standards |

| Opportunity | Type | Impact | Financial assessment Short term | Medium term | Long term | Strategic response |
|---|---|---|---|---|---|---|
| **Increased customer demand and growth due to climate change**<br>Significant opportunities in the growing field of domestic retrofit to support UK Government's 2050 Net Zero target (and devolved Scottish Government's 2045 target), which is complementary and additive to the services already provided by Mears. | Transition (market and reputation) | Increased revenue, profit and reputation | Medium | High | High | • Specialist Net Zero team in place and established domestic retrofit service to design solutions and support clients to reduce the carbon emissions of their housing stock, reduce energy bills for customers and maximise available Government funding<br>• Capacity and capability enhanced through acquisitions<br>• Development of a "Green Skills Academy" being explored to provide a hub to develop our expertise |
| **Reduced energy costs**<br>Significant opportunities to mitigate rising energy costs by transitioning our corporate estate and fleet to low and/or zero carbon alternatives. | Transition (policy, legal and reputation) | Reduced costs and increased reputation | Low | 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<br>• Strategy in place to decarbonise our corporate estate to maximise energy efficiency and renewable energy generation |
| **Sustainable practices and reduced embodied carbon**<br>Adopting low carbon materials and processes provides a cost advantage and improves reputation. | Transition (market and reputation) | Reduced costs and increased reputation | Medium | High | High | • Strategy in place to decarbonise our corporate estate to maximise energy efficiency and renewable energy generation<br>• Committed to exploring new green products and materials<br>• Continued engagement with stakeholders to align progress and share insights to ensure effective implementation of Our Pathway to Net Zero low carbon measures |
| **Climate thought leadership**<br>Opportunity to enhance Mears' standing and influence policy direction on climate related challenges with UK Government, devolved administrations, industry bodies and clients. | Transition (reputation) | Improved 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<br>• External thought leadership strategy in place to influence policy and raise Mears' profile as a thought leader in domestic retrofit and climate related areas<br>• Embedding a Net Zero culture as an explicit theme within Our Pathway to Net Zero strategy |

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

## Strategy continued

Climate risks and opportunities are:

- integrated into Mears' business strategy and financial planning; and
- addressed in Mears' five-year strategic plan, aiming for leadership in domestic retrofit in social housing and achieving Net Zero.

Mears has an in-house specialist Net Zero team which plays an important role in supporting the green economy.

Highlights during the year include:

- secured £53m of funding in SHDF Waves 1, 2.1 and 2.2 in designing investable propositions to improve the energy efficiency of c.6,000 homes, reducing energy bills and enhancing quality of life; and
- supported eight clients to access Warm Homes Fund in 2024 to support the decarbonisation of a further c.2,500 homes.

Mears will continue collaborating with clients and partners to achieve Net Zero and climate related goals, promoting business growth.

Our Pathway to Net Zero strategy will bring about significant benefits for Mears in reducing its carbon emissions and energy costs as well as developing its 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 32 and 33, enabling us 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 we are 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, we have 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 the Strategy section of our TCFD Report.

We acknowledge we must respond quickly to both planned and unexpected disruptions. Our climate related risks and opportunities are informed by detailed climate scenario analysis, which was developed in collaboration with the external sustainability advisers. These scenarios are aligned with the projections of a 2°C or lower increase in global temperature, based on a 2050 time horizon.

### Climate related risks and opportunities scenario modelling

The scenario analysis carried out evaluates climate risks and opportunities under four scenarios: an orderly transition; a disorderly transition; a too little, too late scenario; and a hot house world scenario, in alignment with the TCFD framework and Annex guidance.

The scenarios provide a comprehensive assessment of potential risks and opportunities and ensure our approach and response are adequate under a range of different climate related outcomes:

- Orderly transition: this scenario assumes that climate policies are introduced early and become gradually more stringent.
- Disorderly transition: this scenario assumes higher transition risk due to delay in implementing differing policies across the business.
- Too little, too late: this scenario assumes that a late, unco-ordinated transition fails to limit physical risks.
- Hot house world: this scenario assumes that some climate policies are implemented in jurisdictions, but global efforts are insufficient to halt significant climate change. Scenario results in severe physical risks and irreversible impacts.

The timeframes used for these scenarios are aligned with the global climate projections, consistent with the Paris Agreement:

- Short term: this considers a timeframe of up to 10 years in the future.
- Medium term: this considers a timeframe of between 2035 and 2050.
- Long term: this considers timeframes stretching out to 2100.

Please note that these climate timeframes differ from the business planning timeframes mentioned earlier in this report (short – within 12 months, medium – within 10 years and long – 10+ years).

### Scenario analysis methodology

The scenario analysis followed a structured methodology to ensure alignment with TCFD disclosure requirements and sector specific guidance. This included:

- **Step 1** – Review of identified risks and opportunities.
- **Step 2** – Selection of suitable climate reference scenarios based on global climate projections, including orderly transition, disorderly transition, too little, too late and hot house world.
- **Step 3** – Assessment of each scenario's financial, physical and operational impacts over short (up to 2035), medium (2030–2050) and long (after 2050) timeframes.
- **Step 4** – Evaluation of climate related opportunities under each scenario, considering their potential over short (up to 2035), medium (2030–2050) and long (after 2050) timeframes.

These scenarios help us understand various climate related outcomes and how they could impact our operations and assets. Additionally, they inform Our Pathway to Net Zero strategy, with a focus on reducing greenhouse gas emissions (GHG). Our ultimate goal is to achieve Net Zero emissions for Scope 1 and Scope 2 by 2030, and for Scope 3 by 2045.

Mears will revise its 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 2025 including further detail on how our strategies, policies and processes have been impacted and updated due to climate related risks and opportunities and updated trajectory analysis.

We recognise that external factors may affect achieving the Paris Agreement targets. As a result, Mears proactively monitors climate risks and opportunities to stay adaptable and minimise potential business impacts as new information arises.

## Risk management

The senior management team, supported by the enhanced ESG governance framework detailed on pages 32 and 33, 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, and division and departmental risk registers, and through ISO 14001 compliance. Mears will continue to further enhance these management processes moving forward.

To enhance our understanding of climate related risks, Mears carried out detailed risk assessment with support from an external sustainability adviser. This involved developing a comprehensive climate risk register. While the document is used internally to inform decision making, its findings have been incorporated into this report to ensure alignment with TCFD requirements.

The Board has assessed principal risks, including climate related risks, which threaten the business model, strategy and performance. Risks are prioritised by likelihood and impact using financial, customer service, growth, regulatory and reputational criteria. Assets located in regions exposed to heatwaves or flooding are particularly vulnerable to disruptions and will be prioritised to ensure business resilience.

Opportunities are evaluated similarly. This approach allows us to escalate risks and drives our mitigation actions.

Mitigation actions focus on strengthening our operations in areas vulnerable to climate risks (flooding and heatwaves). For example, Mears supports natural capital by enhancing green spaces through measures such as tree planting, which will improve water absorption and reduce water runoff, and reduce heat islands effect (by providing shades).

It is also important to note that transition risks associated with fleet are recognised as a priority area given the significant impact to Mears over a relatively short term.

The Board recognises the difficulty in remotely managing front-line operatives and its supply chain, both of which are vulnerable to extreme weather and relevant climate risks.

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

## Metrics and targets

The Board continues to monitor climate related targets. Annual external independent verification of GHG emissions is conducted, and any recommendations will be implemented as part of our ongoing best practice carbon management approach.

The Group has set metrics and targets that guide how we operate and how we provide service to our customers. These include metrics and targets from our wider ESG plan designed to help Mears become more sustainable.

The metrics and targets have been developed to both monitor and address the climate risks and opportunities. For example, the total carbon emissions help us to monitor our progress towards our Net Zero target and also directly mitigate transition risks such as carbon pricing and reporting, while waste metrics address supply chain risk by supporting the circular economy approach (reusing materials and reducing waste). Additionally, we are developing metrics for Scope 3 categories that are not currently included (e.g. spend on carbon intensive services and employee mileage by mode of transport). The development of these and other metrics will enhance our ability to monitor and address these risks in future reporting.

Our headline climate related metric categories are detailed in the table below:

| Category | Scope | Unit | Description of metric |
|---|---|---|---|
| GHG emissions | Scope 1 | $tCO_2e$ | Total carbon (equivalent) emissions from owned sources |
| | Scope 2 | $tCO_2e$ | Total carbon (equivalent) emissions from purchased energy |
| | Scope 3 | $tCO_2e$ | Total carbon (equivalent) emissions – all other emissions in the value chain |
| | Scope 1 and 2 (emissions under operational control) | $tCO_2e$ per £m revenue | Carbon (equivalent) emissions intensity |
| | Scope 1, 2 and 3 | $tCO_2e$ | Annual $tCO_2e$ saving |
| Energy | Scope 1 and 2 | kWh | Energy usage (electricity and gas) |
| | Scope 1 | kWh | Heating fuel annual saving |
| | Scope 2 | kWh | Electricity annual saving |
| | Scope 1 and 2 | $kWh/m^2$ | Energy consumption in the buildings |
| EV fleet | Scope 1 | % | Total percentage (number) of EV fleet |
| Waste | Scope 3 | % | Total waste diverted from landfill |

The headline metrics outlined above align with the commitment set in Our Pathway to Net Zero strategy, which defines key climate objectives to achieve Net Zero across Scope 1 and Scope 2 GHG emissions by 2030, and across Scope 3 by 2045.

Our Pathway to Net Zero also includes specific sub-targets, such as achieving 100% renewable energy use in our offices by 2030. These metrics helps us to monitor the progress towards these targets and ensure a sustainable, low carbon future for our business.

The Group monitors landfill diversion and collaborates with our national waste partner to improve our zero waste index score. This is being reported quarterly, and emissions from waste are included in the 2023 GHG reporting to enhance our 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 a benchmark to monitor progress against (see Our Pathway to Net Zero case study on page 18).

Our initial decarbonisation activities focus on emissions we directly control, while Our Pathway to Net Zero strategy is currently being updated to reflect our goal for mapping and reducing Scope 3 emissions.

Our Pathway to Net Zero adopts a theme-based approach, breaking down our vision into action areas across the business to enable collaboration and accountability.

Mears Group's GHG emissions were calculated for the 2024 calendar year and include Scope 1 and 2 GHG emissions and selected Scope 3 emissions. The carbon reporting data is independently verified annually by an external consultant to ensure data accuracy. This verification process aligns with our commitment to transparency and ESG reporting practices.

Emissions for this period were 92,635 tonnes $CO_2e$ in total across Scope 1, 2 and 3 emissions as detailed in the Greenhouse gas emissions section below.

Mears enhanced its measurement and reporting of Scope 3 emissions during 2024 and conducted a screening assessment to better understand the type and accuracy of data that is available to support reporting. The assessment considered all 15 categories of the Scope 3 group (as outlined by the GHG Protocol). The materiality assessment has identified purchased goods and services as an important contributor to Scope 3.

The above exercise has led to improvements to Disclosure 11 in relation to Scope 3 emissions. This includes Scope 3 categories such as Well to Tank (WTT), Transmission and Distribution, Waste Generated in Operations, and Business Travel. An ongoing mapping exercise is underway to strengthen our understanding of wider Scope 3 emissions and supporting improved reporting of our indirect emissions impact including purchased goods and services.

This phased approach ensures progress toward comprehensive Scope 3 emissions reporting and alignment with the GHG Protocol and enables actions to be identified with our supply chain partners to reduce their emissions associated with delivery of services on our behalf in support of our target to achieve Net Zero across Scope 3 emissions by 2045. Progress updates will be provided annually through our TCFD reporting to ensure transparency. This approach further enables us to prioritise the most material categories, while working on closing gaps in other areas. Mears also acknowledges the UK's plan to adopt the IFRS (S1 and S2) standards and will align our reporting with these standards once implemented.

In addition, as part of our strategy development to ensure full transparency and accuracy in reporting our emissions, we will update our carbon footprint across Scope 1, 2 and 3 if any material change is identified through improved data collection and methodology.

## Greenhouse gas emissions

The Group's carbon emissions data for 2024 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 Report of the Directors. 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 rail; 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 | Unit | 2024 | 2023 | 2021 (baseline year) |
|---|---|---|---|---|
| **Scope 1** – UK | Tonnes $CO_2e$ | **13,300** | 14,104 | 15,558 |
| **Scope 2** – UK location based | Tonnes $CO_2e$ | **945** | 753 | 734 |
| **Scope 2** – UK market based | Tonnes $CO_2e$ | **–** | – | 150 |
| **Scope 3** – UK | Tonnes $CO_2e$ | **82,641** | 84,590 | 76,342 |
| | | | | |
| Intensity | Tonnes $CO_2e$/£m revenue | **13.08** | 13.64 | 18.55 |
| Energy consumption | MWh | **60,988** | 63,306 | 68,883 |

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

## Our Pathway to Net Zero

Our Pathway to Net Zero strategy is a published document outlining our aspirations to achieve Net Zero by 2045.

For the purpose of TCFD disclosure requirements it serves as a supplementary document which provides a broader context to Mears' climate aspirations and is an integral part of our ESG Strategic Approach.

The strategy was developed to support 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); and
- Net Zero across Scope 3 carbon emissions by 2045 (Phase 2).

We recognise that Net Zero requires deep emissions reduction across all scopes, with any residual emissions balanced through durable carbon removal solutions that physically remove carbon from the atmosphere and store it permanently.

## Net Zero Pathway Scenarios

We have developed carbon reduction scenarios through trajectory analysis of our Scope 1 and 2 emissions. Each scenario is benchmarked against the SBTi's 1.5°C pathway and reviewed annually. Our Pathway to Net Zero strategy, informed by trajectory analysis, targets Scope 1 and 3 emissions reductions to achieve Net Zero by 2030. This analysis was benchmarked against the Paris Agreement's 1.5°C target. These scenarios are specific to our Net Zero approach and are separate from broader TCFD climate scenarios, such as orderly, disorderly, too little, too late, and hot house world, which assess risks and opportunities under varying global pathways.

Below are the scenarios, with Scenario 3 adopted as our primary focus:

- Scenario 1: business as usual – no active decarbonisation activity;
- Scenario 2: initial behavioural changes and fleet deployment efficiency; and
- Scenario 3: enhanced behaviour change, fleet deployment efficiency, office energy efficiency and fleet EV transition (adopted scenario).

As part of Scenario 3, Mears has carried out 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 Board recognises the difficulty in remotely managing front-line operatives and its supply chain, both of which are vulnerable to extreme weather and relevant climate risks. The Group's low reliance on capital assets and flexible property leasing model, with many agreements terminable at no costs, shift risk from physical damage and environmental obligations to the asset owner.

We 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 2025 including further detail on how our strategies, policies and processes have been impacted and updated due to climate related risks and opportunities and updated trajectory analysis.

We recognise that external factors may affect achieving the Paris Agreement targets. As a result, Mears proactively monitors climate risks and opportunities to stay adaptable and minimise potential business impacts as new information arises.

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 was 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.

Our Pathway to Net Zero is taking a theme-based approach. The table below summarises the five key themes and includes a description of each theme and what success looks like by 2030 to achieve a 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 and 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 and 3 | Transitioned up to 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 and 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, and improved approach to strategic estate planning | Scope 1 and 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 and 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 |

# Financial review

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

**Adjusted operating margin**

**5.6%**

(2023: 4.7%)

**Diluted EPS**

**48.9p**

(2023: 31.9p)

## 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.

Reflecting the steady state of the business and the quality of the earnings, the Group has used a pure unadjusted profit before tax and earnings per share as its headline profit measures. The Group makes regular reference throughout the Strategic Report to an adjusted operating profit, measured before the impact of IFRS 16, and stated both in pounds (£) and as a percentage margin (%). This adjusted measure is a key metric for the senior executive team when assessing new contract opportunities and existing branch performance.

The Group also uses an adjusted net cash measure which excludes IFRS 16 lease obligations from the statutory net debt measure. This is referenced in both a spot measure (on 31 December) and in a 365-day average.

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

The method of calculation and a reconciliation between each APM and the relevant statutory measure are detailed below, together with an explanation as to why management considers the APM to be useful in helping users to have a better understanding of the Group's underlying performance. This section of the Strategic Report also provides additional analysis to give the user an easier route to understand underlying performance and deriving their own profit and EBITDA measures.

| | Note | **2024 £'000** | 2023 £'000 |
|---|---|---|---|
| Profit before tax | Income statement | **64,141** | 46,918 |
| IFRS 16 profit impact | See below | **3,744** | 9,093 |
| Finance income (non-IFRS 16) | Note 5 | **(4,275)** | (4,655) |
| **Adjusted operating profit pre-IFRS 16**[1] | APM | **63,610** | 51,356 |
| Amortisation of software and acquisition intangibles | Note 12 | **2,244** | 1,879 |
| Depreciation and loss on disposal (non-IFRS 16)[2] | Note 13 | **7,574** | 7,385 |
| **EBITDA pre-IFRS 16**[1] | | **73,428** | 60,620 |
| IFRS 16 profit impact | See below | **(3,744)** | (9,093) |
| Finance costs (IFRS 16) | Note 5 | **12,693** | 9,898 |
| Depreciation, loss on disposal and impairment (IFRS 16)[3] | Note 14 | **62,733** | 56,951 |
| **EBITDA post-IFRS 16**[1] | Statutory | **145,110** | 118,375 |
| Amortisation of software and acquisition intangibles | Note 12 | **(2,244)** | (1,879) |
| Depreciation, loss on disposal and impairment (IFRS 16)[3] | Note 14 | **(62,733)** | (56,951) |
| Depreciation and loss on disposal (non-IFRS 16)[2] | Note 13 | **(7,574)** | (7,385) |
| **Operating profit post-IFRS 16**[1] | Income statement | **72,559** | 52,161 |

1 Operating profit and EBITDA measures include share of profits of associates.
2 Includes loss on disposal of £508,000 (2023: £80,000) and loss on sale and leaseback of £283,000 (2023: £nil).
3 Includes profit on disposal of £150,000 (2023: £180,000) and impairment of £633,000 (2023: £6,223,000).

The Directors use the operating profit 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 how the senior executive team assesses performance, and is also more aligned to the underlying cash generation. In addition, this measure is also used for the purposes of assessing the Group's compliance with its banking covenants which utilise pre-IFRS 16 measures.

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| Revenue | Statutory | **1,132,510** | 1,089,327 |
| Adjusted operating profit pre-IFRS 16 | APM | **63,610** | 51,356 |
| Adjusted operating margin % | APM | **5.6%** | 4.7% |

## IFRS 16 profit impact

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Charge to income statement on a post-IFRS 16 basis | **(74,793)** | (60,626) |
| Charge to income statement on a pre-IFRS 16 basis | **(71,682)** | (57,756) |
| Profit impact from the adoption of IFRS 16 and before impairment | **(3,111)** | (2,870) |
| Impairment of right of use assets | **(633)** | (6,223) |
| Profit impact from the adoption of IFRS 16 | **(3,744)** | (9,093) |

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. The table below highlights the acceleration of the recognition of cost through the adoption of IFRS 16. This position will ultimately reverse in time, although the differential between right of use asset and the corresponding lease obligation is likely to diverge further in the near term:

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| Lease obligations at 31 December | 19 | **297,502** | 254,440 |
| Right of use asset at 31 December | 14 | **272,171** | 233,649 |
| Future lifetime profit impact at 31 December from the adoption of IFRS 16 compared to the future lease payment | | **25,331** | 20,791 |

"

Reflecting the steady state of the business and the quality of the earnings, we have used a pure unadjusted PBT and EPS as our headline profit measures."

**Andrew Smith**
Chief Financial Officer

# Financial review continued

## Net cash/(debt)

The Group excludes the financial impact of IFRS 16 from its adjusted net cash measure. This adjusted net cash 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 net debt and the adjusted measure is detailed below:

| | Note | **2024 £'000** | 2023 £'000 |
|---|---|---|---|
| Cash and cash equivalents | Balance sheet | **91,404** | 138,756 |
| Short-term financial assets | Balance sheet | **–** | 7,090 |
| Overdrafts and other credit facilities | Balance sheet | **–** | (36,699) |
| **Adjusted net cash** | APM | **91,404** | 109,147 |
| Lease liabilities (current) | Note 19 | **(66,861)** | (54,492) |
| Lease liabilities (non-current) | Note 19 | **(230,641)** | (199,948) |
| **Net debt (including IFRS 16 lease obligations)** | | **(206,098)** | (145,293) |

## Statutory profit before tax

The Board believes that the statutory profit before tax measure is a true reflection of the underlying performance of the business, and no alternative measure is considered necessary or appropriate. The Board recognises that any reported profit will include singular components which, in isolation, may be considered unusual, infrequent, non-recurring or non-underlying. Additional detail is disclosed separately within the notes to the financial statements, and these are signposted below to assist the user in accessing these and to better understand the underlying performance in the period.

| | Note | **2024 £'000** | 2023 £'000 |
|---|---|---|---|
| Impairment of right of use assets | 14 | **(633)** | (6,223) |
| Amortisation of acquired intangibles | 12 | **(245)** | (244) |
| Loss on sale and leaseback transaction | 13 | **(283)** | – |
| Increase in fair value of other investments | 15 | **785** | – |
| Onerous contract provisions (provided in year less amounts released unused) | 20 | **(759)** | (8,784) |
| Legal provisions (provided in year less amounts released unused) | 20 | **(4,792)** | (3,020) |
| Settlements on exiting LGPS pension schemes | 25 | **2,413** | (58) |

## IFRS 16 and IAS 36: impairment of right of use asset

Under IAS 36, the Directors are required to consider for each asset or group of assets with separately identifiable cash flows if there are indicators of impairment at the year end. Where such indicators are present, a full impairment review must be carried out, comparing the carrying value of the assets to their value in use (or fair value less costs of disposal, if that is higher). In particular, the Directors consider that for each Community Housing scheme, the relevant group of right of use assets has identifiable cash inflows and therefore they must assess whether there are any indicators of impairment for each of these housing schemes. Certain Community Housing assets were the subject of a significant impairment in FY23, which means that those affected assets are more sensitive to further changes in the assumptions underlying their value in use.

Property yields for residential properties similar to those used in the Community Housing business have been broadly consistent during FY24, following a sharper increase in FY23. This measure is closely correlated to discount rates, and an increasing discount rate would result in a reduction in the value in use. Property maintenance costs have also been broadly consistent during FY24, having stabilised since the rising costs experienced in FY22 and FY23. The increasing regulation attached to affordable housing brings some additional cost pressure, especially in respect of fire risk. An increase in the costs of maintaining these property schemes, to the extent that they cannot be passed onto the customer or recovered through other mechanisms, will reduce the value in use.

The reassessment of cash flows and other key assumptions resulted in an additional impairment charge of £0.6m (2023: £6.2m) to align the carrying value of the right of use assets to their value in use. This additional charge applied to FY24 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.

## Sale and leaseback

The Group has utilised its balance sheet strength to fund property acquisitions to support the requirement for additional properties within the Asylum Accommodation and Support Contract (AASC). This approach has played a critical role in enhancing the service offering and delivering against client expectations. The Group purchased 221 properties in 2023 and in the early part of 2024 across the North East of England for a cash cost of £22.7m. In December 2024, these properties were the subject of a sale and leaseback, by which point the carrying value of the portfolio was £22.2m. The properties will continue to be used to support the delivery of the AASC until the contract expiry. This transaction saw the Group receive £16.3m in cash on completion, with the balance taking the form of a £5.3m interest-bearing loan, combined with a continuing 25% equity interest in this investment vehicle. The transaction crystallised a small loss on disposal of £0.3m. The Group remains committed to securing good quality accommodation across a wide dispersal area and has continued to purchase additional properties through FY24, which the Board anticipates will be the subject of a later sale and leaseback.

## 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. During the period, HMRC completed a Group-wide business risk review which covered all lines of taxation, and awarded the Group a low risk status in respect of the three review headings: systems and delivery, governance, and approach to tax compliance. 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 tax charge for the year was £17.2m (2023: £10.3m), at an effective tax rate of 26.8% (2023: 21.9%). This is the first time that the effective tax rate has been higher than the standard corporation tax rate of 25.0% (2023: 23.5%) and is predominantly caused by depreciation charges on assets that are ineligible for corporation tax relief (£0.8m/1.2%), expenses not deductible for tax purposes (£0.2m/0.3%) and adjustments in respect of prior periods (£0.8m/1.3%) combined with a number of favourable variances. The Group expects the effective tax rate in future periods to be at a similar level to the standard rate of corporation tax.

# Financial review continued

## Taxation continued

Mears is a significant contributor of revenues to the UK Exchequer, paying £203.3m of taxes in the year (2023: £192.7m). This relates to taxes borne by Mears (principally corporation tax and Employer's National Insurance) and taxes collected by Mears (being VAT, income tax under PAYE and Employee's National Insurance). Further detail in respect of the taxes paid during 2024 are provided below:

| | Taxes borne £m | Tax collected £m | Total £m |
|---|---|---|---|
| Corporation tax | 17.4 | – | 17.4 |
| VAT and Insurance Premium Tax[1] | 1.1 | 117.7 | 118.7 |
| Construction Industry Scheme | – | 6.0 | 6.0 |
| Employment taxes | 0.9 | 30.8 | 31.8 |
| National Insurance | 19.5 | 9.7 | 29.3 |
| Total | **39.0** | **164.3** | **203.3** |

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

## Earnings per share (EPS)

| | **2024** | 2023 |
|---|---|---|
| Basic earnings per share (p) | **50.27** | 32.90 |
| Diluted earnings per share (p) | **48.86** | 31.94 |
| Weighted average number of shares (for basic EPS) (m) | **92.56** | 106.99 |
| Weighted average number of shares (for diluted EPS) (m) | **95.22** | 110.22 |

Diluted earnings per share increased by 53% to 48.9p (2023: 31.9p). The 17.0p improvement is driven by the increase in profit after tax in the year (+13.2p), the reduction in the weighted average number of shares as a result of the share buyback programme (+5.1p), a decrease in the non-controlling interest as a result of the new North Lanarkshire contract now sitting within a wholly owned subsidiary (1.1p) and an increase in the effective tax rate (-2.4p).

The share buyback programmes have been significant in driving the increase in earnings per share. Positively, the full impact on EPS flowing from the 2024 buybacks will not be fully realised until 2025, and the fifth programme which was completed during the first quarter of 2025 will augment this further. The latest estimate for the weighted average number of shares to calculate the diluted EPS for FY25 is 85.8m shares which in isolation will drive a further 7% increase to this measure in that year.

