POSITIVE OUTCOMES

MEARS

ANNUAL REPORT
AND ACCOUNTS 2022

Mears today

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



Large addressable markets underpinned by legislation:

- Help clients address UK housing shortage
- Our services are non-discretionary
- Required by legislation
- Often funded from ring-fenced resources

Contracts deliver stable revenues and margins:

- Average contract length is seven years
- Lump-sum and volume-based arrangements
- Ancillary growth opportunities
- Mobilisation payments
- Indexation

A market-leading provider of outsourced housing services:

- Trusted client relationships
- Reputation for quality, customer service, and operational excellence
- Track record of innovation

Capital-light model with good cash conversion:

- Low working capital requirements
- Delivers strong operating cash flows
- Low capex requirements and strengthened balance sheet
- Capital allocation focused on organic growth, low levels of net cash, and a progressive dividend policy

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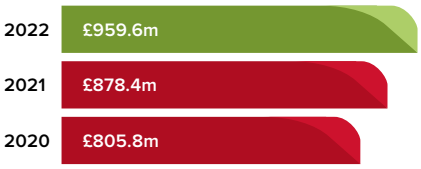
SHAREHOLDER INFORMATION

163 Five-year record (unaudited)
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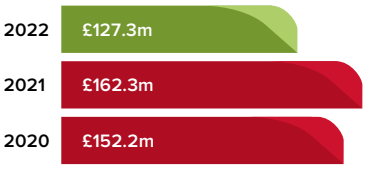
Highlights

Financial highlights

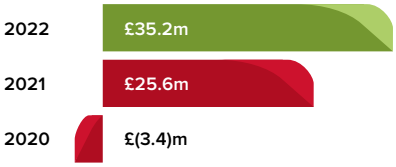
Group revenue



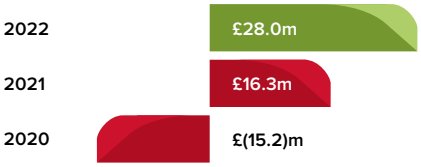
Net debt (inclusive of lease obligations)



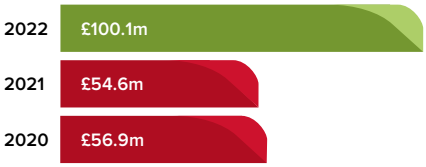
Adjusted profit/(loss) before tax**



Reported profit/(loss) before tax*



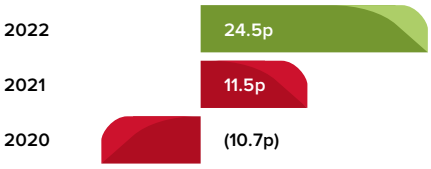
Adjusted net cash (exclusive of lease obligations)



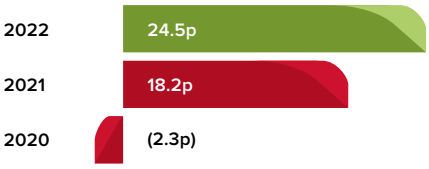
EBITDA to cash conversion***



Statutory diluted EPS*



Normalised diluted EPS*



Order book



Accident frequency rate



* On continuing activities.
** On continuing activities, stated before exceptional costs and amortisation of acquisition intangibles.
*** Being EBITDA divided by cash inflow from operating activities of continuing operations.

Strategic highlights

- Strong financial results with increases in both revenues and operating margins
- Successful award of new Residential Living Accommodation Project (RPAL) contract with the Ministry of Defence (MoD)
- Acquisition of IRT Surveys Limited is an important part of the Group's retrofit solution and will enable Mears to conduct stock analysis modelling for carbon reduction work and help to unlock the Group's ability to deliver carbon retrofit work, which has been identified as a significant market
- Excellent working capital management, maintaining a daily cash balance throughout 2022

ESG highlights

- 100% of contracts delivered a minimum of one local community project, generating £88m in economic and social value
- Plans to eliminate our Scope 1 and 2 carbon footprint by 2030
- Mears has received a Royal Society for the Prevention of Accidents (RoSPA) Order of Distinction (20 consecutive Gold Awards) Health and Safety Award for working hard to ensure our colleagues and customers get home safely to their families at the end of every working day
- Recognised as one of the UK's Best Large Companies to Work. For the third year running
- Retaining a workforce that is motivated and feels valued is critical. The Directors ensured that those at the lower end of the pay scale received higher proportional increases and also ensured that Mears' front line care workers are now all paid more than the real Living Wage rate. The Group made further improvements during the period to holiday and sick pay entitlements

Reconciliations between the statutory figures and the alternative performance measures are detailed on pages 52 and 53 of the Financial review. The Financial review also provides detailed analysis of the financial impact from the discontinued operations.

Our business at a glance

OUR PURPOSE

Working together to help people and communities thrive. This is the guiding principle that defines our brand and drives our activities. It is what makes Mears distinctive and is the starting point for all of our activities.

OUR VISION

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

OUR VALUES

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

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

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

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

WHAT WE DO

Mears has a single-minded focus on the housing market and delivering services to the residents of these homes. We operate within the affordable housing sector, which is an area that will see continued investment given the significant housing shortage and the rising number of people who are regarded as statutorily homeless. We are also a key player in the Net Zero agenda. As the largest provider to the social housing sector, we are already delivering Net Zero housing solutions with our partners. **Our Red Thread is in our DNA and it helps us achieve more as individuals, as a team, and as a company.**

Find out more

OUR CUSTOMERS

We work predominantly with Central Government and Local Government, in the delivery of housing services. These are 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.

OUR SERVICES

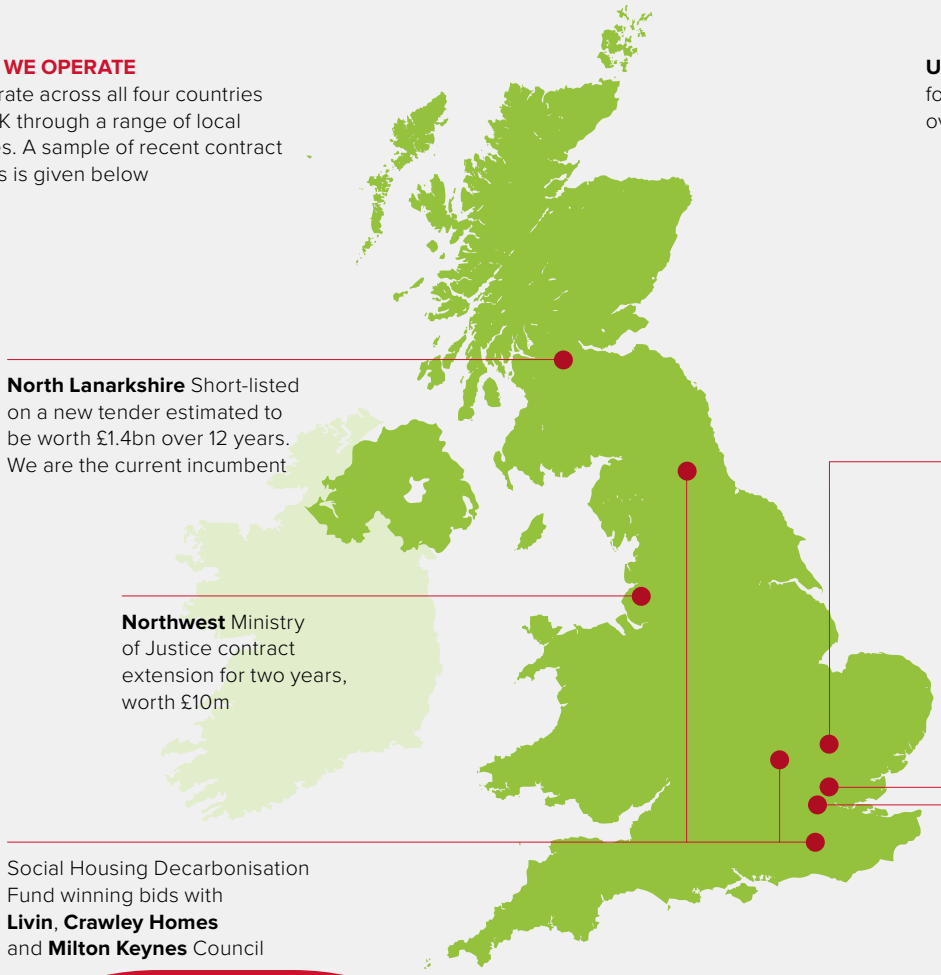
We provide housing solutions. Increasingly we operate an intelligent approach to maintenance, using technology to improve our customers' experience and to operate preventative maintenance programmes that reduce levels of emergency repairs. We provide property and tenancy management, whilst often providing other welfare services to the tenants. Our particular focus is on providing sustainable alternatives to homelessness, helping reduce the rising problems created by the housing shortage in the UK.

LONG-TERM DRIVERS

The shortage of housing in the UK has made investment in housing both a political and an economic priority. There is now a greater focus on tenant engagement and safety. UK carbon reduction targets will also mean that significant further investment in housing is needed, including the replacement of gas boilers. We are already seeing rising investment in our markets and a greater attention to the quality of delivery. Demographic change is also a key long-term driver, given the growing and ageing population of the UK. This will create opportunity for more specialist housing, where our broad range of services can be effectively combined through a single partner.

WHERE WE OPERATE

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



UK-wide MoD contract extended for 5 years plus 2 years, valued at over £250m over 5 years

North Lanarkshire Short-listed on a new tender estimated to be worth £1.4bn over 12 years. We are the current incumbent

South Cambridgeshire District Council contract retained. Contract length five years, value £39m

Northwest Ministry of Justice contract extension for two years, worth £10m

London Borough of Havering successful bid. Contract length 10 years, worth £58m

Tower Hamlets contract renewal for five years, plus an extension option of a further five years, value £75m

Social Housing Decarbonisation Fund winning bids with **Livin**, **Crawley Homes** and **Milton Keynes** Council



PARTNERSHIP FOR THE LONG TERM WITH NORTH LANARKSHIRE COUNCIL

We are pleased to have been shortlisted in respect of the re-tender of the North Lanarkshire Future Integrated Housing Service contract, estimated at £1.4bn over 12 years. The anticipated commencement date for the new contract is January 2024.

Mears already delivers an all-encompassing service carried out in partnership with North Lanarkshire Council, to fully maintain and repair every property within the Council's portfolio of 36,700 properties.

If successful, the new contract will significantly grow our work volume across the Authority. Mears currently delivers an all-encompassing service in partnership with North Lanarkshire, to fully maintain and repair every property within the Council's portfolio of 36,700 tenanted properties and over 1,000 public buildings.

North Lanarkshire Council and Mears are joint partners in the LLP, ensuring we have continued investment in the North Lanarkshire community for the long term.

The two organisations are truly integrated, with a shared commitment to deliver excellent services to residents, whilst bringing community and training benefits to the North Lanarkshire community in a sustainable way. Contract key performance indicators (KPIs) have been increased from 90% to 95% as part of this commitment.

On average Mears completes over 83,000 internal and external repairs annually, 365 days a year by core, out of hours and emergency teams. Mears provides electrical services including occupied and void rewires, domestic ventilation and electrical systems testing (Electrical Installation Condition Report (EICR)). On average 120 electrical safety tests are carried out per week.

Mears delivers capital works which include major structural works, kitchen and bathrooms, decorating services, blacksmith services, groundworks and more. Mears also covers services such as fencing, decommissioning, adaptations and wet rooms for vulnerable tenants. Mears provides electrical checks, plumbing, plastering, decoration and joinery.

2022 accreditations

AN ORGANISATION THAT PROMOTES A SAFE WORKING ENVIRONMENT

Royal Society for the Prevention of Accidents

Health and safety is paramount to our business. In 2022 Mears Group was awarded the RoSPA Order of Distinction alongside its 20th consecutive Gold award in the internationally renowned Health and Safety Awards run by RoSPA.

AN ORGANISATION THAT ENGAGES WITH CUSTOMERS

Tpas Contractor accreditation

Mears has continuously held the Tpas Contractor accreditation since 2015. It is an independent evidence-based accreditation scheme that assesses and recognises resident engagement arrangements.

AN ORGANISATION THAT ACTIVELY PROMOTES SUPPORT TO ARMED FORCES VETERANS

Armed Forces Covenant – Gold Award

Mears has signed up to the Armed Forces Covenant to demonstrate our commitment to ensure that those who serve or who have served in the armed forces, and their families, are treated fairly.

A GREAT EMPLOYER

Best Companies

Mears was named in 2023 as one of the top large businesses to work for in the UK's Best Large Companies to Work For list. Best Companies recognises businesses that take workplace engagement seriously in order to build a happier, healthier workforce. Our listing in the top 25 has been maintained for 5 years.

AN ORGANISATION THAT CHAMPIONS SOCIAL MOBILITY

Social Mobility Index

Mears is listed as a top 75 Social Mobility Employer in the Social Mobility Index. The Index is an important benchmarking initiative that ranks Britain's employers on the actions they are taking to ensure they are open to accessing and progressing talent from all backgrounds and it showcases progress towards improving social mobility.

A DIVERSE AND INCLUSIVE BUSINESS
AN ORGANISATION THAT DELIVERS QUALITY

Customer Service Excellence

Mears aims to put customers at the heart of everything we do. The Customer Service Excellence accreditation is a practical tool for driving customer-focused change.

MEASURING OUR VALUE

FTSE4Good, Sustainalytics and MSCI

Mears has been making continuous improvements year on year across the three significant environmental, social and governance (ESG) assessment platforms: FTSE4Good, Sustainalytics and MSCI. These platforms enable us to monitor our ESG risk ratings.

A SOCIALLY RESPONSIBLE BUSINESS

FTSE 4 Good

Mears Group is placed in the top 9% of the UK's most socially responsible businesses in the FTSE4Good Index, which recognises excellent ESG practices.

COLLEAGUES RECEIVE BEST IN CLASS TRAINING

ICS TrainingMark

The Institute of Customer Service's (ICS) TrainingMark demonstrates that our Customer Excellence Training (Making a Positive Difference) programmes meet national standards for customer service, as independently recognised by the ICS.

DELIVERING EXCELLENT CUSTOMER SERVICE

ICS ServiceMark

Mears aims to put customers at the heart of everything we do. The ICS ServiceMark helps organisations understand how effective their customer service strategy is, and identifies areas for improvement.

BACKING OUR ESSENTIAL WORKERS

ICS – Service with Respect

Mears is proud to support the ICS's new 'Service with Respect' campaign combatting the abuse and anti-social behaviour experienced by essential workers in customer-facing roles.

GIVING BACK TO OUR COMMUNITIES

Social Value Management Certification

The Social Value Management Certificate (SVMC) is a multi-level award for organisations who want to gain best practice processes for social value. In 2022 we were pleased to become the only company in the housing sector to be awarded the Level 2 certificate which focuses on implementation.

CELEBRATING OUR DIVERSITY

EW Inclusive Culture Pledge

We are proud to have signed the EW inclusive Culture Pledge. This demonstrates our commitment to developing an inclusive culture. This supports our ambitions for our new Fairness and Inclusion policy.

Chairman's letter



KIERAN MURPHY
CHAIRMAN

INTRODUCTION

This is my fourth and final letter to you as Chairman of Mears. Having assumed the role in January 2019, I have decided not to seek re-election at the 2023 AGM and will therefore stand down from the Board at that time.

This period has seen both significant change for the Group and a reaffirmation of the positive qualities which have for many years made Mears a force for good.

Over the course of the last five years, Mears' contract estate has been significantly improved. Within the housing business, there has been considerable growth in the provision of accommodation and support services and the Group is now a UK leader in that activity, reflecting the considerable efforts which have been made to develop effective, successful, and profitable relationships with Central Government departments. In parallel, the financial performance and business mix of the housing business has been improved. The Group has also progressively exited other activities, namely domiciliary care, property data management, and housebuilding. Taken together, these initiatives have transformed the Group's financial position: cash generation has returned and debt has been eliminated.

Mears is positioned to grow its core housing activities. In 2022, this was epitomised by its success in winning the MoD RLAP contract, in retaining its long-standing relationship with the London Borough of Tower Hamlets and in being shortlisted for the North Lanarkshire Future Integrated Housing Service contract. Over the last five years, Mears has seen its average contract size grow, in terms of both annual revenues and contract length.

Taken together, these developments leave Mears in a much stronger position for the future with far greater visibility of revenue and profit than hitherto.

At the same time, the cultural strengths of Mears continue to be reinforced. It is integral to how Mears does business that it places great emphasis on the welfare of and development opportunities for its staff, that it provides its services in a manner which is sensitive to the needs and lives of its customers and that it adds value to the communities in which it operates. In the last few years, we have created a new Customer Scrutiny Board which works alongside the Group to oversee and help to improve our service standards. We have reinforced the role of the Employee Director with the creation of a new deputy director post with a strong focus on disability and neurodiversity, become one of the UK's Best Large Companies to Work For and continued our excellent record in promoting effective health and safety for our staff and contractors.

In 2022, Mears was declared Employer of the Year by the Chartered Institute of Housing. Our efforts to create equality of opportunity for our workforce can be seen in improving gender pay gap data, an increase in the proportion of women in senior roles and in our efforts to try to ensure that our local workforces better reflect the ethnic mixes of the communities they serve. And we have continued to promote and measure the social value which we create through a myriad of small schemes up and down the country. While we seek to be the leading provider of housing services and solutions to the affordable housing market in the UK, we do so by working to help staff, customers, and communities thrive.

RESULTS

2022 was, for the first time in three years, broadly unaffected by the Covid-19 restrictions which have created so much economic and social damage over recent years. Our results also demonstrate the benefit which has been gained both from our strategic changes and from our continuous focus on operating improvements across our activities. Revenue from continuing activities reached £959.6m, a record for the Group and an increase of 9% over 2021, while adjusted profit before tax was £35.2m, an increase of 37% over that achieved in 2021. Normalised diluted earnings per share rose by 35% to 24.51p.

Cash generation was once again very strong. The adjusted year end net cash balance reached £100.1m and average net cash throughout the year was £42.9m, both numbers some £40m higher than in 2021. This is the result of a third consecutive year of 100% conversion of profits to cash, a tremendous achievement by the management team and staff across the Group.

This performance was delivered against a backdrop of very different inflation levels and expectations from those of the last decade. Many of our contracts provide for annual price adjustments referenced to a cost index, although these do not necessarily provide full protection as to either timing or amount. We have worked hard to ensure that our procurement processes limit the consequences of higher levels of inflation. However, consistent with our focus on staff welfare, we have improved the terms and conditions for staff and implemented a pay increase which was delivered disproportionately to those at lower pay levels. Nevertheless, we have experienced and continue to experience labour shortages and we are constantly reflecting on how we can best attract and retain good people.

Both financially and operationally, the most significant contracts for the Group are those under which we provide accommodation and support for asylum seekers in the North-East of England, Scotland, and Northern Ireland. The number of service users continued to grow in 2022 and these higher numbers are

This period has seen both significant change for the Group and a reaffirmation of the positive qualities which have for many years made Mears a force for good.

likely to persist in 2023. The continued use of temporary hotel accommodation, while inevitable, is not the preferred solution and we are working hard to increase the number of residential properties which we can use. The development of these contracts has imposed very considerable pressures on the operating teams who run them, and the Board is grateful for their continuing efforts and success.

The Group commenced the new RLAP contract for the Ministry of Defence which has mobilised very smoothly. We look forward to continuing our successful partnership with the MoD for many years to come. We successfully rebid work for repairs for the London Borough of Tower Hamlets and won a new contract with the London Borough of Havering. Most importantly, the Group was shortlisted for the new integrated housing service contract with North Lanarkshire Council and discussions will continue with that client to ensure that if selected, we are ready to commence work, as intended, next January. This contract is worth £1.8bn over 12 years and, if successful, would deliver significant growth for Mears in 2024 and future years.

DIVIDEND

Against the background of the Group's considerable success in 2022, the Board has decided to propose a final dividend of 7.25p per share, bringing the total for the year to 10.50p, an increase of 31% on 2021. Our policy remains to progressively grow the dividend, keeping cover at between 2 times and 2.5 times normalised earnings.

Consistent with the Group's capital allocation strategy, underpinned by tremendous operating cash generation and a strong balance sheet, the Board has approved the launch of a £20m share buyback programme.

STRATEGY

Following a period of strategic reorientation, the Group is now unequivocally focused on being the leader in the UK in providing high quality housing services to the public sector. That focus distinguishes us from many of our peers who operate broader businesses. It is also leading some Local Authorities and Housing Associations to discuss with us ways in which we can support their housing repair operations. We will seek to grow our business where we believe that there are opportunities to work in partnership with these providers in a cost effective and value-creating way.

We focus on innovation and customer satisfaction as key determinants of successful performance and delivery for clients. We continue to invest in our in-house IT operations delivery system, which now permits tenants to report the need for repairs and monitor their progress completely online. Our commitment to innovation was illustrated by the acquisition earlier this year of IRT Surveys Limited. While financially this was a relatively small deal, it brought into the Group the capability to deliver new data-led solutions for clients by assessing the energy performance of housing portfolios, optimising budgets, and providing solutions for the most efficient and cost effective way to complete retrofits. This capability will be crucial to our success in delivering cost effective decarbonisation solutions for clients as the public sector embarks on what will be a multi-year programme of work to contribute to the achievement of the nation's Net Zero targets.

ESG

Mears published its ESG Strategic Approach 2022-2030 earlier this year. This document sets out clear targets in each of the areas of environmental, social, and governance and the Board regularly reviews progress against these targets. Mears has also created a small ESG Board with several independent members whose function is to support and challenge the Group in the achievement of its ESG objectives. We are proud of the efforts which the Group has made over many years in demonstrating the positive impact which our activities can have on our workforce, our clients, and our communities and our ESG strategy is consistent with that deeply embedded cultural approach to how we work.

BOARD DEVELOPMENTS

Toward the end of 2022, the term of our Employee Director, Claire Gibbard, concluded. The Board is grateful to Claire for her contribution and especially her success in devising and creating the new Employee Forum, a mechanism to allow individuals from across the Group to meet and collectively discuss and make recommendations. As described in the Report of the Nominations Committee, the Group ran a process to select Claire's successor and we were pleased to announce the appointment of Hema Nar with effect from 1 January 2023. Hema has worked for the Group since 2020 as a bid manager within the business development function.

Also at the end of 2022, Alan Long, who joined Mears 17 years ago and served as an Executive Director for 9 years, stepped down from the Board. Alan has been critical in developing the Group's workforce initiatives, its social value work, and its governance endeavours as well as playing a key role in winning new business and in promoting and overseeing effective operational improvement. I would like to take this opportunity on behalf of the Board to thank Alan for all he achieved with Mears in his time with us and to wish him well for the future.

Lucas Critchley joined the Board as an Executive Director at the start of 2023. Lucas is the Group COO and will succeed David Miles as Group CEO later this year. Lucas joined the business as a graduate in 2004 and has worked across both the operations and business support functions.

Finally, as noted above, I have decided to step down from the Board with effect from the 2023 AGM. Chris Loughlin, the current Senior Independent Director, will succeed me as Chairman.

DAVID MILES

In December 2022, Mears announced that David Miles would step down as CEO during 2023 to be succeeded by Lucas Critchley. David has worked for the Group for almost 27 years, 12 of those as CEO. When he joined Mears, the business had just 5 branches, 83 employees and a turnover of some £12m. Since that time, and under his stewardship first as COO and then CEO, the Group has grown to its current size with some 75 branches, over 5,000 employees and turnover approaching £1bn. Much of the credit for this successful growth must go to David, who has been central to the Group's development throughout that period.

