Mears Group PLC
(“Mears” or the “Group” or the “Company”)
Interim Results for the 6 months ended 30 June 2023
Record first half performance with an improved full year trading outlook

Mears Group PLC, the leading provider of services to the Affordable Housing sector in the UK, announces its interim financial results for the six months ended 30 June 2023 (“H1 2023”).

Financial Highlights

- Strong Group revenues up 8% year-on-year to £525.6m (2022: £485.0m)
- Adjusted profit before tax[1] increased by 18% to £21.3m (2022: £18.1m)
    - Operating margins (pre-IFRS 16) continue to strengthen to 4.0%[2] (2022: 3.9%)
- Excellent cash performance with average daily adjusted net cash of £57.4m (2022: £28.4m)[3]
    - Cash conversion at 117% of EBITDA (2022: 134%)
    - Adjusted net cash[3] on 30 June 2023 of £116.1m (2022: £89.9m)
- Interim dividend of 3.70p (2022: 3.25p), an increase of 14%, reflecting continued strong cash performance and positive outlook
- £20m share buyback program underway and well advanced

Continuing operations	H1 2023	H1 2022	Change %
Revenue	**£525.6m**	£485.0m	+8%
Statutory profit before tax	**£21.2m**	£17.9m	+18%
Adjusted profit before tax	**£21.3m**	£18.1m	+18%
Statutory diluted EPS	**14.09p**	12.70p	+11%
Adjusted diluted EPS[4]	**13.74p**	12.70p	+8%
Interim dividend per share	**3.70p**	3.25p	+14%
Average daily net cash	**£57.4m**	£28.4m	

** - see Alternative Performance Measures for definitions and reconciliation to statutory measures*

Operational Highlights

- Sustained high levels of customer satisfaction 90% (FY22: 88%) and further improvement in employee engagement and workforce retention
- Positive momentum in bidding pipeline underpins organic growth strategy
    - The Group secured both its key bidding targets in the first half, contributing to an aggregate new contract award of £175m, a bid conversion rate of 57% (by value) reflecting an increasingly focused approach in new contract bidding
    - The Social Housing Decarbonisation Fund (‘SHDF’) Wave 2 saw Mears submit successful grant applications for £47m, which will contribute to a total works value of around £120m to be delivered over the course of 2024 and 2025
    - Sole remaining bidder on the new North Lanarkshire contract opportunity; 12-year contract with an annual value of £125m and total contract sum of £1.5 billion

Current trading and outlook

- The Board is delighted at the positive start to 2023 and this momentum has continued into the second half. The Board anticipates revenues for the full year of at least £1 billion and an Adjusted profit before tax of at least £40m

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

“We are delighted to deliver strong results for the first half year, with record levels of revenues, profits, and daily net cash. This strong momentum is expected to continue through the second half, and we have today further increased our FY23 guidance. The excellent financial performance is testimony to the strategic actions taken in recent years, our investment in resilient operating platforms, and a committed and engaged workforce with a shared desire to deliver the highest level of customer service in the affordable housing sector.”

1. *Adjusted profit before tax stated on continuing activities before the amortisation of acquired intangibles of £0.12m (2022: £0.12m).*
2. *Operating profit (pre-IFRS 16) before the amortisation of acquired intangibles and after share of profit in associates.*
3. *Adjusted net cash / (debt) excludes IFRS 16 lease obligations of £229.1m (2022: £211.9m).*
4. *The adjusted diluted EPS measure is further adjusted to reflect a full tax charge.*

For further information, contact:

Mears Group PLC **Tel: +44(0)1452 634 600**
David Miles
Andrew Smith
Lucas Critchley

Numis **Tel: +44(0)207 260 1000**
Julian Cater
Kevin Cruickshank

Panmure Gordon **Tel: +44(0)207 886 2500**
Tom Scrivens
James Sinclair-Ford

About Mears
Mears is the leading provider of services to the Affordable 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 around 5,500 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.

INTERIM STATEMENT

INTRODUCTION

The Board is delighted to deliver strong results for the first half year, reporting record levels of revenues, profits, and daily net cash. This strong momentum is expected to continue through the second half, and the Group is increasing its FY23 guidance. The strong financial performance is testimony to the strategic actions taken in recent years, our investment in resilient operating platforms, and a committed and engaged workforce with a shared desire to deliver the highest level of customer service in the affordable housing sector.

OPERATING REVIEW

Continuing activities	**H1 2023** **£m**	**H2 2022** **£m**	**H1 2022** **£m**
Revenue			
Maintenance-led	**271.6**	263.7	271.6
Management-led	**251.7**	204.8	201.0
Development	**2.3**	6.2	12.3
Total	**525.6**	474.6	485.0
Operating profit measures:			
Statutory operating profit	**23.4**	20.6	20.7
Adjusted operating profit (pre-IFRS 16)*	**21.0**	17.0	19.1
Operating profit margin (pre-IFRS 16)*	**4.0%**	3.6%	3.9%
Profit before tax measures:			
Statutory profit before tax	**21.2**	17.0	17.9
Adjusted profit before tax*	**21.3**	17.1	18.1

** - see Alternative Performance Measures for definitions and reconciliation to statutory measures*

Group revenues increased by 8% to £526m (2022: £485m), and we expect revenues to exceed £1 billion for the full year.

We continue to see elevated revenues within the Group's Management-led activities and, whilst we have consistently communicated our expectation that these volumes will reduce in the medium term, it is evident that volumes will remain high over the shorter term. We are working hard to accommodate these high volumes through the most appropriate accommodation. We will always place the wellbeing and safety of our customers at the forefront of our delivery, and it is pleasing that our key performance metrics score well.

We have passed the first anniversary of the RLAP contract, which was mobilised in April 2022 through which the Group provides a wide range of accommodation and property services to military services personnel. We have a strong client relationship with the MoD, and one where we hope, in the future, to deliver additional services. We were also pleased to see our work with the Ministry of Justice (MoJ) increase during the first half. Since 2021, we have delivered transitional housing services and support to low and medium risk prisoners upon their release. During the first half, we were pleased to be awarded an additional geographical area which now increases our operational scale with three regions in the North of England. The Group is optimistic that there are further opportunities to deliver specialist housing services to this key client and vulnerable service user group.