## Balance sheet

The Group reported a reduction in net assets from £200.5m to £187.5m. 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 2024 | 200.5 |
| Profit after tax | 46.9 |
| Dividends | (12.9) |
| Share buybacks including purchases by EBT | (52.1) |
| Increase in pension net surplus | 1.6 |
| Other equity movements | 3.5 |
| **Net assets at 31 December 2024** | **187.5** |

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

## Assets

| | **2024 £m** | 2023 £m |
|---|---|---|
| Goodwill | **121.9** | 121.9 |
| Intangible assets | **6.2** | 7.0 |
| Property, plant and equipment (PPE) | **38.8** | 38.5 |
| Right of use assets | **272.2** | 233.6 |
| Investments | **2.3** | 0.6 |
| Loan notes | **10.2** | 4.5 |
| Pension assets | **23.2** | 19.8 |
| **Total non-current assets** | **474.8** | 426.0 |
| Inventories | **1.2** | 1.5 |
| Trade receivables | **133.2** | 126.7 |
| Corporation tax asset | **0.7** | – |
| Bank, cash and short-term financial assets | **91.4** | 145.8 |
| **Total current assets** | **226.5** | 274.0 |
| **Total assets** | **701.3** | 700.0 |

- Goodwill was generated from previous acquisitions and is tested annually for impairment.
- Intangible assets primarily relate to in-house developments to the Group's key operational IT platforms and are amortised over their useful economic life, typically five years. The net book value reduced in the year, with amortisation of £1.9m exceeding the value of new additions of £1.4m. To deliver the broader service offering set out in the new strategic plan, the Board has approved a significant increase in IT development. Once the new resource is in place, the Board anticipates an annual development spend of around £3m.

- PPE additions are typically low given the Mears operating model carries a low capital intensity. Notwithstanding this, the Board has allocated additional capital to support the urgent requirement for additional residential housing to support the requirements of the Group's AASC contract. During FY24, the Group made property additions of £26.4m to support the requirements of the AASC. In the same period, the Group disposed of properties with a base cost of £22.7m through a sale and leaseback transaction meaning the net movement was only a modest increase to the carrying value of freehold property. Excluding property additions, capital expenditure in the period was just £3.5m.
- 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. The new leases taken on in the period predominantly relate to the AASC contract, given the requirement to increase the number of residential bed spaces available. The additions in the period relate to both new leases, and also inflationary increases to lease payments on existing properties.
- Loan notes of £4.7m were received on the disposal of Terraquest in 2020 and include interest accruing annually at 10%. Aside from this interest accrual, the loan note balance has increased by £5.3m in the period as a result of a new loan note acquired as part of the sale and leaseback transaction, where the Group also retained a 25% interest in the entity which was the subject of the disposal.
- Investments have historically related almost entirely to our A2 Dominion partnership which is equity accounted. A small balance of £0.1m in FY23 related to a minority interest stake retained following the disposal of Terraquest in 2020. Accounting standards require this investment to be stated at fair value. The Terraquest business has performed strongly for the new buyer of this business, and the Directors increased the fair value of this investment to £0.9m at the FY24 year end.
- Pension accounting is covered in detail below.
- Trade receivables includes trade debtors and contract assets. The small increase is broadly in line with the growth in revenues.
- The net cash balance is detailed above, combining the bank, cash and short-term financial assets. The cash balance in isolation is not comparable to the prior year. The overdraft and other credit facilities of £36.7m reported in the prior period was simply a timing difference which inflated the cash balance at that point in time. The adjusted net cash net balance of £91.4m is a reduction from the prior year (2023: £109.1m), reflecting strong cash generation, reduced by property acquisitions on the AASC contract and shareholder distributions.

## Liabilities

| | 2024 £m | 2023 £m |
|---|---|---|
| Overdraft and other credit facilities | **–** | (36.7) |
| Trade payables | **(192.3)** | (187.0) |
| Current lease liabilities | **(66.8)** | (54.5) |
| Corporation tax liability | **–** | (0.1) |
| Provisions | **(10.8)** | (8.4) |
| **Total current liabilities** | **(269.9)** | (286.6) |
| Pension liabilities | **–** | (0.2) |
| Deferred tax liability | **(3.5)** | (2.9) |
| Non-current lease liabilities | **(230.6)** | (199.9) |
| Non-current provisions | **(9.8)** | (9.8) |
| **Total non-current liabilities** | **(243.9)** | (212.8) |
| **Total liabilities** | **(513.8)** | (499.4) |
| **Total net assets** | **187.5** | 200.5 |

- Working capital balances include trade creditors, contract liabilities and accruals and the modest increase is broadly in line with the growth in revenues.
- 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 25.0% (2023: 23.5%). The Group is required to make quarterly payments, meaning any creditor outstanding at the period end is typically 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 £18.2m increased to £20.6m. Additional detail is provided within note 20 to the financial statements which details amounts provided, utilised and released in the year.
- A deferred tax liability of £3.5m (2023: £2.9m) is recognised on temporary differences between the treatment of items for tax and accounting purposes.

# Financial review continued

## 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, removing 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, which, whilst not removing risk, reduces the period over which deficits can arise, The Group is therefore only carrying the pension 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 largely 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 acknowledge the robust and disciplined performance of the scheme managers and trustees who have managed this pension risk so well over many years to reach the position reported today.

| | 2024 Group £'000 | 2024 Indemnified £'000 | 2024 No indemnity £'000 | 2024 Total £'000 |
|---|---|---|---|---|
| Total scheme assets | **118,879** | **55,861** | **59,570** | **234,310** |
| Total obligations | **(97,210)** | **(37,029)** | **(39,676)** | **(173,915)** |
| Funded status | **21,669** | **18,832** | **19,894** | **60,395** |
| Surpluses not recognised as assets | **–** | **(17,888)** | **(19,262)** | **(37,150)** |
| Pension surplus | **21,669** | **944** | **632** | **23,245** |

## Cash flow and working capital management

The Group reported an adjusted net cash position at the year end of £91.4m (2023: £109.1m). 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 was also mirrored in the average daily adjusted net cash for the year at £59.6m (2023: £76.5m).

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Average daily adjusted net cash | **59,626** | 76,515 |
| Adjusted net cash at 31 December | **91,404** | 109,147 |

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. A key performance measure for the Group is the percentage of EBITDA that is converted into operating cash flow. The ability of the Group to bank its profits over multiple periods provides a strong indication of the quality of the earnings.

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Profit before tax | **64,141** | 46,918 |
| Net finance costs | **8,418** | 5,242 |
| Depreciation and amortisation | **9,818** | 9,264 |
| Right of use asset depreciation and impairment | **62,733** | 56,951 |
| **EBITDA** | **145,110** | 118,375 |
| Other adjustments | **278** | (204) |
| Change in inventories | **290** | 5,416 |
| Change in operating receivables | **(7,021)** | 1,290 |
| Change in operating payables and provisions | **7,551** | 20,346 |
| **Operating cash flow** | **146,208** | 145,224 |
| **Operating cash to EBITDA conversion** | **101%** | 123% |

The Group has consistently delivered operating cash flows in excess of EBITDA over the last five years, reporting the conversion of 115% of EBITDA into operating cash flows over that period as detailed below. Whilst the surplus cash generated in excess of the reported EBITDA reflects the high quality of earnings, combined with strong working capital management, the Group has enjoyed a timing benefit in respect of certain contractual mechanisms linked to payments on account and gainshares which are reflected in an elevated contract liabilities balance. The Board anticipates some unwind in contract liabilities during 2025, whilst anticipating continued strong cash generation.

| | Five-year total £'000 | **2024 £'000** | 2023 £'000 | 2022 £'000 | 2021 £'000 | 2020 £'000 |
|---|---|---|---|---|---|---|
| EBITDA | 496,736 | **145,110** | 118,375 | 94,868 | 83,448 | 55,935 |
| Operating cash flow | 570,347 | **146,208** | 145,224 | 115,330 | 60,362 | 103,223 |
| EBITDA to operating cash conversion | 115% | **101%** | 123% | 122% | 72%[1] | 185%[1] |

1 Cash performance in 2020 and 2021 should be combined to reflect abnormal cash flows through the pandemic.

Over the last two completed financial years, the Group has purchased c.£30m in properties to provide additional support to the AASC contract, purchased its own shares at a cost of c.£90m, and paid out c.£25m in ordinary dividends, whilst registering only a small reduction in the adjusted net cash balance over that period.

## Shareholder distributions

During FY24, the Board approved a return of surplus capital of £40m to shareholders, which was implemented through a third and fourth buyback programme of on-market purchases, resulting in the purchase and cancellation of 10.9m ordinary shares of 1p each at an average price of 366p before transaction costs. In addition, the Employee Benefit Trust (EBT) purchased a further 3.2m ordinary shares at an average price of 367p and a total cash cost of £11.7m.

| | **2024** | | 2023 | |
|---|---|---|---|---|
| | **Shares (m)** | **£'000** | Shares (m) | £'000 |
| On-market purchases | **10.9** | **40,317** | 12.2 | 33,164 |
| EBT purchase | **3.2** | **11,733** | 1.7 | 5,122 |
| Total | **14.1** | **52,050** | 13.9 | 38,286 |

The Board has proposed a final dividend of 11.25p per share, bringing the total for the year to 16.00p, an increase of 23% (2023: 13.00p). It is an added benefit of the buyback, together with the shares acquired through the EBT, that whilst the Board has increased the dividend by 52% over the last two years, the cash cost of the dividend has only reported a modest increase by 17% over that time. A full-year dividend of 16.00p is expected to come at a cash cost of £13.5m, dependent upon the completion of the fifth buyback programme, which is ongoing.

# Financial review continued

## 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 a traditional overdraft 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 2024, 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 across 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 2025 to be at the bottom end of the range.

**Andrew Smith**
Chief Financial Officer
9 April 2025

# Financial viability review

In accordance with provision 31 of the UK Corporate Governance Code 2024, the Directors are required to assess the viability of the Group over the medium to longer term. A period of four years has been chosen as it reflects the average contract length (excluding extensions) of the Group's contract estate. Whilst the Group holds contracts which extend beyond this four-year time horizon, a period of greater than four years was considered too long, given the inherent uncertainties of forecasting to distant time horizons. In addition, the Group has limited visibility of contract bidding opportunities beyond four years given the lead times before opportunities come to market.

In making this statement, the Board has considered its principal risks. The principal risks are set out on pages 60 to 65 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 in monitoring and reviewing the integrity and effectiveness of the Group's overall systems for risk management as detailed on pages 80 to 87.

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 four-year viability review period.

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

- The forecast is built up on a contract-by-contract basis for the next 12 months and extended for the following three years. The forecast for 2025 is based upon revenues generated from existing customer relationships, and a business that is generating contract margins that are broadly 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 over the course of 2025 and 2026.
- The model assumes some unwind in the opening negative working capital position but assumes no significant changes in underlying conversion of profit to operating cash.
- The model assumes some small-scale property purchases to augment the delivery of the AASC contract.
- Future dividends continue in line with current policy.
- 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 Group's bidding success on contract re-bids** | Loss of the Milton Keynes contract (annualised revenues of c.£60m), followed by the failure to re-secure any material contracts on re-bid in 2026 and 2027 resulting in a further £144m of annual revenue lost. | • Risk 2: Breaches of health and safety<br>• Risk 3: Breaches of property standards<br>• Risk 5: Loss of AASC contract<br>• Risk 6: Serious loss to branch after adverse incident<br>• Risk 7: Large-scale Group-wide incident |
| **2a and 2b** **Significant negative impact to AASC revenues** | (a) A significant reduction in revenues (and where the forecast annual revenue run-rate reduces by 50%).<br>(b) The loss of the AASC upon a hypothetical re-bid in March 2027. | • Risk 3: Breaches of property standards<br>• Risk 5: Loss of AASC contract<br>• Risk 6: Serious loss to branch after adverse incident |
| **3** **Inflationary cost pressures (including increases in taxation)** | Deficit between sales rate increases compared to cost base resulting in a 2.0% 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. | This scenario is not directly linked to any single principal risk. Emerging risks such as "Legislative changes" and "Political/macro-economic change" are closely monitored but their potential severity sit below the level to be classed as a principal risk. |
| **4** **Cyber** | Cyber breach impacting upon lead operating systems causing an additional 20 days' revenue tied up in working capital. | • Risk 1: Cyber risk<br>• Risk 4: Data breach |

No mitigating actions were applied when modelling any of the above scenarios which was considered conservative and not 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 share buybacks) 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. It is possible to construct scenarios where either multiple occurrences of the same risk, or single occurrences of different significant risks, could put pressure on the Group's ability to meet its financial covenants. 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 2b (loss of AASC contract), 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 results 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 the Group continually reviews mitigating actions to minimise residual risk.

The Group's revolving credit facility (RCF) runs 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 financial covenant ratios within the RCF are outlined within the Financial Review on page 54.

The Directors recognise that there is naturally uncertainty within any forecast and this uncertainty increases as the projections extend across the four-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 and sustainability information statement

We have complied with the requirements of sections 414CA and 414CB of the Companies Act (as amended by the Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022) through the information in the table below and other disclosures throughout the Strategic Report.

| Reporting requirement | Policies and standards which govern our approach | Additional information and risk management |
|---|---|---|
| **Stakeholders** | • Responsible Business Charter<br>• Data protection<br>• Scottish Business Pledge<br>• ISO 44001 (Collaborative Business Relationships)<br>• Monitoring right first time, customer complaints and customer satisfaction | • Board Activities – page 74<br>• Section 172 Statement – pages 30 and 31<br>• Business Model – pages 4 and 5<br>• Customer Satisfaction – page 20<br>• Stakeholder Engagement – page 27 |
| **Environmental matters** | • ESG approach<br>• Our Pathway to Net Zero document<br>• FTSE4Good Index membership<br>• ISO 14001 (Environmental Management Systems) certification | • ESG reporting website – www.mearsgroup.co.uk<br>• ESG Approach – pages 32 and 33<br>• TCFD Report – pages 34 to 45<br>• Carbon Emissions Statement – page 43<br>• Case Study (Pathway to Net Zero) – page 18 |
| **Employees** | • Whistleblowing<br>• Safeguarding<br>• Equality, diversity and inclusion<br>• Approach to labour standards compliance<br>• Health and safety<br>• Red Thread guiding principles<br>• Royal Society for the Prevention of Accidents Order of Distinction | • Our People and Culture – pages 28 and 29<br>• Gender Pay Gap Report – www.mearsgroup.co.uk<br>• Corporate Governance – pages 71 to 73<br>• Remuneration Report – pages 88 to 109 |
| **Human rights** | • Modern slavery and human trafficking<br>• Preventing engagement of child labour<br>• Whistleblowing policy<br>• Family Friendly policy | • Modern Slavery Act – www.mearsgroup.co.uk<br>• Corporate Governance – pages 71 to 73 |
| **Anti-bribery and corruption** | • Anti-bribery and corruption<br>• Independent research into ethical procurement sponsored by Mears<br>• Responsible Business Charter | • Anti-Fraud and Anti-Bribery policy – www.mearsgroup.co.uk<br>• Report of the Audit and Risk Committee – pages 80 to 87 |
| **Social matters** | • ESG approach<br>• ESG Board<br>• Our Pathway to Net Zero document<br>• Social Value UK Certificate Level 2<br>• FTSE4Good Index membership<br>• Mears Scrutiny Board<br>• Social Mobility Index | • ESG – pages 32 and 33<br>• Corporate Governance – pages 71 to 73<br>• Stakeholder Engagement – page 27 |

# Risk management

Mears' strategic objectives can only be achieved by taking an appropriate level of risk in accordance within 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

### 1st 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 at 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

### 2nd 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, which include the Group's Chief Executive Officer, Health and Safety Director and internal health and safety legal adviser

### 3rd line of defence

#### 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

Read more in the **Report of the Audit and Risk Committee** on pages 80 to 87

## 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 as we seek to properly identify 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 a risk to be monitored. 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 and emerging 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.

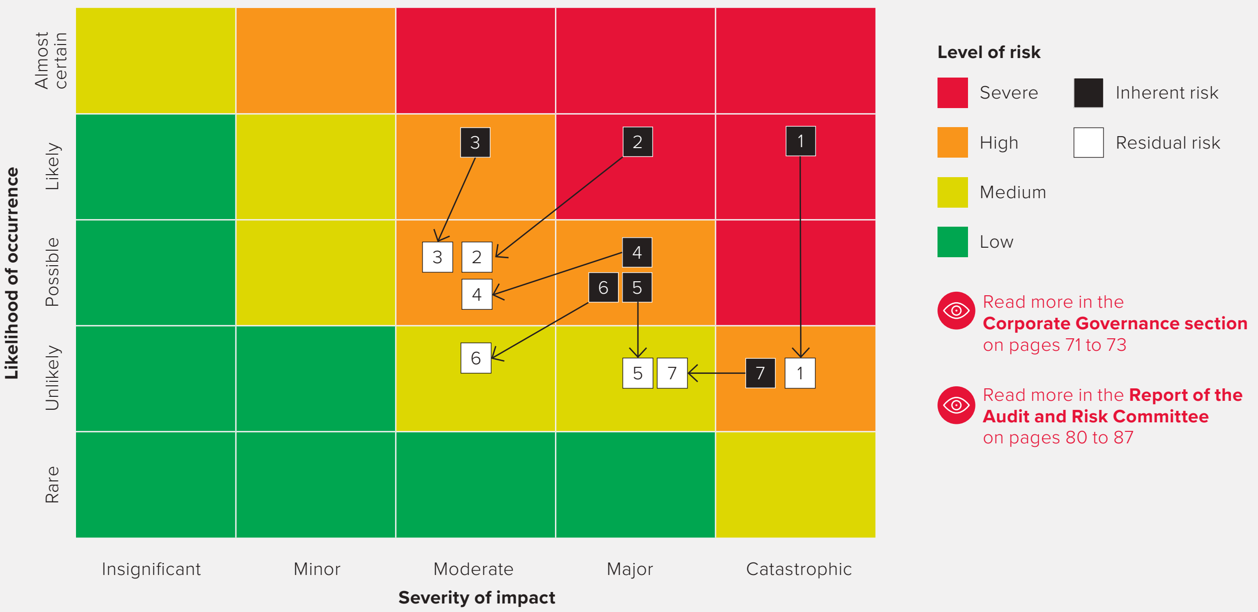
The Group’s principal risks are identified on the pages that follow, together with how we mitigate those risks. Each principal risk is considered in the context of how it relates to the achievement of the Group’s strategic objectives. The risk discussion includes assessment of gross risk and net risk.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

# **Risk management** continued

## Principal risk heat map

The Mears principal risk heat map as at 31 December 2024 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 71 to 73

Read more in the **Report of the Audit and Risk Committee** on pages 80 to 87

| No. | Risk title | Risk owner | Link to strategic pillar |
|---|---|---|---|
| 1 | Cyber attack including ransomware, phishing, hacking, data leakage or insider threat | Technology Director/Company Secretary | 1 2 4 |
| 2 | Breaches of health and safety and related legislation | Compliance Committee | 1 2 3 4 |
| 3 | Breaches of property standards and related legislation | Compliance Committee | 1 2 3 4 |
| 4 | Major data breach involving the release or publication of personal data | Technology Director/Company Secretary | 1 2 4 |
| 5 | Loss of AASC during contract period due to service failure, or failure to retain AASC or successor contractor at renewal | Chief Strategy Officer | 1 3 |
| 6 | Serious damage to brand following adverse event | Chief Executive Officer and Chief Strategy Officer | 1 3 4 |
| 7 | Large-scale Group-wide or nationwide incident such as pandemic, loss of IT systems or data, power cuts or communication system failures | Chief Executive Officer and Technology Director/Company Secretary | 1 2 |

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 strategic pillar**

1 **Pillar 1**
**Driving underlying growth**
We see significant opportunity at both Central and Local Government level.

2 **Pillar 2**
**To always place the customer at the heart of all we do**
We have a clear objective to have the highest levels of customer service in our sectors, with particular expertise in supporting more vulnerable and complex customer groups.

3 **Pillar 3**
**Disciplined approach to improving standards and efficiency**
Become more efficient and effective in the delivery of essential programmes and initiatives. This goal underpins our ability to achieve the other goals. This covers people, technology, and change management.

4 **Pillar 4**
**Responsibility and sustainability**
We will maintain our strategy to be seen as the most responsible large company working with the public sector; this is more important to our future success than it has ever been. ESG is central to Mears' culture and has never been a tick box exercise; this is key to what makes us different.

## Risks downgraded from principal risks since the last year end

During the year management has devoted significant time to refreshing the Group's risk register in terms of risk identification and grading. As part of that process, a number of risks that were previously categorised as principal risks have subsequently been downgraded as they are no longer believed to carry a risk level in order to be categorised as a principal risk. These are detailed further below:

| Prior risk title | Explanation for latest assessment |
|---|---|
| **Subcontractor management** | Although there are commercial and financial risks associated with subcontractor management, the key reason this risk was previously categorised as a principal risk was the potential for a serious health and safety incident which involved a subcontractor. However, this risk is deemed to be better incorporated within principal risk 2, "Breaches of health and safety and related legislation". The other elements of subcontractor management are not currently considered to fall into the catastrophic or severe category sufficiently for this risk to be categorised as a principal risk. This risk will be included in both the business unit risk registers. |
| **Discrimination** | Although there are financial and reputational risks associated with individual incidents of perceived or actual discrimination, the financial implications are not considered to meet the catastrophic or severe criteria sufficient to be categorised as a principal risk. The reputational element is incorporated within principal risk 7, "Serious damage to brand following adverse event". Discrimination is included within the workforce risk register as well as individual business unit risk registers. |
| **Political change** | This risk is not currently believed to fall into the catastrophic or major category sufficient to be categorised as a principal risk. There is no indication at the moment that the change in Government at a national level will lead to a fundamental shift in approaches to outsourcing or changes to contract models which would pose such a risk. Although the regulatory framework governing building safety and property compliance is anticipated to become increasingly onerous, this again is not deemed to pose a catastrophic or severe risk to Group operations. This risk will be included in both business unit risk registers. Political and macro-economic change is now included as a risk to be monitored and will continue to be kept under review. |
| **Succession and resourcing** | Succession planning and recruitment strategies are in place and although there are continuing pressures in certain areas of the workforce such as particular trades, this does not pose a risk currently believed to fall into the catastrophic or severe category sufficient to be categorised as a principal risk. These risks are included within the workforce risk register as well as at a business unit level. Succession planning across the senior executive team is now included as a risk to be monitored and will continue to be kept under review. |

# Risk management continued

## Other risks that require monitoring

In addition to the known principal risks, we identify and analyse those risks which may be emerging, or which fall below the level of severity to be categorised as a principal risk but require monitoring and mitigation as part of our existing risk management processes. 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.

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

| Risk title | Risk detail |
|---|---|
| **Climate change** | The risk that the Group does not identify/manage the risks and opportunities associated with changes in environmental legislation and 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. |
| **Legislative changes** | Changes to building, fire safety and/or other legislation that result in higher cost to comply with requirements and/or increased scrutiny from regulators. |
| **Artificial intelligence (AI)** | Both the risk that the Group fails to capitalise on the opportunities offered by the development of AI and the risk that failures in use of AI damage the reputation and/or operations of the Group. |
| **Political/macro-economic change** | The risk that the Group does not identify/manage the risks and opportunities presented by the changing political/economic environment. |

# 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.

**Level of risk**

Severe High

Medium Low

## 1 Cyber attack including ransomware, phishing, hacking, data leakage or insider threat

| | |
|---|---|
| Gross risk level | Severe |
| Net risk level | High |

### How we manage and mitigate the risk

- Penetration tests carried out daily with a comprehensive annual externally facilitated test
- Daily vulnerability scans via our Rapid7 software
- PC/laptop build reviews completed as required
- Red teaming exercises conducted as required
- Disaster Recovery Plan reviewed annually
- Mandatory information security and data protection training for staff at induction and annually thereafter
- Spam and web filtering for all users
- Multifactor authentication for accessing Mears services to add an additional layer of authentication as well as passwords
- Annual internal phishing tests for all users
- Threat detection and management tools such as Rapid7 and Microsoft Defender
- Employment background checks to vet staff (vetting type relevant to the role)
- Retained incident/breach response services available
- Network access controls to block non-Mears devices from working when being plugged in to the Mears network

## 2 Breaches of health and safety and related legislation

| | |
|---|---|
| Gross risk level | Severe |
| Net risk level | High |

### How we manage and mitigate the risk

- Internal SHEQ department providing support to operational teams and carrying out regular audits
- Extensive bespoke suite of policies, procedures, risk assessments and method statements provided to all staff
- Mandatory health and safety training provided which is centrally monitored
- Safe start risk assessment process in place for operatives
- Processes in place to manage risk of violence and aggression from customers or service users towards staff and others such as training, warning flags, do not visit alone flags, or other controls such as lone working devices
- Mental health and wellbeing strategy in place for staff including the provision of support such as EAP, access to mental health first aiders and other services, which is subject to external accreditation (Mind)
- Operational staff provided with training in safeguarding, mental health and wellbeing relating to service users and customers
- Periodic branch reviews by SHEQ Managers and operational management of performance with business improvement requests issued to managers and action completions are tracked
- Serious Incident Protocol in place
- Mears Protect incident reporting and recording system in place
- ISO 45001 certification
- Independent internal and external auditing of health and safety systems by KPMG, DNV and RoSPA
- Specialist in-house health and safety legal resource in place
- Compliance Committee (reporting to the Audit and Risk Committee) provides oversight over all significant health and safety incidents
- Subcontractor due diligence carried out at onboarding (renewed periodically according to risk rating), subcontractor auditor in place and health and safety training provided to subcontractor personnel

# Principal risks and uncertainties continued

## 3 Breaches of property standards and related legislation

Gross risk level: High

Net risk level: High

### How we manage and mitigate the risk

- Internal Gas and Electrical compliance teams providing support to operational teams and carrying out regular audits
- External expert support obtained for management of Higher Risk Buildings
- Close input from in house legal team provided at the acquisition of large sites / properties
- In house fire safety specialists in place
- Internal SHEQ department providing support to operational teams and carrying out regular audits
- Extensive and bespoke suite of Policies, Procedures, Risk Assessments and Method Statements provided to all staff
- Periodic branch reviews by internal commercial review team
- Regular inspections of properties carried out by relevant operational teams
- Close liaison and joint inspections carried out with local authorities, fire service and Home Office representatives
- Licensing teams in place to manage HMO and other license requirements
- Serious Incident Protocol in place
- Specialist in house health and safety legal resource in place
- Compliance Committee (reporting into Audit Committee) provides oversight over all significant property standards issues/incidents arising
- Subcontractor due diligence carried out at on-boarding (renewed periodically according to risk rating), subcontractor auditor in place and H&S training provided to subcontractor personnel

## 4 Major data breach involving the release or publication of personal data

Gross risk level: High

Net risk level: High

### How we manage and mitigate the risk

- Numerous controls around data security, integrity, etc., such as Cisco Firewalls to block malicious traffic
- Network access controls to authenticate users onto network connected devices
- Network access controls to control access to Wi-Fi, with machine certificate-based authentication to ensure only Mears users can access the corporate Wi-Fi
- Web and spam filtering
- Email filtering to block suspicious emails such as malware and phishing
- Zone-based firewalls configured on branch routers allow only authorised users to access the internet
- Event Log Analysis systems identifies malicious actions on a user's account or Mears hardware
- Windows Domain Security provides threat detection monitoring for all Windows-based assets
- Penetration tests carried out daily with a comprehensive annual externally facilitated test
- Employment background checks to vet staff (vetting type relevant to the role)
- Mandatory information security and data protection training for staff at induction and annually thereafter
- Application of principles of least privilege access to data means users have the minimum access levels required to do their job
- Control the use of portable storage devices by only allowing specific device types to work when plugged into a USB
- Email policy and controls prevent sending emails to staff personal email addresses
- Encryption and remote wipe capabilities for mobile devices
- Annual internal phishing tests for all users
- Threat detection and management tools such as Rapid7 and Microsoft Defender used to identify possible data leaks, large data uploads and other suspicious behaviour from internal users

**Level of risk**

Severe | High | Medium | Low

## 5 Loss of AASC during contract period due to service failure, or failure to retain AASC or successor contractor at renewal

Gross risk level — High

Net risk level — Medium

### How we manage and mitigate the risk

- Bespoke bid strategy will be implemented in advance of any retender, with close engagement and support with/by Executive team and central services
- Proactive engagement with Home Office regarding contract and operational performance, compliance, retendering, etc., to include Key Account Director maintaining regular dialogue with senior civil servants with responsibility for contract delivery
- Regular PLC Board level scrutiny of contract management, performance and retention strategy
- Active engagement with Home Office, Local Authorities and other stakeholders to effectively manage/resolve/defend property standards/licensing inspections/service user welfare/other operational activity issues
- KPI performance proactively managed by AASC quality team with monthly reporting to client
- Housing, welfare and safeguarding teams providing required management, signposting and support to service users and reporting criteria to appropriate authorities/stakeholders
- Compliance, repair and maintenance systems in place to ensure property standards are maintained
- Support and guidance received from Connect to facilitate effective communications with MPs, political correspondents and other stakeholders raising constituency enquiries
- The Compliance Committee reviews all significant incidents, events and issues, providing guidance, advice and support to operational teams regarding mitigations and/or remediation plans
- Regular meetings attended by relevant senior and operational staff from Mears and the client including the quarterly strategic review management board (SRMB) performance management meeting and the quarterly Executive Oversight Board (EOB), as well as meetings dealing with acquisitions, pipeline, dispersals, and all key areas of operations

## 6 Serious damage to brand following adverse event

Gross risk level — High

Net risk level — Medium

### How we manage and mitigate the risk

- Policies on brand guidelines, crisis and reputation management and social media use in place
- External and internal PR/communications teams in place providing guidance to senior operations in dealing with response to adverse events and coverage, as well as proactive communications strategy signed off at Board level
- External media monitoring service engaged providing daily updates to leadership team also covering social media activity

## 7 Large-scale Group-wide or nationwide incident such as pandemic, loss of IT systems or data, power cuts or communication system failures

Gross risk level — High

Net risk level — Medium

### How we manage and mitigate the risk

- Use of a top tier network mobile phone provider
- The use of alternative providers is kept under review in the procurement of IT solutions such as hardware and telephony
- Outsourced IT support of mobile devices
- Mobile device management on handheld devices
- Disaster Recovery Plan reviewed annually
- Hourly backups of Mears data
- Strong remote working abilities such as Teams and working from home

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

**L J Critchley**
Chief Executive Officer
9 April 2025

# Corporate governance

## Chairman's introduction

# Good governance is central to making good decisions

As detailed in my Chairman's Statement, I am delighted at the continued strong performance of the Group.