As importantly, David has been the driving force behind the culture which underpins all that Mears does, combining the need to generate profit and to deliver a return to our owners with the need to provide value to all our stakeholders, staff, clients, service users, and the communities in which we operate. In 2023 and for the future, it will be essential for companies to show that they can and do create social value as well as profits in delivering their services. David's focus on this area over many years has been prescient and paved the way for Mears to be recognised as the most trusted private provider working with the public sector.

On behalf of the Board, I would like to thank David for his unique service over so many years and for all the value which he has created and bequeaths to us.

CONCLUSION

Mears is a very successful Group and punches above its weight in many respects. It has a long and successful future ahead of it as a leader in providing housing services to the public sector. It will continue to be seen as a Group that shows how the pursuit of profit for owners can and should be combined with the creation of value for all other stakeholders. In this respect, it is a model for others to follow.

A Q&A with our Chief Executive Officer



DAVID MILES
CHIEF EXECUTIVE OFFICER

Q Mears has outperformed City expectations in 2022 – why is that and what is the outlook?

A This comes from having a business built on solid foundations: a simple, straightforward strategy focused on housing in the UK, and a market which continues to present us with growth opportunities. We have high levels of workforce engagement which in turn lead to good levels of customer service. We have a very disciplined approach to how we run the business, with a desire to do business responsibly and a resilient and low risk approach to financial management. Whilst challenges come and go, such as Covid-19 and inflation, our focus has ensured we have progressed well in 2022 and I am very confident in the outlook for the future.

Q Media coverage of problems in the asylum system has probably never been greater than in 2022. Surely this must have created challenges for Mears?

A It is true to say that the large number of asylum seekers in the system has created significant pressures on our staff and of course we have not been immune to some of the negativity in the media. However, once again our staff have stepped up to support people in the most difficult of circumstances. You will see in this Annual Report a small fraction of the ways that our staff have provided extra support to asylum seekers in local communities. Our role is to find people decent housing in local communities and to help signpost people to services that can help them. Of course, there is a shortage of housing in the UK and with the higher numbers of both asylum seekers and refugees, this challenge has not been easy. However, we are seeing more Local Authorities agree to allow asylum seekers to be housed in their area and we are looking at creative ways to increase the amount of housing available, including potentially purchasing some housing with the help of private investors. I am sure 2023 will also see high demand on our services and I know our staff will also play their part in ensuring that people are supported as best as we can.

Q I have seen that Mears has extended its relationship with the Ministry of Justice (MoJ). This sounds as if it might bring particular risks?

A We have been part of a pilot project with the MoJ to provide housing on a temporary basis to low risk prisoners leaving the service, who might otherwise have become homeless. This is a significant problem across the UK, resulting in very high levels of reoffending. The pilot has been seen as very successful by the MoJ and I am pleased to say that this pilot has been successful and that we have seen that contract extended.

We work very closely with the MoJ and local support services on this programme and while of course there are risks, the benefits have significantly outweighed the risks against all outcome areas.

This is another example of Mears working in service areas which can have huge long-term benefits to individuals and communities.

I am delighted with the strong performance of the Group, and these are a terrific set of financial results. Our market-leading position, based on a clear strategy and resilient operating platform, has underpinned this performance, and positions the Group for further sustainable growth in the medium term.

The Directors have recognised the challenge at this time of retaining and recruiting skilled labour and have endeavoured to balance the pressures being felt by the Group's employees, with what is affordable to the business. Retaining a workforce that is motivated and feels valued is critical.

Q What progress have you made in your strategic objective to be seen as the most socially responsible large private company working in the public sector?

A Mears delivered £1,200 of social value and £15,700 of economic value to communities per employee across the UK in 2022. The Mears Foundation more than doubled its cash contribution to local causes and the Group match-fund money raised by staff for the Foundation. Our ESG report gives a great summary of the work that we have done in a year when communities have really needed our help. We have also launched Charters setting out exactly what being socially responsible means at Mears, with clear targets which we will report on an annual basis.

I am also pleased to report that we have improved our position as one of the UK's Best Large Companies to Work For and have taken action to improve a wide range of benefits for staff. This has included increasing care worker pay levels ahead of inflation, improving sick pay and holidays for front line operatives and introducing better family friendly and flexible benefits.

Q You have announced a number of changes at Board level, including yourself. Should we be concerned?

A Mears manages change in a structured way, with a long-term focus on succession planning. That's why I announced my own decision to step down from the Board by the end of 2023 so long in advance and have ensured there is an effective transition plan to the new Chief Executive Officer. The same can be said for Alan Long, who is also stepping off the Board but continuing to play a vital role for the Group, and working to ensure that the transition is done the right way. The Chairman is also moving on as we progress to the next stage of Mears' development. In each of these three cases an internal successor has been planned for, which shows the success of our approach.

Q I see Mears has chosen to continue having an Employee Director on the Board. Why is that?

A We take our commitment to staff very seriously and as such it is important that their views are heard at the most senior place in the Company. We also have a variety of roles below the Board that support the Employee Director. A Deputy Employee Director focuses on improving conditions for people with disabilities. We have introduced a Group-wide Employee Forum, to ensure views across the Group are represented. Our most recent appointment is for a trade representative to be appointed to focus specifically on the issues faced by our front line staff and ensure that their views are properly communicated.

Q We note that Housing Associations have had their rent increases capped at 7% and Councils cannot increase Council Tax by more than 5%. Is this likely to reduce spending on Mears' services?

A In terms of our work with Local Authorities and Housing Associations, much of our work comes from ring fenced repairs funds. Indeed, our clients are facing the challenges from tougher regulatory standards and from greater awareness of issues relating to damp and mould. Added to that is the challenge to make all social homes a minimum of Energy Performance Certificate (EPC) Band C in terms of energy efficiency by 2030. As such we don't see a risk in spend levels being reduced but there may be different prioritisations.

Q In the last Annual Report, you talked a lot about carbon reduction in the housing stock. What progress has been made?

A We have made significant progress in being able to help clients assess the work that needs to be done, access grant funding, and carry out the necessary works. Through the first wave of Social Housing Decarbonisation Funding (SHDF), we secured grant funding for three clients and this work is now being implemented. We have also helped clients with 10 submissions for over £100m of work as a part of SHDF Wave 2. The results of this will be known in spring 2023. We have also purchased a small company called IRT, which helps with the front end of this work in assessing what works should be done and the funding levels that can be accessed.

Q The cash position of Mears has improved significantly. What do you intend to do with this cash?

A We are obviously pleased to have delivered so well in eliminating debt and indeed building a positive cash position. We have always been an organisation that manages cash well and this continues to be a core strength of the business. We plan to use this cash in a number of ways. Firstly, to use some cash in partnership with external private investment, to secure property for use primarily on the asylum contract. This to ensure we deliver to operational commitments and to generate positive financial outcomes. Secondly, to explore the opportunity for further small acquisitions, like IRT in 2022. Thirdly, to maintain a progressive dividend policy and consider other routes for providing a return to our shareholders. We will continue to monitor the position closely and to listen to shareholder feedback on the options that are available to us.

Chief Executive Officer's review

2022 was a tremendous year for the Group. The strong operational and financial performance is further evidence that the strategic actions of recent years and our resilient operating platform are delivering positive results and have positioned the Group well for the future. Mears' market leadership and long track record for quality and operating excellence ensure that we are seen as a trusted partner to Local and Central Government as they seek to address their challenges.

The Group delivered strong revenue growth, up 9% to £959.6m, underpinned by the increased volumes experienced within the Asylum Accommodation and Support Contract (AASC). Except for the AASC, revenues have been relatively consistent across the remaining contract estate, with a small reduction in our traditional repair activities.

Adjusted profit before tax for the year was £35.2m (2021: £25.6m), benefitting from both higher revenues and strengthening operating margins, reflecting the positive steps taken by the Group over the previous two years. Some actions resulted in a reduction in revenues but they improved profitability. The business has seen the quality of its secured forward order book improve in terms of both pricing and longevity, and the Directors will continue to be disciplined when bidding for new work. Whilst the business has experienced some inflationary and other supply chain pressures, the senior management team has taken steps to absorb the impact. This is covered in greater detail below.

The AASC was secured in 2019. The Group anticipated annual revenues of around £120m; the contract has seen revenue of more than double this original expectation, with higher service user volumes. This was due to the impact of the pandemic and situations where residential dispersal accommodation has not been available. The Group is working with the Home Office to accommodate these higher volumes in suitable accommodation. A significant focus is being directed towards sourcing a higher volume of residential properties that can support both the short-term and longer-term requirements. Whilst the use of temporary hotel accommodation in the AASC is not preferred, we have placed and will always continue to place the wellbeing and safety of the service user at the forefront of our delivery. The Group expects these elevated service user numbers to be present across 2023. I would like to place on record my thanks to the Mears operational teams which have done an incredible job in supporting such large numbers of vulnerable people in the most challenging circumstances.

	2022 £m	2021 £m	2020 £m
Revenue	**959.6**	878.4	805.8
Operating profit before tax measures:			
Operating profit/(loss)[1]	**41.3**	24.4	(6.3)
Adjusted operating profit/(loss) (post IFRS 16)[2]	**41.5**	33.7	6.6
Adjusted operating profit/(loss) (pre IFRS 16)[2]	**36.1**	29.6	0.6
Adjusted operating margin (pre IFRS 16)	**3.8%**	3.4%	0.1%
Profit before tax measures			
Statutory profit/(loss) before tax	**34.9**	16.3	(15.2)
Adjusted profit/(loss) before tax[2]	**35.2**	25.6	(3.4)

1 Operating profit/(loss) includes share of profit in associates.
2 Adjusted measures are defined in the Alternative Performance Measures section of the Financial review.

A key operational highlight saw a successful outcome for the Group on the re-tender of the RLAP with the MoD. Under this contract, Mears provides a wide range of accommodation and property services to service personnel and their families across the UK. Services include property search, selection, and leasing, relocation services, tenancy management, responsive repairs, and maintenance. Mears had been successfully providing similar services since 2016 under the predecessor Substitute Service Accommodation contract. The new contract is for a period of up to seven years and has an annual value of around £50m. The new contract mobilised in April 2022 and has started well with both operational and financial metrics showing good progress.

On a similar note, the Group was delighted to successfully retain its responsive repairs contract with the London Borough of Tower Hamlets, with a total value of £75m over the initial five-year term (with an option to extend for further 5 years). Under the contract Mears will provide a full range of responsive repairs, voids, and planned works services in around 11,500 properties. Strong customer service and customer satisfaction scores were fundamental in retaining this material contract. This award builds on a relationship between Mears and the Council that stretches back over 15 years.

I am pleased with the progress made over recent years to improve the quality of the Group's forward order book. Since the start of the pandemic, the Group has taken robust action to prune its operations and to ensure resources are directed towards those contractual relationships which can provide high levels of customer service and sustainable financial returns, which are reflective of the investment of time and resources. Whilst the Group had previously taken steps to exit a small number of contracts, some of those demobilisations concluded during 2022. This approach has resulted in some loss of revenue. However, the priority for the Board has been to drive an improvement to operating margins and improve the quality of the contract portfolio.

The increased focus on operating margins has extended into the bid room where the Group remains highly selective. The Group was pleased to secure a new 10-year contract with the London Borough of Havering, delivering repairs and maintenance to around 12,000 homes with an estimated annual value of £5m. This new contract mobilisation went well, which was an excellent achievement given the current backdrop of supply chain pressures and skill shortages and reflects the strength of the Mears operating model.

Over the course of the past two years, the Group has seen a high number of existing contracts coming up for re-bid. Positively through this period, the Group has enjoyed several contract extensions (Orbit, Livin, and MoJ) and a number of retentions (RLAP, Tower Hamlets, Redbridge, and South Cambridgeshire). Whilst I am pleased with the contract retention rate, it is inevitable that a busy period of re-bids will result in some loss of work. Consequently, in September 2022, the Group bid farewell to its work with Welwyn Hatfield Borough Council, with an annual value of circa £15m, after more than 20 years' service.

SUPPLY CHAIN AND INFLATIONARY PRESSURES

Given the challenging economic backdrop and the volatility experienced during 2022, a key concern from all our stakeholders is how the Group has managed current inflationary headwinds, labour shortages, and challenges within the supply chain.

Positively, most of our customer contracts include an entitlement to an annual price adjustment which is typically benchmarked against a cost index. Whilst this provides the Group significant protection, the Group is not immune to cost pressures, and there may be disparity in the level and timing of the increases received. The increases experienced in the cost of energy have added a significant headwind in respect of the AASC where the Group provides light and heating in respect of the circa 6,000 dispersed residential properties. The Group has benefitted from the short-term support provided by Government, but energy costs remain a significant uncertainty in respect of that single contract.

Our procurement procedures have meant that we have not experienced significant problems with material supply. Where lead times have lengthened, we manage and plan for this in our operational delivery. The Mears model has always been to prioritise the investment in, and retention of, our own staff, with lesser reliance on subcontracted and other short-term labour. However, the Group is dependent upon a network of specialist small and medium-sized enterprise (SME) subcontractors, and we recognise the difficulties they will be experiencing within their own workforce and supply chains.

Where client spending is funded through social rents, the introduction of the social housing rent cap may encourage clients to look for cost reductions, notwithstanding the fact that much of the Group's activities are backed by legislation and can be considered non-discretionary. Some areas of planned capital spend, and initiatives such as decarbonisation, could be subject to cost cutting; however, this is only a relatively small part of the Group's revenues.

The Directors have recognised the ongoing challenge of retaining and recruiting skilled labour and have endeavoured to balance the pressures being felt by the Group's employees with what is affordable to the business. Retaining a workforce that is motivated and feels valued is critical. The Group made further improvements during the period to holiday and sick pay entitlements and other terms and conditions, and the 2022 pay review applied a flat increase of £2,000 per annum per employee, which ensured that those at the lower end of the pay scale received higher proportional increases. The Directors awarded an enhanced increase to its front line care workers, who are now all paid more than the real Living Wage rate. The Directors will continue to monitor workforce pay, recognising the importance of being reactive to the cost of living pressures being felt by many of our Mears colleagues. The Board recognises that labour shortages are proving a constraint on our ability to pursue certain new opportunities and we continue to invest and innovate to attract the best talent.

CUSTOMER SATISFACTION

Mears conducts over 3,000 surveys per month and has an independently chaired Customer Scrutiny Board that reports both to the Board and externally on our performance. Key developments are tried and tested with this Board, which has customer representation across our core Housing services.

In 2022, overall customer satisfaction was 88% (2021: 86%) and we are pleased to see low levels of complaints across the Group. We seek to resolve complaints efficiently and quickly, with learnings, where appropriate, being transferred into revised operational practices. We continue to enhance the ability for tenants to interact with us digitally while recognising that for many tenants more traditional routes are still preferred. In 2022, we developed and launched a mobile customer app which provides residents with more choice and convenience, allowing us to create a more personal service.

DECARBONISATION

2022 has seen Mears create a leading end-to-end decarbonisation service to support our clients with the huge challenge of improving social housing stock. Social housing landlords need to achieve a minimum EPC rating of C for their stock by 2030. This starts with the ability to help measure existing carbon efficiency, enabling us to design a programme to cost effectively deliver improvements and then to measure success. The success of this work was seen first by us working with three clients on the SHDF. All three bids were successful, and the resulting work is now being implemented.

SHDF Wave 2 bids involve Mears working with clients to submit bids which, if successful, might result in over £100m of work over the next two years. Further waves of SHDF funding will follow in 2023 and for the foreseeable future. Our ability to support clients was extended by the acquisition of IRT Surveys Limited ('IRT'). IRT technology can model the clients' housing stock and make clear recommendations on what precise work should be delivered and the grant funding available. I am delighted in the positive impact IRT has already made and we expect to see significant opportunity in 2023.

ORDER BOOK AND PIPELINE

The order book stands at £2.9bn (31 December 2021: £2.4bn), enhanced by a number of contract extensions. The Group secured contracts in 2022 valued at over £165m with a win rate (by value) of 30%. The key orders secured are detailed below.

Contracts awarded in 2022	Base term (years)	Extension option (years)	Annual value £m	Base contract value £m	New/ Retention/ Extension
Tower Hamlets Homes	5	5	15	75	Retention
South Cambridgeshire District Council	5	–	7	35	Retention
London Borough of Havering	10	–	5	50	New

Chief Executive Officer's review continued

Over the course of the last two years, the Group has seen a high number of existing contracts approaching re-bid. Positively, we are now through this period, and the Board is pleased with its contract retention rate. Looking forward, in the coming 12-months, there are few rebids meaning much of the business development focus can be directed towards supporting the Group's organic growth ambitions.

We are seeing an increase in the levels of bid activity after two years of reduced volume following the pandemic. The Group's current bid pipeline for contracts to be awarded in 2023 is currently standing at approximately £750m. The bid pipeline comprises contracts which meet the Group's key bidding criteria such as size, quality, and margin opportunity. This reported pipeline excludes the large contract opportunity with North Lanarkshire Housing and Corporate Maintenance and Investment Services contract estimated to generate more than £1.5bn of revenues over 12 years – to provide reactive maintenance, compliance, servicing as well as programmes of works to the Authority's approximately 37,000 homes and c.1,200 other buildings.

HEALTH, SAFETY AND COMPLIANCE

Building on the success of achieving its 20th consecutive RoSPA Gold Award, the health and safety function continues to perform exceptionally well, with no form of regulatory improvement/enforcement notices, or invoices for Health and Safety Executive (HSE) fees for intervention, being served.

In terms of developing risk, the Group has maintained its focus on the fast-moving area of building safety and is making good progress with its drive to implement robust management systems designed to ensure compliance with the Building Safety Act 2022 and the associated secondary legislation which is currently being enacted. However, despite the advances made, this item will remain a key area of focus and scrutiny for the Board moving forward.

Mental health and wellbeing is also an area which has received enhanced scrutiny. The Mental Health and Wellbeing Steering Committee, consisting of key stakeholders across all the Group's operations, has a mandate to drive oversight and provide internal challenge to the business's relevant policies and strategic approach. The Group has also increased the range of support services available to its staff and their families, via its Employee Assistance Programme.

The Information Security team is now well established and making excellent progress with the ongoing implementation of enhanced security controls and employee awareness initiatives, which has enabled the business to secure high level, independent security accreditations for its key strategic contracts. Moving forward, the team is focused on delivering the same validation programme to all areas of the Group's operations.

WORKFORCE

Mears has invested in our workforce for many years and, for the third year running, we have been listed in the Top 25 of the UK's Best Large Companies to Work For. Each year we have also moved higher up the league table, illustrating the ongoing improvement. This has been further endorsed by Mears being named in 2022 as the Employer of the Year by the Chartered Institute of Housing, an organisation in which almost all our clients have members.

This long-term staff investment in our Workforce, is proving particularly important at a time where employee resource has become critical for many organisations. While we have not been immune to the pressures, our approach has helped mitigate some of this risk. This commitment starts at Board level, through our ongoing appointment of an Employee Director, now with an employee forum added to widen the circle of engagement with staff at all levels. We have also added a Deputy Employee Director with a focus on making Mears a better place to work for people with disabilities and a Trades representative lead.

We recognise that it has been a difficult year financially for many people, which is why, once again, we have focused on the giving the highest percentage rises to the lowest paid. We have also improved holidays, sick pay, and other family friendly benefits across the Group. I am very proud of the multiple investments that we have made here and the impact they have on recruitment, retention and employee commitment.

I have been pleased with our progress on Equality, Diversity, and Inclusion and, as detailed above, the support given by our dedicated Mental Health Steering Group, designed to help people who need it through what continues to be a challenging time for many people.

ESG

Adopted by the Board and published in May 2022, our ESG Strategic Approach 2022-2030 sets out our current record in these areas and our ambitious targets and plans. Details can be found on the ESG microsite on the mearsgroup.co.uk website.

In 2022 the Group delivered £16,900 per employee of economic and social value in local communities, as measured by the Social Value Portal. The Mears Foundation supported 70 community projects in the year, including work to promote digital inclusion and improve the welfare of asylum seekers.

Mears has an independently chaired ESG Board that reports to the main Mears Board. The role of the ESG Board, which has three independent Directors, is to both support and challenge the development of our ESG work. This is fundamental to our strategy, which is founded on the goal to be seen as the most responsible large private organisation working with the public sector. Again, we set this goal with business development and sustainability in mind. Demonstrating a responsible approach to business mitigates key reputation risks with our clients and enables us to respond well to tenders, for which ESG responses are becoming increasingly important.

We have consulted on and launched Charters throughout the UK, in which we have clearly set out how we will do business responsibly and we will transparently report each year as to how we have done against each of these commitments.

We have published our clear plan on how we intend to get to Net Zero carbon emissions by 2030.

STRATEGY

The strengthening trading performance is evidence that the strategic actions of recent years and Mears' resilient operating platform and market leadership are delivering results and position the Group well for sustainable growth over the medium term. Our strategy, as a housing business working with the public sector, is founded on four principles:

Key principle
To be recognised as the most trusted large private provider working with the public sector — We have commented in the ESG section of this document on the positive progress made in 2022. In 2022 the Group delivered £16,900 per employee of economic and social value in local communities. — Our success with gaining contract extensions and success on rebids demonstrates the trust clients place with us.
To have the highest levels of customer service in the affordable housing sector where we operate — We have achieved real consistency in our customer satisfaction scores through the year, where we continue to target excellence rather than just satisfactory feedback. Our scores increased overall versus 2021. — We are receiving an increasing number of requests from Local Government and Housing Associations, which currently operate a largely internal repairs workforce, for assistance in resolving the problems that have increased for them in the last two years. We will apply a selective approach as to where we can help, without over-stretching our own resources. Our position as the go-to provider is underpinned by our reputation that we have built over many years.
To embrace innovation that drives positive change such as digital and carbon reduction — We have made positive progress in winning carbon reduction work and our enhanced capability will lead to us securing additional work in 2023 and beyond. — We are investing in the further development of our in-house core operating system Mears Contract Management (MCM) to support our core housing activities. We continue with the development of customer applications that enhance service and lower cost, as demonstrated by the fact that it is now possible for tenants to fully report and see progress on their repair digitally. — We have made our first bolt on acquisition, IRT, which adds to our innovative carbon offer.
To maintain and grow a resilient business with long-term partnerships, a strong balance sheet and cash position, along with a committed, engaged workforce — Our cash position is now very strong with an average daily net cash of £42.9m. — We have secured new work with a contract value of £165m and have continued to develop new partnerships such as with the MoJ, where we see significant opportunity for growth. — We are now bidding on the largest housing contract that we have ever bid, for North Lanarkshire, which has a £150m annual contract value, for a potential 12 years. — We still see too many tenders where price is the dominating factor, but we will continue to follow our long-standing commitment to quality and we will not extend relationships where price focus becomes more important than quality and long-term value. — Our focus will be on driving the longer-term larger partnerships that we have with Central Government and on sustainable partnerships with Local Government that both deliver service quality and enable us to maintain a strong balance sheet, Arrangements that do not meet these criteria will be exited.

DIVIDEND AND CAPITAL ALLOCATION

Our capital allocation priorities are unchanged. We aim to maintain a strong balance sheet with an average daily net cash balance and consistent with this, the Board's priorities will be to:

— Retain low levels of underlying net cash.
— Modest levels of maintenance capex and digitisation spend.
— Small-scale property purchases on MoJ and AASC, if absolutely required.
— Progressive ordinary dividends; cover reducing towards 2x.
— Selective, small-scale acquisitions to enhance product capabilities.
— Returns of surplus cash to shareholders kept under review.