Pleasingly, we have delivered a solid performance within our Maintenance-led activities, where we continue to take a disciplined approach in respect of securing new work. Maintenance-led activity has reduced in recent years however, the Group is well placed to reverse that trajectory and see a return to organic growth in this area. The Group has secured a number of bidding successes during the first half which are covered in detail below, and our success in securing decarbonisation work will also augment our work in this area.

The Group secured both its key bidding targets in the first half, contributing to an aggregate new contract awards of £175m, at a bid conversion rate of 57% (by value) reflecting an increasingly focused approach when bidding new contract opportunities. Moving forward, whilst the total value of bids submitted is expected to be lower than historic levels, the proportion of successful outcomes is anticipated to be higher. The order book stands at £2.6bn (FY22: £2.9bn).

Importantly, both the new contracts for 2023 represent new work to the Group:

- A2Dominion ('A2D'); the Group has been awarded a contract with an estimated annual value of £10m for a base period of 10 years with the potential for this to be extended up to a total of 26 years. The contact is to deliver repairs and maintenance services through a joint venture arrangement to A2D's London housing stock. This contract award builds upon an existing long term joint venture relationship with A2D for repairs and maintenance services to the housing stock outside of London, meaning that the Group will now be delivering services across A2D's entire 40,000-unit portfolio. The new contract will commence in October 2023.

- London Borough of Croydon ('Croydon') has awarded a 10-year contract with an estimated annual value of £6m. The contract is to deliver responsive repairs, voids refurbishments, and planned maintenance works. Mears was selected as one of two providers, and the Group is delighted to be working in the Borough again, after a period of absence. The new contract commenced on 1 August 2023.

In addition, the Group is delighted to announce that it has been notified by North Lanarkshire Council ('NLC') that Mears is now the sole remaining bidder in the procurement of the Housing & Corporate Maintenance and Investment Services Contract. The new contract would see Mears provide reactive maintenance, statutory compliance, servicing and inspection services, as well as programmes of planned works to the Council's housing assets (approximately 37,000 homes) and corporate assets (approximately 1,200 buildings). The contract would be for a period of up to 12 years, with an annual value in the region of £125m and a total contract sum of £1.5 billion. Mears has successfully provided housing maintenance works to NLC since 2012, with an annual value of c. £60m, delivering high service levels together with excellent engagement with all stakeholders which has all contributed to reaching this advanced tender stage. The new contract would be significantly larger than the current contract, increasing the scope of works to be delivered.

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 secured three successful bids in respect of the first wave of Social Housing Decarbonisation Funding (SHDF) applications, securing grant funding of £5m which doubled-up when combined with client funding. The bulk of this value will have been delivered by the end of 2023. The SHDF Wave 2 saw Mears submit successful grant applications of £47m, which will contribute to a total works value of around £120m to be delivered over the course of 2024 and 2025. 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 Wave 3 and 4 of the SHDF funding applications.

The Group has reported adjusted Profit Before Tax of £21.3m (2022: £18.1m) with adjusted operating margins, reported on a pre-IFRS 16 basis, increasing to 4.0% (2022: 3.9%). The Group has recognised the volatile economic backdrop and the cost-of-living pressures being experienced across the Group's workforce and more widely the supply chain, many of whom are SME enterprises from within the communities we serve. The Group benefits from annual contractual price increases across its contract portfolio and Mears has sought to direct this additional resource to the supply chain and the parts of the workforce most in need, as well as balancing the needs of all stakeholders.

It is pleasing to see continued margin progression. We have, thus far, dealt well with the macroeconomic headwinds and mitigated inflationary pressures. Whilst there are signs that inflationary pressures are reducing, it remains an area requiring careful oversight. Most of our key contracts are achieving our target margin of 5% and we remain confident that in time the Group margin can return to that level. One area of the Group where financial performance falls below par is in Community Housing through which the Group delivers its homelessness solutions. This was the original housing management activity and underpinned the Group's success in securing our Central Government contracts. Whilst the Community Housing activities are relatively small, with annual revenues of circa £35m, it is important that it is profitable. This is a key area of focus as we seek to drive margins back to their historic norms.

We naturally take a relatively conservative stance when forecasting margins over the medium term. Further to the delivery of margin improvements in Community Housing, we are also mindful of some potential margin pressure in Management-led activities as we address the imbalance between the use of short-term contingency accommodation and the use of long-term residential accommodation. In addition, given the advanced stage of the bidding process, we also expect to see a new contract start-up in North Lanarkshire during 2024 which could also result in some margin dilution during the mobilisation phase. We recognise that there are opportunities to outperform, but these factors are why we currently continue to forecast margins at the low end of the 4-5% range.

CASH FLOW AND WORKING CAPITAL MANAGEMENT

The Group has continued to deliver tremendous working capital performance with EBITDA to operating cash in the first six months of 116.9% (FY22: 122%), a closing cash balance of £116.1m (FY22: £98.1m) and, of most significance, an average daily net cash balance of £57.4m (FY22: £42.9m). The strength of the Group's operating cash flows reflects both the underlying quality of the earnings, and the Group's operating systems which underpin a cash culture.

	H1 2023 £'000	**H1 2022 £'000**	**FY 2022 £'000**
Average daily adjusted net cash / (debt)	**57,425**	28,365	42,880
Cash and cash equivalents at period end	**116,138**	89,859	98,138

DIVIDEND AND CAPITAL ALLOCATION

Given the excellent trading performance of the Group in the first half, the continued strong cash performance and the positive pipeline outlook, the Directors are pleased to declare an interim dividend of 3.70p (H1 2022: 3.25p; FY22 full year: 10.50p) reflecting the Board's confidence in the prospects of the Company. This interim dividend is in-line with the Board's stated progressive dividend policy.

The Group's Capital Allocation policy has been consistently well communicated. The Board seeks to maintain a modest net cash position. The Board continues to keep under review its capital allocation priorities, which extends to small-scale M&A opportunities that could enhance its product capabilities, particularly in data collection and measurement for decarbonisation projects.

As reported previously, the Group has utilised its Balance Sheet strength to fund property acquisitions to support the urgent requirement for additional properties within the AASC contract. At 30 June, the Group had invested £10.2m and that figure is likely to double over the course of the second-half year. Whilst it is not the Board's long-term desire to carry property assets on the Group's Balance Sheet, this has been an important step and provides shareholders a solid return when taking a balanced view of the AASC contract.