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 2024. 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 2024, the Board considers that it has applied the principles of good governance set out in the UK Corporate Governance Code 2018 (the 'Code').

### Executive succession

As covered in my report last year, the transition of the CEO role from David Miles to Lucas Critchley was carefully planned over a period of time. Lucas has clearly established himself in the CEO role and I am delighted with the progress made in the first year under his stewardship. Together with Andrew Smith, we have a focused and fully aligned senior executive team.

Following the completion of the update to the Group's five-year strategic plan, we have identified the requirement for a number of additions to the management team to underpin the delivery of the Group's key strategic objectives in coming years. This recruitment is underway and, together with the quality talent that already exists within the business, puts the future in good hands.

The Board and Nominations Committee will continue to focus on succession planning across the senior executive team. I continue to meet, individually, all the members of 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 of 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 the opportunity to develop further as leaders of the business over the long term.

### Board composition and changes

Following the significant changes to the Board in recent years, 2024 was a period of relative calm and an opportunity to reset the way the Board operates and interfaces with the business. I believe we have made good progress on the effectiveness of the Board and this was confirmed in a review by an external facilitator which is set out in more detail below. I would like to thank all my fellow Board members for their energy and openness in effecting these improvements.

Following the changes to the Employee Director arrangements during 2023, I am pleased to report continued progress in this area. This team, under the guidance of Hema Nar, has firmly established its role and purpose within the business and provides an invaluable link between the Board and the wider workforce. The development of the roles of the Deputy Employee Director and the Trade Representative have further enhanced the effectiveness of this team.

As required by governance guidelines, Dame Julia Unwin's tenure on the Board will come to a natural end on 31 December 2024. Julia has been a key contributor to the Board over the last decade and brought a unique perspective to many debates and discussions. The Board has benefited from Julia's extensive and varied experience and her contribution will be missed. On behalf of the Board, I would like to thank Julia for her many years of service and wish her well for the future.

The current Mears Board is significantly smaller in size compared to when I joined in 2019 and I believe this has been a factor in the improvements in the effectiveness of the Board and its success in recent times. Notwithstanding this, in order to ensure we continue to maintain a strong independent Board with the required skills and experience, we plan to recruit an additional Non-Executive Director during 2025.

## Board evaluation

During the year, the Board reviewed its effectiveness by way of an external facilitator, Independent Audit Limited. This Company has supported two previous Board effectiveness reviews but holds no other connections with related parties or linkages to the other directorships of any Board member. This review included an observation of a Board meeting and two Committee meetings, and interviews with all members of the Board, the Company Secretary and external advisers. It was pleasing that the external facilitator recognised good progress since the previous review. The strength of the Chairman, the interactions of the Chairman and CEO, and regular branch visits by NEDs were amongst a number of positive highlights identified. One challenge raised related to the size of the Board, especially in the light of the imminent departure of Julia Unwin, and the external facilitator encouraged the Board to carry out a review of the Board make-up and skills matrix to ensure that the Board remains firmly independent and maintains a wide range of diverse perspectives. In addition, it was suggested that the Board should have more regular exposure to members of the senior leadership team.

## 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, highlighting changes and trends, and inviting debate around shareholder feedback and the delivery of key messages. 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
9 April 2025

# 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
Hoburne Group Limited

### Tenure
Five years

### Committee membership
N R

## 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
20 years (Joined the Board in 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
25 years (Joined the Board in 2007)

## Angela Lockwood
Senior Independent 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
National Housing Federation Board, North East Advisory Board of Business in the Community

### Tenure
Three years

### Committee membership
AR N R

**Committee key**

N Nominations Committee

AR Audit and Risk Committee

R Remuneration 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 Group plc.

### Principal external appointments
Oriflame Investment Holding AG (Warsaw listed), AG Barr plc

### Tenure
1 year

### Committee membership
AR N R

## 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 in 2023)

## Dame Julia Unwin
Non-Executive Director (retired on 2 January 2025)

### 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)

### Tenure
Nine years

### Committee membership
AR N R

## 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 in 2014)

# Roles and responsibilities

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

For the year ended 31 December 2024, the Company complied with all the provisions of the Code and the Disclosure Guidance and Transparency Rules requirement to provide a corporate governance statement.

## How we comply with the Code

### 1 Board leadership and Company purpose

The role of the Board is set out on page 72.

Our strategic pillars, values and business model are set out on pages 4 to 15.

How the Board engages with stakeholders is detailed on pages 76.

The Board's Section 172 Statement is on pages 30 and 31.

The Group's approach to risk management is detailed on pages 58 to 62.

The Group's policies and practices are listed on page 57.

The Group's financial viability report can be found on pages 55 to 56 and the going concern review is in note 1 of the Notes to the Financial Statements – Group.

### 2 Division of responsibilities

How we are governed is set out on pages 72 and 73.

The division of responsibilities is detailed on page 70.

The activities of the Board and the NEDs during 2024 are detailed on page 74.

### 3 Composition, succession and evaluation

Board performance review and effectiveness can be found on page 77.

The Report of the Nominations Committee can be found on pages 78 and 79 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.

### 4 Audit, risk and internal control

The Report of the Audit and Risk Committee can be found on pages 80 to 87 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.

### 5 Remuneration

The Report of the Remuneration Committee can be found on pages 88 to 109 and 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

## How we are governed

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 2024 are set out on page 74. The composition of the Board is set out on pages 68 and 69. The Chairman's Statement is set out on pages 2 and 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 2024 is set out on pages 80 to 87.

## 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 2024 is set out on pages 88 to 109.

## 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 2024 is set out on pages 78 and 79.

## 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 22 to 25 of this Annual Report.

## 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 2024, 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 2024

| Director | Position | Board | Audit and Risk Committee | Nominations Committee | Remuneration Committee |
|---|---|---|---|---|---|
| Jim Clarke | Chairman | 10/10 | – | 1/1 | 3/3 |
| Lucas Critchley | CEO | 10/10 | – | – | – |
| Andrew Smith | CFO | 10/10 | – | – | – |
| Hema Nar | Employee Director (non-statutory) | 9/10 | – | – | – |
| Julia Unwin | Independent Non-Executive Director | 10/10 | 4/4 | 1/1 | 2/3 |
| Angela Lockwood | Independent Non-Executive Director | 10/10 | 4/4 | 1/1 | 3/3 |
| Nick Wharton | Independent Non-Executive Director | 10/10 | 4/4 | 1/1 | 3/3 |

# Board activities

### January 2024
- Board approved Notice of General Meeting to authorise the Company to purchase up to 10% of its shares in the market

### February 2024 Board meeting
- Board considered and approved Going Concern Statement and Viability Review
- Board considered assessment of valuation before approving third buyback programme
- Board received and reviewed feedback on Political Stakeholder engagement

### April 2024 Remuneration Committee
- Finalisation of Long Term Incentive Plan and annual bonus targets for 2024

### April 2024 Board meeting
- Maintenance business unit deep dive
- Customer Scrutiny Board update
- Approval of Annual Report 2023 and associated market announcements
- Approval of final dividend for 2023
- Approval of Notice of Meeting for 2024 AGM
- Approval of Modern Slavery Act Statement
- Presentation to Board by Employee Representative team

### June 2024 Board meeting
- Central Government Contracts deep dive
- Considered the results of the staff survey
- Deutsche Numis broker presentation; investor engagement

### July 2024 Audit and Risk Committee
- Consideration of key estimates and judgements relating to interim results

### August 2024 Board call
- Approval of half-year results announcement
- Approval of interim dividend for 2024

### August 2024 Strategy Day
- Reviewed and approved refreshed five-year strategic plan 2024 to 2028
- Approved fourth buyback programme

### September 2024 Board meeting
- Approval of tax strategy
- Board received feedback on CEO meetings with Members of Parliament

### October 2024 Board call
- Review and approval of Q3 revised forecast and associated market announcement

### November 2024 Board meeting
- Detailed Technology update and linkage to five-year strategic plan
- Approval of Corporate Criminal Offence policy

### November 2024 Audit and Risk Committee
- Approval of the updated Group principal risk register
- Approval of the internal audit plan for 2025

### December 2024 Board meeting
- Approval of 2025 Business Plan
- Workforce matters deep dive, presentation by HR Director
- Approval of the effectiveness of the internal controls during 2024

# NED branch visits

The Board recognises the importance of the Non-Executive Directors engaging with colleagues at different levels across the business, providing direct exposure to our values and culture, whilst increasing the understanding of a range of contracts to broaden knowledge of our business activities.

**January 2024**
- NED visit to Milton Keynes branch

**February 2024**
- NED visit to Havering branch

**March 2024**
- NED visit to AASC Darlington branch

**April 2024**
- NED visit to Leeds branch
- NED visit to Sedgefield branch

**May 2024**
- NED visit to Milton Keynes branch

**June 2024**
- NED two-day branch visit to AASC Belfast
- NED branch visit to North Lanarkshire branch, before the new contract start

**July 2024**
- NED visit to RLAP Basingstoke branch

**September 2024**
- All NEDs attended the newly mobilised North Lanarkshire branch

**October 2024**
- NED visit to Peterborough branch

**November 2024**
- NED visit to ARAP Loughborough branch

**December 2024**
- All NEDs attended the new registered office in Gloucester

# Stakeholder engagement

## Board engagement with key stakeholders

Within the Strategic Report, we detail who we consider to be 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 pages 30 and 31 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 relationships with Barclays, HSBC and Citibank.

## Annual General Meeting

Shareholder participation at each Annual General Meeting is usually encouraged. Full details of the 2025 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 February 2025 % IC | Holding at March 2024 % IC |
|---|---|---|
| Fidelity Management & Research | 9.7% | 9.0% |
| JP Morgan Asset Management | 9.2% | 7.8% |
| Gresham House Asset Management | 6.5% | 4.2% |
| Heronbridge Investment Management | 6.4% | 6.4% |
| Dimensional Fund Advisors | 5.3% | 4.9% |
| LOYS AG | 4.5% | 6.4% |
| Schroders Investment Management | 2.7% | 2.6% |
| Artemis Investment Management | 2.6% | 3.1% |
| Acadian Asset Management | 2.6% | 2.3% |

# 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, 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 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 2024 is set out in their biographies on pages 68 and 69.

### 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 2024, the Board had seven 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 intended appointment of a new Non-Executive Director, the Chairman and the Company Secretary have 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 key Board and Committee papers prepared and discussed over the last 12 months, plus a programme of visits to some of the Group's key operating locations.

### f) Commitment

The Directors, both 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 though 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 though the Company Secretary to appropriate external professional advice should that be needed.

The Company maintains Directors' and Officers' liability insurance. As permitted under the Articles and in accordance with best practice, deeds of indemnity have been executed indemnifying each of the Directors and the Company Secretary as a supplement to this insurance cover. The indemnities, which constitute a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006, remain in force for all current Directors and the Company Secretary. The indemnity does not cover Directors or Officers in the event of their behaving fraudulently or dishonestly.

## 2. Evaluation

During the year, the Board reviewed its effectiveness by way of an external facilitator, Independent Audit Limited. This review included an observation of a Board meeting and two Committee meetings, and interviews with all members of the Board, the Company Secretary and external advisers. The strength of the Chairman, the interactions of the Chairman and CEO, and regular branch visits by NEDs were amongst a number of positive highlights identified. One challenge raised related to the size of the Board, especially in the light of the imminent departure of Julia Unwin, and the external facilitator encouraged the Board to carry out a review of the Board make-up and skills matrix to ensure that the Board remains firmly independent and maintains a wide range of diverse perspectives. In addition, it was suggested that the Board should have more regular exposure to members of the senior leadership team.

It is currently expected that the next externally facilitated evaluation will take place during 2027.

# Report of the Nominations Committee

"It is pleasing that the CEO succession process has progressed seamlessly, and Lucas' first year as CEO has been a strongly positive one."

**Jim Clarke**
Nominations Committee Chair

## Meeting attendance

| | |
|---|---|
| Jim Clarke | 1/1 |
| Julia Unwin | 1/1 |
| Angela Lockwood | 1/1 |
| Nick Wharton | 1/1 |

This report briefly describes the key issues debated by the Committee in 2024. 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.

## Executive succession

Recent years have seen the Board and Nominations Committee play a vital role in overseeing the successful transition of Lucas Critchley to Chief Executive, which came to fruition on 1 January 2024. It is pleasing that the CEO succession process has progressed seamlessly, and Lucas' first year as CEO has been a strongly positive one. The former CEO, David Miles, stepped off the Board and has remained a valued member of the senior management team, providing support to the business with particular focus on driving operational and commercial performance.

The Group has recognised a need to strengthen in a number of key areas, and the Nominations Committee has retained oversight of the recruitment process of a number of important Executive positions including a new Group Chief Operating Officer (COO), Group Business Development Director, and Communications Director. These are all expected to be concluded with external appointments. Pleasingly, since the year end, the appointment of the COO position has now been finalised and Antony Cromb joined the Group in March 2025; he will bring a fresh approach, having previously worked outside of the housing sector, but importantly he also has characteristics which carry a strong cultural alignment to those which are important at Mears. He will now benefit from an extensive induction.

During the period, the Group reviewed its technology requirements, recognising that this is an area which is fundamental to the delivery of the Group's strategic plan. It was pleasing to see the Group's Company Secretary, Ben Westran, formally appointed as Group Technology Director, having played an integral role in the development of the Group's business processes and IT systems over many years.

The Board and Nominations Committee will continue to focus on succession planning across the senior executive team. I meet, individually, with all the senior executive team at least once each year, and I continue to be impressed by the quality and strength we have in the Group sitting immediately below the Board level. The Group has a strong track record of developing talent internally, with both Executive Directors 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.

## Employee Director and employee relationship team (ERT)

As reported previously, Hema Nar was appointed as Employee Director with effect from January 2023. This was a position that the Board first appointed in 2018, and Hema is the third person to occupy that role. The value of this role has increased year on year since that time. Mears was one of the first listed companies to take such an innovative step, and there have naturally been learnings over the past six years. A key enhancement, made in 2023, was the addition of both a Deputy Employee Director and a Trade Representative. Since that time, these three individuals have performed regular branch visits, and are highly visible and in frequent contact with the Executive team which has become an increasingly valuable channel of communication.

During the last quarter of 2024, the Group advertised internally for a new Deputy Employee Director and Trade Representative, with the previous incumbents having served their allotted two-year term.

The Board understands the vital role that our workforce plays in the success of the Group. The ERT roles ensure that the Board receives full, open and honest insight into the views from its workforce on how strategic initiatives are being implemented and provides the workforce with a better understanding of how the Board operates. The Board firmly believes that better employee representation improves the quality of decision making.

## 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 can evidence equality, diversity and inclusion for all. We have set out our commitment to this in our Fairness and Inclusion policy and this theme flows through our strategic plan. The Group was pleased to see its ranking in the top 75 of the Social Mobility Index move up to 19th, evidencing the importance that the Group places on fairness and opportunity for all.

I am pleased to report that, throughout the year, the Company complied with the targets outlined within the Listing Rules, with 43% of the Board Directors (including the non-statutory Employee Director) being women. With Julia Unwin stepping down from the Board in January 2025, this reduces to 33% at the current time. The Committee will ensure that the next Board appointment supports a process that encourages a diverse selection of applications. In addition, on the same basis, one Board member is from a non-White ethnic minority background.

Board and Executive Management – Gender

| | Board | | Senior positions on Board | | Executive | |
|---|---|---|---|---|---|---|
| Male | 4 | 57% | 3 | 75% | 17 | 74% |
| Female | 3 | 43% | 1 | 25% | 6 | 26% |
| | 7 | | 4 | | 23 | |

Board and Executive Management – Ethnicity

| | Board | | Senior positions on Board | | Executive | |
|---|---|---|---|---|---|---|
| White and Other British | 6 | 86% | 4 | 100% | 22 | 96% |
| Asian | 1 | 14% | 0 | 0% | 1 | 4% |
| Black | 0 | 0% | 0 | 0% | 0 | 0% |
| Not specified | 0 | 0% | 0 | 0% | 0 | 0% |
| | 7 | | 4 | | 23 | |

## Non-Executive Director appointment

As required by governance guidelines, Dame Julia Unwin's tenure on the Board came to an end in January 2025. Julia has been a key contributor to the Board over the last decade and brought a unique perspective to many debates and discussions. The Board has benefited from Julia's extensive and varied experience and her contribution will be missed.

Following Julia's departure, the Board has reduced to six members (including the non-statutory Employee Director); whilst I recognise that this is a small Board, all members believe that the Board has been working effectively. Whilst it is the intention of the Board to recruit a new Non-Executive Director during the course of 2025, this decision is being fully considered and the absence of urgency means that the Committee can fully consider all options. The Committee has reviewed the skills of the current Board membership, whilst also being mindful of the capabilities of senior executive team members who can be called upon to provide support where required. The Committee has recognised the importance for the Board, and the wider Group, to contain sectoral expertise at a senior level with both Local and Central Government clients. The Committee also recognise the importance of the Board holding public relations expertise, given the Group is increasingly engaged in activities with high reputational risk. The recruitment of an additional Non-Executive Director during 2025 will ensure that the Group continues to maintain a strong independent Board with the required skills and experience.

## 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**
9 April 2025

# Report of the Audit and Risk Committee

"The year has seen continued development of our audit and risk management processes. Within this, the migration of the statutory audit to PwC has been both effective and positive with the business benefiting from the fresh experience, audit approach and perspective that PwC has brought."

**Nick Wharton**
Audit and Risk Committee Chair

## Meeting attendance

The Non-Executive Directors who served on the Audit and Risk Committee (ARC) during the year, together with their record of meeting attendance, are detailed in the table below.

| | |
|---|---|
| Nick Wharton | 4/4 |
| Julia Unwin | 4/4 |
| Angela Lockwood | 4/4 |

## Introduction

**On behalf of the Audit and Risk Committee, I am pleased to present this report for the year ended 31 December 2024. The report aims to give stakeholders a clear insight into the way the Committee has discharged its accountabilities, together with the key work performed and issues debated by the Committee to provide assurance in the Group's reported financial outputs.**

We believe several factors enabled the Committee members to effectively discharge their duties and responsibilities through the year. These included a regular programme of meetings and discussions, covering all elements of the Committee's Terms of Reference, each supported by interactions with the Company's management and external and internal auditors and by high quality reports and information. In addition, as Committee Chair, I regularly held discussions with both the internal and external auditors to discuss any issues that may have arisen.

## 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.

## Meetings

During the year, the Committee held four meetings. Meetings were routinely attended by the CEO and CFO with the internal and external auditors and the Chairman of the Company also invited to all meetings. Through such invitation the Committee was attended by all Non-Executive Directors, maximising relevant input and ensuring overall Board efficiency. The Company Secretary acts as secretary to the Committee.

As highlighted above, 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, as a sub-committee to the Audit and Risk Committee, plays a pivotal role in mitigating the most significant risk areas faced by the Group. Within its Terms of Reference, the CC focuses on ensuring the health, safety and wellbeing of our people and those we serve in addition to monitoring the businesses' impact on the environment. The importance the Group places on health, safety and environmental risks is reflected in the membership of the Compliance Committee, which includes the COO, 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.

## Audit and Risk Committee: roles and responsibilities

The primary role of the ARC, which incorporates the CC, is to assist the Board in fulfilling its oversight responsibilities, and it regularly reports to the Board on how it has discharged its responsibilities. These responsibilities 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.
- Reviewing the identification and mitigation of the Group's existing corporate risks and emerging risks.

### 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 Strategy and Corporate Criminal Offence 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.
- Reporting to the Board on how it has discharged its responsibilities.

# Report of the Audit and Risk Committee continued

## Significant events during the year

### Audit tender and transition

Following a tender process which concluded in January 2024, PricewaterhouseCoopers LLP (PwC) was appointed at the Group's AGM as the statutory auditor for the year ended 31 December 2024.

To achieve a smooth transition and allow it to embark on the 2024 audit as well prepared as possible, PwC carried out a programme of activities designed to gain a deeper understanding of the Group's business and financial reporting processes including:

- 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;
- site visits and meetings with key members of the Mears senior management team; and
- walkthroughs of key financial reporting processes.

The Committee remains impressed with the strength in depth of the wider PwC team, pleased with its cultural fit to our business and convinced that PwC's existing IT and data analytics capabilities and the significant further investment that is being made in these areas will drive ongoing improvements to audit quality and efficiency over the long term.

### Tax risk status and tax strategy

During the year, HMRC conducted a business risk review which concluded that the Group should retain its low risk status. This outcome is pleasing, reflecting both management's focus and the investments made in this area to strengthen both controls and governance.

The maintenance of our low tax risk status was a key enabler to the revision of our tax strategy that was revised and approved by the Board during the year.

### Reform of UK Audit and Corporate Governance Framework

The Committee is aware of the recently published 2024 UK Corporate Governance Code and is well progressed in considering its implications, particularly regarding the new provisions relating to malus and clawback and audit committee minimum standards. The Group had previously carried out significant work in respect of the envisaged changes and the final code does not invalidate any of this work. We remain confident that the Committee and Board have a good understanding of the key risks and the controls in place, as required under Code provision 29, and will continue to monitor and report the ongoing effectiveness of internal controls.

### Group risk register

During the year management has devoted significant time to refreshing the Group's risk register in terms of risk identification and classification, e.g. as a principal, functional or emerging risk, together with, where possible, the identification of points of risk mitigation that serve to bring the residual risk within the Group's risk appetite.

It is also our intention to include testing the effectiveness of these identified controls within the internal audit plan for FY25.

### 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 continued to create challenges for the Group, particularly in light of some high profile public protests against such establishments. The Committee worked closely with the operational team and key stakeholders outside the business, to ensure the Group remains in a position to effectively respond to the inherent challenges and ensure our service provision remains safe, compliant and of high quality.

## Activities of the Audit and Risk Committee

In respect of the year to 31 December 2024 the Audit and Risk Committee and the Compliance Committee activities are detailed below:

### Financial reporting

- Reviewed and discussed with the external auditor the key accounting considerations and judgements reflected in the Group's unaudited results for the six-month period ended 30 June 2024
- Reviewed and discussed reports from management on the half and full-year financial statements and considered the significant accounting judgements or where there is estimation uncertainty. The approach to addressing these judgements is detailed on page 121 of this report
- Considered the report from the external auditor in respect of its audit for the year including comments as to the suitability of the accounting policies, the integrity of the financial reporting, any comments on its findings on internal control and key audit risks and a statement on its independence and objectivity
- Reviewed the 2024 Annual Report and Accounts and considered its consistency with the Committee's understanding of the business and discussions with members of the senior management team throughout the period, 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

### Internal audit and risk management

- Received reports from the outsourced internal auditor covering various aspects of the Group's operations, controls and processes, as agreed in the 2024 internal audit plan. Reviewed the response of management to the issues raised
- Received reports from the Chairman on the operation of the Group's Compliance Committee
- Reviewed the Group's risk register and the Group's principal risks in light of the Board's risk appetite for key risk areas, together with the systems and processes for mitigating those risks
- Reviewed the effectiveness of the Group's system of internal controls
- 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 55 and 56. The excellent cash generation and liquidity provide strong foundations for the business and enabled the Committee to successfully stress test the business in the event of a number of downside scenarios
- Monitored fraud reporting, incidents of whistleblowing and monitored the Group's compliance with the Bribery Act 2010
- Reviewed the quality and effectiveness of the outsourced arrangement
- Discussed and approved the internal audit plan for 2025

### External auditor

- Reviewed recommendations arising from the statutory audit for the prior year
- Reviewed and agreed the external auditor's audit strategy memorandum in advance of its audit for the year ended 31 December 2024
- Agreed the proposed audit fee for the year ended 31 December 2024

### Compliance Committee

As a sub-committee of the Audit and Risk Committee, this Committee focuses and reports to the ARC on the monitoring and review of the Group's policies and practices in relation to physical and mental health, safety and environmental (HSE) matters. Within this the key activities of the ARC during the year were as follows:

- Reviewed HSE risks and risk assessments on the risk register and mitigating actions and controls related thereto, including subcontractor controls and related procurement
- Oversaw the Group's response to the Building Safety Act which continues to progress 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, from its strong base where many operational areas have achieved ISO 27001 accreditation, enhancing the level of information available to the main Board
- Significant focus continues to be applied to the AASC, reflecting the elevated activities, the challenging operational environment within short-term hotel accommodation, and the vulnerable nature of its users

# Report of the Audit and Risk Committee continued

## 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 ARC received detailed reports from the CFO and the external auditor on these areas and other matters which it believed should be drawn to the attention of the Committee.