In 2022, we have deployed all aspects of our capital allocation policy:

— We delivered strong free cash flows, reporting an average daily net cash of £42.9m.
— We have invested to support organic growth with development of our IT systems costing £1.1m during FY 2022, and a further £8.1m incurred on property, plant and equipment additions.
— The Group has, to date, completed property acquisitions of £5.2m to support the challenging AASC impacts on our service users from temporary solutions to dispersed residential accommodation.
— The Board is recommending a final dividend of 7.25p per share, resulting in a total dividend for the year of 10.50p per share, an increase of over 30% on 2021.
— We completed the acquisition of IRT to enhance the Group's offering focused on addressing fuel poverty, decarbonisation, and energy efficiency.
— The Board has agreed that it intends to adopt a recurring programme of share buy backs. The Board has approved an initial buy back of up to £20m of shares, recognising that this may take around 18 months to complete.

The full year ordinary dividend of 10.50p per share represents dividend cover of 2.33x. Our strong balance sheet, confidence in the outlook and good cash generation mean we intend to reduce dividend cover progressively towards 2x over the coming years. Regarding potential further share buybacks, we will review our financial position and capital requirements on a regular basis and return surplus capital to shareholders as appropriate.

Case studies

Investing in intelligent carbon capabilities

In 2022 Mears acquired IRT, which operates in the carbon reduction space. There are significant opportunities in the structurally growing field of carbon reduction which are complementary to the services already provided by Mears. The requirement to decarbonise an ageing housing stock, especially in affordable housing, is accelerating in the current environment given the significant increases in energy costs, and the agenda to meet the Government's targets of achieving net zero by 2050.

The technology from IRT was used to win three contracts under the SHDF earlier this year, highlighting that this is a tested formula for successful future bids with our clients.

KEY BENEFITS

- The DREam software, a proprietary technology platform, enables Mears to develop intelligent retrofit plans for our clients, which means we can reduce the energy bills of vulnerable clients much more quickly.
- By introducing this data-led solution, we have strengthened our carbon reduction offer with in-house expertise and capacity on stock modelling and thermal imaging.
- The DREam software helps enable our clients to access funding to get works done.

Read more about new contracts in our Strategy section

ABOUT IRT

Headquartered in Dundee, and formed around 20 years ago, IRT provides a range of data-led services focused on driving energy efficiency, decarbonisation, and broader asset management activities. IRT has developed DReam over several years; the platform aims to simplify and accelerate the retrofit journey by assessing energy performance of housing portfolios, optimise budgets, and provide recommendations on the most efficient way to complete fit outs, with a focus on the affordable housing sector.

IRT is well known in the sector, with in excess of 30 Registered Provider clients spanning the UK, and has surveyed more than 250,000 domestic properties. IRT will continue to service existing IRT clients. In addition, IRT has an active sales pipeline underpinning its growth forecast, which will be enhanced further upon joining the Group.

Having the innovative IRT platform is a vital part of our retrofit solution and will enable us to conduct stock analysis modelling for carbon reduction work, enabling opportunities to be progressed quickly, and to help identify and access grant funding support available. The acquisition has provided Mears with new skills and capabilities in this area, bringing new expertise in-house, supporting pre-sales activity and helping to unlock the Group's ability to deliver carbon retrofit work, which is identified to be a significant market.

- IRT DREam is an automated energy auditing platform.
- The platform uses algorithms to impartially optimise budgets and accelerate the retrofit journey on behalf of clients within the social housing sector.
- IRT provide a range of additional services to the sector, primarily focused around energy services, heat loss surveys, and broader asset management activities.



Social impact for our asylum service users

Mears works to provide housing and support to asylum seekers who enter the UK and are housed in Scotland, Northern Ireland, the North-East, and Yorkshire and Humber.



Coming to the UK from all parts of the world can be a daunting time. With Mears' commitment to social value from each employee, we ask our teams to look at how they can give back their time and talent to our service users. The Mears Foundation also provides grants for projects that will provide social impact and help communities to integrate.

In January 2022, Mears Housing Management joined the Thrive Under 5 network in Drumchapel, Glasgow. Thrive Under 5 (TU5) is a pilot project funded by the Scottish Government.

Through a whole systems approach to tackling child poverty, the programme aims to enable a healthy weight in children under the age of five. Through our place on the network, we worked alongside asylum seekers residing in Mears accommodation and the wider community within Glasgow to design and publish a culturally diverse cookbook. This cookbook aims to be a way for new Scots to integrate, sharing their culture with their new neighbours through food. It aims to encourage the wider community to try dishes from across the world and develop healthier cooking habits in the kitchen through a cooking from scratch approach.

Just some examples of our community projects can be seen here:

- Working with a mosque in Glasgow's West End to provide evening meals for 40 service users. The families were delighted with the home cooked food and the warm welcome and hospitality they received from the elders and congregation.
- Working with the City of Glasgow College to host employability and budgeting sessions for our service users, including those with positive decisions.
- Service users in hotel accommodation have been taught basic music, composing and recording a single which was performed in the local community.
- Partnering with a community church that provides community lunches 52 weeks a year; our service users received a meal and the opportunity to meet different people, and receive one-to-one support.
- "Grow and Grain Project" funding for a paid employee two days a week to support 50 service users to help on allotments and community gardens to improve mental health and to create a local community pantry.
- Partnering with a major Northern football club to provide football sessions to service users once a week so they can meet new friends and neighbours.

These are just some of the activities we organise throughout the year to support our service users and we couldn't do this without our fantastic teams on the ground, who work tirelessly to support vulnerable groups.

Case studies continued

Reducing reoffending rates for the Ministry of Justice



To demonstrate the life-changing nature of the contract, we will leave it to a service user to describe the impact of the service:

In prison, my mental health was at its lowest, feeling that I could possibly be out on the street. Then days before my release, my probation officer told me about the CAS 3 project. I was so relieved that someone was willing to give me a roof over my head and a chance of getting back on my feet. I used this as a positive, a break from the old life I had, from the people that might have influenced me into committing crime.

This accommodation has given me security, a second chance at life, time to recover, to think positively about my future and that I can overcome things and move on. Without CAS 3 I would have possibly been homeless or worse; I don't want to even think about it!

FEMALE CAS 3 RESIDENT

Mears continues to build on our contract award from the MoJ to run the CAS 3 project. This is one part of a wider £80m project to reduce reoffending, through the provision of temporary accommodation. In 2022 the contract in the North-West was extended for a further two years and we have recently been awarded a new contract for the North-East.

CAS 3 accommodates and provide services to people on probation – this means adult offenders of all genders who are 18 or above who have been released as homeless from prison following a custodial sentence. Residents are accommodated for up to 84 days in Mears managed properties and will receive support and assistance to enable a successful move on to their permanent home.

In 2022, Mears has supported 1,382 people. Of those leaving the service, 47% have accessed settled accommodation rather than returning to homelessness or temporary accommodation.

Mears currently delivers services in two of four pilot areas. We have bid on eight of the 10 areas for the national rollout of the scheme, with an aggregate annual contract value of more than £20m. We hope to get the opportunity to work in more regions to reduce the risk of homelessness for this service user group.



Mears wins Tower Hamlets repair contract

Mears was delighted to have won a new housing services contract with Tower Hamlets Homes in 2022. This was a deserved reward for the local team which has delivered this service for the last 10 years, demonstrating our commitment to long-term partnerships.

The new contract began in July 2022 for an initial five years with the option to extend it for up to an additional five years. It covers the day-to-day responsive repairs and emergency repairs in both residents' homes and communal areas, void properties and out of hours call handling.

The new contract responds to customer needs by increasing the availability of appointments and introduces extended working hours until 8pm Monday–Friday and between 8am and 4pm on Saturday. Tower Hamlets Homes will monitor the repairs contract against a set of strict performance targets to ensure Mears continues to deliver and improve the service provided to residents.

As part of the new contract, Mears has made a commitment to appoint 10 Level 2 apprentices and provide two graduate placements to people who live in the local community. The Company has also committed to the creation of new community gardens as well as supporting the ongoing maintenance of these spaces. Additionally, Mears will support the redecoration and maintenance of some community buildings used and managed by tenants and residents' associations.

At the start of this procurement process we consulted with our residents to help us understand what they wanted to see from the repairs and maintenance service they receive. I am confident that the new contract with Mears delivers what our residents asked for and they will see an improved service delivered in a more flexible way. We have a long history of working with Mears and are confident that this new contract will help us to deliver great services.

ANN OTESANYA
INTERIM CHIEF EXECUTIVE, TOWER HAMLETS HOMES

Market drivers

HOUSING MARKET

Affordable housing continues to be an attractive sector for the longer term, given the UK housing shortage, decarbonisation contracts, long social housing waiting lists, cycles of outsourcing, policy changes encouraging more social house building, and broader resilience of demand.



POLITICAL AND ECONOMIC LANDSCAPE

- **The Government is focusing on achieving Net Zero with a particular focus on housing**
- **The provisions from the Social Housing White Paper will be implemented with an increased focus on tenants**
- **There are expected changes to the procurement framework in 2023**
- **We face a national skills gap for new Net Zero works**
- **Inflationary pressures affect our revenue and impact our works**
- **We acknowledge the cap on social rents below inflation and the need to support tenants through the cost of living crisis**

Risks

- A reliance on piecemeal Government funding for Net Zero, which could prevent our clients delivering Net Zero plans whilst maintaining stock in a strategic way
- Cap on social rents below inflation will see some pressures on clients' capital expenditure

Opportunities

- Retrofitting and future proofing existing housing stock
- The Procurement White Paper will hopefully see a more transparent and fair bidding process which takes into account social value with more impact
- Cost of living considerations will be a positive way to engage with our tenants and to show best practice in light of the White Paper changes

Mears' response

- We will continue to deliver a market-leading service as a pure-play specialist in housing solutions
- We are winning more work with Central Government, with contracts to provide housing provision for three Government departments alongside three successful bids to the SHDF
- We have developed our clear carbon offer for our clients, including funding models. Mears has already won contracts to aid our clients' carbon journey and has bid for 10 more in the second wave
- Through our Customer Scrutiny Board, we have gone further than we believe legislation will require to ensure tenants have a say in how our service runs
- We have remodelled our apprenticeship approach to bring through the next generation of skills, whilst creating technical positions for those who have retired or flexible working to enable them to continue working without a longer-term commitment
- We have continued to focus pay increases on the lower paid, with care workers seeing increases of over 10% in the year to 1 January 2023
- Our accredited training centre in Rotherham means we are in a position to upskill our workforce to new Net Zero working. We have already obtained the required Publicly Available Specification (PAS) accreditations to support this work



RISING LEVELS OF HOMELESSNESS, ASYLUM CLAIMS AND HOUSING NEED FOR THE MOST VULNERABLE

- **The UK is experiencing the highest influx of refugees and economic migrants in recent history, all of whom have a right to be housed**
- **Government has agreed to spread the housing of migrants to all local authority areas**
- **Councils lack funding to provide their statutory homelessness duties**
- **The Scotland Housing to 2040 plan adopted by the Scottish Government envisages a role for private providers in meeting housing targets**

Risks

- Associated reputational risks through working with the most vulnerable
- A rental market which is seeing high rent levels and less availability due to Government changes for landlords
- The cost of living means more people are likely to need social housing

Opportunities

- Innovative and rapid solutions needed, given the likely continued slow growth on new build provision. This is especially true for our asylum service
- Homelessness still growing, with Councils looking for solutions which innovate and support.
- A growth in the market for housing and support for vulnerable individuals
- To work with new Local Authorities to house the most vulnerable, whilst easing pressure on those who have always taken asylum seekers in

Mears' response

- We have award winning solutions for more homelessness solutions and affordable homes, such as our partnership with the London Borough of Waltham Forest, which we hope will see further opportunities in the coming years
- We have become the leading provider of cost effective homelessness solutions
- In 2023 we have further broadened our footprint to areas of specific need following our successful bid to the Ministry of Justice
- Our Housing Associations Plexus and Omega is one of the largest Private Registered Social Landlords in the UK
- We are working well with the Home Office to continue housing supply in the face of increased migration



DEMOGRAPHIC CHANGE

- **The UK's over-85 population will grow from 1.6 million in 2020 to 2.1 million in 2030, and 3.7 million by 2050**
- **A long-term funding settlement for social care has not been forthcoming**
- **Of the UK's care homes, an estimated 70% are now aged 20 years or older. Conversion homes and even 1990s purpose-built homes are becoming increasingly outdated**

Risks

- Social care funding has again been pushed back to deal with the cost of living crisis

Opportunities

- More specialist housing is needed to limit escalating cost to the NHS and social care
- A growth in the market and concept of retirement living
- The next generation of over 85s will have many affluent and high income members who won't qualify for state funded care and will also want to pay a premium for the best possible residential care

Mears' response

- We continue to provide excellent service our 21 specialist housing solutions such as extra care and supported living. We will look to sustainably expand this work in 2023



PACE OF TECHNOLOGICAL DEVELOPMENT

- **There are rising Government and customer expectations that services will be easier to navigate through technology**
- **Technology is playing an increasing role in all aspects of service management**

Risks

- The continued need to invest in technological innovation
- Growing importance of cyber security, especially given the sensitivity of much of our work

Opportunities

- To use technology to improve customer communication, service, and lower cost
- The growing requirement for using technology to enhance housing services plays to one of our key strengths

Mears' response

- Our acquisition of IRT places us at the forefront of carbon reduction and allows us to provide all clients with a full understanding of what works are needed to their housing stock, as well as what grant funding can be accessed
- We have market-leading technology to reduce long-term costs and enable us to integrate our services. We will start to implement more solutions that reduce repairs risk, e.g. mould and damp detection.
- We are making use of self-service technology in support of changing expectations such as MCM Live and chatbots
- There is a greater use of customer insight and development of bespoke consultation tools with our Voice of Customer programme
- We introduced a customer app to further enhance our services



COST OF LIVING CRISIS

- **Energy bills are rising across the board**
- **Poorly insulated homes will pay more energy**
- **Government funding relies on match-funding from Local Authorities and is emerging in waves**
- **Inflationary pressures will mean more uncertainty going into 2023**
- **Our employees are facing a cost of living crisis**

Risks

- Loss of staff
- An increased urgency to decarbonise our own managed housing stock to reduce energy bills

Opportunities

- To engage with our workforce to ensure we are helping where we can
- Our leadership in decarbonisation of social housing and new in-house capabilities mean we can help our clients secure available carbon funding

Mears' response

- We have produced our own Net Zero plan, which will be published in early 2023
- We have an excellent workforce engagement approach that gives us the best possible chance of recruiting new people as well as retaining our staff. While there are inflationary pressures, our major contracts have built-in uplift mechanisms that limit these impacts significantly
- We have already mitigated the single biggest energy risk to our managed properties within the asylum service



RISING CUSTOMER EXPECTATIONS

- **There are rising resident expectations**
- **The Government's focus on 'levelling up' and a commitment to the renewal of democracy so people's voices can be heard**
- **A new Future Homes Standard will be considered in the coming years**

Risks

- Risk of delays given political change

Opportunities

- Customer's quality, communication, and speed expectations continue to increase, which provides opportunities for organisations, such as Mears, that can quickly adapt to this
- Those organisations that are effective in working with tenants to co-design solutions are likely to be successful
- Increasing health and safety demands, post Grenfell, will positively impact on quality requirements in tenders
- Growing need to support local communities through social and economic investment

Mears' response

- We now have a sole focus on housing, having divested unprofitable, non-housing related businesses
- We are benchmarking well against the best across all relevant industries
- We continue to focus our Customer Experience on going above and beyond new regulatory standards
- We continue to demonstrate our approach to outsourcing proactively
- We are working to continuously improve tenant engagement, highlighted by our accreditation from Tpas and winning the Inside Housing Award for Outstanding Tenant Engagement – Contractor, in 2021
- We are continuing to support better communities in which service users live, with a focus on developing skills for the next generation and bringing people back into the workplace
- Our commitment to social value and tenant engagement through Your Voice and our Customer Scrutiny Board
- Our social value work remains at the heart of our business and is bolstered by the work of the Mears Foundation

Our value creation model

OUR PURPOSE
Working together to help people and communities thrive. This is the guiding principle that defines our brand and drives our activities. It is what makes Mears distinctive and is the starting point for all of our activities.

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

Key resources and relationships

OUTSTANDING PARTNERSHIPS
Firmly rooted in Local Government and Housing Associations, we are also an important partner for Central Government. Our end service users are the recipients of housing services and extra care living.

A RESPONSIBLE APPROACH
Creating social value is a key part of our business strategy, as this enables us to be seen as a trusted partner by our clients, and is an essential part of building stronger relationships. Our new ESG strategy sets out how we will continue on our socially responsible journey.

Find out more
see pages 30 to 43 (ESG section of the Strategic report)

EXCEPTIONAL PEOPLE
Proud to be number 19 in the UK's Best Large Companies to Work For. We recognise our staff as our greatest asset. Mears employees are skilled in delivering an excellent service whilst showing a strong customer service ethos and an empathy for our service users.

MARKET-LEADING TECHNOLOGY
Our performance is built on a bedrock of first-class IT platforms, giving market-leading capability and driving innovation and resident engagement.

SUPPLY CHAIN PARTNERS
We choose suppliers who share our values and meet our standards. We work closely with suppliers to develop innovative services and integrate them into our core systems.

FINANCIAL STRATEGY
We are funded from a combination of shareholder funds and retained profits. Our underlying business has good forward visibility, stable margins, strong cash conversion, and limited capital requirements. Accordingly, free cash flow can predominantly be used to invest further in the business, to maintain low levels of cash and to provide returns to capital providers.

INNOVATION
The challenge of delivering service improvements at lower cost requires innovative thinking and the use of technology. We create and lead best practice in our markets.

What we do and how



REVENUE GENERATION
Mears' revenue is generated from payments from Government and Local Authority and Housing Association clients in respect of its housing services. Whilst the end service users are at the centre of our business model, they do not pay for the service directly. These payments are made under long-term contracts (average seven years).

STABLE MARGINS AND GOOD CASH CONVERSION
We have a long-standing record of stable profit margins on contracts (once mobilised) and converting profit into cash, utilising strong financial management combined with good relationships with clients and the supply chain.

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

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

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

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

Community outcomes



KEY STATISTICS

>£165m
wages and salaries paid to circa 5,400 employees

£960m
revenue delivered to over 100 clients

>1m
service users

>200
apprentices

35%
women in senior positions

£16,900
average social value and economic value for communities delivered per employee

>£177m
taxes paid

c.£11.7m
dividends paid and proposed

The value we share

SHAREHOLDERS
The Group follows a progressive dividend policy. The Board is recommending a full year dividend of 10.50p per share, an increase of over 30% on 2021. The Board reviews the Group's financial position and capital requirements on a regular basis and will return surplus capital to shareholders as appropriate.

GOVERNMENT
In 2022 we paid an aggregate sum in direct and indirect taxes of £177m. In addition, through the services we provide to the public sector, we are delivering significant cost savings and better value to Central Government, Local Authorities and the NHS.

CUSTOMERS
We maintain homes throughout the UK, undertaking around 5,000 repairs per day. Mears has extended its activities to provide solutions to resolve the challenges of homelessness, asylum housing, and MoD and MoJ accommodation.

COMMUNITIES
At the heart of Mears lies a strong sense of responsibility towards improving people's lives. We create opportunities and enable people to develop new skills within some of the most disadvantaged and marginalised communities in the UK. Every branch of Mears makes a social value pledge, which focuses on specific activities to improve its local community in at least one of our social value priorities.

EMPLOYEES
Mears is committed to training. We have an extensive apprenticeship programme and provide a number of alternative training solutions for upskilling employees and for the professional development of Mears managers. We are proud to be rated as one of the Best Large Companies to Work For.

Our strategy

Delivery today, not tomorrow

Our vision is 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.

Against this vision, we have four strategic priorities:

TO BE RECOGNISED AS THE MOST TRUSTED LARGE PRIVATE PROVIDER WORKING WITH THE PUBLIC SECTOR

What we achieved
- Secured new contracts with existing Government departments, including the MoD and the MoJ.
- Consulted across England and launched a charter as to how we will operate ethically, following on from our Scottish Charter.
- Launched our first ever ESG Strategic Approach alongside a new independent ESG Board to monitor our progress.
- Over £88m of delivered social and local economic value in 2022.
- The Mears Foundation more than doubled grant funding to community projects versus 2021.

2023 priorities
- Launch our new Net Zero plan with clear roadmaps towards goal achievement.
- Continue to operate to the highest ethical standards.
- Focus on large integrated contacts. We are bidding for a contract with North Lanarkshire Council to become a strategic partner on a broad programme of work, centred around housing.
- Given the strength of overall proposition, we see opportunity to improve our previous one in three bid win rate.
- More opportunity to cross-sell our broader housing services, such as carbon reduction, through more effective client development planning, growing the number of services per client.

How we measure success
- Extending services with existing clients.
- Retaining contracts at sustainable pricing.
- Winning work with new clients who share our values.
- Being seen as a trusted, responsible and ethical provider to Central Government.
- Meeting our obligations to decarbonise our operations.

Link to KPIs

1 2 4 5 8 10

Risks
- Inflationary pressures will mean price will continue to drive decisions on some contracts.

Link to UN SDGs



TO HAVE THE HIGHEST LEVELS OF CUSTOMER SERVICE IN THE AFFORDABLE HOUSING SECTOR WHERE WE OPERATE

What we achieved
- Recognised for the quality of our service and customer engagement, through several national awards.
- Our independent Customer Scrutiny Board has published its second report on our performance.
- 88% of our customers regard our service as satisfactory or higher.

2023 priorities
- Manage the challenges associated with high demands, especially from the AASC.

How we measure success
- Service user and client feedback.

Link to KPIs

1 2 3 4 10

Risks
- Rising customer expectation requiring ever more individual responses.
- Shortages in some areas of the labour market, although this position is expected to improve in 2023.

Link to UN SDGs



KPI

1. CUSTOMER SATISFACTION
2. CUSTOMER COMPLAINTS
3. EMPLOYEE TURNOVER
4. NEW CONTRACT SUCCESS
5. ORDER BOOK
6. REVENUE GROWTH (CONTINUING ACTIVITIES)
7. ADJUSTED OPERATING MARGIN (CONTINUING ACTIVITIES)
8. AVERAGE DAILY NET DEBT (EXCLUDING LEASE OBLIGATIONS)
9. GROWTH IN NORMALISED DILUTED EPS
10. ACCIDENT FREQUENCY RATE

TO EMBRACE INNOVATION THAT DRIVES POSITIVE CHANGE SUCH AS DIGITAL AND CARBON REDUCTION

What we achieved

- Acquisition of IRT – a data management company which enables us to produce carbon reduction plans for our clients at scale.
- Won three contracts from the SHDF and have bid for a further 10 in the second wave of this fund.
- The continued improvements to core systems, which enable our customers to interact in real time with us and to report and track their work requests.

2023 priorities

- Establish Mears as leaders in carbon reduction in social housing.
- Continue to improve the ways our customers can interact with us.
- Secure as much carbon work as we can, helping clients access grant funding available.

How we measure success

- Levels of new work won

Link to KPIs

1 2 3 7 9

Risks

- There remains some uncertainty as to how fast Central Government funding will flow through to enable housing landlords to meet their carbon reduction targets.

Link to UN SDGs



TO MAINTAIN AND GROW A RESILIENT BUSINESS WITH LONG-TERM PARTNERSHIPS, A STRONG BALANCE SHEET AND CASH POSITION, ALONG WITH A COMMITTED, ENGAGED WORKFORCE

What we achieved

- Achieved a positive cash position and increased margin in line with strategic expectations.
- Secured long-term contracts with both existing and new clients.
- Improved all employees' terms and conditions including family friendly policies and a cost of living payment.
- Improved our position as one of the UK's Best Large Companies to Work For.
- Provided a wide range of tools to assist with mental health and wellbeing.