In May 2023, the Board approved a return of surplus capital of up to £20 million to shareholders, being implemented through a buyback programme of on-market purchases, to return surplus capital to shareholders and reduce the Group's share capital. The programme has progressed quicker than initially anticipated, and the current programme is now expected to complete before the year end. The current spend is c.£13.6m at an average share price of c.271p, resulting in the cancellation of c.5.0m ordinary 1p shares. Once complete, the Board will consider the options for continuing to return surplus cash to shareholders.

The Company expects to commence the process for a reduction of capital, which will require both the approval by shareholders and confirmation by the Court. The proposed Capital Reduction is an accounting procedure that changes the composition of reserves and does not entail any reduction or distribution of cash or net assets. The Capital Reduction is a means of avoiding a potential restriction on the Company's future ability to either make dividend payments and other distributions or to purchase its own shares.

INNOVATION

Adopting innovation to drive positive change is a central pillar within the Group's strategic plan, and we have continued to develop our IT capability.

Customer satisfaction is improving from its already high levels, and the Group is on track to hit its 90% customer satisfaction stretch target for 2023, with more contracts consistently performing well and a reducing level of complaints. It is imperative that we continue to enhance the ability for tenants to interact with us digitally while recognising that for many tenants, the more traditional routes are still preferred. We have improved our service offer to tenants through the introduction of our Customer App, M&Me. We have received positive feedback from tenants and, having now completed our proactive testing, this will now be rolled out in the second half of 2023.

We are also increasingly utilising our in-house Mears Contract Management ('MCM') platform to deliver real time information around buildings performance and compliance measures such as legionella checks, air quality and public building usage. We have been supporting client challenges around Damp & Mould risk management via our deployable home monitoring Internet of Things capability within MCM combined with our thermal imaging technology, allowing us to assess and monitor individual properties regarding any damp & mould risks.

The acquisition of IRT in 2022 has been a significant factor behind the excellent progress made in securing decarbonisation opportunities as detailed above. Combining our Repairs and Maintenance data with energy performance statistics is giving us an increasingly rich picture of our clients' housing stock. It leaves us well placed to answer clients increasing demand for data to support decision making and regulatory demands. It is important to note that this work not only reduces carbon generated but also helps tenants reduce their fuel bills significantly, which has become even more important given utility price volatility and cost of living challenges.

The Group will continue to direct investment towards its IT systems and operating platforms. The strength of the Group's Balance Sheet provides additional flexibility in this area should opportunities arise.

WORKFORCE

Our workforce satisfaction and retention levels have both improved significantly over the last 12 months and we pride ourselves on the responsible approach we have taken with our staff.

Reflecting the growth and change in our business, our workforce has increased by over 6% in the last 12 months. We are seeing growing numbers of people applying to Mears for employment and a reduction in staff turnover by 3.5 percentage points to 21.1%. The success of our long-term focus on improving Mears' position as an employer can be seen in by the fact that we received our best ever score on employee satisfaction from the independently run Best Companies survey.

Mears was one of the first listed companies to have an Employee Director on the Main Board. We now also have a Deputy Employee Director, focussed on supporting people with disabilities, a Trades Representative and an employee forum. This is helping ensure that the Board remains very close to the needs of its workforce.

Mental health and wellbeing ('MHW') is an ever-increasing priority for the business and an area where we continue to invest. Our Compliance Committee and Wellbeing & Mental Health Steering Group is working closely with key stakeholders across all group operations, with a view to implementing an enhanced MHW strategy that will ultimately lead to external accreditation of the group's approach in 2024.

The Group-wide pay increase awarded at the beginning of the year directed the highest percentage increases to the lowest paid and was very well received by our staff. We continue to expand our range of flexible benefits to help people manage the current cost of living challenges. We continue to focus on and invest in our staff at all levels reflecting both the growing and changing demands of the business.

ESG

Increasingly, our clients require us to demonstrate progress on the decarbonisation agenda and taking a lead on environmental matters is an important part of our strategy. We have already made a commitment to achieve net zero against scope 1 and 2 emissions by 2030 and the Board has reviewed our plan to achieve this in the first half of 2023. A significant part of our plan depends on our ability to increase electrification of the fleet. While a lot of the required community infrastructure is not in place to achieve this, we have commissioned expertise in this field to enable us to be agile as the position improves. We have also made further investments in our own people resource to make sure solid progress continues to be made.

Good progress has also been made against our Governance plan. For example, the launch of our Sustainable Procurement strategy which has seen excellent Tier 1 Supplier compliance to ESG policy and standards. We are grateful to all our suppliers who have shared our commitment to responsible business practices.

We have made solid progress against our Social Plan. Best Companies have now classified Mears as an 'outstanding' company to work for and we have launched our Fairness & Inclusion Approach, achieving silver accreditation status at the first attempt of the EW Diversity and Inclusion Development Standard.

In terms of our general, ongoing, approach to health and safety, the Group was delighted to receive its 21st consecutive ROSPA Gold Award and in so doing, its 7th consecutive Order of Distinction. The Compliance Committee's oversight of the group's response to the Building Safety Act is ongoing and good progress has been made.

The Compliance Committee is working closely with the operational team and key stakeholders outside the business, to ensure the Group is positioned to effectively respond to the increasing volumes in our housing management business and the operational challenges that this presents, to ensure our service provision remains safe and compliant.

The Information Security team has made excellent progress with the ongoing implementation of enhanced security controls, and this was evidenced in the first half with the Group's technology platforms and systems achieving accreditation against ISO27001 and Cyber Essentials Plus.

Our Customer Scrutiny and ESG Boards have also continued to provide valuable insight, support and challenge.

BOARD DEVELOPMENTS

Following the Company's Annual General Meeting in June 2023 it was announced that Jim Clarke would be appointed Interim Chairman and a process is now underway to appoint a new Chairperson.