In addition to the specific topics highlighted below, the ARC considered the presentation and explanation of the use of Alternative Performance Measures (APMs). Reports from management and the external auditor on the presentation of APMs in the Annual Report and Accounts for the year ended 31 December 2024 summarised that the use of APMs and statutory figures was generally well balanced and APMs were appropriately labelled and defined, and the ARC was satisfied that APMs were appropriately presented.

**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 |
|---|---|
| **Valuation of defined benefit pension obligations** | • The Committee reviewed the key assumptions proposed by management, notably assumptions in respect of discount rate, RPI, CPI, and future salary increases, which are detailed in note 29 to the consolidated financial statements<br>• Given the technical nature of this area, the Committee placed reliance upon the work of Aon, which is engaged to support management in setting assumptions and consolidating information prepared by the respective scheme actuaries in respect of each of the defined benefit pension schemes<br>• PwC provided additional challenge and applied its own specialist to consider the appropriateness of the assumptions used and provided detailed feedback to the Committee |
| **Revenue recognition** | • See note 2 and note 17 of the financial statements detailing the accounting policy, critical judgements and key sources of estimation uncertainty in respect of revenue and contract assets<br>• PwC performed substantive testing of the amounts recoverable on contracts, adopting a blend of risk-based and haphazard sampling approaches to testing, provided detailed feedback to the Committee<br>• 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. This also included explanation as to how management estimate any profit share due to customers which are recognised as a reduction to revenue and included within contract liabilities<br>• The Committee took assurance 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 20 of the financial statements detailing the accounting policy, critical judgements and key sources of estimation uncertainty in respect of provisions<br>• The Committee reviewed a report prepared by the CFO which included an assessment of loss-making contracts which provided a detailed explanation and forecast to contract expiry. This paper also included an assessment of the discount rates to be applied<br>• PwC provided additional challenge and detailed feedback to the Committee in this area |
| **Valuation and accurate classification of lease accounting and impairment of the right of use assets** | • See note 14 of the financial statements for the accounting policy and the critical judgements<br>• The Committee challenged management in respect of the processes and controls that were in place throughout the year to ensure the classification of the right of use asset. The Committee recognised this to be a high risk area given the complexities of IFRS 16<br>• The Committee's review was a continuation of work carried out in support of the FY23 year end. The Committee was aware of the methodology applied. The CFO also provided an updated assessment of the discount rates utilised on a scheme-by-scheme basis<br>• PwC provided additional challenge, having reviewed the supporting documentation and applied its own specialist to consider the discount rate and provided detailed feedback to the Committee |

## Effectiveness

An important part of the Committee's work is to oversee the Group's relationship with both the external and outsourced internal auditor to ensure the independence, objectivity, quality, rigour and challenge of the audit process is maintained. The Committee typically reviews effectiveness throughout the year and obtains feedback from management to inform this review process. The Committee did not perform a formal evaluation of the effectiveness of the Ernst & Young LLP audit for 2023 due to the external audit tender process having concluded, which resulted in the award to PwC. The focus of the Audit and Risk Committee was directed towards ensuring a smooth transition.

In addition, the Committee will also review its own performance through an evaluation process, linked to the Board evaluation, which periodically is facilitated through an independent external adviser.

## External audit

The Group's external auditor is PwC LLP, which was appointed during the year following a tender process completed in January 2024. The audit partner is Nick Stevenson, who led PwC's participation in the tender process. A number of key members of the audit team were also involved in the tender process such that the learning and knowledge accumulated during the tender has been retained. The transition to a new external auditor was a significant event during 2024 and is detailed more fully on page 82.

## Independence and non-audit services

The Committee regards independence of the external auditor as critical in safeguarding the integrity of the audit process. Annually, the Committee reviews and assesses information provided by the external auditor confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards.

As part of ensuring this independence, during the financial year, on the recommendation of the ARC, the Board adopted a strict policy of limiting the external auditor from carrying out non-audit services, to safeguard audit objectivity and independence. During the period, the Group gained access to an online portal provided by PwC that contains generic technical accounting guidance. An amount of £1,000 has been charged by PwC for this service. No other non-audit services were provided by PwC during 2024.

## 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 58 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, physical and data 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 60 to 65.

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 and subsequently reviews performance against these budgets.

# Report of the Audit and Risk Committee continued

## Internal control and risk management continued

### 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 or the Company 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 2024, and the Committee's priorities for 2025, 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.

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.

## Internal audit

| | | | | Risk addressed in internal audit plan for the year | | | |
|---|---|---|---|---|---|---|---|
| Principal risk description | | Inherent risk rating | Residual risk rating | FY22 | FY23 | FY24 | FY25 |
| 1 | Cyber attack including ransomware, phishing, hacking, data leakage or insider threat | Severe | High | ✗ | ✓ | ✗ | ✓ |
| 2 | Breaches of health and safety and related legislation | Severe | High | ✗ | ✓ | ✗ | ✓ |
| 3 | Breaches of property standards and related legislation | High | High | ✓ | ✓ | ✓ | ✓ |
| 4 | Major data breach involving the release or publication of personal data | High | High | ✗ | ✓ | ✗ | ✓ |
| 5 | Loss of AASC during contract period due to service failure, or failure to retain AASC or successor contractor at renewal | High | Medium | ✓ | ✓ | ✓ | ✓ |
| 6 | Serious damage to brand following adverse event | High | Medium | ✓ | ✗ | ✗ | ✗ |
| 7 | Large-scale Group-wide or nationwide incident such as pandemic, loss of IT systems or data, power cuts or communication system failures | High | Medium | ✓ | ✗ | ✗ | ✗ |

**Level of risk**

Severe | High | Medium

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, which is approved by the ARC each year, is based on risks identified within the Group's audit universe, strategic priorities and consideration of the strength of the relevant control environment.

Customarily, audits are performed by KPMG. However, the Group is increasingly using other specialist third parties where the ARC believes that stronger assurance will be gained based on those organisations' deeper subject expertise. During the year the Group has utilised a third party to review risks within the Group's most significant risk, cyber security.

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, where the benefit of consistent involvement with the Group is being realised through the quality of control observations, best practice benchmarks and recommendations being made to the Committee.

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 2024 comprised the following audits:

### Risk management

- Refresh of principal risks, mitigating actions and assurance review.

### Core controls

- Taxation.

### Specific risk areas

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

Consistent with prior periods, 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 2025 programme was considered and approved by the Committee in December 2024 and performance against this plan will be reported in next year's Annual Report.

**Nick Wharton**
Audit and Risk Committee Chair
9 April 2025

# Report of the Remuneration Committee

"Mears has had another strong year and the Committee is satisfied that pay outcomes reflect the performance of the business during the year."

**Angela Lockwood**
Remuneration Committee Chair

## Meeting attendance

The Non-Executive Directors who served on the Remuneration Committee during the year are detailed in the table below.

| | |
|---|---|
| Angela Lockwood | 3/3 |
| Jim Clarke | 3/3 |
| Julia Unwin | 2/3 |
| Nick Wharton | 3/3 |

This report sets out the key matters which were addressed by the Committee in 2024.

## Dear shareholders

**I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2024, my first full financial year in my role as Chair of the Remuneration Committee.**

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 is now in the final year of its three-year term; and
- 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 2024; and (ii) how we intend to implement the Directors' Remuneration Policy in 2025.

There will be the usual single advisory shareholder vote on the Annual Statement and the Annual Report on Remuneration at the 2025 AGM.

## Business context

The Group reported revenues increasing by 4% to £1,133m. It is particularly pleasing that the Group reported good progress across both strands of its housing business. Securing the award of the new North Lanarkshire Council contract for a minimum of eight years and with an expected annual revenue of £125m was a particular highlight. We were also delighted to see 100% retention on contracts subject to re-bid during 2024, with only a single material contract remaining subject to a re-bid which could impact upon FY25.

Profit before tax increased by 37% to £64.1m (2023: £46.9m), predominantly driven by an improving adjusted operating margin to 5.6% (2023: 4.7%). As well as the Group's ambitions to deliver growth, a primary financial target for the business over recent years has been to see the margin return to above 5%, which is seen as the Group's historical norm.

We were pleased to have been recognised again in the top 10 of the Sunday Times Best Big Companies survey, achieving our highest ever position of seventh. Mears has a diverse workforce of over 5,000 staff. Importantly we have also seen increasing representation of women and ethnic minorities across the Group as our inclusive recruitment and employee development programmes progress.

## Incentive outcomes for 2024

### 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 2024 annual bonus was based 50% on Group adjusted profit before tax, 20% on average daily net cash, and 30% on strategic objectives relating to customer satisfaction, generation of social value and health and safety. 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 (50%)

- The Group delivered adjusted profit before tax of £64.1m, which was above the maximum target of £46.7m and reflected a 37% increase over prior year earnings. We benefited from revenue growth of 4% and, in particular, an improved adjusted operating margin 5.6% (2023: 4.7%). This increase in earnings reflects operating margins in the core housing activities strengthening and volumes in management-led activities reducing at a slower rate than previously anticipated.

#### Average daily net cash (20%)

- The average daily net cash for the year was £59.6m and this was ahead of the maximum target of £46.7m. The targets had assumed a share buyback of £30m while the actual level of buyback was higher at c.£40m. The cash performance reflects the high quality of the Group's earnings and strong working capital management which continues to remain central to our business model.

#### Customer satisfaction, social value generated and health and safety (30%)

- The customer satisfaction criterion was based on the net promoter score (NPS) and our score of 88% was between the threshold and maximum targets resulting in a partial payout. Further detail is given in the strategy and KPI outcomes on pages 20 and 21.
- The economic and social value generated for the communities which we serve is measured as social value created per Mears employee. For 2024, we generated value in excess of the maximum stretch target as detailed on page 100.
- The health and safety objective was based on our accident frequency rate (AFR). Our AFR for the year was 0.21 which was below the maximum target set and has resulted in a full payout against this objective.

Overall, the strong performance over the year resulted in a formulaic bonus outcome of 97.3% 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 recognises the excellent financial performance of the Group. Coupled with strong performance against the non-financial, stakeholder related objectives, the Committee believes the 97.3% bonus outcome for 2024 is appropriate.

## LTIP outcome

LTIP awards were granted to Executive Directors in April 2022. These awards vest subject to the achievement of two performance conditions – relative TSR and earnings per share – measured over a three-year performance period to 31 December 2024. Mears delivered a TSR over the period of 113.8% which ranked the Company near the top of the peer group. EPS for 2024, stated before the impact of share-based payments, was 44.7p which was above the maximum target of 24.0p.

This strong performance against both measures will result in 100% of the awards vesting in April 2025. 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.

## 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 maintain strong staff 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 2025 and applied the increase from 1 January 2025. This resulted in a 2% increase for all our employees (except where employees' pay is linked to national or local agreements).

# Report of the Remuneration Committee continued

## Applying the Policy in 2025

### Base salaries

Last year, the Committee set Lucas Critchley's base salary at £315,000 for 2024 and signalled that it would increase to £365,000 plus the general workforce increase in 2025, subject to strong performance in the role. The Committee is satisfied that Lucas has settled into the role very well and that the proposed increase should apply. Accordingly, Lucas' salary has increased to £372,300 (being £365,000 plus 2.0% general workforce increase).

Andrew Smith's salary will increase in line with the workforce rate of 2.0%, from £315,000 to £321,300.

### Annual bonus 2025

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 retained the four strategic measures used previously 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 2024 and both internal and external forecasts for 2025. The actual targets for 2025 and performance outcomes will be reported retrospectively in next year's report.

## LTIP 2025

Executive Directors will receive awards at the Policy level of 100% of salary. The 2025 LTIP will again continue to consist of two measures, being EPS growth relating to targets for FY27 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 part of our annual bonus scheme based on important ESG objectives, the Committee will keep under review the appropriateness of including an ESG measure in the LTIP for 2026.

## Conclusion

The strengthening trading performance is evidence that the strategic actions of recent years and the strategic review completed during the year have positioned 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 2025 AGM.

Over the course of 2025, the Committee will be reviewing Directors' remuneration ahead of a binding vote on our Directors' Remuneration Policy at the 2026 AGM. We will consult on any changes that might be made and welcome your feedback.

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
9 April 2025

# 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 on 23 June 2023. 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 they 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 97.

| Objective and link to strategy | Operation |
|---|---|
| **Base salary**<br>The purpose of the base salary is to:<br>• help recruit and retain individuals of the necessary calibre to execute the business strategy;<br>• reflect the individual's experience, role and contribution within the Group; and<br>• 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.<br>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:<br>• the performance of the individual Executive Director;<br>• the individual Executive Director's experience and responsibilities;<br>• the impact on fixed costs of any increase;<br>• pay and conditions throughout the Group; and<br>• the economic environment.<br>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.<br>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**<br>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**<br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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**<br>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**<br>Its purpose is to incentivise and reward the delivery of strategic priorities and sustained performance over the longer term.<br>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.<br>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.<br>Dividend equivalent payments may be made on vested LTIP awards and may assume the reinvestment of dividends, on a cumulative basis.<br>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.<br>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.<br>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**<br>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%.<br>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.<br>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; and
- 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:

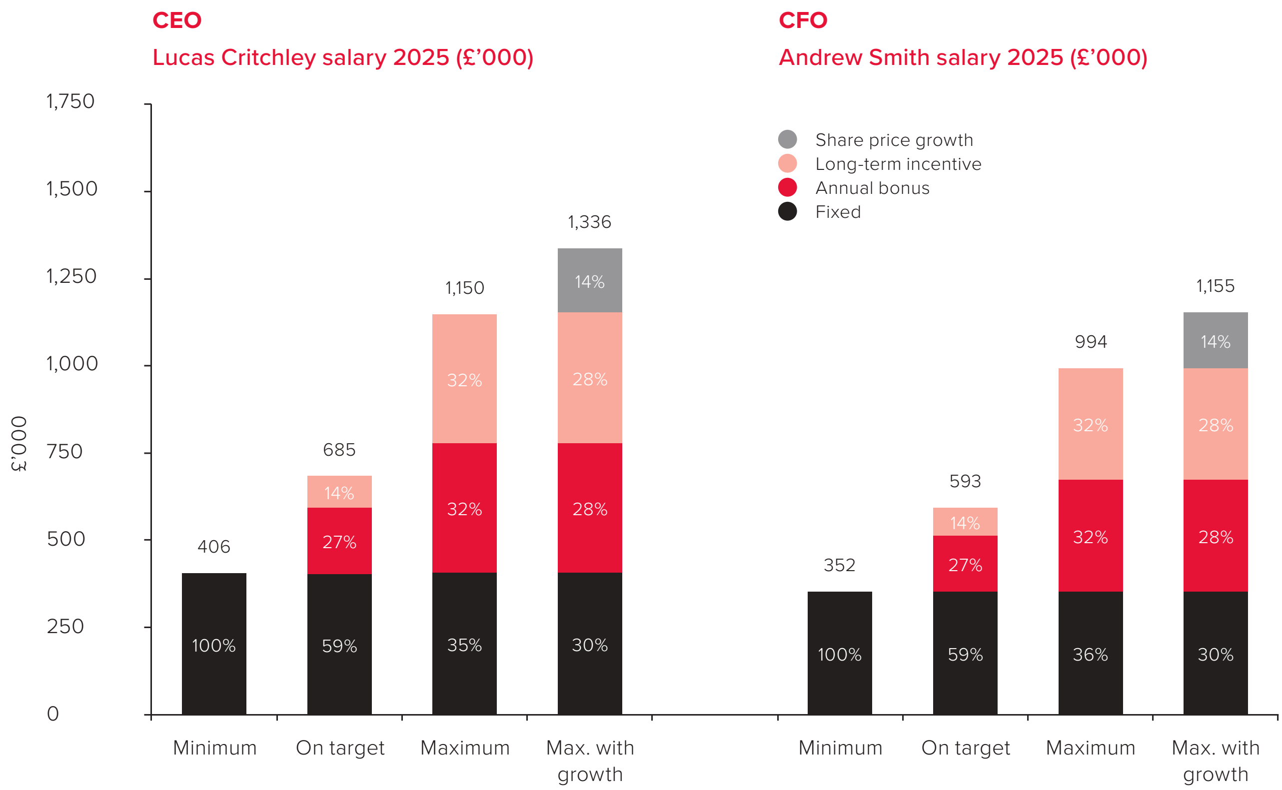
- the individuals participating in the plans;
- the timing of grant of an award;
- the size of an award and/or payment;
- the determination of vesting;
- discretion required when dealing with a change of control (e.g. the timing of testing performance targets), M&A, or restructuring of the Group;
- determination 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.

## Illustrations of application of Remuneration Policy

The Company's Remuneration Policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The composition and total value of the Executive Directors' remuneration packages for minimum, on-target and maximum performance scenarios, along with a maximum performance scenario with a share price growth assumption included, are set out in the graph below.




**Assumptions:**

- Minimum performance includes only fixed pay (base salary from 1 January 2025, the value of 2024 benefits as per the single figure of remuneration table or based on an estimated value, and a 6% salary pension contribution).
- On-target performance includes fixed pay and assumes an annual bonus payout of 50% of maximum and 25% vesting of a 100% of salary grant of LTIP awards.
- Maximum performance includes fixed pay and assumes full bonus and 100% LTIP vesting.
- Maximum performance with share price growth is as per maximum but with 50% share price growth assumed on LTIP awards.

## Approach to recruitment remuneration

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

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

# 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.<br><br>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.<br><br>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.<br><br>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.<br><br>The Chairman receives a single fee and does not receive any additional fees for membership and/or chairing of Committees.<br><br>Non-Executives (excluding Employee Directors) are encouraged to build a meaningful shareholding in Mears Group.<br><br>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.<br><br>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 2024 in the context of our business performance, and from pages 94 and 95 details of how the Committee intends to implement the Policy in 2025.

### 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 survey |

#### 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 **(10%)** | Employee engagement **(10%)** | Health and Safety **(10%)** |

| LTIP (capped at 100% of salary with three-year performance targets) | |
|---|---|
| Total shareholder return | Earnings per share |

# 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 2024 and how it will be implemented for the 2025 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 | Taxable benefits[1] | Pension[2] | Fixed pay and benefits sub-total | Annual bonus[3] | Long-term incentives[4] | Sharesave[5] | Variable pay sub-total | Total remuneration |
|---|---|---|---|---|---|---|---|---|---|---|
| L Critchley[6] | **2024** | **315** | **11** | **19** | **345** | **306** | **–** | **25** | **331** | **676** |
| | 2023 | 221 | 11 | 13 | 245 | 217 | – | – | 217 | 462 |
| A C M Smith | **2024** | **315** | **11** | **19** | **345** | **306** | **548** | **–** | **854** | **1,199** |
| | 2023 | 300 | 11 | 18 | 329 | 295 | 596 | – | 891 | 1,220 |

1 Benefits included a Company-provided car or an allowance in lieu, life assurance and private medical insurance.
2 Lucas Critchley and Andrew Smith received a cash allowance in lieu of pension to the value of 6% of salary.
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 The 2023 LTIP figure reflects the value of awards that were granted on 10 June 2021 and which were based on performance for the three-year period ended 31 December 2023. As the vesting share price for these awards was not known at the time of signing off last year's report, the value of the awards were estimated using the three-month average share price to 31 December 2023 (275p). These awards have now been updated to reflect the share price on the actual date of vesting (10 June 2024 – 380p) and they also include the value of accrued dividends. The April 2022 LTIP awards are based on EPS and relative TSR metrics and both measures have been met in full. As the vesting date for these awards takes place after this report is signed off, the 2024 LTIP value is estimated based on the three-month average share price for the period ending 31 December 2024 (365.2p). The actual value at the date of vesting will be shown in next year's report. 44.6% of the estimated 2024 LTIP value is attributable to share price growth from the date of grant to 31 December 2024. No discretion was applied to the formulaic vesting outcome.
5 Lucas Critchley was granted 6,352 options under a SAYE scheme at a 20% discount to market price during the year; this discount is included in the single total figure of remuneration above. In addition, Lucas Critchley exercised 6,851 SAYE options. The market price on exercise was 382.5p and the exercise price was 93p.
6 Lucas Critchley moved from COO to CEO on 1 January 2024.

# Report of the Remuneration Committee continued

## Annual report on remuneration continued

### Single total figure of remuneration (audited) continued

#### 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 | Taxable benefits | Fixed pay sub-total | Total remuneration |
|---|---|---|---|---|---|
| J Clarke[1] | **2024** | **170** | **–** | **170** | **170** |
| | 2023 | 120 | – | 120 | 120 |
| J Unwin | **2024** | **70** | **–** | **70** | **70** |
| | 2023 | 67 | – | 67 | 67 |
| A Lockwood | **2024** | **80** | **–** | **80** | **80** |
| | 2023 | 72 | – | 72 | 72 |
| N Wharton[2] | **2024** | **80** | **–** | **80** | **80** |
| | 2023 | 4 | – | 4 | 4 |

1 Jim Clarke became Chairman in September 2023.
2 Nick Wharton joined the Board in December 2023.

### 2024 annual bonus outcome (audited)

The performance measures and targets for the annual bonus for the year ended 31 December 2024 are detailed below.

The annual bonus measures for 2024 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, monetary social value generated and health and safety. The actual performance achieved and annual bonus targets are summarised below.

| Measure | Weighting % of salary | Threshold (20% payable) | Maximum (100% payable) | Actual performance for 2024 | Bonus outcome % of maximum |
|---|---|---|---|---|---|
| Adjusted Group PBT[1] | 50% | £42.3m | £46.7m | £64.1m | 100% |
| Average daily net cash | 20% | £42.3m | £46.7m | £59.6m | 100% |
| Customer satisfaction[2] | 10% | 85.0% | 90.0% | 88.3% | 73.0% |
| Accident frequency rate | 10% | 0.27 | 0.25 | 0.21 | 100% |
| Creation of social value[3] | 10% | £2,396 | £2,516 | £2,633 | 100% |
| Total | | | | | 97.3% |

1 Adjusted Group PBT is stated before the amortisation of acquisition intangibles and non-underlying items. There were no adjustments made to profits in FY24.
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 Social value is independently assessed utilising a social value measurement tool and is expressed as an amount generated per employee.

Adjusted Group PBT for the year of £64.1m was ahead of the maximum target set by the Committee and benefited from higher Group revenues and an improved operating margin. It is particularly pleasing to report further strengthening of operating margins given the emphasis that senior management has placed on this measure over the last five years. 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 non-financial measures were based on customer satisfaction, accident frequency rate and creation of social value. The customer satisfaction score of 88% was between threshold and maximum, accident frequency rate was lower than the maximum target, and the Group delivered £2,633 of social value per employee. Overall, performance against the non-financial measures resulted in a payout of 27.3% out of 30%.

The annual bonus outcome resulted in an overall bonus of 97.3% 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 two Executive Directors was £0.6m and is included within the single total figure of remuneration. Two-thirds of the bonus will be paid in cash and one-third of the bonus will be deferred in shares for a period of three years. The right to exercise typically terminates on cessation of service and shorter exercise periods apply to good leavers and in other circumstances.

| | Bonus earned % of salary | Bonus earned £'000 | Cash element £'000 | Deferred element £'000 |
|---|---|---|---|---|
| L Critchley | 97.3% | 306 | 205 | 101 |
| A C M Smith | 97.3% | 306 | 205 | 101 |

## 2022 LTIP vesting (audited)

LTIP awards were granted to Executive Directors on 11 April 2022.

The awards were granted in the form of nominal cost options and are exercisable on 11 April 2025 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 2024. The performance outcomes for the 2022 LTIP are set out below:

| | Weighting | Threshold | Maximum | Actual | % vesting (out of 100%) | % vesting (out of total award) |
|---|---|---|---|---|---|---|
| EPS (2024)[1] | 50% | 21.0p | 24.0p | 44.7p | 100% | 50% |
| Relative TSR[2] | 50% | Median rank | Upper quartile rank | TSR of 113.8% ranked at 3.8 out of 86 companies | 100% | 50% |

1 The actual adjusted EPS for 2024 of 44.7p is based on the total number of shares in issue at the time the award was made and therefore excludes the impact of the share buyback programmes.
2 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. 2024 earnings per share, excluding the impact of the share buyback programmes, was 44.7p which was ahead of the 24.0p 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 17.1% in 2021 to 33.4% in 2024. In light of this, the Committee determined that no adjustment to the EPS performance outcome was required.

Mears delivered a total shareholder return of 113.8% 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 2022 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 £'000 |
|---|---|---|---|---|---|---|
| A C M Smith | 133,409 | 100% vesting | 487 | 63 | 550 | 245 |

1 The value of shares at vesting is estimated using the three-month average share price to 31 December 2024 of 365.2p.
2 The gain on vested awards is £548,000 after deduction of the exercise price of 1p per share

Vested awards are exercisable on 11 April 2025 and will be subject to a further two-year holding period.

The Committee believes this is a fair reflection of performance and no discretion has been applied to the formulaic outcome.

# Report of the Remuneration Committee continued

## Annual report on remuneration continued

### 2021 LTIP vesting (audited)

In last year's report, we reported the vesting of the 10 June 2021 LTIP awards. The vesting value of these awards were estimated based on the three-month average share price to 31 December 2023. The single figure table value for the 2023 LTIP has been updated to reflect the actual share price on the vesting date (10 June 2024) of 380p The LTIP values also include the value of dividends accrued over the three-year vesting period.

| | Number of awards granted | Performance assessment | Value of shares at vesting[1] £'000 | Dividend equivalents £'000 | Value of vested awards (single figure) £'000 |
|---|---|---|---|---|---|
| D J Miles | 213,876 | 100% vested | 813 | 81 | 894 |
| A C M Smith | 142,603 | 100% vested | 542 | 54 | 596 |

1 The value of shares at vesting is based on a share price of 380p on the vesting date, 10 June 2024. The exercise price of the options was 1p.