2023 priorities

- Continue to improve margins but ensuring we deliver great value for money for clients.
- Maintain our UK's Best Companies position.
- Continue to increase the diversity of our workforce at all levels.
- Maintain focus on employee engagement and helping tackle the challenges of wellbeing and mental health.

How we measure success

- Staff retention level.
- Benchmarking versus other organisations.
- Margin improvements.
- A happier, healthier and more engaged workforce based on Best Companies survey results and mental health and wellbeing working group policies.

Link to KPIs

1 2 3 4 10

Risks

- Inflationary pressures in some areas.
- Cap on social rents below inflation. This should be limited to 2023 as we see inflation fall.
- The importance of diversity and inclusion alongside a difficult national recruitment shortage means we will have to work hard to achieve our diversity aims.

Link to UN SDGs



Key performance indicators

Non-financial

1 CUSTOMER SATISFACTION

In order for customers to recommend us, we must deliver excellent service. The Group completed circa 1.7 million repairs in 2022 and we subsequently post inspect around 10% of works orders and encourage tenants to provide feedback so we can deliver further service improvements.

RESULTS FROM THE YEAR

88%



2022 TARGET

86%

Outperformance

2023 TARGET

88%

2 CUSTOMER COMPLAINTS

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

RESULTS FROM THE YEAR

1.8 per 1000



2022 TARGET

21%

Underperformance

2023 TARGET

1.5

3 EMPLOYEE TURNOVER

Our employees are fundamental to meeting our strategic priorities. The Directors have recognised the challenge at this time of retaining skilled labour and have endeavoured to balance the pressures being felt by the Group's employees with what is affordable to the business. Retaining a workforce that is motivated and feels valued is critical. We recognise the importance in attracting and retaining skilled staff, and at a time when competition for skilled labour is high it has never been more important. The staff churn figure is calculated as the total number of leavers during the year as a proportion of the average headcount.

RESULTS FROM THE YEAR

24%



2022 TARGET

22%

Underperformance

2023 TARGET

23%

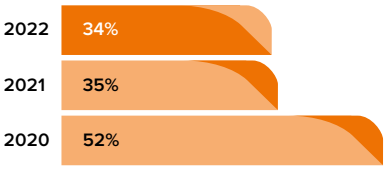
Business development

4 NEW CONTRACT SUCCESS

Contract success is measured by the total revenues secured as a proportion of the total value of tenders submitted. The average contract length is around six years. In order to achieve our organic growth forecasts, it is important that we secure around one in three, by value. Whilst the Group met its new-bid conversion target, the total value of contracts tendered in 2022 was lower than anticipated. The Directors expect bid activity to be higher in 2023, underpinned by the new North Lanarkshire tender which is valued at £1.4bn over 12 years. However, given the outcome of this single large tender is binary, the target for 2023 excludes this bid.

RESULTS FROM THE YEAR

34%



2022 TARGET

33%

Outperformance

2023 TARGET

33%

5 ORDER BOOK

Our order book provides us good visibility of those revenues secured for future periods. It is helpful that we have long-term contracts that allow us to plan with confidence, in the knowledge that we have significant revenues already contracted. It is also positive for all our stakeholders, providing stability to our supply chain, funders and, most importantly, for recruiting and motivating our workforce. As detailed above, the Group is at an advanced stage of re-bidding the North Lanarkshire tender which is valued at £1.5bn over 12 years. The order book target for 2023 assumes that the Group is successful in securing this new contract opportunity.

RESULTS FROM THE YEAR

£2.9bn



2022 TARGET

£2.1bn

Outperformance

2023 TARGET

£4.0bn

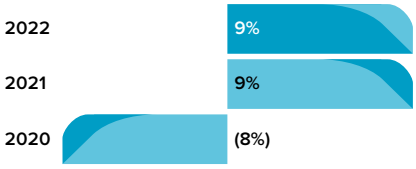
Financial performance

6 REVENUE GROWTH (CONTINUING ACTIVITIES)

Our KPI target relates to total revenue although it is important to also identify the split between organic growth and growth that has been delivered through acquisitions. We believe that organic growth gives a better indication of business performance, being an aggregation of success in new contract bidding and contract retention. The Board originally anticipated a reduction in revenues in 2022 which did not occur, as activity within the Group's AASC remained at elevated levels.

RESULTS FROM THE YEAR

+9%



2022 TARGET

-5%

↑ Outperformance

2023 TARGET

-5%

7 ADJUSTED OPERATING MARGIN (CONTINUING ACTIVITIES)

Operating margin is the KPI used to measure and understand the profitability of our activities. The operating profit measure is taken before exceptional costs and the amortisation of acquisition intangibles. The measure is stated on a pre-IFRS 16 basis, being the measure that is utilised within the business and understood by our investors and bankers. The Directors were pleased to deliver a solid improvement in operating margins in 2022, an increase to 3.8% (2021: 3.4%).

RESULTS FROM THE YEAR

+3.8%



2022 TARGET

+3.8%

— On track

2023 TARGET

+3.9%

8 AVERAGE DAILY NET DEBT (EXCLUDING LEASE OBLIGATIONS)

Good working capital management remains a cornerstone of the business. Mears has always fostered a strong 'cash culture', whereby the Group's front line operations understand that invoicing and cash collection are intrinsically linked, and that a works order is not complete until cash is collected in full. This culture has underpinned strong cash performance over many years. The Group has delivered strong cash generation with EBITDA to operating cash conversion of more than 100%. Whilst it is pleasing to report a strong cash position within the period end balance sheet, of much greater significance is the daily cash performance over the 365-day period. The Board is delighted to report such strong performance.

RESULTS FROM THE YEAR

£43m net cash



2022 TARGET

£nil

↑ Outperformance

2023 TARGET

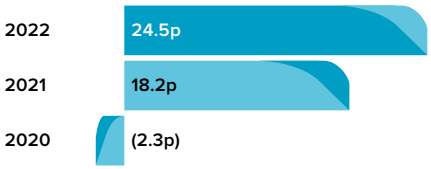
£50m net cash

9 GROWTH IN NORMALISED DILUTED EPS

Normalised earnings are stated before exceptional costs and exclude the amortisation of acquisition intangibles together with an adjustment to reflect a full tax charge. The Group has delivered strong earnings growth, underpinned by an increase in both revenues and operating margins. Whilst the Board expects this strong performance to increase into 2023, the increase in the corporation tax rate, combined with an increase in the number of shares following the maturity of the Save As You Earn (SAYE) scheme, means that EPS will result in some downward pressure in 2023.

RESULTS FROM THE YEAR

24.5p



2022 TARGET

19.5p

↑ Outperformance

2023 TARGET

23.2p

Health and safety

10 ACCIDENT FREQUENCY RATE

The health, safety and wellbeing of our employees is our primary consideration in the way we do business. Health, safety and environmental risks are fully embedded in the governance structures of the Group. Providing our employees with a safe working environment remains paramount. Our accident frequency rate is calculated as the number of reportable incidents (by both employees, service users and third parties) divided by the number of hours worked, multiplied by 100,000. Whilst the result for 2022 showed an increase in accident frequency, we consider this performance to still be strong.

RESULTS FROM THE YEAR

0.25



2022 TARGET

0.22

↓ Underperformance

2023 TARGET

0.24

Stakeholder engagement

Listening to our stakeholders

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

Stakeholder	How we engage	Business model	Key issues	Outcomes
Clients	— Regular contract specific meetings — Bringing clients together to solve sector wide issues — Voice of Customer programme to get regular perception audit of our service	— Customer service leadership — Long-term partnerships that deliver value for money — ESG commitment	— Improving national housing stock — ESG agenda — Net Zero — Growth of sector regulation — Government-led housing solutions such as homelessness, parole, asylum	— Seen as the leading specialist housing provider to Central and Local Government — Partner of choice for longer-term large integrated contracts — Thought leaders on legislative development — Good governance and financial sustainability
Residents and customers	— Voice of Client feedback programme — Customer Scrutiny Board — Local events	— High levels of customer focus and engagement — Co-production of service improvement programmes — Added focus on social value to benefit local communities	— Rising expectations of customer service — Increased powers of Ombudsman and Regulator — Widespread understanding of poor housing stock and its effects	— High levels of customer satisfaction — Good contract retention
Colleagues	— Employee Forum — Employee Director See page 66 (roles and responsibilities, employee director's listed) — Appointing a Deputy Employee Director focusing on supporting disabled and neurodivergent staff — We have appointed a trade representative to specifically focus on issues raised by front line staff — Best Companies feedback survey — Extensive internal communication programme — Workforce development and succession planning	— Focus on making Mears a great place to work — Extensive investment in people, e.g accredited training provider and national apprenticeship programme — Local recruitment to support local communities	— Cost of living — Colleague engagement now seen as key across all sectors — Developing new skills e.g to address carbon reduction requirements	— High levels of workforce satisfaction — Ability to successfully resource work — Increasing diversity
Communities	— Independent ESG Board — Local social value plans for each community where we work — Partnership working with clients and other stakeholders	— Social value embedded into every contract — Social value embedded into workforce appraisal mechanisms at all levels from Board downwards — Independent scrutiny of performance	— Cost of living crisis — 'Levelling up' agenda	— Securing and retaining contracts — Improving workforce satisfaction

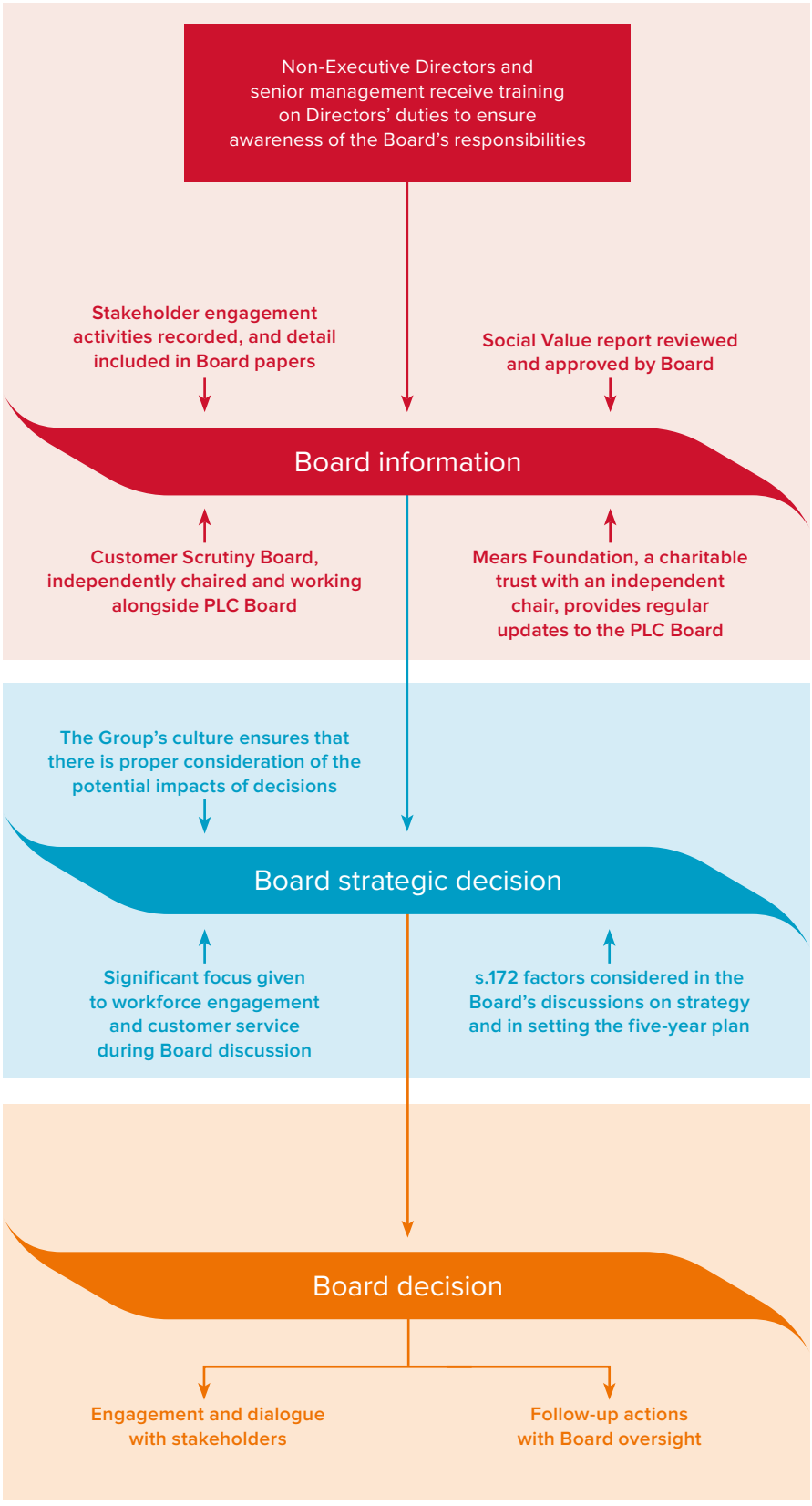
Section 172 statement

Our duty

Statement by the directors in performance of their statutory duties in accordance with Section 172(1) of the Companies Act 2006.

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 2022.

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.



Section 172 statement continued

Section 172 index

Section 172 factor	Annual Report disclosures
The likely consequences of any decision in the long term	— Company purpose and vision page 2 — Our value creation model page 20 — Performance review page 24 and 25
The interests of the Group's employees	— Performance review page 24 and 25 — Listening to our stakeholders page 26 — Diversity and inclusion page 34 — Social mobility page 33
The success of our relationships with suppliers and customers	— Responsible payment practices page 36 — Modern slavery page 35 — Sustainability pages 41 to 43 — Non-financial information statement page 61
The impact of our operations on the community and the environment	— Task Force on Climate-related Financial Disclosures (TCFD) pages 38 to 41 — ESG pages 30 to 37
Maintaining high standards of business conduct	— Anti-bribery and corruption page 61 — Whistleblowing page 61 — Modern slavery page 61 — Risk management pages 44 to 51 — Internal controls page 78 to 79
Acting for the benefit of our members	— Listening to our stakeholders page 26 — Shareholder engagement page 69 — Annual General Meeting page 70

Section 172 in action

PROMOTING THE SUCCESS OF THE COMPANY

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, 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 69. 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.

Stakeholder groups

C1 Community
C2 Customers
D Debt funders
E Employees
G Government
I Investors
S Service users

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other s.172 considerations, have been considered in its decision making are set out below:

Key decision	Board considerations	Stakeholder group
Acquisition of IRT Surveys The Group completed the acquisition of IRT Surveys Limited (IRT). The Board considered how the acquisition was aligned to delivering the Group's strategic plan, how it would broaden the services that the Group provides to its clients and contribute to long-term shareholder value. After due consideration of the matters set out in Section 172 of the Act, related risks and opportunities and the impact on wider stakeholders, the Board approved the acquisition of IRT. The acquisitions is performing in line with expectations.	— Acquiring IRT is an important part of the Group's retrofit solution and will enable Mears to conduct stock analysis modelling for carbon reduction work	C2
	— The acquisition will provide Mears with new skills and capabilities in this area, bringing new expertise in-house	E
	— IRT is well known and respected in the sector, with over 30 Registered Providers. IRT will continue to service existing clients and has an active sales pipeline, which has been enhanced further upon joining the Group	C2
	— This deal is completely aligned with our strategic plan, utilising innovation and technology to drive positive change in the sphere of carbon reduction — This augments the Group's climate change response with our ambition to be carbon neutral by 2030	C1
	— The Board considered how the acquisition would be received by shareholders and would impact on the long-term financial performance	I
Climate change Climate change is at the centre of many Board considerations and its decision making throughout the year. Sustainability related discussions take place at all Board meetings and the sustainability matters are discussed at every Board meeting. The Board scrutinised the Company's plans to deliver its Net Zero commitments within the required time frame. After due consideration of the matters set out in Section 172 of the Act, related risks and opportunities and the impact on wider stakeholders, the Board supported the carbon plan which will now become a dynamic document.	— Our customers have told us that they expect us to protect and improve the environment and that our response to climate change is important to them. Public sector procurement requires bidders to have clear zero carbon plans	C2
	— The Board considers updates in respect of environmental performance and the Company's activity to achieve its Net Zero Transition Plan commitments at every Board meeting. The Board also considered a dedicated Net Zero Transition Plan update during the year	C1
	— Our people are passionate about making a positive impact on the communities and the environment where we live and work, including delivery of our Net Zero Transition Plan commitments. This is supported by the new Remuneration Policy that ensures sustainability-based performance measures are built into the Group's remuneration policies	E
	— Investors demand that our external commitments stand up to scrutiny when benchmarked against our peers and that our approach to achieving Net Zero is credible	I

ESG

Change for good

Achieving Net Zero is a key commitment within our ESG Strategic Approach which prioritises where we can have the greatest impact and supports a culture that fully integrates sustainability and purpose beyond profit. Our ambition is to become the most socially responsible business working in the public sector by 2025. We will achieve this through three key ESG strands:

Healthy Planet – achieving Net Zero across Scope 1 and 2 emissions by 2030, and Scope 3 emissions by 2045, raising environmental standards and being a lead partner to support the decarbonisation of our nation's social housing stock

Improving Lives – helping vulnerable people in the communities we serve, engaging our supply chain and treating everyone fairly and equally

Good Governance – creating value through great partnerships, sustainable procurement and innovation

By everyone working together and delivering our ESG ambitions, we will maintain strong business credentials and demonstrate our commitment to always doing the right thing.



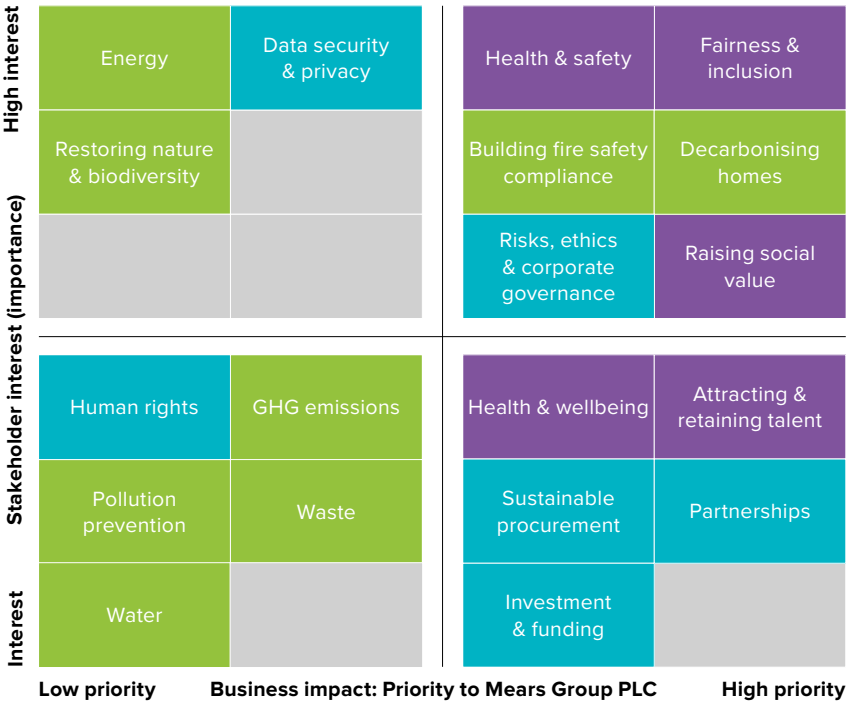
Priorities for the year ahead

OUR MATERIALITY REVIEW

Through an online survey, we consulted our internal stakeholders to identify the matters that are important to them and asked them to rank a number of specific ESG and sustainability topics on a relative basis. We also assessed these topics on the incremental impact that they can have on our business.

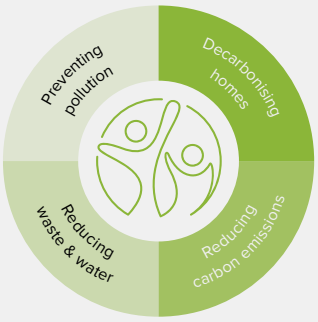
We acknowledge that:

- while all items shown are important, some have greater urgency, in terms of focus, to our business than others
- we will use the results to help inform our approach and development plans
- the key materiality topics used were sourced from relevant ESG frameworks and sector insights
- as anticipated, we know that as our journey continues priorities will change. 2022 has seen a focus on cost of living for our own colleagues and customers



KEY
Environment
Social
Governance

Healthy Planet



IN 2022

Developed

our detailed plan to reduce our business carbon which will enable us to reach Net Zero across Scope 1 and 2 emissions by 2030, and Scope 3 emissions by 2045.

Lead partner

We have become a lead partner to support the decarbonisation of our nation's social housing stock and are expecting further opportunities in Wave 2 of the SHDF.

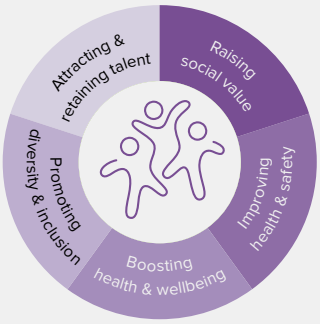
Acquired

IRT, which enables Mears to develop intelligent retrofit plans for our clients swiftly, which means we can reduce the energy bills of vulnerable clients much more quickly.

IN 2021

- 96.63% waste diversion from landfill
- Zero pollution incidents
- Zero environmental legislation breaches
- Three Social Housing Decarbonisation projects secured with our client

Improving Lives



IN 2022

19.63%

The mean gender pay gap has decreased from 21.09% in 2021 to 19.63% in 2022.

57%

of departments now have access to a Mental Health First Aider.

Enhanced

We have reviewed and enhanced support services available through our Employee Assistance Programme.

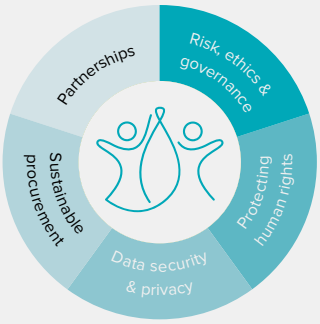
Improved

We were pleased to enhance our benefits package to include improved maternity and paternity pay, increased salaries for our care workers and apprentices and increased pay and holiday provision.

IN 2021

- 92% of colleagues shared Equality, Diversity, and Inclusion (EDI) data
- 100% of managers trained in EDI
- Gender pay gap of 22%
- Employee turnover of 21.5%

Good Governance



IN 2022

Certified

We have maintained an information security management system (ISMS) that is certified to ISO 27001.

Evolved

Our governance structure has evolved to include ESG scrutiny through our expert-led Customer Scrutiny Board and internal governance structures.

Actioned

Our Information and Security Board has ensured that all Information Security incidents were investigated, and areas of improvement identified and actioned.