The handover and transition from the current CEO David Miles to Lucas Critchley is progressing in line with the previously stated succession plan with Lucas expected to be in place by the end of 2023. A key part of this transition has involved the wider team who have and will continue to play a huge part of the Group's success. In particular, our senior team of around ten heads play a crucial role in the day-to-day running of the business and are integral to our customers and service delivery performance. Lucas Critchley (CEO designate) and Andrew Smith (CFO) act as the conduit between that senior team and the PLC Board and investors. Positively, after stepping off the PLC Board, David Miles will remain as a key member of the senior team with a particular focus on operations and client relationships, whilst supporting succession more broadly.

OUTLOOK AND GUIDANCE

The Board is delighted with the strong trading performance and this momentum has continued into the second half. The Board has good visibility for the remainder of 2023 and anticipates revenue for the year of at least £1 billion, operating margins for the full year being at a similar level to the first half, and an adjusted profit before tax of at least £40m.

The Group is well positioned for the longer term but remains conservative when providing guidance for later years. The Board has consistently referred to elevated revenues within its Management-led activities and it is expected that this position will normalise, but the timing is unclear. In addition, the Group is working hard to address the imbalance between the use of short-term contingency accommodation and the use of long-term residential accommodation which will result in a reduction in revenues, whilst removing a significant operational challenge.

The Board recognises that over recent years, Maintenance-led activity has reduced. However, the Group is well placed to reverse that trajectory and see a return to organic growth in this area. The Group has recorded several bidding successes during the first half and our success in securing decarbonisation opportunities is important.

Notwithstanding the Group's desire to deliver top-line growth, the primary focus for the senior management team is directed towards delivering a continued improvement in operating margin. The Board remains highly selective and disciplined when securing new work opportunities and continues to target an operating margin (pre-IFRS 16) of 5% over the medium term.

The Board anticipates that the business will continue to deliver strong free cashflows which will provide the Board flexibility when considering its capital allocation priorities.

ALTERNATIVE PERFORMANCE MEASURES ('APM')

The Interim Results includes both statutory and adjusted performance measures, the latter of which are useful to stakeholders in projecting a basis for measuring the underlying performance of the business and excludes items that could distort the understanding of performance in the half-year and between periods, and when comparing the financial outputs to those of our peers. The APMs have been set considering the requirements and views of the Group's investors and debt funders among other stakeholders. The APMs and KPIs are aligned to the Group's strategy and form the basis of the performance measures for Executive remuneration.

These APMs should not be considered to be a substitute for or superior to IFRS measures, and the Board has endeavored to report both statutory and alternative measures with equal prominence throughout the Interim Results. The APMs used by the Group are detailed below along 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. A reconciliation is also provided to map each non-IFRS measure to its IFRS equivalent.

Alternative Profit Measures

A reconciliation between the statutory profit measures and the adjusted results for both H1 2023, H1 2022 and FY 2022 is detailed below.

The Group provides an APM which reports results before the impact of the change in lease accounting introduced by IFRS 16. Management have provided this alternative measure at the request of several shareholders and market analysts to allow those stakeholders to properly assess the results of the Group over-time. In particular, the Directors use the pre-IFRS 16 measure to generate the Group's headline operating margin; whilst this generates a lower operating margin, it reflects how the underlying contracts have been tendered and is also more aligned to cash generation. The Group's banking covenants utilise adjusted profit measurements which are reported before IFRS 16 and stakeholders require better visibility of the Group's adjusted profit for that purpose.

Continuing activities	**H1 2023** **£'000**	**H1 2022** **£'000**	**FY 2022** **£'000**
Statutory profit before tax	**21,188**	17,935	34,944
Amortisation of acquisition intangibles	**122**	123	245
Profit before amortisation of acquisition intangibles and tax ('Adjusted profit before tax')	**21,310**	18,058	35,189
Removal of IFRS 16 profit impact (see note i)	**1,337**	1,256	2,201
Net finance income (non-IFRS 16)	**(1,692)**	(170)	(1,268)
Operating profit pre-IFRS-16 before amortisation of acquisition intangibles ('Adjusted operating profit (pre-IFRS-16)')	**20,955**	19,144	36,122
Amortisation of software intangibles	**760**	952	2,055
Depreciation and loss on disposal (non IFRS 16)	**2,678**	5,122	8,023
EBITDA pre-IFRS 16 and before amortisation of acquisition intangibles	**24,393**	25,218	46,200
IFRS 16 profit impact (see note ii)	**(1,337)**	(1,256)	(2,201)
Finance costs (IFRS 16)	**4,164**	3,568	7,610
Depreciation and loss on disposal (IFRS 16)	**23,984**	21,659	43,259
EBITDA post-IFRS-16 before amortisation of acquisition intangibles	**51,204**	49,189	94,868
Amortisation of software intangibles	**(760)**	(952)	(2,055)
Depreciation and loss on disposal (IFRS 16)	**(23,984)**	(21,659)	(43,259)
Depreciation and loss on disposal (non-IFRS 16)	**(2,678)**	(5,122)	(8,023)
Operating profit post IFRS 16 and before amortisation of acquisition intangibles	**23,782**	21,456	41,531

(i) IFRS 16 Profit impact

	H1 2023 **£'000**	**H1 2022** **£'000**	**FY 2022** **£'000**
Charge to income statement on a post-IFRS 16 basis	**(28,148)**	(25,227)	(50,869)
Charge to Income Statement on a pre-IFRS 16 basis	**(26,811)**	(23,971)	(48,668)
Profit impact from the adoption of IFRS 16	**(1,337)**	(1,256)	(2,201)

Alternative operating margin %

Continuing activities	H1 2023 £'000	H1 2022 £'000	FY 2022 £'000
Revenue	**525,641**	484,971	959,613
Adjusted operating profit (pre-IFRS 16)	**20,955**	19,144	36,122
Operating profit margin (pre-IFRS 16)	**4.0%**	3.9%	3.8%

Alternative Earnings per share measures

	Diluted (continuing)		
	H1 2023 p	H1 2022 p	FY 2022 p
Statutory earnings per share	**14.09**	12.70	24.51
Effect of amortisation of acquisition intangibles	**0.11**	0.11	0.22
Effect of full tax charge adjustment	**(0.46)**	(0.11)	(0.22)
Adjusted earnings per share	**13.74**	12.70	24.51

A reconciliation between the statutory measure for profit for the year attributable to shareholders before and after adjustments for both basic and diluted EPS is:

	Continuing		
	H1 2023 £'000	H1 2022 £'000	FY 2022 £'000
Profit/(loss) attributable to shareholders:	**15,996**	14,393	27,813
Amortisation of acquisition intangibles	**122**	123	245
Full tax adjustment	**(520)**	(123)	(245)
Adjusted earnings	**15,598**	14,393	27,813

Alternative Net cash/(debt) measures

The Group excludes the financial impact of IFRS 16 from its adjusted net debt measure. This adjusted net debt measure has been introduced to align the net borrowing definition to the Group's banking covenants, which are required to be stated before the impact of IFRS 16. The Group utilises leases as part of its day-to-day business providing around 10,000 residential properties to vulnerable service users and key workers. A significant proportion of these leases have break provisions and the lease terms are aligned to the Group's customer contracts to mitigate risk. The Group does not recognise these lease obligations as traditional debt instruments given the Group's ability to break these leases and in so doing, cancelling the associated lease obligation. A reconciliation between the reported net cash/(debt) and the adjusted measure is detailed below:

	H1 2023 £'000	H1 2022 £'000	FY 2022 £'000
Cash and cash equivalents	**116,138**	89,859	98,138
Short-term financial assets	**1,000**	–	1,963
Adjusted net cash	**117,138**	89,859	100,101
Lease liabilities (current)	**(45,645)**	(38,276)	(44,376)
Lease liabilities (non-current)	**(183,421)**	(173,664)	(181,045)
Net debt	**(111,928)**	(122,081)	(125,320)

Alternative Cash conversion measure

In addition to the average daily net cash measure, the Group also measures the cash inflow from operating activities as a proportion of EBITDA and this cash conversion percentage is a key performance measure, reflecting the Group's ability to convert profit into cash. The Board targets a measure of more than 90%, and performance that is greater than 100% is considered outstanding. The strength of the Group's operating cash flows reflects both the underlying quality of the earnings, and the Group's operating systems which underpin a strong cash culture.

Continuing activities	**H1 2023 £'000**	**H1 2022 £'000**	**FY 2022 £'000**
EBITDA post-IFRS-16 before amortisation of acquisition intangibles	**51,204**	49,189	94,868
Cash inflow from operating activities	**59,847**	66,152	115,554
Cash conversion	**117%**	134%	122%

Half-year condensed consolidated statement of profit or loss

For the six months ended 30 June 2023

	Note	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
Continuing operations				
Sales revenue	3	**525,641**	484,971	959,613
Cost of sales		**(422,094)**	(386,100)	(763,927)
Gross profit		**103,547**	98,871	195,686
Administrative expenses		**(80,129)**	(78,168)	(155,259)
Operating profit		**23,418**	20,703	40,427
Share of profits of associates		**241**	630	858
Finance income	5	**2,274**	640	2,033
Finance costs	5	**(4,745)**	(4,038)	(8,374)
Profit for the period before tax		**21,188**	17,935	34,944
Tax expense	6	**(4,488)**	(3,308)	(6,441)
Profit for the period from continuing operations		**16,700**	14,627	28,503
Discontinued operations				
(Loss)/profit for the period from discontinued operations		–	(76)	542
Tax charge on discontinued operations	6	–	–	(48)
(Loss)/profit for the period after tax from discontinued operations		–	(76)	494
Profit for the period from continuing and discontinued operations		**16,700**	14,551	28,997
Attributable to:				
Owners of Mears Group PLC		**15,996**	14,317	28,307
Non-controlling interest		**704**	234	690
Profit for the period		**16,700**	14,551	28,997
Earnings per share – from continuing operations				
Basic	8	**14.43**	12.97p	25.07p
Diluted	8	**14.09**	12.70p	24.51p
Earnings per share – from continuing and discontinued operations				
Basic	8	**14.43**	12.90p	25.51p
Diluted	8	**14.09**	12.63p	24.94p

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half-year condensed consolidated statement of comprehensive income

For the six months ended 30 June 2023

	Note	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
Profit for the period		**16,700**	14,551	28,997
Other comprehensive income:				
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:				
Actuarial (loss)/gain on defined benefit pension scheme	16	**(491)**	15,682	(3,041)
Pension guarantee asset movements in respect of actuarial gain	16	**–**	(5,363)	(6,754)
Increase/(decrease) in deferred tax asset in respect of defined benefit pension schemes		**123**	(2,580)	2,449
Other comprehensive income for the period		**(368)**	7,739	(7,346)
Total comprehensive income for the period		**16,332**	22,290	21,651
Attributable to:				
Owners of Mears Group PLC		**15,628**	22,056	20,961
Non-controlling interest		**704**	234	690
Total comprehensive income for the period		**16,332**	22,290	21,651

Total comprehensive income for the period attributable to owners of Mears Group PLC arises from:			
Continuing operations	**15,628**	22,132	20,467
Discontinued operations	**–**	(76)	494
Total comprehensive income for the period attributable to owners of Mears Group PLC	**15,628**	22,056	20,961

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half-year condensed consolidated balance sheet

As at 30 June 2023

	Note	As at 30 June 2023 (unaudited) £'000	As at 30 June 2022 (unaudited) £'000	As at 31 December 2022 (audited) £'000
Assets				
Non-current				
Goodwill		**121,868**	118,873	121,868
Intangible assets		**7,475**	6,030	7,452
Property, plant and equipment		**27,353**	18,846	20,188
Right of use assets		**215,548**	200,665	213,432
Investments		**917**	1,343	1,271
Loan notes		**4,265**	3,673	4,073
Pension and other employee benefits	16	**23,181**	43,756	23,672
Pension guarantee assets	16	**3,136**	7,904	3,136
		403,743	401,090	395,092
Current				
Inventories	9	**7,801**	13,126	6,879
Trade and other receivables	10	**125,668**	156,705	128,334
Current tax assets		**–**	–	459
Short-term financial assets		**1,000**	–	1,963
Cash and cash equivalents		**116,138**	89,859	98,138
		250,607	259,690	235,773
Total assets		**654,350**	660,780	630,865
Equity				
Equity attributable to the shareholders of Mears Group PLC				
Called up share capital	14	**1,098**	1,110	1,110
Share premium account		**82,489**	82,303	82,351
Share-based payment reserve		**2,101**	1,688	1,801
Merger reserve		**7,971**	7,971	7,971
Retained earnings		**123,527**	123,531	119,100
Total equity attributable to the shareholders of Mears Group PLC		**217,186**	216,603	212,333
Non-controlling interest		**2,196**	1,036	1,492
Total equity		**219,382**	217,639	213,825
Liabilities				
Non-current				
Pension and other employee benefits	16	**3,136**	7,710	3,136
Deferred tax liabilities		**4,744**	9,301	4,898
Lease liabilities		**183,421**	173,664	181,045
Other non-current liabilities		**745**	–	682
Non-current provisions		**3,110**	3,800	3,110
		195,156	194,475	192,871