### Share awards made during the year (audited)

The following LTIP awards were granted on 16 April 2024:

| Director | Face value as % of salary | Face value[1] £'000 | Number of shares | Threshold vesting % of face value | Maximum vesting % of face value | End of performance period |
|---|---|---|---|---|---|---|
| L Critchley | 100% | 315 | 85,520 | 25% | 100% | 31 December 2026 |
| A C M Smith | 100% | 315 | 85,520 | 25% | 100% | 31 December 2026 |

1 The face value of the awards is based on a share price of 368p, 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 16 April 2027. Awards may become exercisable subject to the achievement of relative TSR (25%) and EPS (75%) performance conditions.

| Description | Weighting | Calculation | Targets |
|---|---|---|---|
| Total shareholder return | 25% | 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)<br>Maximum: upper quartile (100% vests) |
| Earnings per share | 75% | Adjusted EPS target relating to the 2026 financial year. None of this part of the award will vest if 2025 EPS is less than 26p; 25% shall vest for EPS of 26p, increasing to full vesting for 29p 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: 26p (25% vests)<br>Maximum: 29p (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 2023 financial year:

| Director | Date of grant | Face value[1] £'000 | Number of deferred shares granted[1] | Vesting date |
|---|---|---|---|---|
| L Critchley | 16 April 2024 | 72 | 19,484 | 16 April 2027 |
| A C M Smith | 16 April 2024 | 97 | 26,448 | 16 April 2027 |

1 The face value of the awards is based on a share price of 368p, 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.

## Outstanding share awards (audited)

| Director | | Awards granted | Maximum award Number | Awards vested Number | Awards lapsed Number | Outstanding awards at 31 Dec 2024 Number | Market price at date of vesting p | Vesting date |
|---|---|---|---|---|---|---|---|---|
| L Critchley | LTIP shares | 16 April 2024 | 85,520 | – | – | 85,520 | – | 16 April 2027 |
| | LTIP shares | 4 May 2023 | 98,295 | – | – | 98,295 | – | 4 May 2026 |
| | Deferred bonus | 16 April 2024 | 19,484 | – | – | 19,484 | – | 16 April 2027 |
| A C M Smith | LTIP shares | 16 April 2024 | 85,520 | – | – | 85,520 | – | 16 April 2027 |
| | LTIP shares | 4 May 2023 | 133,432 | – | – | 133,432 | – | 4 May 2026 |
| | LTIP shares | 11 April 2022 | 133,409 | – | – | 133,409 | – | 11 April 2025 |
| | LTIP shares[1] | 10 June 2021 | 142,603 | 142,603 | – | – | 380 | 10 June 2024 |
| | Deferred bonus | 16 April 2024 | 26,448 | – | – | 26,448 | – | 16 April 2027 |
| | Deferred bonus | 4 May 2023 | 38,114 | – | – | 38,114 | – | 4 May 2026 |
| | Deferred bonus | 11 April 2022 | 38,513 | – | – | 38,513 | – | 11 April 2025 |
| | Deferred bonus[1] | 10 June 2021 | 21,499 | 21,499 | – | – | 380 | 10 June 2024 |

1 The 2021 LTIP and deferred bonus awards vested on 10 June 2024. Both LTIP and deferred bonus awards were exercised on 18 June 2024. The share price on exercise was 361p and the exercise price was 1p per ordinary share. Subsequent to the exercise of the share options, on 20 June 2024, Andrew Smith sold 99,697 ordinary shares and David Miles sold 149,527 ordinary shares at an average price of 361p per ordinary share in order to satisfy tax liabilities resulting from the exercise of the above-mentioned options.

## SAYE awards (audited)

| | Share options at 1 Jan 2024 | Granted in year Number | Grant price p | Lapsed during year Number | Exercised during year Number | Exercise price p | Market price on exercise p | Gains on exercise of share options £'000 | Share options at 31 Dec 2024 | Exercise price p | Earliest exercise date | Latest exercise date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| L Critchley | 6,851 | 6,352 | 292 | – | 6,851 | 93 | 382.5 | 19 | 6,352 | 292 | 1 July 2027 | 1 July 2034 |

## Statement of Directors' shareholding and share interests (audited)

Directors' share interests as at 31 December 2024 are set out below:

| Director | Number of beneficially owned shares | Options vested but not exercised | Options subject to performance conditions | Options in respect of unvested deferred bonus awards | Total interests held at year end | Shareholding guideline met? |
|---|---|---|---|---|---|---|
| L Critchley | 21,859 | – | 190,167 | 19,484 | 231,510 | No |
| A C M Smith | 407,890 | – | 352,361 | 103,075 | 863,326 | Yes |

There were no changes to the holdings set out above from the period 31 December 2024 to the date of this report.

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

As at 31 December 2024, based on beneficially owned shares, vested but unexercised LTIP awards (on a net of tax basis) and deferred bonus awards (on a net of tax basis), Lucas Critchley and Andrew Smith had shareholdings equal to 36% and 469% of their base salaries respectively (based on a 31 December 2024 share price of 362p).

## Statement of Non-Executive Directors' shareholdings (audited)

Non-Executive Directors' share interests at 31 December 2024 are set out below:

| Director | Number of beneficially owned shares |
|---|---|
| J Clarke | 30,000 |
| A Lockwood | 6,480 |
| N Wharton | – |
| J Unwin | – |

There were no changes to the holdings set out above from the period 31 December 2024 to the date of this report.

# Report of the Remuneration Committee continued

## Annual report on remuneration continued

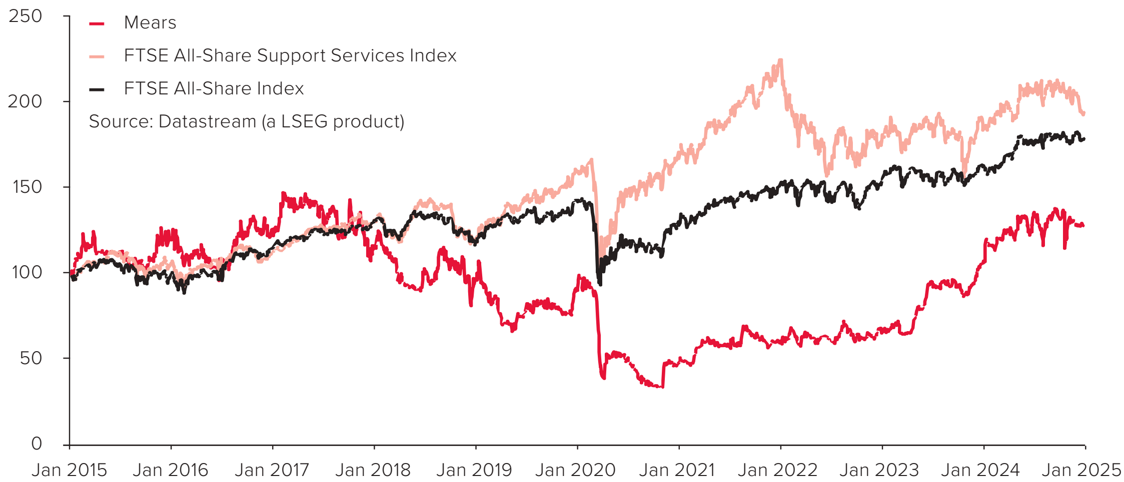
### Shareholder dilution

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. The current dilution is 2.6% of issued share capital.

### Performance graph and table

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 |
|---|---|---|---|---|
| **2024** | **L Critchley** | **676** | **97.3%** | **100%** |
| 2023 | D J Miles | 1,728 | 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% |

## Percentage change in remuneration of Directors compared with other employees

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

| | Remuneration | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary/fee[3] | | | | | Benefits | | | | | Annual bonus | | | | |
| | **2024** | 2023 | 2022 | 2021 | 2020 | **2024** | 2023 | 2022 | 2021 | 2020 | **2024** | 2023 | 2022 | 2021 | 2020 |
| L Critchley | **42.5%** | 41.1% | – | – | – | **–** | 0.6% | – | – | – | **41.0%** | 100.0% | – | – | – |
| A C M Smith | **5.0%** | 11.1% | 0.6% | 2.0% | 2.0% | **–** | 0.6% | – | 22.0% | – | **3.7%** | 13.6% | 10.0% | 187.0% | – |
| J Unwin | **5.0%** | – | 2.5% | – | – | **–** | – | – | – | – | **–** | – | – | – | – |
| J Clarke[1] | **5.0%** | – | 2.1% | – | – | **–** | – | – | – | – | **–** | – | – | – | – |
| A Lockwood[2] | **5.0%** | – | – | – | – | **–** | – | – | – | – | **–** | – | – | – | – |
| N Wharton[2] | **5.0%** | – | – | – | – | **–** | – | – | – | – | **–** | – | – | – | – |
| All employees' salaries | **7.2%** | 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

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 |
|---|---|---|---|---|
| **2024** | **B** | **27.6:1** | **16.8:1** | **8.6:1** |
| 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 |
| 2019 | B | 24:1 | 23:1 | 16:1 |

The 25th, 50th (median) and 75th percentile ranked individuals have been identified using the gender pay gap survey data for 2024, 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 1 October 2024. The CEO pay figure is the total remuneration figure as set out in the single figure table on page 104 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 £23,602, £38,656, and £75,777 respectively. The salary elements for each of these figures are £23,178, £37,711, and £73,933 respectively.

The higher CEO pay ratio for 2023 over earlier years is largely due to the first LTIP award 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. The lower pay ratio for 2024 is a result of no LTIP award vesting for the current CEO who was not in post for the 2021 or 2022 LTIP awards. The Committee considers the median pay ratio to be representative of pay and progression policies at the Company.

# Report of the Remuneration Committee continued

## Annual report on remuneration continued

### Relative importance of spend on pay

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 | **2024 £'000** | 2023 £'000 | % change |
|---|---|---|---|
| Total spend on employee pay | **214,685** | 201,855 | 6.4% |
| Profit distributed by way of dividend[1] | **14,194** | 12,488 | 13.7% |
| Operating profit before non-underlying items (continuing activities) | **72,559** | 52,160 | 39.1% |

1 Profit distributed by way of dividend includes proposed final dividend of 11.25p in 2024 and 4.75p interim dividend per share paid in 2023.

Operating profit before non-underlying items is included as a further point of reference. Further information on this measure is included in the Financial Review within the Strategic Report.

### 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 (audited)

David Miles stepped off the Board on 31 December 2023. David remains an employee of the Group. Having worked the full 2023 financial year, he received an annual bonus for 2023 performance which was delivered as 67% in cash and 33% in deferred share awards. David held unvested deferred bonus shares which were retained and may continue to vest at their normal vesting dates. David's unvested LTIP awards were also 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. The 2021 LTIP award, for which performance conditions were met, vested in June 2024. The 2022 LTIP award, for which performance conditions were met, will vest in April 2025. To the extent that awards vest, dividend equivalents will be payable and a further two-year holding period will apply. David received no LTIP awards after stepping off the Board. Details of the value of the vested 2021 LTIP award are set out earlier in the report. David received no payment for loss of office.

Alan Long stepped off the Board on 31 December 2022. Alan remained an employee of the Group supporting the Executive team until 31 December 2024. Alan held unvested deferred bonus shares which were retained and may continue to vest at their normal vesting dates. Alan's unvested LTIP awards were also 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. The 2021 LTIP award, for which performance conditions were met, vested in June 2024. The 2022 LTIP award, for which performance conditions were met, will vest in April 2025. To the extent that awards vest, dividend equivalents will be payable and a further two-year holding period will apply. Alan received no payment for loss of office. Alan received no LTIP awards after stepping off the Board.

Details of the value of the vested LTIP awards 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 £'000 |
|---|---|---|---|---|---|---|
| D Miles – LTIP 2021 | 213,876 | 100% vested | 813 | 81 | 894 | 451 |
| D Miles – LTIP 2022 | 199,692 | 100% vesting | 729 | 92 | 821 | 367 |
| A Long – LTIP 2021 | 116,675 | 100% vested | 443 | 44 | 487 | 246 |
| A Long – LTIP 2022 | 109,296 | 100% vesting | 399 | 51 | 450 | 201 |

1 The value of LTIP 2022 shares at vesting is estimated using the three-month average share price to 31 December 2024 of 366p.

LTIP 2022 vested awards are exercisable on 11 April 2025 and will be subject to a further two-year holding period.

## Statement of implementation of Remuneration Policy in the 2025 financial year

### Executive Directors

#### Base salary

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

| Executive Director | 2025 £'000 | 2024 £'000 | % change |
|---|---|---|---|
| L Critchley | **372,300** | 315,000 | 18.2% |
| A C M Smith | **321,300** | 315,000 | 2.0% |

Lucas Critchley's base salary as Chief Executive Officer since 1 January 2024 was set at £315,000 which compares to the former CEO's base salary of £404,044. As set out in last year's report, Lucas' salary has been increased to £365,000 plus a workforce salary increase factor of 2.0%, effective from 1 January 2025.

Andrew Smith received a 2.0% salary increase on 1 January 2025 which is in line with the wider workforce increase.

#### Pension

Details of pay in lieu of pension contributions for the year commencing 1 January 2025 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 2025

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%) apportioned equally between customer satisfaction, employee engagement and accident frequency rate.

The Directors consider the exact performance targets to be commercially sensitive. These will be disclosed along with the outcome in the 2025 Annual Report.

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; to securing high levels of positive employee engagement through net promoter scores and validation by external accreditation; and to emphasise the importance of safety 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.

# Report of the Remuneration Committee continued

## Annual report on remuneration continued

### Statement of implementation of Remuneration Policy in the 2025 financial year continued

#### LTIP for 2025

It is intended that awards will be made at 100% of salary to each of the Executive Directors. In 2024, the LTIP population was increased to include senior Mears employees, this will continue in 2025. The Committee considers that 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)<br>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.<br>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: 36.0p (25% vests)<br>Maximum: 44.0p (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 January of each year, and for the following 12 months):

| | **2025 £'000** | 2024 £'000 | % change |
|---|---|---|---|
| Chairman fee | **173,084** | 169,690 | 2.0 |
| Base fee | **55,264** | 54,180 | 2.0 |
| Committee Chair fee | **16,065** | 15,750 | 2.0 |
| Committee membership fee | **5,355** | 5,250 | 2.0 |

The NED fees were increased by 2.0% on 1 January 2025, which is in line with the wider workforce increase.

## 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 Non-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 their 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 in-flight LTIP awards including the 2021 award which is due to vest in June 2024; and
- determined the measures, weightings and targets for the 2024 annual bonus plan and for the 2024 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, Julia Unwin and Jim Clarke.

## 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 by the Committee following a tender process and has provided market updates on pay trends and governance, assisted with Remuneration Report drafting and provided advice on measures and target setting. Fees paid to FIT in relation to advice to the Committee in 2024 were £38,104 (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.

| Item | Votes for | % | Votes against | % | Votes withheld |
|---|---|---|---|---|---|
| To approve the Directors' Remuneration Policy (23 June 2023) | 86,106,493 | 92.9% | 6,546,645 | 7.1% | 7,006 |
| To approve the Directors' Remuneration Report (13 June 2024) | 62,743,858 | 99.3% | 418,395 | 0.7% | 8,227 |

The Committee was pleased with the high level of support provided by shareholders at the 2024 AGM and for our Policy in 2023.

# Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2024.

## 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 2024 of 4.75p per share was paid to shareholders in October 2024. The Directors recommend a final dividend of 11.25p per share for payment in June 2025. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2024.

## Corporate governance

Details of the Group's corporate governance are set out on pages 71 to 73.

## 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 20 and 21.

## Directors

The present membership of the Board is set out with the biographical detail on pages 68 and 69.

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 2024. 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 2024 are detailed within the Remuneration Report on page 103.

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 2024 Annual General Meeting held in June 2024 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 £322,825, plus an additional one-third of the issued share capital of £322,825 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 £48,423 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 9,684,776 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 2024 Notice of Annual General Meeting. Shareholders are also referred to the 2025 Notice of Annual General Meeting, which contains similar provisions in respect of the Company's equity share capital.

## Annual General Meeting

The 2025 Annual General Meeting will be held in June 2025. 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 60 to 65. Details of financial risk management and exposure to price risk, credit risk and liquidity risk are given in note 21 to the consolidated financial statements.

## 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 2024 and this elevated position has continued into 2025. 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 55 and 56, 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 20 days (2023: 23 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 23 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 2024 General Meeting held in February 2024, the Directors completed the purchase and cancellation of 10,940,518 ordinary shares at an average price of 366p per share. In addition, the Employee Benefit Trust purchased 3,168,877 shares at an average price of 367p, and combined with previous purchases holds 4,460,432 shares as at 31 December 2024 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 2025 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 76.

## 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 43.

## 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.

# Report of the Directors continued

## 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 119 to 121. 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 55 and 56. 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

PricewaterhouseCoopers LLP (PwC) offers itself for reappointment as auditor in accordance with Section 489 of the Companies Act 2006.

By order of the Board

**Andrew Smith**
Chief Financial Officer
9 April 2025

# 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, Report of the Directors, 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 position, performance, business model and strategy.

On behalf of the Board

**A C M Smith**
Chief Financial Officer
9 April 2025

# Consolidated statement of profit or loss

For the year ended 31 December 2024

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Sales revenue** | 2 | **1,132,510** | 1,089,327 |
| Cost of sales | | **(879,257)** | (870,557) |
| **Gross profit** | | **253,253** | 218,770 |
| Administrative expenses | | **(181,708)** | (167,096) |
| **Operating profit** | 4 | **71,545** | 51,674 |
| Share of profits of associates | 15 | **1,014** | 486 |
| Finance income | 5 | **5,367** | 5,939 |
| Finance costs | 5 | **(13,785)** | (11,181) |
| **Profit for the year before tax** | | **64,141** | 46,918 |
| Tax expense | 8 | **(17,205)** | (10,258) |
| **Profit for the year** | | **46,936** | 36,660 |
| **Attributable to:** | | | |
| Owners of Mears Group PLC | | **46,526** | 35,204 |
| Non-controlling interest | | **410** | 1,456 |
| **Profit for the year** | | **46,936** | 36,660 |
| **Earnings per share** | | | |
| Basic | 10 | **50.27p** | 32.90p |
| Diluted | 10 | **48.86p** | 31.94p |

The accompanying accounting policies and notes form an integral part of these financial statements. All activities were in respect of continuing operations.

# Consolidated statement of comprehensive income

For the year ended 31 December 2024

| | Note | 2024<br>£'000 | 2023<br>£'000 |
|---|---|---|---|
| **Profit for the year** | | **46,936** | 36,660 |
| Other comprehensive income that will not be subsequently reclassified to the Consolidated Statement of Profit or Loss: | | | |
| Actuarial gain/(loss) on defined benefit pension schemes | 25 | **2,665** | (5,521) |
| Pension guarantee asset movements in respect of actuarial gain | 25 | **(516)** | (408) |
| Deferred tax (charge)/credit in respect of defined benefit pension schemes | 22 | **(537)** | 1,482 |
| Other comprehensive income for the year | | **1,612** | (4,447) |
| Total comprehensive income for the year | | **48,548** | 32,213 |
| | | | |
| **Attributable to:** | | | |
| Owners of Mears Group PLC | | **48,138** | 30,757 |
| Non-controlling interest | | **410** | 1,456 |
| Total comprehensive income for the year | | **48,548** | 32,213 |

The accompanying accounting policies and notes form an integral part of these financial statements. All comprehensive income for the year attributable to owners of Mears Group PLC arises from continuing operations.

# Consolidated balance sheet

As at 31 December 2024

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current** | | | |
| Goodwill | 11 | **121,868** | 121,868 |
| Intangible assets | 12 | **6,244** | 7,046 |
| Property, plant and equipment | 13 | **38,836** | 38,533 |
| Right of use assets | 14 | **272,171** | 233,649 |
| Investments | 15 | **2,274** | 622 |
| Loan notes and other non-current receivables | 21 | **10,195** | 4,458 |
| Pension and other employee benefits | 25 | **23,245** | 19,835 |
| | | **474,833** | 426,011 |
| **Current** | | | |
| Inventories | 16 | **1,173** | 1,463 |
| Trade and other receivables | 17 | **133,205** | 126,690 |
| Current tax assets | | **730** | – |
| Short-term financial assets | 21 | **–** | 7,090 |
| Cash and cash equivalents | 21 | **91,404** | 138,756 |
| | | **226,512** | 273,999 |
| **Total assets** | | **701,345** | 700,010 |
| **Equity** | | | |
| **Equity attributable to the shareholders of Mears Group PLC** | | | |
| Called up share capital | 23 | **908** | 1,016 |
| Share premium account | 23 | **2,581** | 2,332 |
| Share-based payment reserve | | **3,604** | 1,883 |
| Treasury shares | 23 | **(14,985)** | (5,122) |
| Merger reserve | | **7,971** | 7,971 |
| Retained earnings | | **184,028** | 189,428 |
| **Total equity attributable to the shareholders of Mears Group PLC** | | **184,107** | 197,508 |
| Non-controlling interest | | **3,358** | 2,948 |
| **Total equity** | | **187,465** | 200,456 |
| **Liabilities** | | | |
| **Non-current** | | | |
| Pension and other employee benefits | 25 | **–** | 172 |
| Deferred tax liabilities | 22 | **3,518** | 2,905 |
| Lease liabilities | 19 | **230,641** | 199,948 |
| Non-current provisions | 20 | **9,765** | 9,785 |
| | | **243,924** | 212,810 |
| **Current** | | | |
| Overdraft and other short-term borrowings | 21 | **–** | 36,699 |
| Trade and other payables | 18 | **192,278** | 187,035 |
| Lease liabilities | 19 | **66,861** | 54,492 |
| Provisions | 20 | **10,817** | 8,406 |
| Current tax liabilities | | **–** | 112 |
| **Current liabilities** | | **269,956** | 286,744 |
| **Total liabilities** | | **513,880** | 499,554 |
| **Total equity and liabilities** | | **701,345** | 700,010 |

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 9 April 2025.

**L J Critchley**
Director

**A C M Smith**
Director

Company number: 03232863

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

# Consolidated cash flow statement

For the year ended 31 December 2024

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year before tax | | **64,141** | 46,918 |
| Adjustments | 24 | **81,247** | 71,253 |
| Change in inventories | | **290** | 5,416 |
| Change in trade and other receivables | | **(7,021)** | 1,290 |
| Change in trade, other payables and provisions | | **7,551** | 20,346 |
| Cash inflow from operating activities before taxation | | **146,208** | 145,223 |
| Taxes paid | | **(17,407)** | (9,330) |
| Net cash inflow from operating activities | | **128,801** | 135,893 |
| **Investing activities** | | | |
| Additions to property, plant and equipment | | **(29,816)** | (24,347) |
| Additions to other intangible assets | | **(1,442)** | (1,499) |
| Proceeds from disposals of property, plant and equipment | | **141** | 17 |
| Proceeds from sale and leaseback of residential property | 13 | **16,285** | – |
| Distributions from associates | 15 | **147** | 1,135 |
| Movement in short-term cash deposits held for investment purposes | 21 | **7,090** | (5,127) |
| Interest received | | **4,036** | 4,167 |
| Net cash outflow from investing activities | | **(3,559)** | (25,654) |
| **Financing activities** | | | |
| Proceeds from share issue | | **251** | 2,557 |
| Proceeds on distribution of shares from treasury | | **6** | – |
| Purchase of own shares | 23 | **(52,050)** | (37,887) |
| Net cash (outflow)/inflow relating to other credit facilities | 24 | **(11,244)** | 11,244 |
| Discharge of lease liabilities | | **(57,907)** | (48,149) |
| Interest paid | | **(13,262)** | (11,081) |
| Dividends paid – Mears Group PLC shareholders | 9 | **(12,933)** | (11,760) |
| Net cash outflow from financing activities | | **(147,139)** | (95,076) |
| **Cash and cash equivalents, beginning of year** | 24 | **113,301** | 98,138 |
| Net (decrease)/increase in cash and cash equivalents | | **(21,897)** | 15,163 |
| **Cash and cash equivalents, end of year** | 24 | **91,404** | 113,301 |

# Consolidated statement of changes in equity

For the year ended 31 December 2024

| | Attributable to equity shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | Total equity £'000 |
| At 1 January 2023 | 1,110 | 82,351 | 1,801 | – | 7,971 | 119,100 | 1,492 | 213,825 |
| Net profit 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 1 January 2024 | 1,016 | 2,332 | 1,883 | (5,122) | 7,971 | 189,428 | 2,948 | 200,456 |
| Net profit for the year | – | – | – | – | – | 46,526 | 410 | 46,936 |
| Other comprehensive income | – | – | – | – | – | 1,612 | – | 1,612 |
| Total comprehensive income for the year | – | – | – | – | – | 48,138 | 410 | 48,548 |
| Tax credit on share-based payments | – | – | – | – | – | 565 | – | 565 |
| Issue of shares | 2 | 249 | – | – | – | – | – | 251 |
| Purchase of treasury shares | – | – | – | (11,733) | – | – | – | (11,733) |
| Cancellation of shares | (110) | – | – | – | – | (40,207) | – | (40,317) |
| Share options – value of employee services | – | – | 2,622 | – | – | – | – | 2,622 |
| Share options – exercised or lapsed | – | – | (901) | 1,870 | – | (963) | – | 6 |
| Dividends | – | – | – | – | – | (12,933) | – | (12,933) |
| **At 31 December 2024** | **908** | **2,581** | **3,604** | **(14,985)** | **7,971** | **184,028** | **3,358** | **187,465** |

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 2024

## 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 investments 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 2024. 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 domiciled in the United Kingdom (registration number 03232863). Its registered office and principal place of business is 2nd Floor 5220 Valiant Court, Gloucester Business Park, Brockworth, Gloucester GL3 4FE. 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 2024. 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 2024 and the budget for 2025.

The Group reported a net cash position of £91.4m on 31 December 2024, but the Directors believe that the average daily net cash, after adjusting for the full-year impact of the share buybacks and AASC property acquisitions, which averaged £59.3m during 2024, 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 2026 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 2025, 31 December 2025 and 30 June 2026.

The Board approved a budget for 2025 which was considered to reflect strong performance, albeit both operating margin and profit were modelled at a lower level than 2024. The 2025 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 12 months and rolled forward. The forecast for 2025 is based upon revenues generated from existing customer relationships, and a business that is generating contract margins that are broadly in line with recent run rates.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 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 reflecting the preferred delivery through dispersed accommodation and the closure of short-term contingent accommodation, such as hotels.
- The model assumes a partial unwind in the negative working capital position held in the management-led activities; the base case assumes a reduction in contract liabilities of £35m, matched by a cash outflow.
- The model assumes small-scale property purchases to augment the delivery of the AASC contract but no further sale and leaseback of previously acquired properties.
- Future dividends continue in line with current policy.
- 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 2026. 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 2025, 31 December 2025 and 30 June 2026. On 31 December 2024, the Group held £70m of undrawn committed borrowing facilities, maturing in December 2026. The principal borrowing facilities are subject to covenants as detailed in the Financial Review on page 54 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 a combination of the additional cost pressures resulting from the increase in Employers' National Insurance combined with increasing budgetary pressures experienced by Local Government clients. The downside scenario modelled a 2.0% 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 30 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 include 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 four-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.