IN 2021

- Strong balance sheet, with good cash conversion and low debt
- Long-term, low risk contract portfolio for essential services
- Zero human rights breaches
- Over 1,000 residents are part of our online engagement network
- Award winning Customer Scrutiny Board
- Newly reformed ESG Advisory Board

ESG strands

Healthy Planet

Link to SDGs:



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

Topic	Our goals	Our plan
Reducing our carbon emissions	— Achieve Net Zero carbon emissions on Scope 1 and 2 by 2030 across our operations — Achieve Net Zero carbon emissions on Scope 3 by 2045 across our supply chain	— We have created a Net Zero Transition Plan using science-based targets — Continue disclosing our emissions, and publicly report on progress against our targets. — Transition to electric vehicle fleet by 2030 — Continue to work with and support supply chain to achieve Net Zero carbon — Create an internal plan for reducing carbon across our offices and buildings, creating awareness and understanding with all colleagues
Decarbonising homes	By 2025 we will aim to be a sector-leading provider of carbon reduction solutions in the social housing sector	— Achieve and maintain all relevant accreditations to demonstrate competency and compliance — Help our clients deliver and measure their carbon emissions and retrofit solutions — Embed a resident-first approach to the decarbonisation of homes (Data > Define > Design > Deliver > Declare) — Use asset data to help access the limited financial resources currently available AND leverage funding as it becomes available — Transition our workforce as a whole to ensure understanding and capability
Minimising waste	— Achieve waste diversion from landfill of minimum 98% on all waste by 2025 — Achieve a Zero Waste Index score of 1.5°C by 2030, from 2021 baseline of 2.53°C	— Increase colleague awareness and introduce measures to reduce waste across all sites. — Reduce carbon through the protection of natural resources by reviewing our waste processes — Avoid waste by improving the reuse of 'waste materials' — Partner with charities to reuse and recycle furniture and white goods, increasing the percentage recycled yearly — Monitor and adopt new technologies as they become available — Work in partnership with our National Waste partner to embed improvements to achieve Zero Waste index score
Preventing pollution	— Continually evolve our approach to maintain zero pollution incidents and zero environmental legislation breaches	— Maintain ISO 14001 (Environmental Management System) certification — Work with clients and communities to clear pollutants from the environments we work in, e.g., litter, plastics, etc — Continue activity to raise environmental awareness within our workforce — Maintain robust policies and procedures to ensure environmental compliance and adherence with legislation — Monitor and adopt new technologies as they become available
Restoring nature & biodiversity		— Work with clients and local communities to improve green and open spaces — If necessary, invest in carbon offsetting to balance residual emissions by 2030

Improving Lives

Link to SDGs:



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

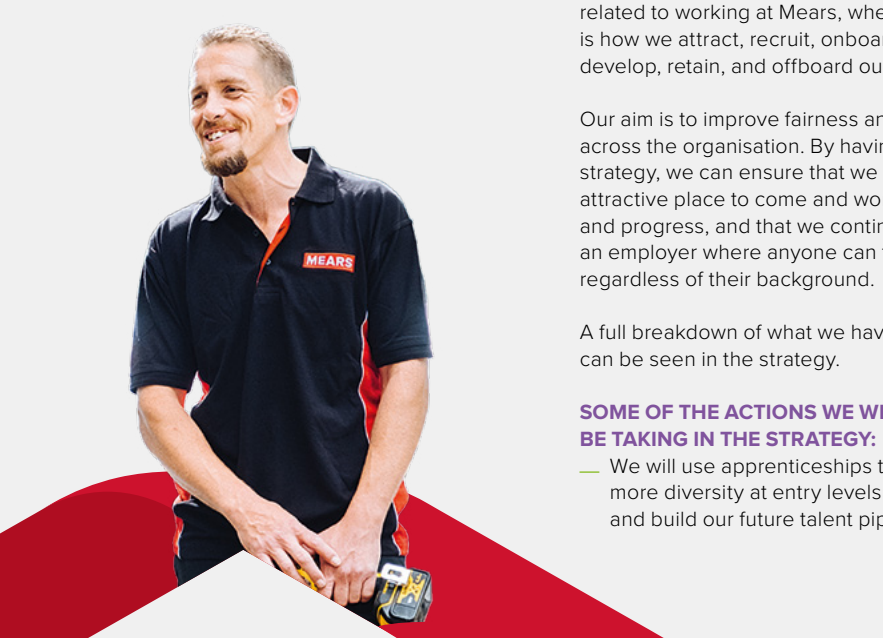
Topic	Our goals	Our plan
Raising social value	Continually evolve our approach to ensure that by 2025: — we will be regarded as a social value leader across the public sector, continually evolving our approach — all contracts will be delivering a yearly social value plan, with year on year growth in colleague participation, impact and £ value — Mears Foundation will have grown grant giving to over £200k per annum	— Develop social return on investment (SROI) reporting to focus more on qualitative outcomes and personal impact — Build on engagement with supply chain — Year on year increase in use of volunteering hours — Lobbying Government for a more transparent and consistent measure of social value
Improving health & Safety	— Continually evolve our approach to maintain our high standards for creating a safe working environment for everyone — Accident frequency rate of below 0.25 — Win the RoSPA Industry Sector Award by 2030, which recognises best health and safety performance in sector	— Maintain all ISO accreditations — Retain RoSPA Gold Award — Maintain a team of professionally qualified Safety, Health, and Environment (SHE) managers to support the business. — Maintain robust policies and procedures to ensure health and safety compliance — Conduct regular audits and inspections across the business to monitor compliance
Attracting & retaining talent	Continually evolve a cohesive strategy for attracting and retaining the best talent, enabling our colleagues to thrive. By 2025 we will aim to achieve: — Employer of Choice recognition — All colleagues, grade 6 and above, have a clear successor identified — Year on year reduction (excluding exceptions) in the number of vacancies being advertised — Employee turnover of 18% — 90% of all apprentices secure work at Mears or another organisation, on completion of their apprenticeship	— Develop a competitive Employee Value Proposition, including standard and flexible benefits — Deliver an enhanced approach to talent management — Promote internally and externally the Mears Brand and Employee Value Proposition — Year on year improvement, in percentage terms, in the correlation between the workforce and local communities served — Strengthen the Voice of the Colleague forum, chaired by Employee Director, to enable even bigger employee voice — Maintain approach to ensuring all employees are paid the real Living Wage or above — Maintain governance to ensure no inappropriate zero hours contracts — Promote Mears' flexible working offer linked to wellbeing to support attraction and retention — All employees, grade 6 and above, have a clear successor identified — Excluding exceptions, year on year reduction in the number of vacancies being advertised (vacancy levels)

ESG strands continued

Improving Lives

Topic	Our goals	Our plan
Promoting fairness & inclusion	Continually evolve a Board-driven strategy that ensures fairness and inclusion for all colleagues. By 2030 we will aim to achieve: — 35% of leadership positions (grade 5 or above) filled by women — 12% Group representation of Black, Asian and other ethnicities — Gender pay gap of 19% — Year on year improvement in Voice of the Colleague survey results for fairness and inclusion practice and awareness	— Maximising current recruitment processes to ensure they are bias free and encourage job opportunities for all — Publish first ethnicity gap report, with 98% of colleagues sharing EDI data — Achieve leading Gold standard fairness and inclusion accreditation — Insight-led approach to ensuring our workforce reflects our local communities — Review employee life cycle processes to embed fairness and inclusion principles throughout — Eradicate under-representation and pay disparity in all job roles — All colleagues across the business to receive fairness and inclusion training — Achieve Disability Confident employer status — EDI 'consolidation' training for managers – periodic (every three years) — Contractual requirement for suppliers to provide evidence of how they are addressing EDI
Boosting health & Wellbeing	Continually evolve a Board-driven wellbeing strategy, the importance of which is regularly communicated to workforce, that ensures the health and wellbeing of our colleagues.	— Mental Health First Aider in 100% of contracts and departments — Tailored and enhanced Employee Assistance Programme — Access for all employee to voluntary health services and programmes — Enhance support for vulnerable colleagues — Enhance flexible benefits package and contractual terms to support access to opportunities — Maintain focus on employee engagement and help tackle the challenges of wellbeing and mental health

Fairness & inclusion



As part of our 2025 Strategy, we promised we would develop an approach to fairness and inclusion which would contribute to creating a workforce where no one feels left behind.

This means we needed to look at all aspects related to working at Mears, whether this is how we attract, recruit, onboard, train, develop, retain, and offboard our people.

Our aim is to improve fairness and inclusion across the organisation. By having the right strategy, we can ensure that we are an attractive place to come and work, to stay and progress, and that we continue to be an employer where anyone can thrive, regardless of their background.

A full breakdown of what we have done can be seen in the strategy.

SOME OF THE ACTIONS WE WILL BE TAKING IN THE STRATEGY:

— We will use apprenticeships to introduce more diversity at entry levels – to nurture and build our future talent pipeline
— We will conduct outreach and recruitment at job fairs and other events hosted by various organisations supportive of diverse communities, including disability advocacy groups
— We will implement a formal mentoring programme, including reverse mentoring, focusing on our areas of under-representation to understand the challenges and nurture talent
— We will promote and continually develop Mears' flexible working offer – an announcement about this will be coming soon
— We will support the creation of employee network groups including LGBTQIA+, Disability, Black Asian and other ethnicities
— We will ensure that effective story telling is utilised more to share personal experiences and to demonstrate example of success through fairness and inclusion initiatives
— We will develop an internal leadership programme to give personal and professional growth to employees
— We will expand our pay gap reporting to include ethnicity and we will eradicate pay disparity in all job roles

Good Governance

Link to SDGs:



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

Topic	Our goals	Our plan
Risks, ethics, & governance	To be regarded as a responsible and trusted organisation, demonstrated through strong ethics, transparency, and good risk management.	By 2025: — Ensure year on year compliance with anti-corruption governance — Continue zero tolerance to anti-competitive behaviour — Year on year compliance and good practice to financial reporting and tax obligations — Review and align our targets to TCFD and UN SDGs — Promote Executive Board and senior management responsibilities for governance and risk approach — Continue independent audit and risk assessment annually with transparent action and reporting — Provide a confidential whistleblowing channel to encourage colleagues to speak out — Opt into open carbon reporting (CDP) — Continue disciplined approach to bidding and capital allocation to maintain strong balance sheet — Develop and implement a Climate Change Plan by end of 2024
Protecting human Rights	Maintain our approach to ensure we have no human rights breaches or issues.	— Continue to conduct business and deliver service in a way that respects and considers human rights — All suppliers fully compliant with Group policy by 2024 — Uphold our standards and compliance on modern slavery, human trafficking and child/forced labour — Regularly monitor labour and payroll — Deliver a package of initiatives that raise awareness with employees — Gain greater understanding of the supply chain practices and procedures of our key suppliers
Information security & governance	Continually evolve a robust strategy to ensure we deliver the highest standard, have no security breaches and are fully General Data Protection Regulation (GDPR) compliant.	— Embed a consistent process to identify and assess privacy risks – 100% compliance across all business areas — All Information security incidents are investigated and areas of improvement are identified and actioned — Deliver a package of initiatives that ensure awareness and understanding across the business — Maintain an ISMS that is certified to ISO 27001 — Obtain and maintain industry certifications — Identify and manage cyber risks — Deliver secure information systems to the Group

ESG strands continued

Good Governance

Topic	Our goals	Our plan
Sustainable procurement	Define our strategy to sustainable procurement during 2023 and thereafter deliver and evolve our approach to maintain our high standards	— All suppliers signed up to our Supplier Commitments. Measure and monitor annually — All core suppliers have successful environmental audit results by 2025 — All timber products sourced from certified forests by 2030 — 90% of all sourced products are from sustainable sources by 2025 Maintain responsible approach to Prompt Payment Code — Continue to work with externally accredited organisations on attributing value to sustainable procurement — Our Top 10 suppliers engaged in collaborative ESG plan
Partnerships	By 2025: — Be regarded as 'partners for purpose' building strong and lasting relationships with clients, investors, and funders, holding ourselves to account through scrutiny — Be regarded as service leaders, for all areas of our business, across the public sector	— Provide secure investment and funding — Continue with Your Voice and Customer Scrutiny Board – independent framework for customer engagement — Continue with ESG Advisory Board – independent advisers that constructively challenge — Consider ESG factors across all assets in which we invest by 2025 — Partner with governments, businesses, academia, and communities to ensure best practice and mobilise action for sustainable development — Positively influence policy and current practice Local and Central Government through our Thought Leader programme – continue to lead the way — Maintain or improve, year on year, contract tenure lengths

Mears Scottish Responsible Business Charter

Mears wants to be the best possible partner for the Scottish Government, local Councils, people who live or work in any of our branches, and communities we operate in. Following wide consultation, we have developed our responsible business recommendations based on the feedback from our partners and stakeholders across Scotland.

The Charter is a values-led partnership between Government and business based on boosting productivity and competitiveness through fairness, equality, and sustainable employment.

OUR CHARTER COMMITMENTS INCLUDE:

— paying the Scottish Living Wage, and include fair work principles in our operations
— having resident and tenant representation as part of our scrutiny arrangements and service design
— improving the ESG and economic wellbeing of the area in which Mears operates
— paying small businesses on time
— making it simple, straightforward and easy for local SMEs, social enterprises, and supported businesses to access supply chain opportunities
— making firm and achievable commitments to support Scotland's target of Net Zero emissions by 2045
— having a social responsibility to pass on skills to local communities
— being transparent in our financial and business reporting
— working harder to address EDI and submitting to an independent audit of all policies and procedures to enable fair access for all Having a balanced Board



MEARS® ESG in 2022

3 ESG accreditations
FTSE4 Good **3.5**
Sustainalytics **26.4**
MSCI **A**

26,004 tonnes CO_2e 2021 baseline Scope 3

16,107 tonnes CO_2e 2021 baseline Scope 1 & 2

100% certified for delivering retofit deacrbonisaton works

97.13% diversion from landfill

100% success rate on SHDF bids

Zero Waste Index 2022 year end **37.52%** up **16.47%** on 2021

ZERO pollution or environmental breaches

100% ISO 14001 accredited

Fleet **1%** hybrid **0.2%** electric

60 environmental & green space projects delivered

80% Customer Excellence 2022

Healthy Planet
Good Governance
Improving Lives

23.5% employee turnover

over £88m of delivered social & local economic value, with a Social and Local Economic Value % of **24.53**

200% YR ON YR increase in use of volunteering hours

96% prompt payment compliance

Contract tenure average **7 YRS**

100% certified to all relevant ISO accreditations

13% Black, Asian and other ethnic groups

35.1% of women in management roles

58% of branches with Mental Health First Aiders

23.7% gender pay gap

Institute of Customer Service ServiceMark accredited

100% positive compliance anti-corruption standards

ZERO human rights breaches 2022

Mears Foundation
Community grants: **£95,981**
National grants: **£65,932**

90% of apprentices successfully retained for employment

TOP 75 EMPLOYER **37** in Social Mobility Index Top 75 list

19th place in Best Large Companies to Work For list 2021/22

Accident frequency rate **0.25**

98% of timber FS certified

86% supplier compliance to ESG policy & standards

Zero reportable GDPR breaches 2022

Priorities for the year ahead

- Begin work on our long-term plan to transition to Net Zero, including work on plans to transition our fleet
- Continue to enhance our expertise through investment in the Net Zero team
- We aim to increase our social value by supporting a wider scope for the Mears Foundation grant giving and enabling our colleagues to give back to their communities
- Begin to create a Net Zero culture in all policies and practice
- Continue to enhance our ESG Board and test the resilience of our new Net Zero governance structure

OUR AWARDS

Task Force on Climate-related Financial Disclosures

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), providing our stakeholders with transparent information on climate related risks and opportunities relevant to our business. In line with our strategic and operational focus on ESG we have been aligning our processes with the recommendations of the TCFD and will continue to develop our policies, processes, and disclosures in line with the TCFD recommendations. We have considered our 'comply or explain' obligations under the UK's Financial Conduct Authority Listing Rules and have detailed in the table below the TCFD recommended disclosures with which we fully or partially comply.

We are fully compliant with nine out of the eleven recommendations for the year ended 31 December 2022.

GOVERNANCE

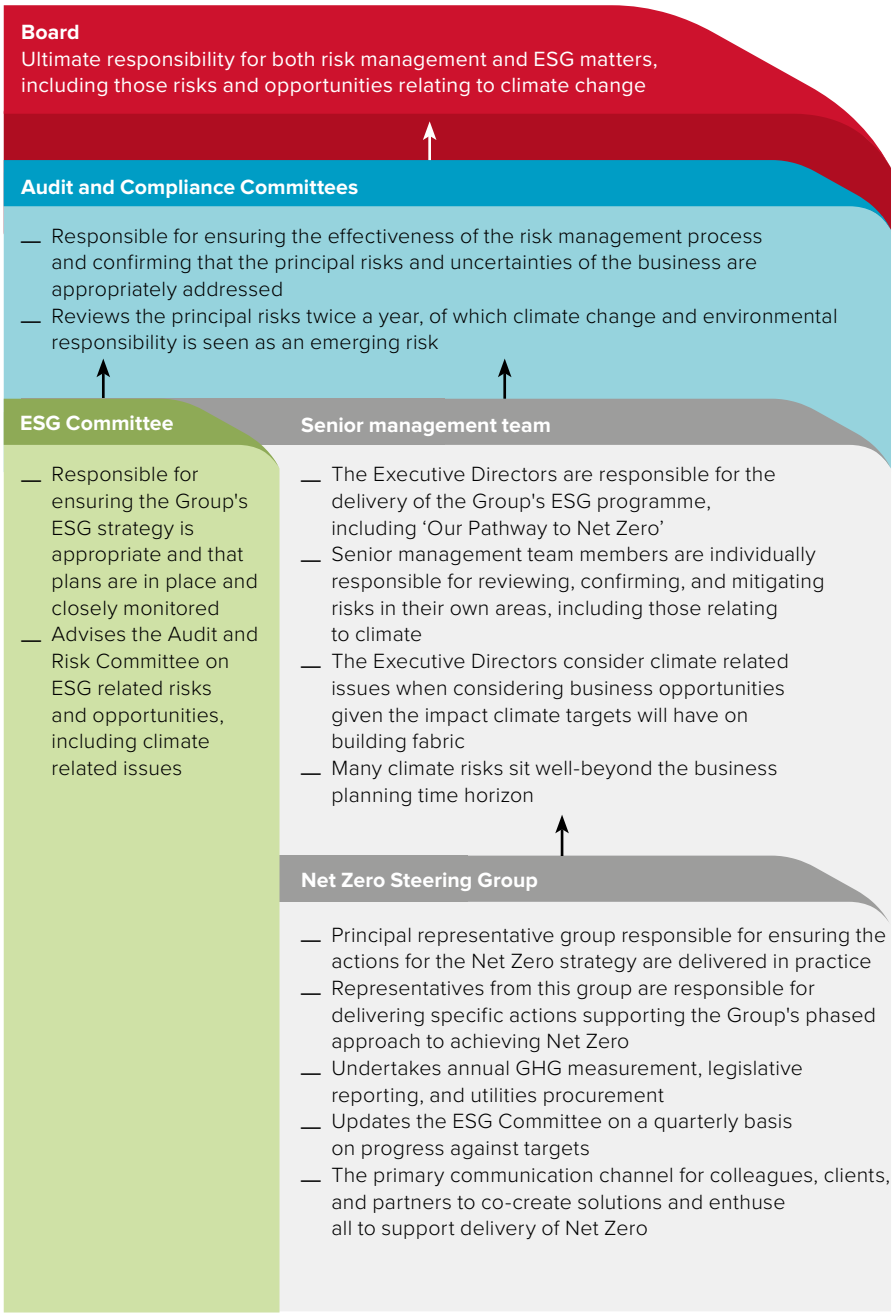
Disclosure 1: Describe the Board's oversight of climate-related risks and opportunities.

The Board is focused on ensuring that Mears lives by its values. The Board is accountable for the long-term success of the Group, setting a framework of effective controls which enables risks, including climate related risks and opportunities, to be assessed and managed. Responsibility for ESG is embedded into our corporate governance and owned by the Board, receiving inputs from the Audit and Compliance Committees.

The Group's carbon plan, 'Our Pathway to Net Zero', was completed during 2022 but now becomes a living document as our thinking develops further.

The Audit and Compliance Committees review the principal risks twice a year, of which climate change and environmental responsibility is seen as an emerging risk.

The Company complies with Disclosure 1.



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

Our executive management leads and provides strategic direction to the Group and carries ultimate responsibility for management of the Group's activities, ESG, and financial performance.

Our Net Zero Steering Group ensure that climate related risks and opportunities are appropriately assessed and managed.

Wider management functions throughout the organisation also have climate related roles and responsibilities. For example, our health and safety function supports the delivery of our environmental strategy, with particular focus on waste management and recycling. We will continue to embed climate related roles and responsibilities throughout our functions and operations during 2023.

The Board recognises that there are significant opportunities in the structurally growing field of carbon reduction, which will be complementary and additive to the services already provided by Mears. Acquiring the innovative IRT platform (as detailed on page 146 to 147) is an important part of the Group's retrofit solution and will enable Mears to conduct stock analysis modelling for carbon reduction work, enabling opportunities to be progressed quickly, and helping identify and access grant funding support available. The acquisition has provided Mears with new skills and capabilities in this area, bringing new expertise in-house, supporting pre-sales activity and helping to unlock the Group's ability to deliver carbon retrofit work, which has been identified as a significant market.

The Company complies with Disclosure 2.

STRATEGY

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

Climate risks are assessed as part of our integrated risk management framework as detailed on pages 44 to 51. Whilst climate related risks are not considered principal risks given the likelihood of occurrence and severity of impact, the Board recognises climate change and environmental responsibility as an emerging risk and recognises that the Group is well placed to benefit from new work opportunities that this brings, given the Group's strategic focus on housing, and the wellbeing of service users within the home. The Board recognises the importance that the Group identifies and manages the risks associated with changes in environmental legislation relating to housing, transportation, and corporate reporting requirements. The Board also recognises a risk that the Group does not maximise the opportunities presented by energy efficiency in the affordable housing sector.

These climate related risks and opportunities are categorised over the following timescales: short term (within 12 months, to reflect the potential for immediate impact), medium term (within 10 years) and long term (10+ years). The Group's strategy outlines the opportunities identified in helping our customers meet their Net Zero carbon targets.

Climate related scenarios were not used to inform the organisations strategy. In 2023, the Group will be using various scenarios to provide assurance that all climate change uncertainties have been accounted for, to minimise disruption to the business moving forward. Where new risks and opportunities are identified from these scenarios, these will be captured and reported on in the next Annual Report.

RISKS

Event	Controls and mitigation	Time horizon
Extreme weather events Impacts felt universally – Mears, customers, and subcontracting partners affected. Damage to assets and increased travel risks as a minimum Hotter summer periods may impact on colleagues, particularly those engaged in front line operations	— Enhanced health and safety standards and processes — Planned preventative maintenance schedules aligned to seasonal changes — Awareness campaigns with seasonal alerts — Planned preventative maintenance schedules aligned to seasonal changes — Business continuity plans in place at Group and local level, with particular emphasis on the energy and IT supply risk, where bad weather causes widespread downtimes	**Medium to long term**
The UK skills shortage could impact upon our plans for upskilling workforce in low carbon technologies and regulation	— A Workforce Strategy Group consisting of senior employees is in operation, to address key matters associated with the remit of data analysis action planning and implementation monitoring — Mears Learning is an internal training department used to implement Learning and Development strategy — There is an Executive backed culture of retaining and developing the Group's talent	**Short term**
Investor confidence on climate change management. A failure by the Group to perform well in respect of ESG and associated climate related regulatory targets will have significant financial implications and impact Mears' reputation	— Governance framework in place, including ESG Board and Net Zero Steering Group — Third party carbon verification	**Medium term**
Increases in pricing of GHG emissions. Rising costs to operating budget	— Net Zero 2030 plan in place — Ongoing operational focus in mitigating key risk areas	**Medium term**
Changes in customer behaviours due to climate change resulting in lost opportunities. Potential reductions in revenue and profit if Mears cannot adapt to changing client requirements	— Purchase of IRT in 2022 has enabled Mears to better support clients with their own plans, e.g. the submission of 13 Social Housing Decarbonisation bids in the last 12 months — Mears has established long-term contracts in place that facilitate close working with customers — Central business development team driving a retrofit programme to reduce carbon in our clients' stock. New revenues already secured in this space	**Medium to long term**
Unsuccessful investment in new technologies. New technologies which are later identified as unsuitable or do not deliver against sustainability objectives could lead to reputational damage	— Close relationships built with key suppliers to review new technologies as they emerge. Ability to rapidly switch products as needed — Process in place to consider small bolt-on acquisitions, like the IRT acquisition in 2022	**Medium to long term**
Changes in external perception of Mears, negatively impacting public opinion and behaviours Inability to meet third party expectations may result in reputational damage and impact revenues and profitability	— Pathway to Net Zero plan in place — Governance framework embedded — Use of external expertise — ESG plan communication — Central communication team complemented by external PR specialists to ensure we message effectively	**Transitional, medium term**

OPPORTUNITIES

Event	Active steps	Time horizon
Through installation of energy efficient heating systems, we can help customers to lower energy bills	— Mears is already working on three contracts from the SHDF, and we expect to be successful in more via the second wave	**Immediate**
Evolving our business to new technologies, green skills, and additional revenue	— The business has already begun the transition to Net Zero externally through engagement with Government funding models and helping our clients by sharing our in-house expertise — The acquisition of IRT has expanded our capability in the carbon space — Our accredited training Is already producing operatives with new green skills for the future	**Short to medium term**
Use of lower emission sources of energy and development/expansion of low emission goods and services	— Through assessing our energy output via the transition to Net Zero we can ensure our estates and fleet will be more efficient in the future, which will ultimately enhance the business's sustainability	**Short to medium term**
Expansion of future markets	— Reskilling our workforce in new technologies, enhanced capabilities via IRT and internal expertise mean we can help our clients with their transition to Net Zero — There are possibilities to extend our market in the future to other households if appropriate.	**Medium term**

The Company complies with Disclosure 3.