Current				
Trade and other payables	11	**184,006**	205,620	171,013
Lease liabilities		**45,645**	38,276	44,376
Provisions	12	**9,830**	3,339	8,780
Current tax liabilities		**331**	1,431	–
Current liabilities		**239,812**	248,666	224,169
Total liabilities		**434,968**	443,141	417,040
Total equity and liabilities		**654,350**	660,780	630,865

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half-year condensed consolidated cash flow statement

For the six months ended 30 June 2023

	Note	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
Operating activities				
Result for the period before tax		**21,188**	17,935	34,944
Adjustments	15	**30,657**	31,288	60,524
Change in inventories		**(923)**	9,743	15,991
Change in trade and other receivables		**2,669**	(13,264)	13,855
Change in trade, other payables and provisions		**6,256**	20,450	(9,760)
Cash inflow from operating activities of continuing operations before taxation		**59,847**	66,152	115,554
Taxes paid		**(3,729)**	322	(4,128)
Net cash inflow from operating activities of continuing operations		**56,118**	66,474	111,426
Net cash (outflow)/inflow from operating activities of discontinued operations		**–**	(212)	(494)
Net cash inflow from operating activities		**56,118**	66,262	110,932
Investing activities				
Additions to property, plant and equipment		**(9,861)**	(3,194)	(8,052)
Additions to other intangible assets		**(931)**	(494)	(1,364)
Proceeds from disposals of property, plant and equipment		**17**	–	–
Expenditure on acquisition of subsidiary, net of cash acquired		**–**	–	(2,928)
Distributions from associates		**596**	–	300
Maturity of amounts placed on short-term deposit in excess of three months		**963**	–	(1,963)
Interest received		**1,397**	63	764
Net cash outflow from investing activities of continuing operations		**(7,819)**	(3,625)	(13,243)
Net cash inflow from investing activities of discontinued operations		**–**	5,000	7,333
Net cash inflow/(outflow) from investing activities		**(7,819)**	1,375	(5,910)
Financing activities				
Proceeds from share issue		**139**	39	87
Purchase of own shares		**(3,258)**	–	–
Loans provided to other entities (non-controlled)		**–**	–	(225)
Repayment of loan acquired with subsidiary		**–**	–	(37)
Discharge of lease liabilities		**(22,456)**	(22,269)	(43,169)
Interest paid		**(4,724)**	(4,022)	(8,425)
Dividends paid – Mears Group shareholders		**–**	(6,103)	(9,692)
Net cash outflow from financing activities of continuing operations		**(30,299)**	(32,355)	(61,461)
Net cash outflow from financing activities of discontinued operations		**–**	(55)	(55)
Net cash outflow from financing activities		**(30,299)**	(32,410)	(61,516)
Cash and cash equivalents, beginning of period		**98,138**	54,632	54,632
Net increase/(decrease) in cash and cash equivalents		**18,000**	35,227	43,506
Cash and cash equivalents, end of period		**116,138**	89,859	98,138

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half-year condensed consolidated statement of changes in equity

For the six months ended 30 June 2023 (unaudited)

	Attributable to equity shareholders of the Company						
	Share capital £'000	**Share premium account £'000**	**Share-based payment reserve £'000**	**Merger reserve £'000**	**Retained earnings £'000**	**Non-controlling interest £'000**	**Total equity £'000**
At 1 January 2022	1,109	82,265	1,313	7,971	107,578	802	201,038
Net result for the period	–	–	–	–	14,317	234	14,551
Other comprehensive income	–	–	–	–	7,739	–	7,739
Total comprehensive income for the period	–	–	–	–	22,056	234	22,290
Issue of shares	1	38	–	–	–	–	39
Share options – value of employee services	–	–	375	–	–	–	375
Dividends	–	–	–	–	(6,103)	–	(6,103)
At 30 June 2022	**1,110**	**82,303**	**1,688**	**7,971**	**123,531**	**1,036**	**217,639**

At 1 January 2023	1,110	82,351	1,801	7,971	119,100	1,492	213,825
Net result for the period	–	–	–	–	15,996	704	16,700
Other comprehensive income	–	–	–	–	(368)	–	(368)
Total comprehensive income for the period	–	–	–	–	15,628	704	16,332
Issue of shares	1	138	–	–	–	–	139
Purchase of own shares	(13)	–	–	–	(3,245)	–	(3,258)
Share options – value of employee services	–	–	300	–	–	–	300
Dividends	–	–	–	–	(7,956)	–	(7,956)
At 30 June 2023	**1,098**	**82,489**	**2,101**	**7,971**	**123,527**	**2,196**	**219,382**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Notes to the half-year condensed consolidated financial statements

For the six months ended 30 June 2023

1. Corporate information

Mears Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded. The half-year condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2023 were authorised for issue in accordance with a resolution of the Directors on 3 August 2023.

2. Basis of preparation and accounting principles

(a) Basis of preparation

The financial information comprises the unaudited results for the six months ended 30 June 2023 and 30 June 2022, together with the audited results for the year ended 31 December 2022. The half-year condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, with IAS 34 'Interim Financial Reporting', as contained in UK-adopted international accounting standards. The half-year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2022, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International accounting standards.

This half-year condensed consolidated financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2022 were approved by the Board of Directors on 28 April 2023. Those accounts, which contained an unqualified audit report under Section 495 of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

The half-year condensed consolidated financial statements for the six months ended 30 June 2023 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on the Review of Interim Financial Information.