# 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.£50m would need to decline to an annualised loss in excess of £50m. This profit reduction is considered to be remote given Mears' long-term historical performance.
- The Directors modelled a reduction in revenue which would trigger a breach in covenants. Revenue would need to decline by in excess of 50% 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.

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 2026. 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 certain investments 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 (note 20);
- estimates used in forecasts used to assess future profitability and cash flows (note 20);
- judgements involved in the recognition of right of use assets for lease accounting (note 14);
- the timing of revenue recognition (note 2);
- the recoverability of contract assets (note 17); and
- actuarial estimates in respect of defined benefit pension schemes (note 25).

Actual amounts could differ from those estimates. Further details of key estimates and judgements are provided in the appropriate notes.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 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 contracts 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.

### 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.

### 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 solely providing a management service in respect of tenanted properties, Mears recognises revenue as an agent (the net management fee) on a straight-line basis.

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.

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.

## 2. Revenue continued

### 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.

### Gainshare

Across all revenue types, some contracts include an element of gainshare. The details vary by contract, but gainshare is typically a reduction in the revenue that would otherwise be due from the customer based on a share of profits generated above a contractual target. Gainshare is typically agreed on an annual basis following the end of each contract year and where the profit share has not been agreed at a period end, management's best estimate of any profit share due to the customer is recognised as a reduction to revenue and included within contract liabilities.

### 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 recoverability 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 nature is as follows:

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| Repairs and maintenance | **455,058** | 453,981 |
| Contracting | **77,956** | 70,980 |
| Property income | **551,198** | 516,769 |
| Care services | **22,164** | 20,058 |
| Other | **635** | 1,005 |
| | **1,107,011** | 1,062,793 |
| Lease income | **25,499** | 26,534 |
| | **1,132,510** | 1,089,327 |

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.

A maturity analysis of future minimum lessor income as at 31 December is shown in the table below:

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| Less than 1 year | **5,439** | 4,591 |
| Between 1 and 2 years | **4,051** | 2,871 |
| Between 2 and 3 years | **3,317** | 2,871 |
| Between 3 and 4 years | **2,429** | 2,163 |
| Between 4 and 5 years | **2,422** | 1,282 |
| Over 5 years | **9,299** | 5,178 |
| | **26,957** | 18,956 |

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 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 and Management. Therefore, management has concluded that providing segmental information along the same lines would be helpful to the users of the financial statements.

| | 2024 | | | 2023 | | | |
|---|---|---|---|---|---|---|---|
| | **Maintenance £'000** | **Management £'000** | **Total £'000** | Maintenance £'000 | Management £'000 | Development £'000 | Total £'000 |
| Revenue | **555,813** | **576,697** | **1,132,510** | 543,279 | 543,345 | 2,703 | 1,089,327 |
| Cost of sales | **(420,722)** | **(458,535)** | **(879,257)** | (423,592) | (443,631) | (3,334) | (870,557) |
| **Gross profit/(loss)** | **135,091** | **118,162** | **253,253** | 119,687 | 99,714 | (631) | 218,770 |
| Administrative costs | **(109,191)** | **(72,517)** | **(181,708)** | (102,520) | (64,419) | (157) | (167,096) |
| Share of profits of associates | **1,014** | **–** | **1,014** | 486 | – | – | 486 |
| Net finance income/(costs) | **4,673** | **(13,091)** | **(8,418)** | 4,408 | (9,584) | (66) | (5,242) |
| **Profit/(loss) before tax** | **31,587** | **32,554** | **64,141** | 22,061 | 25,711 | (854) | 46,918 |
| Tax expense | | | **(17,205)** | | | | (10,258) |
| **Profit for the year** | | | **46,936** | | | | 36,660 |

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 £150m for 2024, which would, under normal conditions, amount to around 15% of Group revenues. The AASC has continued to experience elevated volumes and as a result, this customer relationship accounted for over 40% of Group revenues in 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. All other revenue is included within the Maintenance segment.

## 4. Operating costs

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

| | Note | **2024 £'000** | 2023 £'000 |
|---|---|---|---|
| Share-based payments | 7 | **2,622** | 1,040 |
| Depreciation of property, plant and equipment | 13 | **6,783** | 7,305 |
| Depreciation of right of use assets | 14 | **62,249** | 50,908 |
| Impairment of right of use assets | 14 | **633** | 6,223 |
| Amortisation of acquisition intangibles | 12 | **245** | 244 |
| Amortisation of other intangibles | 12 | **1,999** | 1,635 |
| Loss on sale and leaseback | | **283** | – |
| Loss on disposal of property, plant and equipment | | **508** | 54 |
| Loss on disposal of intangibles | | **–** | 26 |
| Profit on disposal of right of use assets | | **(150)** | (180) |

## 4. Operating costs continued

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| In respect of continuing activities: | | |
| Fees payable to the auditor for the audit of the Group's financial statements | **722** | 457 |
| Other fees payable to the auditor in respect of: | | |
| – auditing of financial statements of subsidiary undertakings pursuant to legislation | **587** | 550 |
| – additional fees in respect of the prior year audit* | **18** | 145 |
| – other non-audit services | **1** | – |
| Total auditor's remuneration | **1,328** | 1,152 |

* The additional fees in respect of the prior year audit were paid to the Group's previous auditor, EY.

## 5. Finance income and finance costs

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Interest charge on overdrafts and loans | **(957)** | (638) |
| Interest on lease obligations | **(12,698)** | (9,899) |
| Finance costs on bank loans, overdrafts and leases | **(13,655)** | (10,537) |
| Other interest | **(93)** | (642) |
| Interest charge on defined benefit pension obligation | **(37)** | (2) |
| Total finance costs | **(13,785)** | (11,181) |
| Interest income resulting from short-term deposits | **3,791** | 4,360 |
| Interest income resulting from defined benefit pension asset | **926** | 1,164 |
| Other interest income | **650** | 415 |
| Total finance income | **5,367** | 5,939 |
| Net finance charge | **(8,418)** | (5,242) |

## 6. Employees

Staff costs during the year were as follows:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Wages and salaries | **189,290** | 176,226 |
| Social security costs | **20,513** | 18,666 |
| Other pension costs | **4,882** | 6,963 |
| | **214,685** | 201,855 |

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

| | 2024 | 2023 |
|---|---|---|
| Site workers | **2,552** | 2,443 |
| Carers | **632** | 559 |
| Office and management | **2,287** | 2,134 |
| | **5,471** | 5,136 |

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 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 2024 the Group maintained four (2023: four) active share-based payment schemes for employee remuneration.

Details of the share options outstanding and movement during the year are as follows:

| | **2024** | | 2023 | |
|---|---|---|---|---|
| | **Number '000** | **Weighted average exercise price p** | Number '000 | Weighted average exercise price p |
| Outstanding at 1 January | **2,553** | **48** | 4,552 | 99 |
| Granted | **2,628** | **206** | 1,132 | 1 |
| Forfeited | **(130)** | **250** | (418) | 177 |
| Exercised | **(698)** | **37** | (2,713) | 94 |
| Outstanding at 31 December | **4,353** | **139** | 2,553 | 48 |

The weighted average share price at the date of exercise for share options exercised during the year was 362p. The weighted average remaining contractual life of options outstanding at 31 December 2024 was 5.9 years. At 31 December 2024, 0.3m options had vested and were still exercisable at prices between 1p and 429p.

The weighted average fair value of options granted was 168p. The fair values of executive scheme options granted, which included a market-related performance condition, were determined using the Monte Carlo model, while those for all-employee schemes used the Black-Scholes-Merton option pricing model. Significant inputs into the calculations included the market price at the date of grant, the exercise price and share price volatility. Furthermore, the calculations incorporated 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 2.63m options granted during the year and 0.13m options that were forfeited during the year. The market price at 31 December 2024 was 362p and the range during 2024 was 310p to 394p.

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:

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| Giving rise to share-based payment reserve: | | |
| All-employee schemes | **416** | 188 |
| Executive schemes | **2,206** | 852 |
| | **2,622** | 1,040 |

## 7. Share-based employee remuneration continued

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 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 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. Options are granted under this scheme to key senior management subject to performance conditions as detailed on pages 101 to 103 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 88 to 109.

## 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.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 8. Tax expense continued

Tax recognised in the Consolidated Statement of Profit or Loss:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| United Kingdom corporation tax | **16,567** | 10,854 |
| Adjustment in respect of previous periods | **406** | 39 |
| Total current tax charge recognised in Consolidated Statement of Profit or Loss | **16,973** | 10,893 |
| Deferred taxation charge: | | |
| – on defined benefit pension obligations | **358** | 480 |
| – on share-based payments | **(466)** | (119) |
| – on capital allowances | **209** | (483) |
| – on amortisation of acquisition intangibles | **(75)** | (75) |
| – on short-term temporary timing differences | **(49)** | – |
| – on corporate tax losses | **(274)** | – |
| – other timing differences | **122** | 57 |
| Adjustment in respect of previous periods | **407** | (495) |
| Total deferred taxation recognised in Consolidated Statement of Profit or Loss | **232** | (635) |
| Total tax charge recognised in Consolidated Statement of Profit or Loss | **17,205** | 10,258 |

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Profit for the year before tax | **64,141** | 46,918 |
| Profit for the year multiplied by standard rate of corporation tax in the United Kingdom for the year of 25.0% (2023: 23.5%) | **16,035** | 11,039 |
| Effect of: | | |
| – expenses not deductible for tax purposes | **222** | 131 |
| – income not subject to tax | **(395)** | (352) |
| – previously unrecognised losses | **(274)** | – |
| – permanent tax differences in respect of assets | **803** | (43) |
| – tax impact of employee share schemes | **–** | (61) |
| – adjustment in respect of prior periods | **814** | (456) |
| Actual tax charge | **17,205** | 10,258 |

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 £0.3m (2023: £1.4m) across several entities in the Group as it is not expected that they will be eligible to be utilised against profits in the 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 financial statements. Permanent differences in respect of assets arise where certain types of capital expenditure do not qualify for tax relief, or in previous years where some expenditure qualified for relief in excess of 100%.

## 8. Tax expense continued

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Deferred tax charge/(credit) recognised in other comprehensive income** | | |
| – on defined benefit pension obligations | **537** | (1,482) |
| Total deferred tax charge/(credit) recognised in other comprehensive income | **537** | (1,482) |
| **Current tax credit recognised directly in equity** | | |
| – on share-based payments | **(409)** | (991) |
| Total current tax credit recognised in equity | **(409)** | (991) |
| **Deferred tax (credit)/charge recognised directly in equity** | | |
| – on share-based payments | **(156)** | 124 |
| Total deferred tax (credit)/charge recognised in equity | **(156)** | 124 |

### BEPS Pillar Two

The Group is within the scope of the OECD Pillar Two model rules. Pillar Two legislation has been enacted in the UK and is effective for 2024 and future years. The Group has performed an assessment of its exposure to Pillar Two income taxes and its effective tax rate is substantially above 15%. Management, therefore, does not expect to be subject to any Pillar Two top-up taxes.

## 9. 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:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Final 2023 dividend of 9.30p (2023: final 2022 dividend of 7.25p) per share | **8,660** | 7,932 |
| Interim 2024 dividend of 4.75p (2023: interim 2023 dividend of 3.70p) per share | **4,273** | 3,828 |
| | **12,933** | 11,760 |

The Directors recommend a final dividend of 11.25p per share. This has not been recognised within the consolidated financial statements as no obligation existed at 31 December 2024.

## 10. Earnings per share

| | 2024 p | 2023 p |
|---|---|---|
| Earnings per share | **50.27** | 32.90 |
| Diluted earnings per share | **48.86** | 31.94 |

For the purpose of calculating earnings per share (EPS), earnings have been calculated as follows:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Profit for the year | **46,936** | 36,660 |
| Attributable to non-controlling interests | **(410)** | (1,456) |
| Earnings | **46,526** | 35,204 |

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 10. Earnings per share continued

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.

| | **2024 Millions** | 2023 Millions |
|---|---|---|
| Weighted average number of shares in issue: | **92.56** | 106.99 |
| Dilutive effect of share options | **2.66** | 3.23 |
| Weighted average number of shares for calculating diluted earnings per share | **95.22** | 110.22 |

The opening number of shares in issue for 2025 is shown below:

| | **2025 Millions** |
|---|---|
| Opening number of shares in issue | **90.76** |
| Treasury shares to exclude | **(4.46)** |
| Opening number of shares in issue for calculating basic earnings per share | **86.30** |

## 11. 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.

### 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.

## 11. Goodwill continued

| | Goodwill arising on consolidation £'000 | Purchased goodwill £'000 | Total £'000 |
|---|---|---|---|
| **Gross carrying amount** | | | |
| **At 1 January 2023, 1 January 2024 and 31 December 2024** | **117,826** | **4,042** | **121,868** |
| **Accumulated impairment losses** | | | |
| **At 1 January 2023, 1 January 2024 and 31 December 2024** | **–** | **–** | **–** |
| **Carrying amount** | | | |
| **At 31 December 2024** | **117,826** | **4,042** | **121,868** |
| At 31 December 2023 | 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 | |
|---|---|---|---|---|---|---|
| | **2024 £'000** | 2023 £'000 | **2024 £'000** | 2023 £'000 | **2024 £'000** | 2023 £'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 2024 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.

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 | 10.25% | 13.54% | 2.00% | 1.79% |
| Management | 10.25% | 12.33% | 2.00% | 1.79% |
| Housing with Care | 10.25% | 13.55% | 3.00% | 1.79% |

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 12. 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 lives 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:

| | | |
|---|---|---|
| Acquisition intangibles | – | over the period expected to benefit |
| Development expenditure | – | over the useful life of the resulting software, typically five to ten years |
| Software | – | 20% p.a., straight line |

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

## 12. Other intangible assets continued

| | Acquisition intangibles £'000 | Development expenditure £'000 | Software £'000 | Total intangibles £'000 |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| At 1 January 2023 | 4,890 | 23,349 | 6,276 | 34,515 |
| Additions | – | 1,041 | 458 | 1,499 |
| Disposals | – | (5,996) | (4,012) | (10,008) |
| At 1 January 2024 | 4,890 | 18,394 | 2,722 | 26,006 |
| Additions | – | 1,204 | 238 | 1,442 |
| Disposals | – | (1,443) | (344) | (1,787) |
| **At 31 December 2024** | **4,890** | **18,155** | **2,616** | **25,661** |
| **Amortisation** | | | | |
| At 1 January 2023 | 2,486 | 19,030 | 5,547 | 27,063 |
| Provided in the year | 244 | 1,415 | 220 | 1,879 |
| Eliminated on disposal | – | (5,996) | (3,986) | (9,982) |
| At 1 January 2024 | 2,730 | 14,449 | 1,781 | 18,960 |
| Provided in the year | 245 | 1,478 | 521 | 2,244 |
| Eliminated on disposal | – | (1,443) | (344) | (1,787) |
| **At 31 December 2024** | **2,975** | **14,484** | **1,958** | **19,417** |
| **Carrying amount** | | | | |
| **At 31 December 2024** | **1,915** | **3,671** | **658** | **6,244** |
| At 31 December 2023 | 2,160 | 3,945 | 941 | 7,046 |

Acquisition intangibles relate entirely to customer relationships recognised at fair value on historical acquisitions.

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.

All amortisation is included within other administrative expenses.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 13. 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 if shorter, 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 | – | 20% p.a., straight line |

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.

In order to manage a significant number of short-life assets, which can be individually difficult to track, the Group's policy is to eliminate low cost assets once they are fully depreciated.

## 13. Property, plant and equipment continued

| | 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 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 1 January 2024 | 24,788 | 26,744 | 183 | 15,398 | 559 | 67,672 |
| Additions | 26,413 | 703 | 15 | 2,680 | 78 | 29,889 |
| Disposals | (115) | (24) | – | (1,587) | (20) | (1,746) |
| Eliminated on expiry of useful life | – | (16,437) | (94) | (6,573) | (437) | (23,541) |
| Disposals on sale and leaseback | (22,725) | – | – | – | – | (22,725) |
| **At 31 December 2024** | **28,361** | **10,986** | **104** | **9,918** | **180** | **49,549** |
| **Depreciation** | | | | | | |
| 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 1 January 2024 | 335 | 18,374 | 144 | 9,773 | 513 | 29,139 |
| Provided in the year | 789 | 3,788 | 24 | 2,158 | 24 | 6,783 |
| Eliminated on disposal | (4) | (10) | – | (1,069) | (14) | (1,097) |
| Eliminated on expiry of useful life | – | (16,437) | (94) | (6,573) | (437) | (23,541) |
| Disposal on sale and leaseback | (571) | – | – | – | – | (571) |
| **At 31 December 2024** | **549** | **5,715** | **74** | **4,289** | **86** | **10,713** |
| **Carrying amount** | | | | | | |
| **At 31 December 2024** | **27,812** | **5,271** | **30** | **5,629** | **94** | **38,836** |
| At 31 December 2023 | 24,453 | 8,370 | 39 | 5,625 | 46 | 38,533 |

### Sale and leaseback

On 13 December 2024 the Group entered into a sale and leaseback arrangement in respect of 221 residential properties with a carrying value of £22.2m that had previously been acquired on the open market. The transaction was effected through the sale of the subsidiary entity that owns the properties and at the same time, a long-term lease was put in place allowing the Group to continue to use them.

The Group received cash of £16.3m, as well as a loan note from the buyer for £5.3m as detailed in note 21. Additionally, the Group retained a 25% holding in the disposed entity.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 14. 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 Consolidated Balance Sheet, right of use assets and lease liabilities are presented separately.

### Critical judgements in applying the Group's accounting policies

The Group holds a considerable number of 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 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 IFRS 16; 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.

### 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.

## 14. 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 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 1 January 2024 | 151,564 | 190,257 | 10,384 | 44,674 | 396,879 |
| Additions* | 12,683 | 70,557 | 1,811 | 10,695 | 95,746 |
| Sale and leaseback | – | 11,257 | – | – | 11,257 |
| Disposals | (1,369) | (37,759) | (1,885) | (11,606) | (52,619) |
| **At 31 December 2024** | **162,878** | **234,312** | **10,310** | **43,763** | **451,263** |
| **Depreciation** | | | | | |
| 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 1 January 2024 | 46,385 | 88,535 | 6,387 | 21,923 | 163,230 |
| Provided in the year | 8,967 | 42,604 | 1,673 | 9,005 | 62,249 |
| Impairments | 633 | – | – | – | 633 |
| Eliminated on disposals | (1,298) | (32,782) | (1,885) | (11,055) | (47,020) |
| **At 31 December 2024** | **54,687** | **98,357** | **6,175** | **19,873** | **179,092** |
| **Carrying amount** | | | | | |
| **At 31 December 2024** | **108,191** | **135,955** | **4,135** | **23,890** | **272,171** |
| At 31 December 2023 | 105,179 | 101,722 | 3,997 | 22,751 | 233,649 |

* Additions includes both new underlying assets and remeasurement of the right of use asset for changes in the lease terms.

During the year, the Group entered into a sale and leaseback arrangement in respect of 221 residential properties. The transaction was effected via the disposal of Mears Property Company Limited, the subsidiary entity that had previously purchased the properties on the open market. Further details of this transaction can be found in note 13.

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 £25.5m (2023: £26.5m). Direct operating expenses of £22.2m (2023: £24.0m), excluding impairments, arose from investment property that generated rental income during the year. 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

The Group recognised an impairment loss of £6.2m in 2023 in respect of certain right of use assets classified as investment property. These property portfolios are held to collect rent income, either directly from tenants or from Local Authorities. While trading in respect of these properties remained broadly in line with expectations during 2024, the Group's impairment assessments at 31 December 2024 resulted in an additional impairment of £0.6m across the portfolio.

In carrying out impairment assessments, management prepared detailed cash flow forecasts for the lives of the underlying leases on these properties and discounted them using an appropriate rate, in order to estimate the value in use. The range of discount rates used in these calculations was from 6.70% to 7.25%.

The impact of the impairments on the Consolidated Statement of Profit or Loss has been recognised within cost of sales.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 15. 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 2023 | 1,206 | 65 | 1,271 |
| Share of profit | 486 | – | 486 |
| Distributions received | (1,135) | – | (1,135) |
| At 1 January 2024 | 557 | 65 | 622 |
| Share of profit | 1,014 | – | 1,014 |
| Increase in fair value | – | 785 | 785 |
| Distributions received | (147) | – | (147) |
| **At 31 December 2024** | **1,424** | **850** | **2,274** |

Other investments represents the Group's 6.16% holding in Mason Topco Limited, which is mandatorily held at fair value through profit or loss. During the year, management reassessed the fair value of this holding, increasing it by £0.8m (2023: £nil). This increase in fair value was recognised in administrative expenses in the Consolidated Statement of Profit or Loss.

Mason Topco Limited is an unquoted holding company that owns Terraquest Solutions Limited, following the disposal of that business by the Group in 2020. The fair value was assessed based on the latest available financial information in respect of the business, as well as several assumptions, including an estimate of the price/earnings (P/E) ratio that might be achieved, based on the original transaction (7.7x) and reflecting a suitable discount for lack of control and marketability (58%).

If the P/E ratio had been higher or lower by 1.0x or the discount for lack of control and marketability had been 20 percentage points lower or higher, the fair value would have been £0.4m higher or lower, respectively.

### Associates

Set out below is the investment in an associate as at 31 December 2024, which in management's opinion is significant to the Group:

| | | | | Carrying value | |
|---|---|---|---|---|---|
| | Nature of relationship | Proportion held | Country of registration | **2024 £'000** | 2023 £'000 |
| Pyramid Plus South LLP | Associate | 30% | United Kingdom | **1,424** | 557 |
| MPC 1 Holdco Limited | Associate | 25% | United Kingdom | **–** | – |

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.

The holding in MPC 1 Holdco Limited results from the sale and leaseback transaction described in note 13.

## 15. Investments continued

### Associates continued

During the year, the Group received distributions of £0.1m (2023: £1.1m) from Pyramid Plus South LLP. Summarised financial information for Pyramid Plus South LLP for the year is shown below:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Revenue and profits** | | |
| Revenue | **44,406** | 24,802 |
| Expenses | **(41,025)** | (23,183) |
| Profit for the year | **3,381** | 1,619 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **3,381** | 1,619 |
| Share of profit at 30% | **1,014** | 486 |
| **Net assets** | | |
| Non-current assets | **–** | – |
| Current assets | **12,071** | 7,497 |
| Current liabilities | **(7,323)** | (4,666) |
| Non-current liabilities | **–** | – |
| Total assets less total liabilities | **4,748** | 2,831 |

Cash and cash equivalents of £3.2m (2023: £1.9m) were included in current assets above.

### Subsidiaries

The subsidiary undertakings within the Group at 31 December 2024 are shown below:

| | Proportion held | Country of registration | Nature of business |
|---|---|---|---|
| Heather Housing Limited* | 100% | United Kingdom | Housing provision |
| Helcim Group Limited | 100% | United Kingdom | Dormant |
| Helcim Homes Limited | 100% | United Kingdom | Dormant |
| IRT Surveys Limited | 100% | United Kingdom | Housing technology provider |
| Let to Birmingham Limited | 100% | United Kingdom | Dormant |
| Manchester Working Limited | 80% | United Kingdom | Housing services |
| Mears Energy Limited | 100% | United Kingdom | Dormant |
| Mears Estates Limited | 100% | United Kingdom | Grounds maintenance |
| Mears Extra Care Limited* | 100% | United Kingdom | Provision of care |
| Mears Facility Management Limited* | 100% | United Kingdom | Dormant |
| Mears Home Improvement Limited | 100% | United Kingdom | Dormant |
| Mears Homes Limited | 100% | United Kingdom | Dormant |
| Mears Housing Management Limited | 100% | United Kingdom | Housing management services |
| Mears Housing Management (Holdings) Limited* | 100% | United Kingdom | Intermediate holding company |
| Mears Housing Portfolio (Holdings) Limited | 100% | United Kingdom | Intermediate holding company |
| Mears Housing Portfolio 4 Limited | 100% | United Kingdom | Dormant |
| Mears Insurance Company Limited* | 99.99% | Guernsey | Insurance services |
| Mears Learning Limited | 90% | United Kingdom | Dormant |
| Mears Limited* | 100% | United Kingdom | Housing services |
| Mears New Homes Limited | 100% | United Kingdom | Housebuilding |
| Mears Property Company 2 Limited | 100% | United Kingdom | Property acquisition |
| Mears Property Company 3 Limited | 100% | United Kingdom | Property acquisition |
| Mears Scotland (Housing) Limited | 100% | United Kingdom | Dormant |
| Mears Scotland LLP | 66.67% | United Kingdom | Housing services |
| Mears Social Housing Limited | 100% | United Kingdom | Dormant |
| Mears Supported Living Limited* | 100% | United Kingdom | Provision of care |
| Mears Wales Limited | 100% | United Kingdom | Dormant |
| MHM Property Services Limited | 100% | United Kingdom | Maintenance services |
| Morrison Facilities Services Limited* | 100% | United Kingdom | Maintenance services |

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 15. Investments continued

### Subsidiaries continued

| | Proportion held | Country of registration | Nature of business |
|---|---|---|---|
| MPM Housing Limited | 100% | United Kingdom | Dormant |
| MPS Housing Limited | 100% | United Kingdom | Housing services |
| O&T Developments Limited | 100% | United Kingdom | Housing management services |
| Omega Housing Limited | 100% | United Kingdom | Housing registered provider |
| Plexus UK (First Project) Limited | 100% | United Kingdom | Housing registered provider |
| RepairMyHome C.I.C. | 100% | United Kingdom | Online marketplace for housing maintenance |
| Scion Group Limited* | 100% | United Kingdom | Dormant |
| Scion Property Services Limited | 100% | United Kingdom | Dormant |
| Scion Technical Services Limited | 100% | United Kingdom | Maintenance services |
| Tando Homes Limited | 100% | United Kingdom | Housing management services |
| Tando Property Services Limited | 100% | United Kingdom | Housing management services |

* Held directly by Mears Group PLC.