TCFD continued

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

'Our Pathway to Net Zero' details our sustainability strategy. However, our approach to climate risk is integrated across our business and incorporated within our five-year strategic plan, which clearly stated the Board's aspiration to become leaders in carbon reduction within social housing and within our organisation. The five-year strategic plan means that we are already able to financially plan for an electric vehicle fleet, to mitigate the effects of climate change on our business and to enhance our client offer to enable us to benefit from the opportunities of Net Zero.

The benefits of Net Zero are clear to Mears. The retrofitting of social housing will become a major growth area for Mears, and this growth ambition is included within the five-year strategic plan. Our expertise in this area makes us an integral part of the green economy. We have already secured our first three energy efficiency projects as detailed within the Chief Executive Officer's review.

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 show investors with an emphasis on ESG and the green economy that Mears is an attractive investment, and our expertise will present a competitive advantage when bidding for contracts.

Mears recognises the impact that climate change may have on its strategy, operations, and financial planning and is taking action to address the implications of climate related risks on service delivery, physical assets, supply chain, corporate reputation, and the regulatory environment.

The Company complies with Disclosure 4.

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

As detailed within 'Our Pathway to Net Zero' on pages 42 to 43, we have undertaken initial trajectory modelling of our Scope 1 and 2 emissions to 2030 to develop benchmark scenarios to inform transition planning and help monitor our progress towards our Net Zero target.

The trajectories are also aligned with the goal of the Paris Agreement to limit global warming to below 1.5°C by 2100. This will be used as a benchmark to compare our progress towards our Net Zero target. Alignment with this trajectory is seen as part of best practice when developing Net Zero targets. The trajectory analysis will change as the strategy evolves, actions are implemented, and new actions are identified and where there is a material change to factors applied in the methodology – this will ensure that we have a model that reflects our Pathway to Net Zero that evolves over time and is a practical 'live' tool to support us to monitor progress against delivering our goals.

The Group has not modelled a 2 degree C or lower scenario as that time horizon falls well beyond any Group planning period. On this basis, the Group does not comply with Disclosure 5.

RISK MANAGEMENT

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

Disclosure 7: Describe how processes for managing climate-related risks.

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

As detailed in the Risk Management section on page 44, Mears has a structured risk management framework operated at a business unit, function, and Group level. The senior management team, supported by the Net Zero Steering Group, reviews and identifies the key risks; climate related risks are identified and 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 process.

The Board has carried out a robust assessment of the principal risks, including climate related risks, facing the Group, including those that threaten the business model, strategy, and future performance. Risks are prioritised based on the likelihood of occurrence and the severity of the impact on the Group. This severity can be measured using various criteria such as 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.

Climate change represents both risk and opportunity for the Group. There is a risk that Mears does not identify and manage the risks associated with changes in environmental legislation relating to housing, transportation, and corporate reporting requirements. There is also a risk that the Group does not maximise the opportunities presented by energy efficiency in the affordable housing sector.

The Company complies with Disclosures 6, 7 and 8.

METRICS AND TARGETS

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

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

The Group's carbon emissions data is reported on page 41.

The Group has set other climate related metrics and targets in our wider ESG plan,

notably the Group monitors waste diverted from landfill, as detailed on page 32, and is working in partnership with our National Waste partner to embed improvements to achieve an improved Zero Waste index score.

The Company complies with Disclosure 9.

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

Mears Group's GHG emissions were calculated for the 2021 calendar year and included Scope 1 and 2 GHG emissions and selected Scope 3 emissions. Emissions for this period were 42,111 tonnes CO_2e in total across Scope 1, 2 and 3 emissions, of which 16,107 tonnes CO_2e related to Scope 1 and 2 emissions.

Mears currently report on selected Scope 3 emissions sources. During 2023 Mears will complete a Scope 3 screening assessment to better understand the type and accuracy of data that is available to support reporting. The assessment will consider all Scope 3 categories (as outlined by the GHG Protocol) including upstream and downstream transportation and waste which are currently not included within our footprint. This will support evolution of this strategy in future to achieve Net Zero across Scope 3 emissions by 2045.

We will update our carbon footprint across Scope 1, 2 and 3 if any material change is identified as part of this strategy development and delivery to ensure full transparency. This will ensure we can maximise our opportunities in reducing our carbon footprint and amplify our chance of success in achieving Net Zero carbon across Scope 1 and 2 by 2030 and across Scope 3 by 2045.

This first phase of 'Our Pathway to Net Zero' will focus on reducing our Scope 1 and 2 emissions and the 2021 footprint will be our baseline year to be used to inform target setting and act as benchmark to monitor progress against. The approach to decarbonising our emissions sources will differ based on the level of direct control and ownership of each GHG emissions source. As such, Mears will focus initial decarbonisation efforts on GHG emissions arising from activities within Mears' direct control.

During 2023 Mears will complete a Scope 3 screening assessment to better understand the type and accuracy of data that is available to support reporting. The assessment will consider all Scope 3 categories (as outlined by the GHG Protocol) including upstream and downstream transportation, waste, and purchased goods and services via our supply chain. This will inform our understanding of Scope 3 emissions and our organisation boundary and support evolution of this strategy in future to achieve Net Zero across Scope 3 emissions by 2045.

The Company does not fully comply with Disclosure 10, as Scope 3 emissions are only partially collected.

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

'Our Journey to Net Zero' will take a theme-based approach. By identifying different activity streams across the business, our Net Zero vision is broken down into manageable action areas which can be carried out across all our operations, enabling collaboration and accountability. The summary of 'Our Pathway to Net Zero' is detailed on pages 42 to 43 and identifies the five key themes that Mears has identified as the green thread of our Pathway to Net Zero and includes a description of each theme and what success looks like by 2030 to achieve 90% reduction GHG emissions by 2030.

The Company complies with Disclosure 11.

GHG emissions

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

Scope	Units	2022	2021
Scope 1 – UK	Tonnes CO_2e	14,187	15,373
Scope 2 – UK location-based	Tonnes CO_2e	893	734
Scope 2 – UK market-based	Tonnes CO_2e	843	150
Scope	**Units**	**2022**	**2021**
Intensity tonnes CO_2e/£m revenue		15.71	18.34
Energy consumption	MWh	64,675	68,883

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

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

This year, we have also calculated our Scope 2 emissions using the market-based methodology to recognise the purchasing of low carbon energy.

Our reporting follows the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, applying the 'Financial Control' approach (organisational boundary).

Our policy is to restate carbon and energy figures in consideration of changes in methodologies, improvements in the 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.

Mears Group has historically used a financial control method of calculating our carbon footprint. During the development of our carbon strategy, it was determined that an operational approach would be more appropriate given the nature of Mears Group's business operations and ability of Mears Group to directly control or influence carbon reduction activities. This enables Mears Group 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 primary impact of this change is to re-allocate emissions arising from energy used in buildings outside of our control but procured by the Group to Scope 3 (from Scope 1 and 2).

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

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

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

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

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

Our Pathway to Net Zero

OUR COMMITMENT

Mears is one of the UK's leading and most trusted providers of specialist services to social housing, and Local and Central Government. Our ambition is to become the most socially responsible business in the public sector by 2025 and our Pathway to Net Zero supports this aspiration.

'Our Pathway to Net Zero' supports the UK Government's aim to achieve Net Zero by 2050 and sets out the step change we will implement to achieve our vision to become:

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

Our first phase will focus on of our commitment to achieve Net Zero across Scope 1 and 2 GHG emissions ('emissions'[2]) by 2030. We have taken 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.

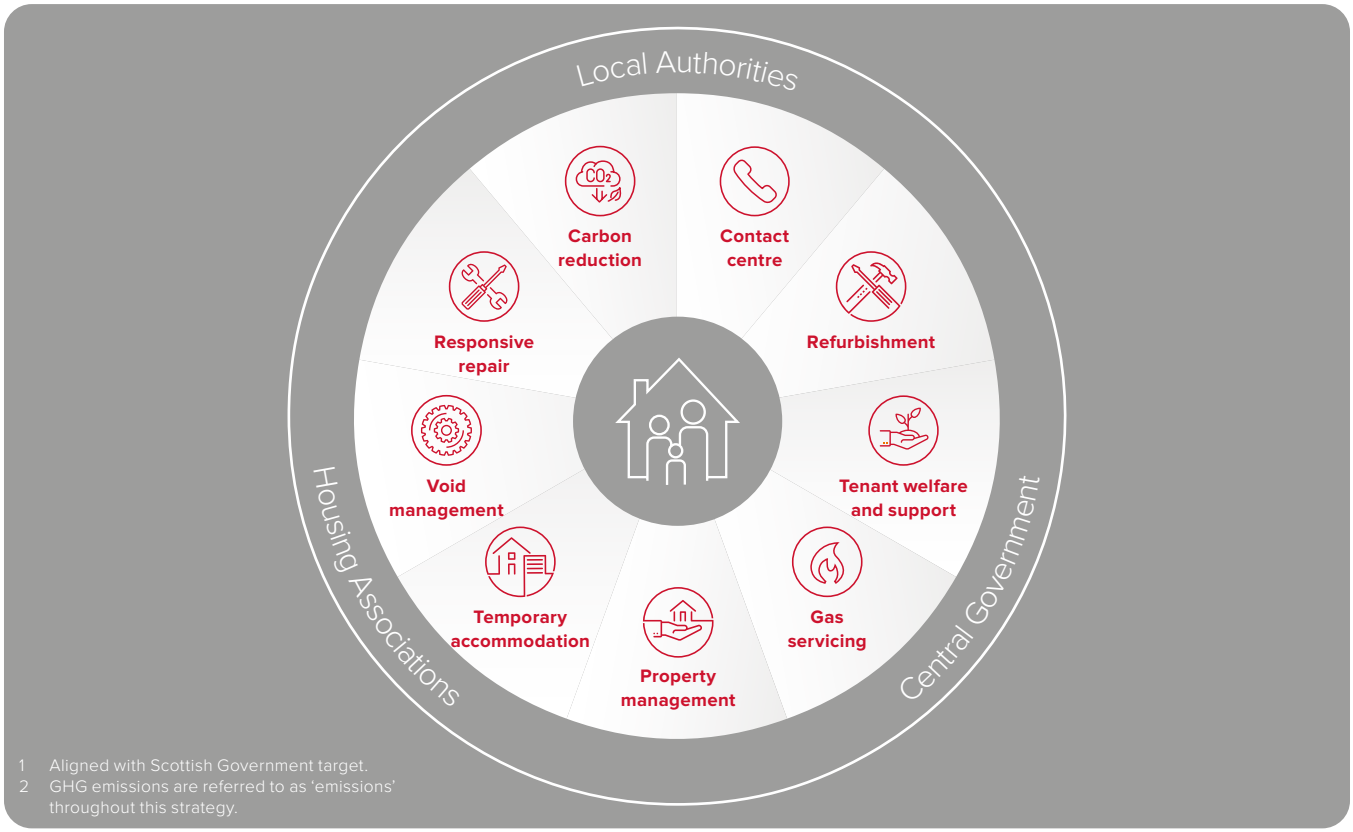
This approach also enables us to prepare the groundwork of activity to inform Phase 2 to achieve Net Zero across Scope 3 emissions by 2045. During 2023 Mears will complete a Scope 3 screening assessment to better understand the type and accuracy of data that is available to support reporting.

The assessment will consider all Scope 3 categories (as outlined by the GHG Protocol) including upstream and downstream transportation, waste, and purchased goods and services via our supply chain. This will inform our understanding of Scope 3 emissions and our organisation boundary and support evolution of this strategy in future to achieve Net Zero across Scope 3 emissions by 2045.

What does success look like? By 2030 Mears will have achieved the following:

- **Scope 1 and 2 emissions are eliminated or reduced as much as possible with a target of 90% reduction by 2030**: Residual emissions will be offset through accredited schemes prioritising those that benefit the communities in which we serve.
- **Creating a Net Zero culture**: An embedded Net Zero culture that is a 'green thread' in all policies and practice and demonstrated by our colleagues through our service delivery.
- **Efficient buildings & estate planning**: A highly energy efficient corporate office estate characterised by low energy consumption and renewable energy generation as standard wherever possible.
- **Green travel & transport**: Transitioned a minimum of 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.
- **Sustainable procurement & supply chain**: Mears uses 100% renewable energy and has worked in partnership with our supply chain partners to reduce their carbon emissions across all services that are delivered for Mears Group clients, customers, and communities.
- **Climate conscious service delivery**: 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.

Our Pathway to Net Zero will take a theme-based approach. By identifying different activity streams across the business, our Net Zero vision is broken down into manageable action areas which can be carried out by departments and service areas across all of our operations, enabling interdepartmental collaboration and accountability. The table below summarises the five key themes Mears Group has identified as the green thread of our Pathway to Net Zero and includes a description of each theme and what success looks like by 2030 to achieve 90% reduction GHG emissions by 2030:



1 Aligned with Scottish Government target.
2 GHG emissions are referred to as 'emissions' throughout this strategy.

Key theme	Context	Expected outcome by 2030
Creating a Net Zero culture	Embedding a Net Zero culture across Mears Group with our colleagues, partners, residents, and suppliers through ensuring a 'green thread' is at the heart of all activity undertaken	An **embedded Net Zero culture** that is a 'green thread' in all policies and practice and demonstrated by our colleagues and partners through our service delivery
Efficient buildings & estate planning	Reducing and removing emissions from our existing owned and leased offices property portfolio through improving our approach to strategic estate planning and efficient use of our buildings	A **highly energy efficient corporate office estate** characterised by low energy consumption and renewable energy generation as standard wherever possible
Green travel & transport	Reducing and removing emissions arising from our leased/owned fleet and supporting our staff to utilise sustainable travel options	**Transitioned a minimum of 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
Sustainable procurement & supply chain[4]	Increasing our renewable energy provision and working with our supply chain partners to identify emissions hotspots to inform supplier engagement, influence, and support to reduce emissions across the services we deliver	**Mears uses 100% renewable energy and has worked in partnership with our supply chain partners to support them to reduce their emissions** across all services that are delivered for Mears Group clients, customers, and communities
Climate conscious service delivery	Delivering our services in a way that reduces the emissions across our operations whilst still delivering a quality service and an excellent customer experience	**All Mears services areas have adapted** and contributed to reducing our organisational carbon footprint and can demonstrate positive sustainability outcomes for clients, customers, communities, and the climate

3 Our Pathway to Net Zero will be closely monitored and reviewed and updated annually. Additional decarbonisation actions will be added as they are identified and expected outcomes refined to incorporate Scope 3 emissions in 2023/24.

4 The majority of Sustainable procurement & supply chain activity will fall under Scope 3 which will be informed by the screening assessment undertaken in 2023 in support of our aspiration to achieve Net Zero across Scope 3 emissions by 2045.

TRAJECTORY ANALYSIS – SCOPE 1 AND 2 EMISSIONS[5]

We have undertaken initial trajectory modelling of our Scope 1 and 2 emissions to 2030 to develop benchmark scenarios to inform transition planning and help monitor our progress towards our Net Zero target. Each scenario factors in the future decarbonisation of the National Grid as well as our projections for future business growth.

The following scenarios have been modelled to present the emissions reduction trajectory for Scope 1 and 2 emissions and estimated potential Scope 1 and 2 residual emissions (those which cannot be practically reduced) which need to be offset to reach Net Zero by 2030.

SCENARIO 1: BUSINESS AS USUAL (WORST CASE):

This scenario assumes our vehicle fleet will use fossil fuels and no active measures are taken to increase energy efficiency or behaviour change to reduce emissions.

Projected outcome: Increase in emissions from 2021 baseline emissions (16,107 tCO_2e) of 6.7% leaving residual emissions of 17,301 tCO_2e by 2030). Key characteristics include:

- no active decarbonisation interventions implemented;
- reductions achieved through passive decarbonisation of the National Grid only; and
- vehicle fleet continues to use petrol/diesel to 2030.

SCENARIO 2: BEHAVIOUR CHANGE AND DEPLOYMENT EFFICIENCY

This scenario assumes that all reductions are made through efficiency savings from reduced deployment of existing fossil fuel fleet, driver awareness training (fleet), and the more efficient use of energy in our corporate offices.

Projected outcome: Emissions reduced from Business as Usual (Scenario 1) by 15.9% (2,749 tCO_2e) leaving residual emissions of 14,552 tCO_2e). Key characteristics include:

- reductions achieved through efficiency savings from driver training (fleet) and deployment efficiency;
- reductions achieved in the use of energy in our corporate offices; and
- further reductions achieved through passive decarbonisation of the National Grid.

SCENARIO 3: COMBINED BEHAVIOUR CHANGE, DEPLOYMENT EFFICIENCY, EV TRANSITION, AND GAS AND TECHNOLOGICAL REDUCTIONS (BEST CASE)

This scenario factors in emissions reductions made from the transition of our vehicle fleet to electric alternatives (target 95% transition with an aspiration to achieve 100% transition) and reducing gas consumption in our offices by 75% compared with 2021. The scenario also factors in reductions from behavioural change and deployment efficiency.

Projected outcome: Emissions reduced from Business as Usual (Scenario 1) by 90% (15,580 tCO_2e) leaving estimated residual emissions of 1,721 tCO_2e): Key characteristics include:

- reductions achieved through the progressive electrification of our vehicle fleet. Scenario targets 100% of car fleet to be transitioned by 2025 and 95% of van fleet to be transitioned by 2028-2030;
- additional deployment efficiency savings have also been modelled when new vehicles are introduced into the fleet (through increased driver training requirements);
- reductions achieved through decarbonisation of the National Grid, behavioural change, and technological changes in our offices (75% reduction in gas consumption as we switch to renewable sources/heat pump technologies); and
- this is the most ambitious scenario which has been modelled and is the Mears aspiration.

Whilst we have set headline target milestones for reduction in Scope 1 and 2 GHG emissions based on Scenario 3, we have internally set interim milestones from 2025 to 2030.

Total emissions reduction from Business as Usual of 15,580 tonnes CO_2e leave residual emissions that will be offset and/or sequestered, estimated to be circa 1,721 tonnes CO_2e in 2030.

Mears has been aspirational in our ambition, and we recognise that achievement of our goal is dependent on a range of factors that are outside of Mears' direct control, including available electric vehicle (EV) charging infrastructure for fleet EV transition and EV vehicles suitable for service delivery. Our strategy will evolve to ensure that our aspirations remain realistic and achievable.

The trajectories are also aligned with the goal of the Paris Agreement to limit global warming to below 1.5°C by 2100. According to the Science Based Targets initiative (SBTi) companies that are aligned with this trajectory have been reporting a 6.4% reduction in GHG emissions per annum – which has been modelled in this trajectory. This will be used as a benchmark to compare our progress towards our Net Zero target. Alignment with this trajectory is seen as part of best practice when developing Net Zero targets. The trajectory analysis will change as the strategy evolves, actions are implemented, and new actions are identified and where there is a material change to factors applied in the methodology – this will ensure that have a model that reflects our Pathway to Net Zero that evolves over time and is a practical 'live' tool to support us monitor progress against delivering our goals.

5 The Trajectory Analysis is a tool to support Net Zero strategy planning and, while based on informed estimates, modelling, and assumptions, it is subject to change as the strategy implementation progresses and our knowledge increases. All results to be treated as advisory. This Trajectory Analysis will be updated in 2023 and ongoing where material change is identified and to encompass Scope 3 emissions following materiality assessment and mapping exercise in 2023/24.

Risk management

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

RISK MANAGEMENT FRAMEWORK

GOVERNANCE

Board

- Sets the tone on risk management culture
- Maintains sound and effective risk management and internal control systems
- Defines risk appetite
- Is responsible for principal risk identification and ongoing monitoring of the Company's risk exposure to ensure that material matters are managed in alignment with strategic objectives

Audit and Risk Committee (Non-Executive)

- Reviews the effectiveness of the risk management process
- Approves risk management policies and guidelines

Internal audit

3RD LINE OF DEFENCE

- Defines and monitors the risk management process and mitigation tools and actions
- Plans and executes assurance activities to ensure that there are policies and procedures in place to support the effectiveness of the Group's internal control system
- Prepares regular risk and internal control reports for approval by the Audit and Risk Committee and maintains the Risk Assurance Map
- Performs risk analysis on growth projects, detailing the specific conditions and risks faced by a new project

Compliance Committee (Executive)

2ND LINE OF DEFENCE

- Develops and oversees implementation of risk management strategies and makes recommendations to the Audit and Risk Committee and senior management
- Supports the Audit and Risk Committee in monitoring sustainability risks
- Supports the Audit and Risk Committee in evaluating the Group's risk profile and internal controls implemented by management
- The Chair of the Compliance Committee presents to the Board twice a year, to provide a detailed update on the activities of the Committee

Business unit and central functions

1ST LINE OF DEFENCE

- Risk awareness embedded in day-to-day operations
- Risk identification and assessment performed across business operations on an everyday basis
- Implementation of risk mitigation programmes and operational monitoring of internal controls

Risk governance and oversight

BOARD OF DIRECTORS

The Board has overall responsibility for determining the nature and extent of risk it is willing to accept within the agreed strategy and ensuring that risks are managed effectively across the Group. Risk is a regular agenda item at Board meetings and is closely aligned to strategy review. The Board also reviews reports on the effectiveness of the systems and processes of risk management and internal control.

THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee monitors the Group's key risks identified by the risk assessment processes and reports its findings to the Board. It also has delegated responsibility for reviewing in detail the effectiveness of the Group's system of internal control policies and procedures for the identification, assessment and reporting of risk.

INTERNAL AUDIT FUNCTION

Our internal audit plan is devised by understanding the strategy, objectives, and risk profile of the Group and considering the other forms of management and independent assurance before agreeing what internal audit work is required. This enables us to ensure that our internal audit resources target the key areas and it also enables us to be efficient by not duplicating other assurance activities.

The Group has engaged KPMG as an outsourced provider of internal audit services. KPMG assists the internal Group risk function to set the internal audit plan. This is a dynamic programme set on a three-year time horizon and ensures certain risks and themes are prioritised and appropriate resources and skills applied to those areas.

COMPLIANCE COMMITTEE

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

BUSINESS UNIT AND FUNCTIONAL RISK OWNERS

Mears has a structured risk management framework operated at a business unit, function and Group level. The senior management team reviews and identifies the key risks which may impact upon the achievement of the Group's strategic goals and will consider how these risks are developing with changes in the operations, markets, and the regulatory environment.