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

Going concern

The Directors consider that, as at the date of approving the interim financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period to at least 30 September 2024. When making this assessment, management 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 at 31 December 2023 and 30 June 2024. As at 30 June 2023 and 3 August 2023, the Group had £70m of committed borrowing facilities of which none was drawn. The principal borrowing facilities are subject to covenants as detailed on page 58 of the 2022 Annual Report. The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 48 to 51 of the 2022 Annual Report and are not expected to change over the next 12 months. The Group has modelled its cash flow outlook for the period to 30 September 2024 and the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and that financial covenants will be met throughout the period. The Group's existing debt facilities run to December 2026.

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. Further detail regarding the Group's stress testing is provided on pages 59 and 60 of the 2022 Annual Report and the same scenarios were modelled to support the assessment of the Directors in this interim statement. After making these assessments, the Directors believe that any scenario or combination of scenarios which could cause the business to no longer be a going concern to be implausible. The Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence until 30 September 2024. Accordingly, they continue to adopt the going concern basis in preparing the interim statement.

(b) Significant accounting policies

The accounting policies adopted in the preparation of the half-year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

3. Revenue

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

	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000
Revenue from contracts with customers		
Repairs and maintenance	**237,194**	241,555
Contracting	**31,485**	47,384
Property income	**231,009**	171,771
Care services	**9,909**	10,029
Other	**642**	72
	510,239	470,811
Lease income	**15,402**	14,160
	525,641	484,971

4. Segment reporting

Segment information is presented in respect of the Group's operating segments based on the format that the Group reports to its chief operating decision maker for the purpose of allocating resources and assessing performance.

	Six months ended 30 June 2023				Six months ended 30 June 2022			
	Maintenance £'000	Management £'000	Development £'000	Total £'000	Maintenance £'000	Management £'000	Development £'000	Total £'000
Revenue	**271,628**	**251,680**	**2,333**	**525,641**	271,613	201,021	12,337	484,971
Profit/(loss) before tax and amortisation of acquisition intangibles	**11,207**	**10,120**	**(17)**	**21,310**	5,362	12,964	(269)	18,057
Amortisation of acquisition intangibles				**(122)**				(122)
Profit before tax				**21,188**				17,935
Tax expense				**(4,488)**				(3,308)
Profit/(loss) for the year				**16,700**				14,627

5. Finance income and finance costs

	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000
Interest charge on overdrafts and loans	**(334)**	(368)
Interest on lease obligations	**(4,165)**	(3,574)
Other interest expense	**(246)**	(5)
Finance costs on bank loans, overdrafts and leases	**(4,745)**	(3,947)
Interest charge on net defined benefit scheme obligation	**–**	(91)
Total finance costs	**(4,745)**	(4,038)
Interest income resulting from short-term bank deposits	**1,470**	43
Interest income resulting from net defined benefit scheme asset	**583**	380
Other interest income	**221**	217
Finance income	**2,274**	640
Net finance charge	**(2,471)**	(3,398)

6. Tax expense

Tax recognised in the Consolidated Statement of Profit or Loss:

	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000
United Kingdom corporation tax	**4,519**	3,262
Adjustment in respect of previous periods	**–**	–
Total current tax charge recognised in Consolidated Statement of Profit or Loss	**4,519**	3,262
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	**(31)**	46
Total tax charge recognised in Consolidated Statement of Profit or Loss on continuing operations	**4,488**	3,308
Total tax charge recognised in Consolidated Statement of Profit or Loss on discontinued operations	**–**	–
Total tax charge recognised in Consolidated Statement of Profit or Loss	**4,488**	3,308

7. Dividends

	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000
Final 2022 dividend of 7.25p per share	**7,956**	6,103

The dividend disclosed within the half year condensed consolidated statement of changes in equity represents the final 2022 dividend of 7.25p per share proposed in the 31 December 2022 financial statements and approved at the Group's Annual General Meeting on 30 June 2023.

The Board is recommending an interim dividend of 3.70p (2022: 3.25p) per share. This is not recognised as a liability at 30 June 2023 and will be payable on 27 October 2023 to shareholders on the register of members at the close of business on 6 October 2023.

8. Earnings per share

	Continuing		Discontinued		Continuing and discontinued	
	Six months ended 30 June 2023 (unaudited) p	Six months ended 30 June 2022 (unaudited) p	Six months ended 30 June 2023 (unaudited) p	Six months ended 30 June 2022 (unaudited) p	Six months ended 30 June 2023 (unaudited) p	Six months ended 30 June 2022 (unaudited) p
Basic earnings per share	**14.43**	12.97	**–**	(0.07)	**14.43**	12.90
Diluted earnings per share	**14.09**	12.70	**–**	(0.07)	**14.09**	12.63

The calculation of EPS is based on a weighted average of ordinary shares in issue during the period. 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.

	Six months ended 30 June 2023 (unaudited) Million	Six months ended 30 June 2022 (unaudited) Million
Weighted average number of shares in issue:	**110.86**	110.95
• Dilutive effect of share options	**2.67**	2.38
Weighted average number of shares for calculating diluted earnings per share	**113.53**	113.33

9. Inventories

	As at 30 June 2023 (unaudited) £'000	As at 30 June 2022 (unaudited) £'000	As at 31 December 2022 (audited) £'000
Materials and consumables	**982**	1,472	1,329
Work in progress	**6,819**	11,654	5,550
	7,801	13,126	6,879

10. Trade and other receivables

	As at 30 June 2023 (unaudited) £'000	As at 30 June 2022 (unaudited) £'000	As at 31 December 2022 (audited) £'000
Trade receivables	**20,082**	27,685	21,483
Contract assets	**73,887**	103,380	84,797
Contract fulfilment costs	**1,141**	1,115	1,283
Prepayments and accrued income	**19,896**	16,121	13,257
Contingent consideration	**–**	1,667	–
Other debtors	**10,662**	6,737	7,514
Total trade and other receivables	**125,668**	156,705	128,334

11. Trade and other payables

	As at 30 June 2023 (unaudited) £'000	As at 30 June 2022 (unaudited) £'000	As at 31 December 2022 (audited) £'000
Trade payables	**65,321**	73,277	55,854
Accruals	**63,438**	64,979	60,278
Social security and other taxes	**20,652**	27,754	26,343
Contract liabilities	**21,784**	33,304	23,672
Other creditors	**4,855**	6,306	4,866
Dividends payable	**7,956**	–	–
	184,006	205,620	171,013

12. Provisions

A summary of the movement in provisions during the period is shown below:

	Property provisions £'000	Legal provisions £'000	Total £'000
At 1 January 2023	835	7,945	8,780
Provided during the year	120	930	1,050
At 30 June 2023	**955**	**8,875**	**9,830**

The Group recognises provisions in respect of the expected costs of reinstating several office properties to their original condition on the expiry of the respective leases. During the period, the Directors have increased their assessment of these property dilapidations from £0.8m to £0.9m, largely reflecting the underlying cost of the rectification works.