All subsidiary undertakings prepare financial statements 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:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Revenue and profits** | | |
| Revenue | **34,091** | 64,513 |
| Expenses and taxation | **(32,540)** | (60,337) |
| Profit for the year | **1,551** | 4,176 |
| Other comprehensive expense | **–** | – |
| Total comprehensive income | **1,551** | 4,176 |
| Profit for the year allocated to non-controlling interests | **410** | 1,456 |
| Total comprehensive income allocated to non-controlling interests | **410** | – |
| **Net assets** | | |
| Non-current assets | **24** | 65 |
| Current assets | **11,420** | 20,710 |
| Current liabilities | **(1,056)** | (10,668) |
| Non-current liabilities | **(365)** | (1,232) |
| Total assets less total liabilities | **10,023** | 8,875 |
| Equity attributable to shareholders of Mears Group PLC | **6,665** | 5,927 |
| Non-controlling interests | **3,358** | 2,948 |
| Total equity | **10,023** | 8,875 |

## 15. Investments continued

### Subsidiaries 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 2024:

| | Registration number |
|---|---|
| Heather Housing Limited | 07713632 |
| Helcim Group Limited | 07526612 |
| IRT Surveys Limited | SC227199 |
| 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 2 Limited | SC750308 |
| Mears Property Company 3 Limited | 15470336 |
| Mears Supported Living Limited | SC662805 |
| Morrison Facilities Services Limited | SC120550 |
| MPS Housing Limited | 11655167 |
| O&T Developments Limited | 05692853 |
| RepairMyHome C.I.C. | 15087336 |
| Scion Group Limited | 03905442 |
| Scion Technical Services Limited | 03671450 |
| Tando Homes Limited | 09260353 |
| Tando Property Services Limited | 07405761 |

## 16. Inventories

### Accounting policy

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

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| Materials and consumables | **1,173** | 1,463 |

The Group consumed inventories totalling £81.8m during the year (2023: £86.3m). No items are being carried at fair value less costs to sell (2023: £nil).

## 17. 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 less loss allowance.

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.

### 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 financial statements.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 17. Trade and other receivables continued

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Current assets** | | |
| Trade receivables | **20,940** | 23,230 |
| Contract assets | **84,335** | 79,703 |
| Contract fulfilment costs | **148** | 768 |
| Prepayments and accrued income | **24,468** | 18,929 |
| Other debtors | **3,314** | 4,060 |
| Total trade and other receivables | **133,205** | 126,690 |

Included in trade receivables is £2.7m (2023: £3.4m) 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.

The ageing analysis of trade receivables is as follows:

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | 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 | **18,378** | **(181)** | **18,197** | 20,110 | (158) | 19,952 |
| Less than three months past due | **3,032** | **(637)** | **2,395** | 2,168 | (627) | 1,541 |
| More than three months past due | **1,979** | **(1,631)** | **348** | 2,674 | (937) | 1,737 |
| Total trade receivables | **23,389** | **(2,449)** | **20,940** | 24,952 | (1,722) | 23,230 |

Expected credit losses relate to individual tenant customers and are calculated based on the Group's historical experience of default by applying a percentage based on the age of the customer's balance. Any remaining uncollected debt is written off once the tenant has left the property and a significant period of time has elapsed, at which point the likelihood of recovery is negligible.

Expected credit losses in respect of the majority of the Group's customers are rare, as Housing Associations, Local Authorities and Central Government do not typically default on debts. Where exceptional circumstances require an expected credit loss provision in respect of these customer types, they are assessed individually based on all the relevant facts.

The movement in expected credit loss during the year is shown below:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| At 1 January | **1,722** | 2,175 |
| Changes in amounts provided | **727** | 1,482 |
| Amounts utilised | **–** | (1,935) |
| At 31 December | **2,449** | 1,722 |

The movement in contract assets during the year is shown below:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| At 1 January | **79,703** | 84,797 |
| Recognised on completion of performance obligations | **1,093,075** | 1,050,778 |
| Invoiced during the year | **(1,088,443)** | (1,055,872) |
| At 31 December | **84,335** | 79,703 |

## 18. Trade and other payables

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Trade payables | **51,723** | 58,651 |
| Accruals | **48,355** | 50,032 |
| Social security and other taxes | **27,734** | 22,203 |
| Contract liabilities | **61,976** | 50,606 |
| Other creditors | **2,490** | 5,543 |
| | **192,278** | 187,035 |

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:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| At 1 January | **50,606** | 36,351 |
| Revenue recognised in respect of contract liabilities | **(13,936)** | (12,015) |
| Payments received in advance of performance obligations being completed | **18,554** | 16,834 |
| Paid in respect of gainshare agreements | **(4,473)** | (5,505) |
| Movements in estimated gainshare amounts due | **11,225** | 14,941 |
| At 31 December | **61,976** | 50,606 |

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.

## 19. Lease liabilities

Lease liabilities are separately presented on the face of the Consolidated Balance Sheet as shown below:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Current | **66,861** | 54,492 |
| Non-current | **230,641** | 199,948 |
| | **297,502** | 254,440 |

The Group had not committed to any leases which had not commenced at 31 December 2024. 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.

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:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Short-term leases | **64,678** | 57,281 |
| Low value leases | **850** | 948 |
| Variable lease payments | **859** | 979 |

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.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 19. Lease liabilities continued

Other disclosures relating to lease liabilities are provided in the table below:

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| Depreciation of right of use assets | 14 | **62,249** | 50,908 |
| Impairment of right of use assets | 14 | **633** | 6,223 |
| Additions to right of use assets arising from new leases or modifications | 14 | **95,746** | 78,906 |
| Additions to right of use assets arising from sale and leaseback | 14 | **11,257** | – |
| Carrying value of right of use assets at the year end | 14 | **272,171** | 233,649 |
| Interest on lease liabilities during the year | 5 | **12,698** | 9,899 |
| Total cash outflow in respect of leases during the year | 24 | **70,605** | 58,048 |

## 20. 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 has estimated provisions based on all relevant information available to it. 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:

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Current £'000 | Non-current £'000 | Total £'000 | Current £'000 | Non-current £'000 | Total £'000 |
| Onerous contract provisions | **794** | **7,408** | **8,202** | 1,898 | 6,886 | 8,784 |
| Property provisions | **849** | **993** | **1,842** | 520 | 761 | 1,281 |
| Insurance provisions | **2,774** | **1,364** | **4,138** | 2,623 | 1,388 | 4,011 |
| Legal and other provisions | **6,400** | **–** | **6,400** | 3,365 | 750 | 4,115 |
| Total provisions | **10,817** | **9,765** | **20,582** | 8,406 | 9,785 | 18,191 |

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 2024 | 8,784 | 1,281 | 4,011 | 4,115 | 18,191 |
| Provided during the year | 2,800 | 605 | 2,320 | 4,960 | 10,685 |
| Utilised during the year | (2,355) | – | (2,193) | (2,507) | (7,055) |
| Unused amounts reversed | (1,027) | (44) | – | (168) | (1,239) |
| **At 31 December 2024** | **8,202** | **1,842** | **4,138** | **6,400** | **20,582** |

## 20. Provisions continued

### Onerous contract provisions

The Group has identified a small number of contracts, with remaining terms ranging from 2 years to 32 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 £6.8m relating to a single Community Housing contract which is reported within the Management segment. The remaining balance of £1.4m 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.

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 risk-free rate. The range of discount rates used is between 1.45% and 1.64%, 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 £0.5m lower.

The provisions recognised are also sensitive to the underlying cash flow forecasts. If the anticipated annual net cash outflow, ranging from £0.3m to £1.0m across the different contracts and forecast years, was 10% lower, the onerous contract provision would have been £0.8m 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 closing provision includes one customer-related defects claim which is the subject of active litigation, against which management has provided £4.7m (2023: £1.6m) against a total claim value of £8.9m. Management has engaged a technical expert to provide an assessment of the alternative repair options together with the expected cost of a replacement system, net of a reduction to reflect betterment. The Directors believe that this provision represents the best estimate of the likely outcome. The increase in the provision during the period reflects the Directors' latest assessment that the most likely resolution will require a full reinstatement as opposed to an alternative partial "patch" repair.

A separate supply chain claim relating to the value of works delivered is the subject of litigation, against which management has provided £0.9m (2023: £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 £0.8m, 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 2024

## 21. 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 interest 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 Consolidated Cash Flow Statement, 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 2023 or 2024.

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.

## 21. Financial instruments continued

### Categories of financial instruments

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Non-current assets** | | |
| **Fair value (level 3)** | | |
| Investments – other investments | **850** | 65 |
| **Amortised cost** | | |
| Loan notes and other non-current receivables | **10,195** | 4,458 |
| **Current assets** | | |
| **Amortised cost** | | |
| Trade receivables | **20,940** | 23,230 |
| Other debtors | **3,314** | 4,060 |
| Short-term financial assets | **–** | 7,090 |
| Cash and cash equivalents | **91,404** | 138,756 |
| | **115,658** | 173,136 |
| **Non-current liabilities** | | |
| **Amortised cost** | | |
| Lease liabilities | **(230,641)** | (199,948) |
| **Current liabilities** | | |
| **Fair value (level 3)** | | |
| Contingent consideration | **–** | (581) |
| **Amortised cost** | | |
| Overdrafts and other short-term borrowings | **–** | (36,699) |
| Trade payables | **(51,723)** | (58,651) |
| Lease liabilities | **(66,861)** | (54,492) |
| Other creditors | **(2,490)** | (4,710) |
| Deferred consideration | **–** | (252) |
| | **(121,074)** | (154,804) |
| | **(225,012)** | (177,674) |

The amount recognised as an allowance for expected credit losses on trade receivables during 2024 was £0.7m (2023: £1.5m).

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 2024

## 21. 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.

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 54.

### Overdrafts and other short-term borrowings

At 31 December 2024, the Group had overdrafts of £nil (2023: £25.5m) and other credit facilities of £nil (2023: £11.2m). 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.

### 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 2024, 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 |
|---|---|---|---|---|---|
| **2024** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Overdrafts and other short-term borrowings | **–** | **–** | **–** | **–** | **–** |
| Trade payables | **51,723** | **–** | **–** | **–** | **51,723** |
| Lease liabilities | **70,229** | **61,906** | **109,019** | **104,224** | **345,378** |
| Other creditors | **2,490** | **–** | **–** | **–** | **2,490** |
| Deferred and contingent consideration | **–** | **–** | **–** | **–** | **–** |
| **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 |

## 21. 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 17.

### Loan notes receivable

Loan notes with a carrying value of £4.7m (2023: £4.2m) 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.

During the year, the Group entered into a sale and leaseback transaction as detailed in note 13. As part of this transaction, the Group received loan notes with a carrying value of £5.3m, which are also included within non-current assets. Interest is payable monthly at 5% per annum on the balance outstanding and the loan notes are repayable in 2039 or on the event of a further sale of the properties by the buyer.

### 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.

### 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 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 1 January 2024 | 252 | 581 | 833 |
| Unwinding of discount on deferred consideration | 8 | – | 8 |
| Movement in fair value of contingent consideration | – | 19 | 19 |
| Paid during the year | (260) | (600) | (860) |
| **At 31 December 2024** | **–** | **–** | **–** |

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.

### 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.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 21. Financial instruments continued

### Capital management continued

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

The Group monitors its equity and net cash (or debt) as capital. The year-end total of equity is that indicated in the Consolidated Balance Sheet and the net cash position is detailed in note 24.

## 22. 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 2024 £'000** | At 31 December 2023 £'000 | **2024 £'000** | 2023 £'000 | **2024 £'000** | 2023 £'000 |
| Pension schemes | **(5,655)** | (4,799) | **(319)** | (481) | **(537)** | 1,482 |
| Share-based payments | **1,320** | 698 | **466** | 118 | **156** | (124) |
| Tax losses | **274** | – | **274** | – | **–** | – |
| Acquisition intangibles | **(479)** | (540) | **61** | 61 | **–** | – |
| Capital allowances | **423** | 1,295 | **(872)** | 978 | **–** | – |
| Leases | **513** | 569 | **(56)** | (56) | **–** | – |
| Fair value of software development | **(114)** | (128) | **14** | 15 | **–** | – |
| Other timing differences | **200** | – | **200** | – | **–** | – |
| | **(3,518)** | (2,905) | **(232)** | 635 | **(381)** | 1,358 |

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 £0.3m (2023: £1.4m) 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 financial statements. Hence, the tax base of acquisition intangible assets arising on consolidation is £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.

It is expected that £0.1m of the net deferred tax liability will be settled within 12 months, with the remaining £3.4m being settled after 12 months.

## 23. Share capital and reserves

### Classes of reserves

Share capital represents the nominal value of shares that have been issued. Mears Group PLC does not have a limited amount of authorised shares.

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 have been 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 or otherwise extinguished. Upon exercise or derecognition of the option, 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

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| Allotted, called up and fully paid | | |
| At 1 January: 101,551,082 (2023: 111,000,889) ordinary shares of 1p each | **1,016** | 1,110 |
| Issue of 153,880 (2023: 2,713,031) shares on exercise of share options | **2** | 27 |
| Cancellation of 10,940,518 (2023: 12,162,838) shares following share buybacks | **(110)** | (121) |
| **At 31 December: 90,764,444 (2023: 101,551,082) ordinary shares of 1p each** | **908** | 1,016 |

During the year 153,880 (2023: 2,713,031) ordinary 1p shares were issued in respect of share options exercised. In addition, 10,940,518 (2023: 12,162,838) shares were repurchased by the Group and cancelled at a cost of £40.3m (2023: £33.2m).

### Share premium

| | £'000 |
|---|---|
| At 1 January 2023 | 82,351 |
| Issue of shares on exercise of share options | 2,530 |
| Capital reduction | (82,549) |
| At 1 January 2024 | 2,332 |
| Issue of shares on exercise of share options | 249 |
| **At 31 December 2024** | **2,581** |

### Treasury shares

| | Thousands | £'000 |
|---|---|---|
| At 1 January 2024 | 1,891 | 5,122 |
| Acquired during the year | 3,169 | 11,733 |
| Distributed to satisfy the exercise of share options during the year | (599) | (1,870) |
| **At 31 December 2024** | **4,461** | **14,985** |

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 24. Notes to the Consolidated Cash Flow Statement

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Depreciation | **69,032** | 58,213 |
| Impairment of right of use assets | **633** | 6,223 |
| Loss/(profit) on disposal of assets | **358** | (101) |
| Loss on sale and leaseback transaction | **283** | – |
| Amortisation | **2,244** | 1,879 |
| Share-based payments | **2,622** | 1,040 |
| IAS 19 pension movement | **(544)** | (758) |
| Movement in fair value of investments | **(785)** | – |
| Share of profits of associates | **(1,014)** | (486) |
| Finance income | **(5,367)** | (5,939) |
| Finance cost | **13,785** | 11,182 |
| Total | **81,247** | 71,253 |

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 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 1 January 2024 | – | 11,244 | 254,440 | 265,684 |
| Inception of new leases* | – | – | 95,746 | 95,746 |
| Sale and leaseback | – | – | 10,971 | 10,971 |
| Termination of leases | – | – | (5,748) | (5,748) |
| Interest | 440 | – | 12,698 | 13,138 |
| Arrangement fees | 31 | – | – | 31 |
| Cash outflows including in respect of capital and interest | (471) | (11,244) | (70,605) | (82,320) |
| **At 31 December 2024** | **–** | **–** | **297,502** | **297,502** |

* Including modifications to existing leases resulting in a change in lease liabilities.

Cash outflows in respect of lease liabilities include £12.7m (2023: £9.9m) in respect of interest paid and £57.9m (2023: £48.1m) in respect of discharge of the underlying lease liabilities.

Other credit facilities are financial liabilities arising from banking arrangements used to pay certain suppliers.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Bank and cash | **85,404** | 2,755 |
| Readily available deposits | **6,000** | 136,000 |
| | **91,404** | 138,755 |
| Bank overdrafts | **–** | (25,454) |
| Cash and cash equivalents | **91,404** | 113,301 |

## 25. Pensions

### Accounting policy

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 is 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.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 25. Pensions continued

### Accounting policy continued

#### 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.

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 £4.8m (2023: £4.5m) to these schemes.

### Defined benefit schemes

The Group participated in 15 (2023: 16) 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 on the basis that decisions over the use of such a surplus require the principal employer's consent and can include paying the surplus to the employers. The Group has, therefore, recognised those surpluses in accordance with IFRIC 14.

## 25. Pensions continued

### Defined benefit schemes continued

Management is aware of the Court of Appeal 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 pension scheme administrators and trustees have performed an initial review of rules amendments and identified a number of matters that require further investigation. A full review of historical actuarial certification dating back to 1997 has not yet been performed by the trustees and, as such, management is not in a position to assess whether the schemes will be impacted, or to quantify such an impact. There is, therefore, an additional degree of uncertainty in the quantification of scheme liabilities recognised in the financial statements and detailed below. Management has not undertaken a risk assessment of other schemes as the ruling is not expected to impact the LGPS and the remaining schemes are not significant in the context of the Group's pension arrangements.

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 Group has, therefore, recognised any surplus in these schemes only to the extent that it will benefit from reduced contributions in the period prior to the expiry of the associated contract.

The disclosures in respect of the two (2023: two) Group defined benefit schemes and the 13 (2023: 14) 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 2024 by qualified independent actuaries using the projected unit funding method.

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

| | 2024 | 2023 |
|---|---|---|
| Rate of increase of salaries | **3.05%** | 2.80% |
| Rate of increase for pensions in payment – based on CPI with a cap of 5% | **2.60%** | 2.40% |
| Rate of increase for pensions in payment – based on RPI with a cap of 5% | **2.85%** | 2.70% |
| Rate of increase for pensions in payment – based on CPI with a cap of 3% | **2.10%** | 2.00% |
| Rate of increase for pensions in payment – based on RPI with a cap of 3% | **2.25%** | 2.15% |
| Discount rate | **5.50%** | 4.50% |
| Retail prices inflation | **3.05%** | 2.80% |
| Consumer prices inflation | **2.65%** | 2.40% |
| Life expectancy for a 65-year-old male* | **21.2 years** | 21.0 years |
| Life expectancy for a 65-year-old female* | **23.6 years** | 23.6 years |
| Life expectancy for a 45-year-old male* | **22.4 years** | 22.4 years |
| Life expectancy for a 45-year-old female* | **25.3 years** | 25.4 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.

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 25. Pensions continued

### Defined benefit schemes continued

The amounts recognised in the Consolidated Balance Sheet are:

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Group schemes £'000 | Other schemes £'000 | Total £'000 | Group schemes £'000 | Other schemes £'000 | Total £'000 |
| **Quoted assets** | | | | | | |
| Equities | **1,781** | **54,765** | **56,546** | 1,473 | 45,399 | 46,872 |
| Bonds | **59,865** | **20,894** | **80,759** | 94,184 | 17,576 | 111,760 |
| **Pooled investment vehicles** | | | | | | |
| Property | **1,905** | **–** | **1,905** | – | 520 | 520 |
| Multi-asset funds | **48,145** | **3,617** | **51,762** | 20,381 | 470 | 20,851 |
| Alternative asset funds | **2,095** | **3,781** | **5,876** | 2,724 | – | 2,724 |
| Return seeking funds | **1,548** | **1,307** | **2,855** | 1,923 | 784 | 2,707 |
| **Other assets** | | | | | | |
| Equities | **–** | **7,053** | **7,053** | – | 14,507 | 14,507 |
| Bonds | **–** | **4,529** | **4,529** | – | 4,121 | 4,121 |
| Property | **–** | **14,920** | **14,920** | 2,008 | 9,137 | 11,145 |
| Derivatives | **707** | **60** | **767** | 2,790 | – | 2,790 |
| Cash and other | **6,212** | **4,505** | **10,717** | 6,040 | 19,049 | 25,089 |
| **Investment liabilities** | | | | | | |
| Derivatives | **(3,379)** | **–** | **(3,379)** | (2,029) | – | (2,029) |
| Group's estimated asset share | **118,879** | **115,431** | **234,310** | 129,494 | 111,563 | 241,057 |
| Present value of funded scheme liabilities | **(97,210)** | **(76,705)** | **(173,915)** | (109,659) | (83,342) | (193,001) |
| Pension surplus/deficit | **21,669** | **38,726** | **60,395** | 19,835 | 28,221 | 48,056 |
| Scheme surpluses not recognised as assets | **–** | **(37,150)** | **(37,150)** | – | (28,393) | (28,393) |
| Pension asset/(liability) recognised | **21,669** | **1,576** | **23,245** | 19,835 | (172) | 19,663 |
| Pension guarantee assets | **–** | **–** | **–** | – | – | – |

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

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Group schemes £'000 | Other schemes £'000 | Total £'000 | Group schemes £'000 | Other schemes £'000 | Total £'000 |
| Current service cost | **809** | **1,490** | **2,299** | 843 | 1,595 | 2,438 |
| Past service cost | **–** | **224** | **224** | – | – | – |
| Settlement and curtailment | **–** | **(2,413)** | **(2,413)** | – | 58 | 58 |
| Administration costs | **489** | **–** | **489** | 347 | – | 347 |
| Total operating charge | **1,298** | **(699)** | **599** | 1,190 | 1,653 | 2,843 |
| Net interest | **(926)** | **(1,261)** | **(2,187)** | (1,162) | (1,528) | (2,690) |
| Effects of limitation of recognisable surplus related to net interest | **–** | **1,298** | **1,298** | – | 1,528 | 1,528 |
| Total charged to the profit for the year | **372** | **(662)** | **(290)** | 28 | 1,653 | 1,681 |

## 25. Pensions continued

### Defined benefit schemes continued

Actuarial gains and losses recognised in other comprehensive income (OCI) are as follows:

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Group schemes £'000 | Other schemes £'000 | Total £'000 | Group schemes £'000 | Other schemes £'000 | Total £'000 |
| Return on plan assets (below)/above that recorded in net interest | **(12,755)** | **(377)** | **(13,132)** | (1,877) | 7,741 | 5,864 |
| Actuarial gain arising from changes in demographic assumptions | **1,337** | **178** | **1,515** | 1,840 | 202 | 2,042 |
| Actuarial gain/(loss) arising from changes in financial assumptions | **10,739** | **10,029** | **20,768** | (2,058) | (579) | (2,637) |
| Actuarial gain/(loss) arising from liability experience | **984** | **(11)** | **973** | (3,671) | (11,547) | (15,218) |
| Effects of limitation of recognisable surplus related to OCI movements | **–** | **(7,459)** | **(7,459)** | – | 4,428 | 4,428 |
| Total gains/(losses) recognised in OCI | **305** | **2,360** | **2,665** | (5,766) | 245 | (5,521) |

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

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Group schemes £'000 | Other schemes £'000 | Total £'000 | Group schemes £'000 | Other schemes £'000 | Total £'000 |
| Present value of obligations at 1 January | **109,659** | **83,342** | **193,001** | 104,351 | 98,412 | 202,763 |
| Current service cost | **809** | **1,490** | **2,299** | 843 | 1,595 | 2,438 |
| Past service cost | **–** | **224** | **224** | – | – | – |
| Interest on obligations | **4,821** | **3,740** | **8,561** | 4,855 | 3,205 | 8,060 |
| Plan participants' contributions | **191** | **410** | **601** | 201 | 455 | 656 |
| Benefits paid | **(5,210)** | **(2,305)** | **(7,515)** | (4,480) | (1,505) | (5,985) |
| Contract transfer | **–** | **–** | **–** | – | (30,284) | (30,284) |
| Settlements | **–** | **–** | **–** | – | (460) | (460) |
| Actuarial gain arising from changes in demographic assumptions | **(1,337)** | **(178)** | **(1,515)** | (1,840) | (202) | (2,042) |
| Actuarial (gain)/loss arising from changes in financial assumptions | **(10,739)** | **(10,029)** | **(20,768)** | 2,058 | 579 | 2,637 |
| Actuarial (gain)/loss arising from liability experience | **(984)** | **11** | **(973)** | 3,671 | 11,547 | 15,218 |
| Present value of obligations at 31 December | **97,210** | **76,705** | **173,915** | 109,659 | 83,342 | 193,001 |

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

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Group schemes £'000 | Other schemes £'000 | Total £'000 | Group schemes £'000 | Other schemes £'000 | Total £'000 |
| Fair value of plan assets at 1 January | **129,494** | **111,563** | **241,057** | 128,023 | 133,689 | 261,712 |
| Expected return on plan assets | **5,747** | **5,001** | **10,748** | 6,017 | 4,733 | 10,750 |
| Employer's contributions | **1,901** | **1,139** | **3,040** | 1,957 | 1,236 | 3,193 |
| Share of surplus received | **–** | **(2,413)** | **(2,413)** | – | – | – |
| Plan participants' contributions | **191** | **410** | **601** | 201 | 455 | 656 |
| Benefits paid | **(5,210)** | **(2,305)** | **(7,515)** | (4,480) | (1,505) | (5,985) |
| Scheme administration costs | **(489)** | **–** | **(489)** | (347) | – | (347) |
| Contract transfer | **–** | **–** | **–** | – | (33,782) | (33,782) |
| Settlements | **–** | **2,413** | **2,413** | – | (1,004) | (1,004) |
| Return on plan assets (below)/above that recorded in net interest | **(12,755)** | **(377)** | **(13,132)** | (1,877) | 7,741 | 5,864 |
| Fair value of plan assets at 31 December | **118,879** | **115,431** | **234,310** | 129,494 | 111,563 | 241,057 |

# Notes to the financial statements – Group continued

For the year ended 31 December 2024

## 25. Pensions continued

### Defined benefit schemes continued

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Fair value of guarantee assets at 1 January | – | 3,136 |
| Transferred out on scheme exit | – | (3,136) |
| **Recognised in the Consolidated Statement of Profit or Loss** | | |
| Guarantee asset movement in respect of service cost | **516** | 408 |
| **Recognised in other comprehensive income** | | |
| Guarantee asset movement in respect of actuarial losses | **(516)** | (408) |
| Fair value of guarantee assets at 31 December | – | – |

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 2025 amount to £1.0m.

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

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below, 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 2024. 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% | **(1,069)** | (1,766) |
| Rate of increase in salaries – decrease/increase by 0.1% | **(291)** | (380) |
| Discount rate – decrease/increase by 0.1% | **1,361** | 2,110 |
| Life expectancy – decrease/increase by 1 year | **(2,916)** | (5,480) |

## 26. Capital commitments

The Group had no capital commitments at 31 December 2024 or at 31 December 2023.

## 27. Contingent liabilities

The Group had no contingent liabilities at 31 December 2024 or at 31 December 2023.

## 28. 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 25.

### 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:

| | **2024 %** | 2023 % |
|---|---|---|
| Directors | **0.5** | 0.3 |

Key management personnel's compensation is as follows:

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| Salaries including social security costs | **1,910** | 1,783 |
| Contributions to defined contribution pension schemes | **19** | 56 |
| Share-based payments | **1,477** | 694 |
| | **3,406** | 2,533 |

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

Dividends totalling £0.06m (2023: £0.04m) 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 £16.4m (2023: £12.1m). Pyramid Plus South LLP also made recharges of certain staff costs to the Group totalling £0.7m (2023: £0.2m). At 31 December 2024, £0.2m (2023: £1.4m) was due to the Group in respect of these transactions. Pyramid Plus also owed the Group £1.0m (2023: £0.1m) in respect of agreed distributions.