The nature of the risk is reviewed, including the possible triggering events and the aggregated impacts, before setting appropriate mitigation strategies directed at the causes and consequences of each risk. The risk is assessed in relation to the likelihood of occurrence and the potential impact of the risk upon the business, and assessed against a matrix scoring system which is then used to escalate risks within the Group as appropriate. The senior management team has responsibility for managing the Group's key risks.

The Group has a functional risk register and there is a good understanding of the risks that could impact the Group, and their severity. The Group has a positive risk culture, with a clear tone at 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. This ensures that decisions within the organisation are made by the appropriate level of management.

THREE LINES OF DEFENCE – ASSURANCE PROVIDERS

Mears operates a 'three lines of defence' assurance model.

Our first line of defence, our operational management, have a responsibility to manage day-to-day risk in their own areas guided by Group policies, procedures, and control frameworks.

Our second line of defence includes our central support functions, which develop and maintain the risk management framework and engage with management to identify, agree, and update risk information on a regular basis to review the effectiveness of the mitigating actions and controls.

Our outsourced provider of internal audit services provides our third line of defence, providing independent assurance on internal controls and risk management processes. Further external assurance is provided by our statutory auditor, in respect of the financial statements, and other external specialists as required.

Risk management continued

Risk management process

RISK MANAGEMENT PROCESS

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

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

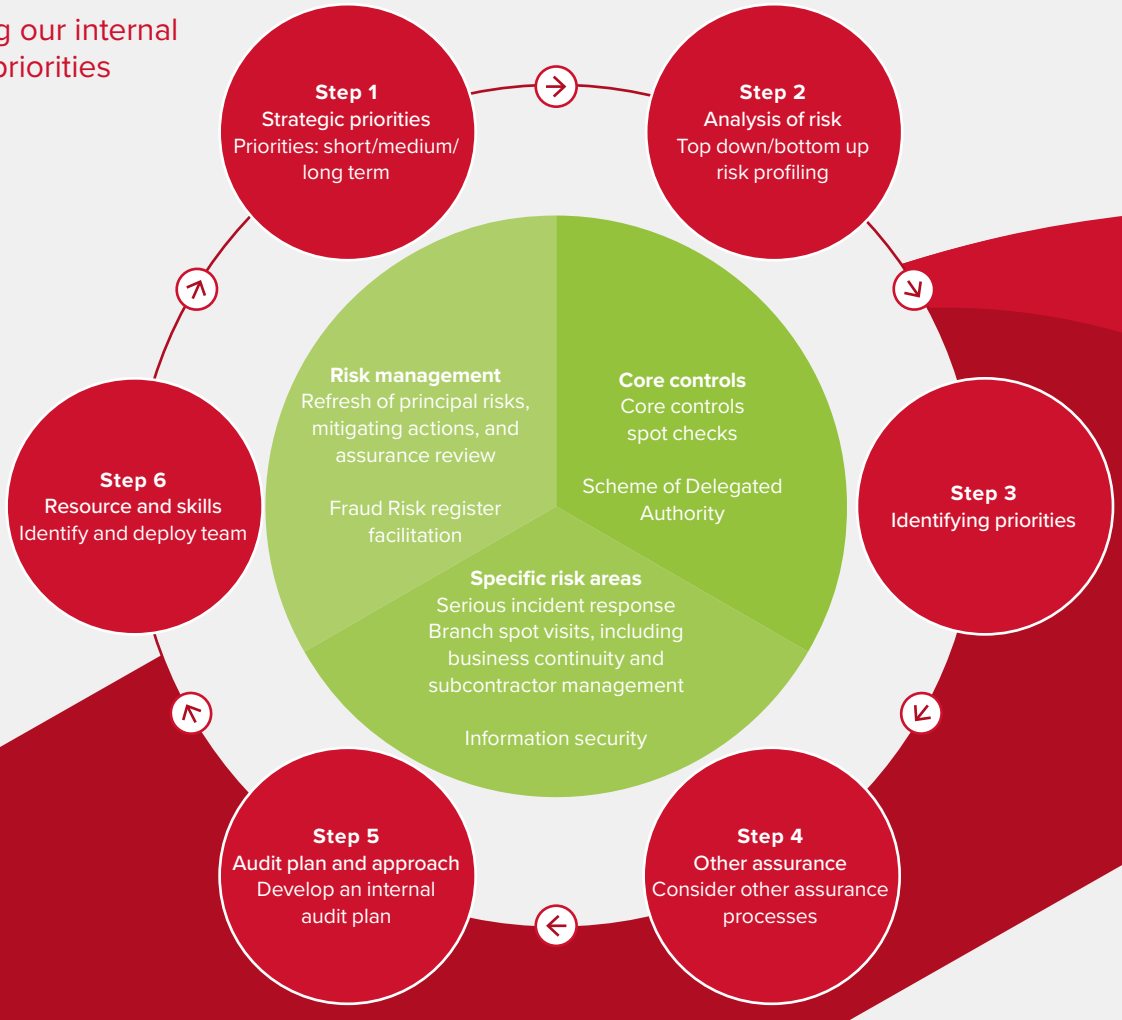
We continue to drive improvements in our risk management process. We also review our business model, core markets, and business processes to ensure that we have properly identified all risks. As part of this review, climate related risks are considered in both the Group and operational risk registers,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

PRINCIPAL RISKS AND UNCERTAINTIES

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

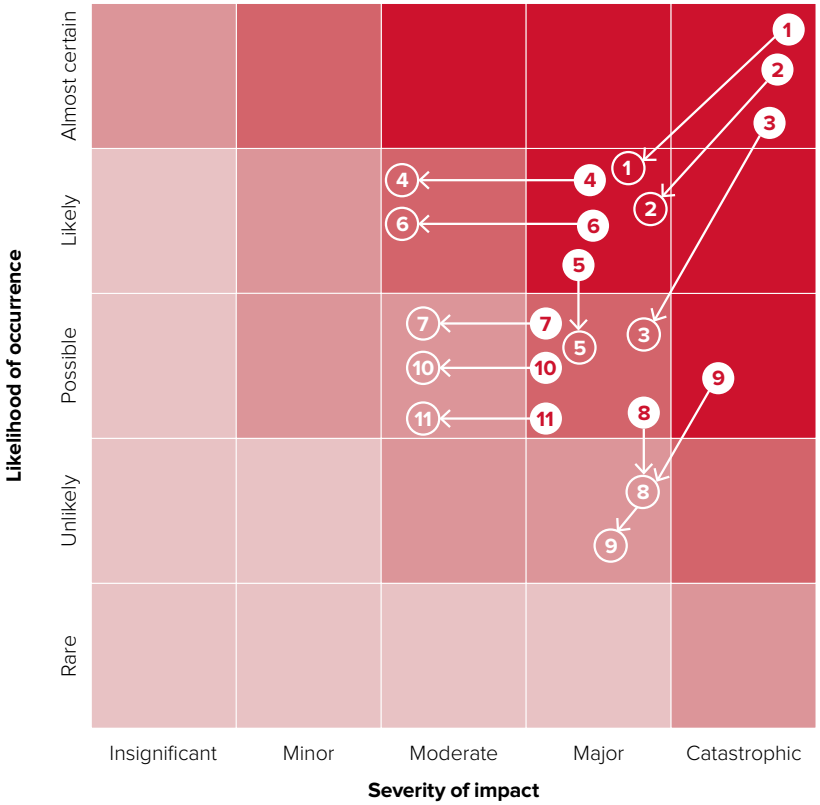
The Group's principal risks are identified on the pages that follow, together with how we mitigate those risks. Each principal risk is considered in the context of how it relates to the achievement of the Group's strategic objectives. The risk discussion includes assessment of gross risk and net risk.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

Setting our internal audit priorities



Principal risk heat map: year end

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.



No.	Risk
1	Failure to successfully deliver the Asylum Accommodation and Support Contract (AASC): Initial accommodation.
2	Failure to successfully deliver the AASC: Dispersal accommodation.
3	Uncertainty from political changes and market disruptions, in the short and long term, resulting in changes to regulation and Government policies placing pressure on business revenue and overhead costs.
4	Major breach of information or data security, including ransomware attacks.
5	Failure to manage the impact of a health and safety incident, including Covid-19 related, leads to reputational damage and/or high financial penalties.
6	Failure in governance, control, processes, systems, and structure, including managing the new MoJ contract and in particular the impact on Housing Officers.
7	Failure to recover operations in a disaster or crisis (business continuity).
8	Ensuring that the business has the right people with the right skills and effectively manages risks such as succession planning and inflationary pressures, the latter particularly in the context of shortages and a highly competitive market for skilled labour.
9	Serious damage to, or loss of, brand integrity, including due to poor management of publicity and external communications.
10	Serious failure to manage housing subcontractors.
11	Risk of perceived and actual discrimination leading to reputational damage and financial penalties.

Severe
High
Medium
Low

Gross risk
Net risk

Read more
in the Corporate Governance section

Read more
in the Report of the Audit and Compliance Committees

EMERGING RISKS

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

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

Covid-19: Mental Health and Wellbeing	Mental Health and Wellbeing has declined during the Covid-19 pandemic. Any failure to successfully recover from the impacts of Covid-19 on employee wellbeing can increase the risk of staff absence, churn, and a reduction in workforce engagement.
ESG	ESG presents risks and opportunities for the Group. There is a risk that Mears does not identify and manage the risks associated with changes in environmental legislation relating to housing, transportation, and corporate reporting requirements. There is also a risk that the Group does not maximise opportunities presented by ESG related changes in its business environment.
Legislative changes	Changes to building and fire safety legislation that result in higher cost to comply with requirements and increased scrutiny from regulators.

Read more
in the Corporate Governance section and in the Report of the Audit and Compliance Committees

Principal risks and uncertainties

KEY

Strategic priorities

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

Risk level

- Severe
- High
- Medium
- Low

Change in year

- Increase in risk exposure
- Reduction in risk exposure
- No change in risk exposure

1&2 Damage to Reputation

Failure to successfully deliver the AASC. Given the nature of the contract, the failure to manage the reputational impact of an incident or operational or commercial issues remains a key risk.

Risk level and change in year

Severe, No change in risk exposure

Strategic outcome

KPIs associated with risk

- Works orders completed on time % (monthly)
- Right first time % (monthly)
- Customer satisfaction (monthly)
- Complaints (monthly)

Mitigations

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

3 Damage to Financial Viability

Political and market disruptions, for example towards outsourcing.

Risk level and change in year

Severe, No change in risk exposure

Strategic outcome

KPIs associated with risk

- % of surveyed clients and politicians who regard Mears as highly responsible (annual)
- % of overall media coverage that is positive (monthly)

Mitigations

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

4 Damage to Reputation

Major breach of information or data security resulting in negative publicity leading to loss of confidence in the sector or financial penalties.

Risk level and change in year

Strategic outcome

KPIs associated with risk

- Number of privacy complaints
- Response time to data subject requests

Mitigations

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

5 Damage to Reputation

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

Risk level and change in year

Strategic outcome

KPIs associated with risk

- Accident frequency rates
- Customer complaints
- Excellent service rating

Mitigations

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

6 Damage to Reputation and Financial Viability

Failure in governance, control, processes, systems, and structure in the Registered Provider of Social Housing key risk.

Risk level and change in year

Strategic outcome

KPIs associated with risk

- Properties with valid gas, electrical, and Legionella test certificate (100% target)
- Properties with up-to-date asbestos survey and fire risk assessment (100% target)
- Tenant satisfaction (monthly)
- Customer complaints

Mitigations

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

Principal risks and uncertainties continued

Risk management process

KEY

Strategic priorities

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

Risk Level

- Severe
- High
- Medium
- Low

Change in year

- Increase in risk exposure
- Reduction in risk exposure
- No change in risk exposure

7 Damage to Reputation

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

Risk level and Change in year

Strategic outcome

KPIs associated with risk

- The amount of time since each plan was updated

Mitigations

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

8 Ability to Resource

Reduction in the Group's ability to attract and retain talent.

Risk level and Change in year

Strategic outcome

KPIs associated with risk

- Staff turnover (monthly)
- Social value per employee (annual)
- Self-delivery % (monthly)
- % of apprentices completing their course and obtaining work (annual)
- Great Place to Work score (annual)
- % of the grade 5+ workforce who are women (annual)

Mitigations

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

9 Damage to Reputation

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

Risk level and Change in year

Strategic outcome

KPIs associated with risk

- % of surveyed clients and politicians who regard Mears as highly responsible (annual)
- % of overall media coverage that is positive (monthly)
- Customer satisfaction (monthly)
- Complaints (monthly)

Mitigations

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

10 Damage to Reputation

Serious failure to manage housing sub-contractors.

Risk level and Change in year

Strategic outcome

KPIs associated with risk

- Self-delivery % (monthly)
- Works orders completed on time % (monthly)
- Right first time % (monthly)
- Customer satisfaction (monthly)
- Complaints (monthly)

Mitigations

- A critical control point (CCP) has been developed which partly focuses on Branch compliance with the Group's sub-contractor processes
- Prior to sub-contractor engagement; rigorous interview process covering health and safety and insurance
- Mears Contract Management (MCM) holds key sub-contractor information and documentation
- Payment controls
- Post inspection checks and monthly performance reviews of accident statistics)

11 Damage to Reputation and Financial Viability

Risk of perceived and actual discrimination leading to reputational damage and financial penalties.

Risk level and Change in year

Strategic outcome

KPIs associated with risk

- % of apprentices completing their course and obtaining work (annual)
- % of the grade 5+ workforce who are women (annual)

Mitigations

- Social Value Board with external Board members
- Workforce Strategy Group, consisting of senior employees, addresses key matters associated with the remit of data analysis, action planning and implementation monitoring
- Investment in single HR database (Workday) which allows for improved analysis.
- Gender pay gap is considered as part of the people plan
- Remuneration Committee provides governance at executive level
- Tradeswomen into maintenance and social mobility initiatives in operation

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.

ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

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

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

The Group defines normalised results as profit before the amortisation of acquisition intangibles and other items that are infrequent or one-off in nature and that management considers not to be part of underlying trading. The normalised results are further adjusted to reflect a full corporation tax charge of 19%, which will increase to 23.5% in 2023. The Directors believe this aids consistency when comparing to historical results and provides less incentive for the Group to participate in schemes where the primary intention is to reduce the tax charge.

A reconciliation between the statutory profit measures and the normalised result for both 2022 and 2021 is detailed below. In addition, the Group also provides an APM which reports results before the impact of lease accounting under IFRS 16. Management has 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.

For the purposes of assessing the Group's compliance with its banking covenants, the Group utilises the 'EBITDA pre-IFRS 16 and before non-underlying items' which is defined within the Group's bank facility agreement.

Continuing activities[1]	Note	**2022 £'000**	2021 £'000
Profit/(loss) before tax	Statutory	34,944	16,333
Amortisation of acquired intangibles	Note 4/13	245	7,654
Non-underlying items	See below	–	1,627
Profit/loss before non-underlying items, amortisation of acquired intangible and tax (adjusted PBT)	**APM**	**35,189**	**25,614**
Removal of IFRS 16 profit impact	See below	2,201	2,876
Finance costs (non-IFRS 16)	Note 5	(1,268)	1,148
Operating profit pre IFRS 16 before non-underlying items and amortisation of acquired intangibles	**APM**	**36,122**	**29,638**
Amortisation of software intangibles	Note 4/13	2,055	2,123
Depreciation and loss on disposal (non-IFRS 16)[3]	Note 14	8,023	5,884
EBITDA pre IFRS 16 and before non-underlying items	**APM**	**46,200**	**37,644**
IFRS 16 profit impact	See below	(2,201)	(2,876)
Finance costs (IFRS 16)	Note 5	7,610	6,921
Depreciation and loss on disposal (IFRS 16)[2]	Note 15	43,259	43,386
EBITDA post IFRS 16 before non-underlying items and amortisation of acquired intangibles	**APM**	**94,868**	**85,075**
Amortisation of software intangibles	Note 13	(2,055)	(2,123)
Depreciation and loss on disposal (IFRS 16)[2]	Note 15	(43,259)	(43,386)
Depreciation and loss on disposal (non-IFRS 16)[3]	Note 14	(8,023)	(5,884)
Operating profit post IFRS 16 and before non-underlying items	**APM**	**41,531**	**33,683**

1 Operating profit/(loss) and EBITDA measures include share of profits of associates.
2 Includes profit on disposal of £228,000 (2021: £27,000).
3 Includes loss on disposal of £2,000 (2021: £272,000).

The profit impact in respect of IFRS 16 is detailed below:

	2022 £'000	2021 £'000
Charge to income statement on a post-IFRS 16 basis	(50,869)	(50,307)
Charge to income statement on a pre-IFRS 16 basis	(48,668)	(47,431)
Profit impact from the adoption of IFRS 16	**(2,201)**	**(2,876)**

NON-UNDERLYING ITEMS

Non-underlying items are items which are considered outside normal operations. They are material to the results of the Group through either their size or nature. These items have been disclosed separately in the adjusted result above to provide a better understanding as to the underlying performance of the Group. The Directors do not believe there are any items during 2022 which could be considered outside normal operations.

	2022 £'000	2021 £'000
Repayment or waiver of furlough entitlement	–	1,627

In the prior year, the Directors elected to voluntarily repayment and waiver of amounts paid and due under the Coronavirus Job Retention Scheme ('furlough'). The Directors considered this voluntary repayment to be a non-trading item and, by its nature, unique and non-recurring. The size of this item is considered material and the Directors believe it would distort the readers' understanding of the financial results of the Group.

AMORTISATION OF ACQUISITION INTANGIBLES

	2022 £'000	2021 £'000
Amortisation charge	**245**	7,654

A charge for amortisation of acquisition intangibles arose in the year of £0.2m (2021: £7.7m). The charge within the comparative period predominantly related to the MPS acquisition in 2018, resulting in intangible assets being identified associated with the order book and customer relationships. This MPS intangible was fully amortised during 2021. The Directors have consistently explained their rationale for adjusting for this charge within the Group's alternative profit measure. Whilst the 2022 profit before tax (PBT) on an IFRS basis has increased by 114%, the adjusted measure has increased by 37%, and the Directors believe the lower figure is more reflective of the Group's performance.

The Directors estimate that, in the absence of further acquisitions, the amortisation charge moving forwards will be circa £0.2m per annum. On this basis, and in the absence of new significant acquisitions, the Directors anticipate that this APM adjustment will not be applied from 2023.

EARNINGS PER SHARE (EPS)

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

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	2022 p	2021 p	**2022 p**	2021 p	**2022 p**	2021 p
Earnings per share	24.51	11.50	0.44	0.99	24.94	12.49
Effect of amortisation of acquisition intangibles	0.22	6.77	–	–	0.22	6.77
Effect of full tax charge adjustment	(0.22)	(1.21)	(0.05)	(0.32)	(0.26)	(1.53)
Effect of non-underlying items	–	1.17	–	–	–	1.17
Normalised earnings per share	**24.51**	**18.23**	**0.39**	**0.67**	**24.90**	**18.90**

	Continuing		Discontinued		Continuing and discontinued	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Profit attributable to shareholders	27,813	12,997	494	1,122	28,307	14,119
Amortisation of acquisition intangibles	245	7,654	–	–	245	7,654
Full tax adjustment	(245)	(1,365)	(55)	(361)	(300)	(1,726)
Exceptional costs	–	1,318	–	–	–	1,318
Normalised earnings	**27,813**	**20,604**	**439**	**761**	**28,252**	**21,365**

Financial review continued

NET CASH/(DEBT)

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 over 10,000 residential properties to vulnerable service users and key workers. The Group does not recognise these lease obligations as traditional debt instruments given a significant proportion of these leases have break provisions which allow the Group to cancel the associated lease obligation with minimal associated cost. A reconciliation between the reported net cash/(debt) and the adjusted measure is detailed below:

	Note	**2022 £'000**	2021 £'000
Cash and cash equivalents		98,138	54,632
Cash deposits (reported in short-term financial assets)		1,963	–
Revolving credit facility		–	–
Adjusted net cash/(debt)	**APM**	**100,101**	**54,632**
Lease liabilities (current)	Note 20	(44,376)	(41,600)
Lease liabilities (non-current)	Note 20	(181,045)	(175,290)
Total	Statutory	(125,320)	(162,258)

DISCONTINUED ACTIVITIES

	2022 £'000	2021 £'000
Expenditure	(261)	(160)
Increase in fair value of contingent consideration	803	1,100
Profit for the year before tax on discontinued operations	542	940
Tax on discontinued operations	(48)	182
Profit for the year after tax on discontinued operations	**494**	**1,122**

As detailed within the 2020 Annual Report, the Group completed disposals of both the Domiciliary Care and Planning Solutions businesses. The consideration payable to the Company in respect of the Planning Solutions business, 'Terraquest', was structured with a mix of cash and contingent consideration, together with loan notes and a minority shareholding which gives the Group some continued participation at a low level.

The final contingent consideration in respect of Terraquest was settled during 2022 at £7.33m versus the fair value carried in the prior year of £6.50m. This additional profit has been recognised within discontinued activities. A small amount of expenditure was incurred in respect of these historical businesses, which is recognised in discontinued operations.

TAXATION

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

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

TAXES PAID

Further detail in respect of the taxes paid during 2022 are detailed below:

	Taxes borne £m	**Tax collected £m**	Total £m
Corporation tax	5.7	–	5.7
VAT and insurance premium tax	0.6	110.2	110.8
Construction industry tax	–	7.3	7.3
Income taxes	0.8	23.4	24.2
National insurance	12.5	16.8	29.3
Total	**19.5**	**157.7**	**177.2**

BALANCE SHEET

Overall, the Group reported an increase in net assets from £201.0m to £213.8m driven by retained profits generated in the year, net of a reduction in the pension surplus. The key balance sheet categories are reported below together with a brief footnote to provide further explanation:

Non-current assets	Note	2022 £m	2021 £m
Goodwill	1	121.9	118.9
Intangible assets	2	7.5	6.6
Property, plant and equipment	3	20.2	20.7
Right of use assets	4	213.4	204.9
Investments and loan notes	5	5.3	4.2
Pension assets	6	26.8	50.6
		395.1	**406.0**
Current assets			
Inventories	7	6.9	22.9
Trade receivables	7	128.3	148.3
Corporation tax asset	8	0.5	2.2
Bank, cash and deposits	9	100.1	54.6
		235.8	228.0
Total assets		**630.8**	**633.9**

Current liabilities	Note	2022 £m	2021 £m
Trade payables	7	(171.0)	(184.0)
Current lease liabilities	4	(44.4)	(41.6)
Provisions	10	(8.8)	(4.5)
		(224.2)	**(230.1)**
Non-current liabilities			
Pension liabilities	6	(3.1)	(17.0)
Deferred tax liability	11	(4.9)	(6.7)
Non-current lease liabilities	4	(181.0)	(175.3)
Other non-current liabilities	12	(0.7)	–
Non-current provisions	13	(3.1)	(3.8)
		(192.8)	(202.8)
Total liabilities		**(417.0)**	**(432.9)**
Total net assets		**213.8**	**201.0**

1 This is goodwill generated from previous acquisitions; the carrying value is tested at least annually for impairment.

2 This includes software development costs of £5.0m (2021: £4.0m) which primarily relates to in-house developments to our key operational IT platforms. This was increased by the acquisition of IRT which saw a new balance of £1.1m acquired and consolidated; this is being written off over the estimated useful economic life, which is typically 5 years in respect of the Mears IT system development but 10 years in respect of the IRT asset. This balance also includes acquisition intangibles of £2.4m (2021: £2.6m) relating to customer relationships identified and valued on acquisitions and being amortised over the estimated useful economic life of 20 years.