At the start of the period, the Group held legal provisions of £7.9m, which included a single provision of £5.7m in respect of a former client relationship where Mears was adjudged through an adjudication process to have acted in breach of contract, and ultimately be responsible for losses and damages. During the period, the Directors have revised their initial estimate, based on the availability of additional information, and have increased this estimate by £0.8m to £6.5m. In addition, the Directors have provided for other provisions related to various subcontractor and employee related legal claims of £2.4m, an increase of £0.1m during the period.

13. Financial instruments

Categories of financial instruments

	As at 30 June 2023 (unaudited) £'000	**As at 30 June 2022 (unaudited) £'000**	**As at 31 December 2022 (audited) £'000**
Non-current assets			
Fair value (level 3)			
Investments – other investments	**65**	65	65
Amortised cost			
Loan notes	**4,265**	3,673	4,073
Current assets			
Fair value (level 3)			
Contingent consideration	**–**	1,667	–
Amortised cost			
Trade receivables	**20,082**	27,685	21,483
Other debtors	**10,662**	6,737	7,514
Short-term financial assets	**1,000**	–	1,963
Cash at bank and in hand	**116,138**	89,859	98,138
	147,882	124,281	129,098
Non-current liabilities			
Fair value (level 3)			
Contingent consideration	**(494)**	–	(438)
Amortised cost			
Lease liabilities	**(183,421)**	(173,664)	(181,045)
Deferred consideration	**(251)**	–	(244)
	(183,672)	(173,664)	(181,289)
Current liabilities			
Amortised cost			
Trade payables	**(65,321)**	(73,278)	(55,854)
Lease liabilities	**(45,645)**	(38,276)	(44,376)
Other creditors	**(4,595)**	(6,306)	(4,614)
Deferred consideration	**(260)**		(252)
	(115,821)	(117,860)	(105,096)
	(147,775)	(161,838)	(153,587)

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 (level 3).

The fair value of contingent consideration payable is determined based on the Directors' expectation of the amount that will be payable, discounted at an appropriate rate.

There have been no transfers between levels during the period.

Fair value information

The fair value of the Group's financial assets and liabilities approximates to the book value, as disclosed above.

14. Share capital

	2023 £'000	2022 £'000
Allotted, called up and fully paid		
At 1 January 111,000,889 (2022: 110,926,510) ordinary shares of 1p each (audited)	**1,110**	1,109
Issue of 109,671 (2022:32,160) shares on exercise of share options	**1**	1
Cancellation of 1,279,191 (2022: zero) shares following purchase by the Group	**(13)**	–
At 30 June 109,831,369 (2022: 110,958,670) ordinary shares of 1p each (unaudited)	**1,098**	1,110

During the period 109,671 (2022:32,160) ordinary 1p shares were issued in respect of share options exercised. In addition, 1,279,191 (2022: zero) ordinary 1p shares were repurchased by the Group and cancelled.

15. Notes to the Consolidated Cash Flow Statement

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

	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
Depreciation	**26,582**	26,781	51,508
Loss on disposal of property, plant and equipment	**80**	–	(224)
Amortisation	**882**	1,075	2,299
Share-based payments	**300**	375	599
IAS 19 pension movement	**583**	289	859
Share of profits of associates	**(241)**	(630)	(858)
Finance income	**(2,274)**	(640)	(2,033)
Finance cost	**4,745**	4,038	8,374
Total	**30,657**	31,288	60,524

16. Pensions

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

In certain cases, the Group will participate under Admitted Body status in Local Government Pension Schemes. The Group will contribute for a finite period up until the end of the 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.

For the purposes of the interim financial statements management has estimated the movements in pension liabilities by reference to the changes in principal assumptions since 31 December 2022, using the sensitivities calculated at that time to movements in these assumptions. The movements in pension assets have been estimated by reference to market index returns over the period for different asset classes in line with the asset portfolios held at 31 December 2022.

The principal actuarial assumptions that have changed since 31 December 2022 are as follows:

	As at 30 June 2023 (unaudited)	As at 31 December 2022 (audited)
Discount rate	**5.00%**	3.80%
Retail prices inflation	**3.00%**	2.90%
Consumer prices inflation	**2.60%**	2.50%
Rate of increase of salaries	**3.00%**	2.90%

The amounts recognised in the Consolidated Balance Sheet and major categories of plan assets are:

	30 June 2023 (unaudited)			31 December 2022 (audited)		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Group's estimated asset share	**123,880**	**116,444**	**240,324**	128,023	133,689	261,712
Present value of funded scheme liabilities	**(100,698)**	**(84,430)**	**(185,128)**	(104,351)	(98,412)	(202,763)
Funded status	**23,182**	**32,014**	**55,196**	23,672	35,277	58,949
Scheme surpluses not recognised as assets	–	**(35,150)**	**(35,150)**	–	(38,413)	(38,413)
Pension asset/(liability)	**23,182**	**(3,136)**	**20,046**	23,672	(3,136)	20,536
Pension guarantee assets	–	**3,136**	**3,136**	–	3,136	3,136

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. A 0.1% reduction in the net discount rate (the base discount rate less the rate of inflation) would result in an increase in the present value of the defined benefit obligation of approximately 1.5%, although an element of the increase would be mitigated by an increase in the pension guarantee assets, as described above.

17. Half-year condensed consolidated financial statements

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

18. Principal risks and uncertainties

The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 48 to 51 of the 2022 Annual Report and Accounts and is not expected to change over the next six months.

19. Forward-looking statements

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

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

By order of the Board

D J Miles
Chief Executive Officer
david.miles@mearsgroup.co.uk

A C M Smith
Chief Finance Officer
andrew.smith@mearsgroup.co.uk

3 August 2023