# Parent company balance sheet

As at 31 December 2024

| | Note | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Right of use assets | 6 | **23,890** | 22,884 |
| Investments | 7 | **140,183** | 139,398 |
| Loan notes | 11 | **4,656** | 4,233 |
| Pension and other employee benefits | 15 | **963** | 161 |
| | | **169,692** | 166,676 |
| **Current assets** | | | |
| Debtors | 8 | **24,403** | 8,468 |
| Cash at bank and in hand | | **6,013** | 136,000 |
| | | **30,416** | 144,468 |
| **Creditors: amounts falling due within one year** | 9 | **(76,650)** | (176,309) |
| Net current liabilities | | **(46,234)** | (31,841) |
| **Total assets less current liabilities** | | **123,458** | 134,835 |
| **Creditors:** amounts falling due after more than one year | 10 | **(15,531)** | (14,527) |
| | | **107,927** | 120,308 |
| **Capital and reserves** | | | |
| Called up share capital | 12 | **908** | 1,016 |
| Share premium account | 12 | **2,581** | 2,332 |
| Share-based payment reserve | | **3,604** | 1,883 |
| Profit and loss account | | **100,834** | 115,077 |
| Shareholders' funds | | **107,927** | 120,308 |

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 £39.3m (2023: £31.7m) which is recognised within the financial statements of the Company.

The financial statements were approved by the Board of Directors on 9 April 2025.

**L J Critchley**
Director

**A C M Smith**
Director

Company number: 03232863

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

# Parent company statement of changes in equity

For the year ended 31 December 2024

| | Share capital £'000 | Share premium account £'000 | Share-based payment reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| At 1 January 2023 | 1,110 | 82,351 | 1,801 | 44,815 | 130,077 |
| Net profit 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 1 January 2024 | 1,016 | 2,332 | 1,883 | 115,077 | 120,308 |
| Net profit for the year | – | – | – | 39,264 | 39,264 |
| Other comprehensive income | – | – | – | 596 | 596 |
| Total comprehensive income for the year | – | – | – | 39,860 | 39,860 |
| Issue of shares | 2 | 249 | – | – | 251 |
| Cancellation of shares | (110) | – | – | (40,207) | (40,317) |
| Share options – value of employee services | – | – | 2,622 | – | 2,622 |
| Share options – exercised, cancelled or lapsed | – | – | (901) | (963) | (1,864) |
| Dividends | – | – | – | (12,933) | (12,933) |
| **At 31 December 2024** | **908** | **2,581** | **3,604** | **100,834** | **107,927** |

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 2024

## 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 2nd Floor 5220 Valiant Court, Gloucester Business Park, Brockworth, Gloucester GL3 4FE.

### 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.

### Summary of disclosure exemptions

The Company has taken advantage of the following disclosures exemptions under FRS 101:

- the requirements of IFRS 2 'Share-based Payment';
- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement';
- the requirements of IFRS 15 'Revenue from Contracts with Customers';
- the requirements of IFRS 16 'Leases';
- the requirements of paragraph 10(d) and 134 to 136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraph 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- the requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures'; and
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

### 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. Profit for the financial year

This profit for the year is stated after charging auditor's remuneration of £240,000 (2023: £200,000) relating to audit services.

## 3. Directors and employees

Employee benefits expense:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Wages and salaries | **17,451** | 14,877 |
| Social security costs | **2,421** | 2,020 |
| Other pension costs | **1,023** | 681 |
| | **20,895** | 17,578 |

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

| | 2024 | 2023 |
|---|---|---|
| Management | **324** | 314 |

## 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 2024 the Group maintained four 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:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Final 2023 dividend of 9.30p (2023: final 2022 dividend of 7.25p) per share | **8,660** | 7,932 |
| Interim 2024 dividend of 4.75p (2023: interim 2023 dividend of 3.70p) per share | **4,273** | 3,828 |
| | **12,933** | 11,760 |

The Directors recommend a final dividend of 11.25p per share. This has not been recognised within the financial statements as no obligation existed at 31 December 2024.

# Notes to the financial statements – Company continued

For the year ended 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 balance sheet, right of use assets and lease liabilities are presented separately.

| | Offices £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|
| **Gross carrying amount** | | | |
| At 1 January 2023 | 1,018 | 37,556 | 38,574 |
| Additions* | – | 10,074 | 10,074 |
| Disposals | – | (2,956) | (2,956) |
| At 1 January 2024 | 1,018 | 44,674 | 45,692 |
| Additions* | – | 10,695 | 10,695 |
| Disposals | (1,018) | (11,606) | (12,624) |
| **At 31 December 2024** | **–** | **43,763** | **43,763** |
| **Depreciation** | | | |
| 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 1 January 2024 | 885 | 21,923 | 22,808 |
| Provided in the year | 133 | 9,005 | 9,138 |
| Eliminated on disposals | (1,018) | (11,055) | (12,073) |
| **At 31 December 2024** | **–** | **19,873** | **19,873** |
| **Carrying amount** | | | |
| **At 31 December 2024** | **–** | **23,890** | **23,890** |
| At 31 December 2023 | 133 | 22,751 | 22,884 |

* 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 subsidiaries are measured at deemed cost less impairment. Dividends on equity securities are recognised in income when receivable.

Investments in entities over which the Company does not exert significant influence are recognised at fair value through profit and loss.

| | Investment in subsidiary undertakings £'000 | Other investments £'000 |
|---|---|---|
| At 1 January 2023 and 31 December 2023 | 139,333 | 65 |
| Increase in fair value | – | 785 |
| **At 31 December 2024** | **139,333** | **850** |

Details of the subsidiary undertakings of the Company are shown in note 15 to the consolidated financial statements.

Other investments represents the Company's 6.16% holding in Mason Topco Limited. During the year, management reassessed the fair value of this holding, increasing it by £0.8m (2023: £nil). Further details are included in note 15 to the consolidated financial statements.

## 8. Debtors

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Amounts owed by Group undertakings | **19,489** | 7,607 |
| Prepayments and accrued income | **4,914** | 861 |
| | **24,403** | 8,468 |

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Overdraft and other short-term borrowings | **–** | 44,626 |
| Trade creditors | **5,031** | 5,716 |
| Amounts owed to Group undertakings | **59,658** | 114,866 |
| Accruals | **2,044** | 1,195 |
| Corporation tax | **48** | 455 |
| Lease obligations | **9,820** | 9,451 |
| Other taxes and social security | **49** | – |
| | **76,650** | 176,309 |

## 10. Creditors: amounts falling due in more than one year

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Lease obligations | **15,323** | 14,487 |
| Deferred tax | **208** | 40 |
| | **15,531** | 14,527 |

## 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.

# Notes to the financial statements – Company continued

For the year ended 31 December 2023

## 11. Financial instruments continued

### Accounting policy 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 payments 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:

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| Financial assets that are debt instruments measured at amortised cost: | | |
| – loan notes | **4,656** | 4,233 |
| – amounts owed by Group undertakings | **19,489** | 7,607 |
| Financial liabilities that are measured at amortised cost: | | |
| – overdrafts and other short-term borrowings | **–** | (44,626) |
| – trade creditors | **(5,031)** | (5,716) |
| – lease obligations | **(25,143)** | (23,938) |
| – amounts owed to Group undertakings | **(59,658)** | (114,866) |
| | **(65,687)** | (177,306) |

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.

## 12. Share capital and reserves

| | **2024 £'000** | 2023 £'000 |
|---|---|---|
| Allotted, called up and fully paid | | |
| At 1 January: 101,551,082 (2023: 111,000,889) ordinary shares of 1p each | **1,016** | 1,110 |
| Issue of 153,880 (2023: 2,713,031) shares on exercise of share options | **2** | 27 |
| Cancellation of 10,940,518 (2023: 12,162,838) shares following share buybacks | **(110)** | (121) |
| **At 31 December: 90,764,444 (2023: 101,551,082) ordinary shares of 1p each** | **908** | 1,016 |

During the year 153,880 (2023: 2,713,031) ordinary 1p shares were issued in respect of share options exercised. In addition, 10,940,518 (2023: 12,162,838) shares were repurchased by the Company and cancelled.

## 12. Share capital and reserves continued

### Share premium

| | £'000 |
|---|---|
| At 1 January 2023 | 82,351 |
| Issue of shares on exercise of share options | 2,530 |
| Capital reduction | (82,549) |
| At 1 January 2024 | 2,332 |
| Issue of shares on exercise of share options | 249 |
| **At 31 December 2024** | **2,581** |

### Classes of reserves

Share capital represents the nominal value of shares that have been issued. The Company does not have a limited amount of authorised shares.

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 2024 or at 31 December 2023.

## 14. Contingent liabilities

The Company has guaranteed that it will complete certain Group contracts that its subsidiaries have commenced. At 31 December 2024 these guarantees amounted to £14.0m (2023: £11.1m).

The Company had no other contingent liabilities at 31 December 2024 or at 31 December 2023.

## 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.

# Notes to the financial statements – Company continued

For the year ended 31 December 2023

## 15. Pensions continued

### Defined contribution schemes

The Company contributed £0.9m (2023: £0.6m) to the personal pension schemes of certain employees.

### Defined benefit scheme

The Company operates a defined benefit pension scheme for the benefit of certain former employees of 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 2024 by a qualified independent actuary using the projected unit funding method.

Management is aware of the Court of Appeal 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 pension scheme administrators and trustees have performed an initial review of rules amendments and identified a number of matters that require further investigation. A full review of historical actuarial certification dating back to 1997 has not yet been performed by the trustees and, as such, management is not in a position to assess whether the schemes will be impacted, or to quantify such an impact. There is, therefore, an additional degree of uncertainty in the quantification of scheme liabilities recognised in the financial statements and detailed below.

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

| | 2024 | 2023 |
|---|---|---|
| Rate of increase of salaries | **3.05%** | 2.80% |
| Rate of increase for pensions in payment – based on RPI with a cap of 5% | **2.85%** | 2.70% |
| Rate of increase for pensions in payment – based on RPI with a cap of 3% | **2.25%** | 2.15% |
| Discount rate | **5.50%** | 4.50% |
| Retail prices inflation | **3.05%** | 2.80% |
| Consumer prices inflation | **2.65%** | 2.40% |
| Life expectancy for a 65-year-old male | **19.8 years** | 20.4 years |
| Life expectancy for a 65-year-old female | **22.3 years** | 23.3 years |
| Life expectancy for a 45-year-old male | **21.5 years** | 21.7 years |
| Life expectancy for a 45-year-old female | **23.6 years** | 24.7 years |

The amounts recognised in the Parent Company Balance Sheet are:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **Quoted assets** | | |
| Equities | **–** | 56 |
| Bonds | **7,084** | 6,335 |
| **Other assets** | | |
| Multi-asset funds | **6,526** | 7,926 |
| Alternative asset funds | **698** | 939 |
| Return seeking funds | **363** | 422 |
| Property | **486** | 501 |
| Derivatives | **–** | 538 |
| Cash and other | **339** | 379 |
| **Investment liabilities** | | |
| Derivatives | **(762)** | (1,166) |
| Group's estimated asset share | **14,734** | 15,930 |
| Present value of funded scheme liabilities | **(13,771)** | (15,769) |
| Pension asset | **963** | 161 |

The amounts recognised in the profit and loss account are as follows:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Administration costs | **165** | 131 |
| Total operating charge | **165** | 131 |
| Net interest | **(8)** | (14) |
| Total charged to the profit for the year | **157** | 117 |

## 15. Pensions continued

### Defined benefit scheme continued

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Present value of obligations at 1 January | **15,769** | 15,570 |
| Interest on obligations | **690** | 723 |
| Benefits paid | **(857)** | (707) |
| Actuarial gain arising from changes in demographic assumptions | **(583)** | (276) |
| Actuarial (gain)/loss arising from changes in financial assumptions | **(1,424)** | 383 |
| Actuarial loss arising from liability experience | **176** | 76 |
| Present value of obligations at 31 December | **13,771** | 15,769 |

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

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Fair value of plan assets at 1 January | **15,930** | 15,874 |
| Expected return on plan assets | **698** | 737 |
| Employer's contributions | **165** | 131 |
| Benefits paid | **(857)** | (707) |
| Administration costs | **(165)** | (131) |
| Return on plan assets above that recorded in net interest | **(1,037)** | 26 |
| Fair value of plan assets at 31 December | **14,734** | 15,930 |

The movements in the net pension liability and the amount recognised in the Parent Company Balance Sheet are as follows:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Surplus in schemes at 1 January | **161** | 304 |
| Administration costs | **(165)** | (131) |
| Contributions | **165** | 131 |
| Other finance cost | **8** | 14 |
| Actuarial gain arising from changes in demographic assumptions | **583** | 276 |
| Actuarial gain/(loss) arising from changes in financial assumptions | **1,424** | (383) |
| Actuarial loss arising from liability experience | **(176)** | (76) |
| Return on plan assets (below)/above that recorded in net interest | **(1,037)** | 26 |
| Surplus in schemes at 31 December | **963** | 161 |

No employer's contributions 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 28 to the consolidated financial statements.

# Independent auditor's report

to the members of Mears Group PLC

## Report on the audit of the financial statements

### Opinion

In our opinion:

- Mears Group PLC's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2024 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2024 (the 'Annual Report'), which comprise: the Consolidated balance sheet and the Parent Company balance sheet as at 31 December 2024; the Consolidated statement of profit or loss, the Consolidated statement of comprehensive income, the Consolidated cash flow statement, the Consolidated statement of changes in equity and the Parent Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) 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 remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 4 to the consolidated financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

# Report on the audit of the financial statements continued

## Our audit approach

### Context

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and company financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Overview

#### Audit scope

- Following our assessment of the risk of material misstatement of the consolidated financial statements, we identified 6 components where we performed a full scope audit of their complete financial information, either due to size or risk characteristics
- We further identified 7 components where we performed audit procedures over specific financial statement line items
- This scope of work provided coverage over 98% of consolidated revenue and 93% of consolidated total assets. The audit work on all the components was undertaken by the Group audit team
- We performed a full scope audit of the Company financial statements

#### Key audit matters

- Revenue recognition (Group)
- Valuation and classification of lease accounting under IFRS 16 (Group and parent)
- Valuation of pension and other employee benefits obligation (Group and parent)

#### Materiality

- Overall Group materiality: £3.2m based on 5% of consolidated profit before tax
- Overall Company materiality: £2.0m based on 1% of total assets
- Performance materiality: £2.4m (Group) and £1.5m (Company)

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the 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) identified by the auditor, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

# Independent auditor's report continued

to the members of Mears Group PLC

## Report on the audit of the financial statements continued

### Our audit approach continued

#### Key audit matters continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Revenue recognition (Group)**<br>Mears Group PLC (the 'Group') has a total consolidated revenue of £1,132,510,000 which is disaggregated across multiple revenue streams, which as defined by IFRS 15 include both point of time and over time performance obligations. At period end management make a number of adjustments to revenue including in respect to contractual gainshare arrangements and the recognition of unbilled and contracting revenues. We focused on this area because the range of different contractual arrangements that the Group enters into with customers results in a variety of revenue streams and recognition criteria. Furthermore the recording of material period end revenue adjustments includes both an element of judgement and calculations involving large amounts of data which could be susceptible to error. Refer to Report of Audit and Risk Committee and note 2 of the notes to the financial statements – Group. | In response to the identified risk we have performed the following audit procedures:<br>• Obtained an understanding of revenue and receivables process for each revenue stream including the evaluation of the design and implementation of internal controls over fraud risks relating to revenue.<br>• Reviewed a sample of contracts across each revenue stream to assess the related performance obligation and appropriateness of management's revenue recognition criteria.<br>• For certain maintenance revenue streams we used Automated Revenue Testing (ART) to validate the full population of revenue transactions through to cash receipt.<br>• For all other key revenue streams we have selected a sample of transactions for which we have validated the performance obligation has been met, the appropriate pricing has been used and to cash receipts where possible.<br>• Tested a sample of adjustments made to revenue at year end, to assess for any indication of management bias. As part of this testing we tested the gainshare accrual and validated the accuracy of management's calculations and agreed key assumptions to the relevant contracts and management information systems.<br>• For unbilled revenue, we have agreed a sample of transactions to supporting evidence that the performance obligation was met prior to year end and assessed the reasonableness of the associated revenue estimate by validating the associated costs and margin for the underlying activity.<br>• Verified a sample of revenue transactions recorded before and after the year-end date to ensure revenue is recorded in the appropriate period.<br>Based on the procedures performed, we are satisfied that the consolidated revenue for the year is appropriately recognised. |
| **Valuation and classification of lease accounting under IFRS 16 (Group and parent)**<br>The Group and Parent Company have significant lease liabilities (Group: £230,641,000 and Parent Company: £25,143,000) and right of use assets (Group: £272,171,000 and Parent Company £23,980,000) which are accounted for under IFRS 16 'Leases'. Accounting for leases under IFRS 16 is complex and requires a number of judgements and estimates. Given the significant volume of leases within the business, there is a risk around the classification and valuation of the in-period additions, disposals and modifications which require judgement in assessing key contractual terms, including duration, termination and variable payments. There is also judgement and estimation involved in deriving an appropriate incremental borrowing rate (IBR) to calculate the present value of future lease payments in order to recognise the lease liability and the corresponding right of use asset. The leases accounting policy and key judgements are included within note 14 in the notes to the financial statements – Group and note 6 in the notes to the financial statements – Parent Company. | In response to the identified risk we have performed the following audit procedures:<br>• Obtained an understanding of management's lease identification and accounting process including assessing the design and implementation of related internal controls.<br>• Engaged internal valuation experts to independently test the reasonableness of the IBRs used by management on a sample basis, including assessing the methodology used by management.<br>• Considered the accuracy of the classification of the lease arrangements across the Group by testing a sample of lease expenses and ensuring they had been appropriately classified between those leases which are recognised under IFRS 16 or exempt from recognition under IFRS 16.<br>• Tested the accuracy of lease liabilities and right of use assets by assessing the reasonableness of management assumptions related to extension/ termination options in new or modified leases.<br>• Reviewed the Group financial statement disclosures to ensure compliance with IFRS 16 requirements.<br>Based on the procedures performed, we concluded that the right of use assets and lease liabilities recognised in the Group and Parent Company financial statements are materially complete and valued appropriately. |

# Report on the audit of the financial statements continued

## **Our audit approach** continued

### **Key audit matters** continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of pension and other employee benefits obligations (Group and parent)**<br>The Group has a net pensions surplus of £23,245,000 (2023: £19,835,000) and the Parent Company has a net pensions surplus of £963,000 (2023: £161,000).<br><br>The valuation of the pension obligation involves the selection of appropriate actuarial assumptions, the most significant of which are the discount rate applied to the scheme liabilities, inflation and life expectancy.<br><br>The selection of these assumptions is inherently subjective and small changes in these assumptions and estimates used to value the Group's pension obligation could have a significant effect on the Group's net pension surplus.<br><br>The Group operates two defined benefit pension schemes (Group schemes), and has a contractual obligation to make good any deficit in its share of nine 'Other' Schemes. The Group is an employer in a further four Local Government Pension Schemes (LGPS) where any deficit remains the responsibility of the party awarding the contract to Mears (guarantee schemes).<br><br>The pensions accounting policy is disclosed in note 25 of the notes to the financial statements – Group and note 15 of the notes to the financial statements – Parent Company. | In response to the identified risk we have performed the following audit procedures:<br><br>• Obtained an understanding of the Group's and Parent Company's processes with regards to valuing and recognising the two Group pension schemes and the thirteen 'Other' schemes, including the eleven Local Government Pension Schemes of which four are classified as guarantee schemes, including performing a walkthrough to assess the design and implementation of associated financial controls.<br>• Assessed the nature of each scheme, and relevant accounting treatment.<br>• Involved our internal actuarial specialists to assess the methodologies and assumptions used by Aon and XPS, the Group's actuaries, across all schemes. Our actuarial specialists evaluated the appropriateness of each key assumption, the closing obligation and movements in the year.<br>• Tested the consistency of member data in the latest triennial valuation (which took place in 2024) with data held by the Group.<br>• Assessed the appropriateness of the disclosures in note 25 of the Group financial statements and note 15 of the parent Company financial statements, and consider them to be appropriate.<br><br>Based on the procedures performed, we are satisfied that the defined benefit obligations are recognised, valued and disclosed appropriately. |

# **Independent auditor's report** continued

to the members of Mears Group PLC

## Report on the audit of the financial statements continued

### **Our audit approach** continued

#### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate. The Group operates exclusively within the United Kingdom through a number of subsidiary entities.

The Group consists of 20 components, where a component represents a reporting unit within the Group's consolidation system. We have considered 4 components as significant due to size and performed full scope audit on 6 components (including the 4 significant components) and performed audit procedures over specific financial statement line items for 7 components . This scope of work provided coverage over 98% of consolidated revenue and 93% of consolidated total assets.

The accounting for the Group and components is undertaken by the Group's central accounting team in Gloucester and hence the audit work over the Group consolidation and all components has been undertaken by the Group audit team.

A full scope audit of the Company has been undertaken.

#### The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's and Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Company's financial statements.

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Financial statements – Group | Financial statements – Company |
|---|---|---|
| **Overall materiality** | £3.2m | £2.0m |
| **How we determined it** | 5% of consolidated profit before tax. | 1% of total assets. |
| **Rationale for benchmark applied** | Consolidated profit before tax is considered the most appropriate as it is the benchmark primarily used by both management and the users of the consolidated financial statements to assess the performance of the Group. | The parent company has limited operating activities and its principal activity is as an investment holding company for the Group's operating subsidiaries. Therefore a benchmark based on total assets is deemed appropriate. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £11,000 and £2,915,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £2.4m for the Group financial statements and £1.5m for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £200,000 (Group audit) and £100,000 (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

# Report on the audit of the financial statements continued

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and assessing management's going concern assessment and understanding the governance process around its preparation;
- evaluating management's forecasts which support the going concern assessment including assessing the key underlying assumptions;
- assessing whether the downside scenario performed by management appropriately reflect a severe but plausible reduction in the forecast base case performance;
- reviewing the Group's banking facility arrangements and the forecast covenant compliance across the going concern period; and
- assessing the adequacy of the disclosures in the financial statements.

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's and the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' 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.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

### Directors' remuneration

In our opinion, the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006.

# **Independent auditor's report** continued

to the members of Mears Group PLC

## Report on the audit of the financial statements continued

### Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the Corporate Governance Statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement, included within the corporate governance compliance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- the directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- the disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- the directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making enquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, 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 and our knowledge obtained during the audit:

- the directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- the section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditor.

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 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.

# Report on the audit of the financial statements continued

## Responsibilities for the financial statements and the audit continued

### Auditor's responsibilities for the audit of the financial statements continued

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, health and safety regulations, employment laws and regulations associated with operating in the UK social housing sector and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent journal entries and bias in relation to estimates and judgements. Audit procedures performed by the engagement team included:

- enquiries of management, the compliance team, Audit and Risk Committee and internal audit in respect of any known instances of non-compliance with laws and regulations including fraud;
- assessing and challenging management's support for key accounting estimates and judgements including consideration of contradictory evidence;
- identifying and substantively testing higher risk journal entries, in particular any posted with unusual account combinations;
- reading minutes of the Board meetings to identify any inconsistencies with other information provided by management;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- reviewing the Group's register of litigation and claims, internal audit reports, and compliance reports in so far as they related to non-compliance with laws and regulations or fraud.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Independent auditor's report continued

to the members of Mears Group PLC

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Report of the Remuneration Committee to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 13 June 2024 to audit the financial statements for the year ended 31 December 2024 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

## Other matter

The Company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R - 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditor's report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

**Nicholas Stevenson (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountant and Statutory Auditor
Bristol
9 April 2025

# Five-year record (unaudited)

## Consolidated Statement of Profit or Loss (continuing activities)

| | 2024 £'000 | 2023 £'000 | 2022 £'000 | 2021 £'000 | 2020 £'000 |
|---|---|---|---|---|---|
| **Revenue** | **1,132,510** | 1,089,327 | 959,613 | 878,420 | 805,817 |
| Gross profit | **253,253** | 218,770 | 195,686 | 180,487 | 156,287 |
| Operating profit before exceptional costs | **71,545** | 51,674 | 40,427 | 33,683 | 5,528 |
| Exceptional items | **–** | – | – | (1,627) | (2,279) |
| Operating profit/(loss) including share of profits of associates | **72,559** | 52,160 | 41,285 | 24,402 | (6,276) |
| Profit/(loss) for the year before tax | **64,141** | 46,918 | 34,944 | 16,333 | (15,218) |
| Profit/(loss) before taxation before exceptional costs | **64,141** | 46,918 | 34,944 | 25,614 | (3,414) |
| **Earnings per share** | | | | | |
| Basic | **50.27p** | 32.90p | 25.07p | 11.72p | (10.66)p |
| Diluted | **48.86p** | 31.94p | 24.51p | 11.50p | (10.66)p |
| Dividends per share in respect of year | **16.00p** | 13.00p | 10.50p | 8.00p | – |

## Consolidated Balance Sheet

| | 2024 £'000 | 2023 £'000 | 2022 £'000 | 2021 £'000 | 2020 £'000 |
|---|---|---|---|---|---|
| Non-current assets | **474,833** | 426,011 | 395,092 | 405,959 | 408,369 |
| Current assets | **226,512** | 273,999 | 235,773 | 227,960 | 267,720 |
| Current liabilities | **(269,956)** | (286,744) | (224,169) | (230,120) | (255,318) |
| Non-current liabilities | **(243,924)** | (212,810) | (192,871) | (202,761) | (264,720) |
| Total equity | **187,465** | 200,456 | 213,825 | 201,038 | 156,051 |
| Cash and cash equivalents, including overdrafts | **91,404** | 113,301 | 98,138 | 54,632 | 56,867 |

# Shareholder and corporate information

## Registered office

2nd Floor 5220 Valiant Court,
Gloucester Business Park
Brockworth
Gloucester GL3 4FE
Tel: 01452 634600
www.mearsgroup.co.uk

## Company registration number

03232863

## Company secretary

### Ben Westran

2nd Floor 5220 Valiant Court,
Gloucester Business Park
Brockworth
Gloucester GL3 4FE
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

### Brodies

58 Morrison Street
Edinburgh EH3 8BP
Tel: 0131 228 3777

## Auditor

### PricewaterhouseCoopers LLP

2 Glass Wharf
Bristol BS2 0FR
Tel: 0117 955 7779

## Registrar

### Computershare Investor Services PLC

The Pavilions
Bridgewater Road
Bristol
BS13 8AE
Tel: 0370 889 3192

## Joint corporate brokers

### Deutsche Numis

45 Gresham Street
London EC2V 7BF
Tel: 020 7260 1000

### Panmure Liberum

Level 12 Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY
Tel: 020 3100 2000

## Internet

The Group operates a website, which can be found at www.mearsgroup.co.uk. This site is regularly updated to provide information about the Group. In particular, all of the Group's press releases and announcements can be found on the site.

## Registrar

Any enquiries concerning your shareholding should be addressed to the Company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details.

## Investor relations

Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the registered office.

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