3 Property, plant, and equipment is stated at historical cost of £47.4m (2021: £57.3m) less accumulated depreciation of £27.2m (2021: £36.6m), giving a net carrying value of £20.2m (2021: £20.7m). Mears historically has a track record of delivering organic growth in the core Housing activities with a low requirement for capital expenditure. When the Group secures a new contract, the Group will typically open an office in that locality delivering services to this single client; whilst Mears will typically lease the site office, improvements are often required to ensure that the property is set up to deliver the required services, and IT infrastructure and equipment is also required, and all this spend is typically capitalised.

4 Leasing properties for rental to tenants is an important part of the Mears' Housing offering. As a result, Mears currently holds leases for over 10,000 residential property leases and this number is increasing over time. The way in which the Group manages and balances the operational and financial risks associated with its contractual obligations and leasing commitments is important. The Group seeks to strike a balance between its operational requirements and the negative financial impact of IFRS 16. A significant number of leases provide Mears a one-way break option which typically provides the ability to exit the lease, having given 30 days' notice. This provides the Group ultimate flexibility if volumes reduce. Where the Group does not have the right to break, leases are typically matched to the underlying contract length which gives comfort that an obligation will not remain once the requirement for that asset has passed. The Group has a high number of short-term leases which, as a practical expedient within IFRS 16, are not required to be reflected on the balance sheet, but can result in a greater operational risk if suitable properties are in short supply. In addition to the residential property leases, the Group holds over 3,500 other leases relating to vehicles and offices.

5 This predominantly relates to an investment over which the Group has significant influence but which it does not control. This is categorised as an associate. 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 carrying value reflects the cost of each investment together with the Group's share of the profit generated by that entity since acquisition. Loan notes are linked to the disposal of Terraquest in 2020. The Group received £3.16m in loan notes accruing an interest rate of 10% per annum, payable on redemption. This carrying value, inclusive of accrued interest, has increased to £4.1m.

6 The Group participates in two principal Group defined benefit pension schemes together with a further 15 individual defined benefit schemes where the Group has received Admitted Body status in a Local Government Pension Scheme (LGPS). These are covered in greater detail below.

7 Working capital balances include trade receivables, trade payables, and inventories; further explanation is provided within the working capital management section that follows.

8 All Group profits are chargeable to corporation tax at the headline rate of 19%, which increases to 25% in April 2023. The Group is required to make quarterly payments, meaning any creditor outstanding at the period end is relatively low, and in the case of the last two period ends, the Group has been due a corporation tax refund.

9 The Group has reported a cash balance at the year end of £98.1m. Whilst the spot number at the balance sheet date drives a key metric, of more importance is the Group's treasury performance over 365 days. This is covered in greater detail below. In addition to the reported cash number, the Group held treasury deposits of £2.0m. However, given the deposits maturity was greater than three months, it is not included within the cash figures, but instead classed as a financial asset.

10 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 provision of £8.8m within current liabilities relates to a number of legal claims where the Directors have made an assessment as to the likely loss. Additional detail is provided within note 22 to the financial statements. The provision of £3.1m within non-current liabilities relates to insurance losses which the Group chooses to self-insure.

11 A deferred tax liability of £4.9m (2021: £6.7m) is recognised on temporary differences between the treatment of items for tax and accounting purposes. 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. Deferred tax is also recognised on short-term temporary timing differences, primarily relating to provisions. These differences are expected to reverse in the following year and arise because tax relief is only available when the costs are incurred. Capital allowances represent tax relief on the acquisition of property, plant and equipment and are spread over several years at rates set by legislation. These differ from depreciation, which is an estimate of the use of an item of property, plant, and equipment over its useful life. Deferred tax is recognised on the difference between the remaining value of such an asset for tax purposes and its carrying value in the accounts.

12 Other payables include provisions relating to the Group's insurance risks and a small number of contract related provisions which arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received.

Financial review continued

PENSIONS

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.
- Five indemnified defined benefit schemes where the Group has received Admitted Body status iin an LGPS, but where the Group holds a back-to-back indemnity under the associated customer contract which removes the Group's exposure to changes in pension contributions and any future deficit risk.
- 10 other defined benefit schemes, the majority of which are LGPS, but where there is no indemnity in place. However, the risk attached to these schemes matches the time horizon of the underlying contract; whilst not removing risk, it reduces the period over which deficit can arise, and therefore the Group is fully at risk over the medium term.

The 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 have reached a position where they can be considered largely self-sufficient. The Directors are really pleased with the performance of the scheme managers and trustees who have managed this pension risk so well over many years to reach the position reported today.

The Directors are comfortable with the position of the indemnified and other schemes. There is only a single scheme reporting a deficit, and in that instance the Group benefits from an indemnity. The Group enjoys a significant surplus on many of other schemes, but these are not recognised as assets as there is uncertainty around the ability to recover a surplus.

The pension disclosure is split on the face of the balance sheet between non-current assets and non-current liabilities. In addition, the pension guarantee assets are reported separately from their associated liabilities, which complies with accounting standards but is less easy for the reader to understand how the individual components fit together.

	2022 Group £'000	**2022 Indemnified £'000**	**2022 Other £'000**	**2022 Total £'000**	2021 Group £'000	2021 Indemnified £'000	2021 Other £'000	2021 Total £'000
Total scheme assets	**128,023**	**63,848**	**52,596**	**261,712**	196,912	214,330	81,749	493,483
Total obligations	**(104,351)**	**(50,995)**	**(36,748)**	**(202,763)**	(159,261)	(198,887)	(76,423)	(435,089)
Funded status	**23,672**	**12,853**	**15,848**	**58,949**	37,651	15,443	5,326	58,394
Surpluses not recognised as assets	**–**	**(15,989)**	**(15,848)**	**(38,413)**	–	(28,418)	(9,320)	(37,738)
Pension surplus/liability	**23,672**	**(3,136)**	**–**	**20,536**	37,651	(12,975)	(3,994)	20,656
Guarantee asset	**–**	**3,136**	**–**	**3,136**	–	12,975	–	12,975
Net position	**23,672**	**–**	**–**	**23,672**	37,651	–	(3,994)	33,631

CASH FLOW AND WORKING CAPITAL MANAGEMENT

The Group has delivered excellent operating cash flows over recent years with strong underlying EBITDA to operating cash conversion. Mears has always fostered a strong 'cash culture', whereby the Group's front line operations understand that invoicing and cash collection are intrinsically linked, and that a works order is not complete until the monies are banked. This culture has underpinned strong cash performance over many years. The reported cash conversion has been enhanced further as the working capital absorbed within the Group's Development activities has seen working capital reduced to below £2m (2021: £12m). However, without this enhancement, the Group would still have delivered EBITDA to operating cash of more than 110%.

	2022 £'000	2021 £'000
Profit before tax	34,944	16,333
Net finance costs	6,341	8,069
Amortisation of acquisition intangibles	245	7,654
Depreciation and amortisation	53,562	51,392
EBITDA	**95,092**	**83,448**
Other adjustments	376	(1,213)
Change in inventories	15,991	12,944
Change in operating receivables	13,855	(2,244)
Change in operating payables and provisions	(9,760)	(32,573)
Operating cash flow	**115,554**	**60,362**
EBITDA to operating cash conversion	**122%**	**72%**

The Group reported an adjusted net cash position at the year end of £100.1m (2021: £54.6m). Whilst it is pleasing to report a strong cash position within the year end balance sheet, of much greater significance is the performance over the 365-day period. Positively, the strong year end performance is also mirrored in the average daily adjusted net cash for the year at £42.9m (2021: £0.4m).

	2022 £'000	2021 £'000
Average daily adjusted net cash	**42,880**	400
Adjusted net cash at 31 December	**100,101**	54,632

Financial review continued

The average month end trade receivable and trade payable balance reflects strong working capital management during the period. The significant reduction is largely due to the unwind of working capital from Development activities, which released around £10m during the period. The core Housing activities have historically absorbed a relatively low level of working capital when compared with the size of the business and the profit generated. The business has benefitted from payments received on account; however, even if excluding this temporary benefit, the adjusted measure would reflect strong performance.

	2022 £'000	2021 £'000
Receivables	153.7	181.5
Payables	(159.7)	(165.1)
Net working capital	**(6.0)**	**16.5**

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 Board is grateful for the tremendous support that has been provided to the Group by its banking partners. A number of those relationships extend over 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 2022, and enjoyed an associated finance credit, there is significant headroom. Nevertheless, the Directors have completed a Viability Review and stress tested the Group's resilience given several downside scenarios.

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

* Adjusted EBITDA on a rolling 12-month basis, pre IFRS 16, and stated before non-underlying items and share-based payments.
** Net finance charges 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) being the Bank of England risk-free rate for Sterling markets. Given the strong liquidity and cash performance, the Board's expectation would be for the margin payable during 2023 to be at the bottom end of the range.

ANDREW SMITH
CHIEF FINANCIAL OFFICER
28 April 2023

Financial viability review

In accordance with C.2.2 of The UK Corporate Governance Code 2014, the Directors are required to assess the viability of the Group over the medium to longer term. A period of five years has been chosen as it reflects the average contract length (excluding extensions) of the Group's contract estate. Whilst the Group holds contracts which extend beyond this time horizon, a period of greater than five years was considered too long, given the inherent uncertainties of forecasting to distant time horizons.

In making this statement, the Board has considered its principal risks. The principal risks are set out on pages 47 to 51 and are those which are considered to threaten the Group's future performance, solvency, and liquidity. Risks are identified as 'principal' based on the likelihood of occurrence and the severity of the impact on the Group. This assessment includes the availability and effectiveness of mitigating actions that could realistically be taken to reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the Board also takes comfort from the work of the Audit and Risk Committee for monitoring and reviewing the integrity and effectiveness of the Group's overall systems for risk management as detailed on pages 44 to 46.

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

- Forecast built up on a contract-by-contract basis for the next twelve months and extended for the following four years. The forecast for 2023 is based upon revenues generated from existing customer relationships, and a business that is generating contract margins that are in line with recent run rates.
- The forecast assumes no new work is secured. The base case assumes that contracts are re-secured on re-tender, 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 AASC, with revenues reducing to a level closer to the original expectation.
- The Board recognises that it is not immune to labour shortages, supply chain challenges, and inflationary pressures, and has included a contingency amounting to circa 1% on Group costs (excluding direct labour) within its base financial forecasts to reflect this uncertainty.
- The model assumes no significant changes in working capital performance.
- The model assumes small-scale property purchases to augment the delivery of the AASC.
- Future dividends continue in line with current policy.
- 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. The financial highlights in respect of the base case are not detailed within this report as they are considered commercially sensitive.

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. The analysis also considered a reverse stress test scenario to understand the reduction required to cause a breach of interest cover covenant.

The Directors have considered three 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**	Failure to re-secure any material contracts on re-bid resulting in £213m of annual revenue lost over review period	— Risk 1: Contract failure — Risk 3: Political and market disruptions — Risk 8: Ability to resource — Risk 9: Damage to brand — Risk 10: Failure to manage subcontractors — Risk 11: Discrimination
2 **Inflation/ employee/supply chain disruption**	Deficit between sales rate increases compared with cost base resulting in a 1.5% reduction in operating margin. Given the low margin nature of the business, a small increase in the cost base which is not recovered in charge rate increases can cause significant margin dilution.	— Risk 3: Political and market disruptions — Risk 8: Ability to resource — Risk 10: Failure to manage subcontractors
3 **Cyber**	Cyber breach impacting upon lead operating systems causing an additional 10 days' revenue tied up in working capital	— Risk 4: Breach in data security — Risk 7: Business continuity

SCENARIO 1

This downside scenario assumes a negative outcome in respect of contract renewals. Given the average contract length of circa five years, several key contracts will come up for renewal over the viability review period. The Group has a good track record of securing work on re-bid. However, for the purposes of this viability review, management has assumed a significant deterioration in the Group's performance in this area, possibly following a significant event which has impacted negatively on the Group's reputation in the sector. The Group has modelled a downside scenario where it fails to re-secure any material contracts that come up for re-bid during the period 2023 to 2026. The impact upon revenue of this assumption is detailed below:

Contract	Annual value £m	Expiry date
Contract A	£53m	2024*
Contract B	£15m	2024*
Contract C	£22m	2024*
Contract D	£54m	2024*
Contract E	£20m	2025
Contract F	£10m	2025
Contract G	£23m	2025
Contract H	£16m	2025
Total annual value in 2026	£213m	

* The 2024 contract expiries are all modelled as losses for entire financial year, albeit the contracts end in March 2024.

Financial viability review continued

Key financial output, scenario 1	2023	2024	2025	2026	2027
Leverage headroom £m	177.4	102.1	49.8	44.6	43.0

SCENARIO 2: INFLATION

This downside scenario assumes a negative outcome in balancing customer price increases with the Group's cost base. The Group historically has a good track record of controlling costs in a low margin environment; however, for the purposes of this viability review, the Directors have modelled a downside scenario where the Group experiences a 1.5% reduction in operating margin for the entire review period. The impact upon revenue of this assumption is detailed below:

Key financial output, scenario 2	2023	2024	2025	2026	2027
Leverage headroom £m	128.5	114.7	99.3	101.6	105.4

SCENARIO 3: CYBER BREACH

This scenario assumes a cyber breach which impacts negatively in respect of the Group's operational systems. In the case of this modelled scenario, the Directors have assumed that this results in a significant deterioration in the cash collection measurements, being an increase in the time period between the completion of works and the receipt of cash from the Group's clients. (This scenario assumes a permanent deterioration in respect of the contract asset collection period, increasing by 10 days. Whilst to model a scenario where the Group experiences a permanent deterioration in working capital is considered particularly pessimistic, such a scenario is helpful to the Directors to further stress test the viability review when taking a combination of downside scenarios.

Key financial output, scenario 3	2023	2024	2025	2026	2027
Leverage headroom	156.6	145.9	131.0	137.7	146.1

SCENARIO 4: A COMBINATION OF BOTH SCENARIOS 1 AND 2

The Directors also modelled the impact from the occurrence of both downside scenarios 1 and 2 occurring concurrently, which is felt to be a plausible combination given operational failures could lead to both margin dilution and attrition.

Key financial output, Scenario 4	2023	2024	2025	2026	2027
Leverage headroom £m	128.5	62.0	14.2	6.3	0.5

No mitigating actions were included within either scenario, which was considered conservative but not entirely realistic. Mitigating actions available to management include a reduction in discretionary capital expenditure, changes to dividend policy, 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 tested the sensitivity of the business to increasing the severity of the assumptions detailed in each case, to measure the trigger points at which the viability of the Group, in the absence of further mitigations, could be impacted.

- Scenario 1 assumes that all revenue is lost on re-bid and in isolation this would not impact on the viability of the business. Were the Group to see existing contracts terminated before their time, this could impact upon covenants and funding levels, and could inevitably impact upon viability.
- Scenario 2 assumes a deterioration in operating margin. The Directors recognise that if operating margins were to reduce by a further 3%, in addition to the modelled scenario, then this would impact upon the solvency and liquidity, and ultimately the viability, of the Group.
- Scenario 3 shows a change in net cash/(debt) by circa £8m for a change of five days in the contract asset collection period. Given the significant headroom within the existing banking facilities, it is not considered plausible that the collection period could deteriorate to such an extent as to result in exceeding the available banking facilities.

The viability review also considered the increasing 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 proportionate impact upon retained profits. Whilst such an event could be damaging, it would not be expected to ultimately impact on the long-term viability of the Group. Both health and safety, and IT and data feature high on the Group's risk register and we continually review our mitigating actions to ensure that we minimise our residual risk.

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

The Directors recognise that there is naturally uncertainty within any forecast and this uncertainty increases as the projections cover a five-year period. The conclusion attached to the viability review was that there was a reasonable expectation that the Group will continue in operation and would be able to continue to meet liabilities as they fall due over the five-year period of business planning.

This Strategic Report was approved by the Board on 28 April 2023

D MILES
CHIEF EXECUTIVE OFFICER
david.miles@mearsgroup.co.uk

Non-financial Statement

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
Stakeholders (customers, suppliers, etc)	— Responsible Business Charter — Data protection — Responses to Social Housing White Paper, Procurement Green Paper and the Decent Homes Review — Scottish Business Pledge — ISO 44001 (collaboration in contract management) — Monitoring right first time, customer complaints, customer satisfaction	Board activities – page 68 s. 172 Statement – page 27 Awards and accreditations – page 4-5 Market drivers – page 18-19 Business model – page 20 Customer satisfaction – page 24 Stakeholder engagement – page 69
Environmental matters	— ESG approach — 'Our Path to Net Zero' document — FTSE4Good membership — ISO 14001 (Environmental Management System) certification	ESG reporting website www.mearsgroup.co.uk/esg/esg ESG approach – page 30 TCFD statement – page 38 Carbon emissions statement – page 41 'Our Path to Net Zero' – page 42 Environment and waste recycling – page 32
Employees	Whistleblowing; — Family Friendly policy — Safeguarding — Equality, diversity, and inclusion — Approach to Labour Standards compliance — Launch of a socially responsible business plan to attract and retain staff and go further on our diversity and inclusion plans — 2025 Strategy — Health and safety — Red Thread approach — RoSPA Order of Distinction	Our people – page 12 Gender Pay Gap Report – page 31 Governance Report – page 62 Remuneration Report – page 80 Awards and accreditations – page 4-5 Health and safety – page 25
Human rights	— Modern slavery and human trafficking; — Preventing engagement of child labour — Whistleblowing policy — Family Friendly policy	Modern Slavery Act – page 35 Corporate Governance – page 62
Anti-bribery and corruption	— Anti-bribery and corruption — Independent research into ethical procurement sponsored by Mears — Responsible Business Charter	Governance – page 62 Report of the Audit and Risk Committee – page 74
Social matters	— ESG approach — ESG Board — 'Our Path to Net Zero' document — Social Value UK Certificate Level 2 — FTSE4Good Index — Mears Scrutiny Board — Social Mobility Index	ESG approach – page 30 'Our Path to Net Zero' document – page 42 Awards and accreditations – page 4-5 Governance – page 62 Stakeholder engagement – page 69
Description of principal risks and impact of business activity		Risk management – page 44 Principal risks – page 47 Business model – page 20
Description of business model		Business model – page 20
Non-financial KPIs		Strategic Report – page 1 Corporate Governance – page 62 Report of the Audit and Risk Committee – page 74

Our corporate governance compliance statement

This section of the Annual Report sets out how the Company is governed. It provides biographical and service details about the Board of Directors and discusses the composition of the Board, how that has been developed, and the Board evaluation process entered into in 2022. It discusses how the Board assures itself as to Company performance and sets out the key areas which were subject to significant Board review and discussion in 2022. Finally, it sets out how the Board communicated with shareholders and key stakeholders.

Introduction to corporate governance

- Chairman's introduction — Page 63

Board leadership: Board activities

- Board of Directors — Page 64
- Roles and responsibilities — Page 66
- Corporate governance framework — Page 67
- Key Board activities in 2022 — Page 68
- Stakeholder engagement — Page 69

Composition, succession and evaluation

- Board composition, development and evaluation — Page 71
- Report of the Nominations Committee — Page 72

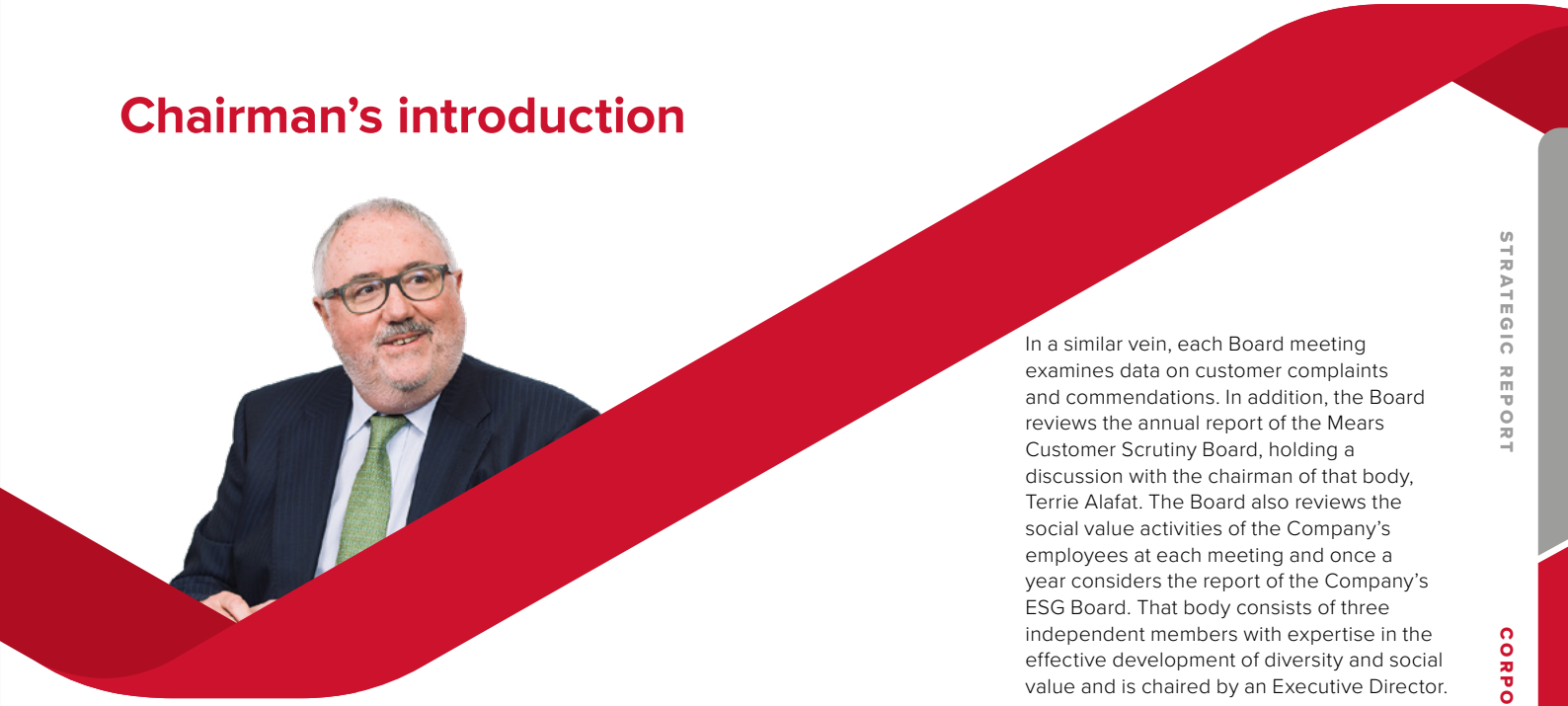
Audit, risk and internal controls

- Report of the Audit and Compliance Committees — Page 74

Remuneration

- Report of the Remuneration Committee — Page 80
- Report of the Directors — Page 98
- Statement of Directors' responsibilities — Page 100

Chairman's introduction



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.

On behalf of the Board, I am pleased to introduce the corporate governance report for 2022. 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 2022, the Board considers that it was compliant with the principles of good governance set out in the UK Corporate Governance Code 2018 (the 'Code').

MANAGEMENT AND BOARD SUCCESSION

A major preoccupation for the Board in 2022 was the selection of Lucas Critchley as the Group's prospective new CEO and the senior management reorganisation which will accompany both this change and the retirement of Alan Long as an Executive Director. Alan left the Board at the end of 2022 and Lucas joined as an Executive Director on 1 January 2023. It is intended that Lucas will become CEO during the course of this year and David Miles will then retire from the Board.

As set out in my letter at the front of this Annual Report, I have decided not to seek re-election to the Board at the AGM in 2023. Accordingly, one task for the Board in 2022 was to select my successor. After deliberation in the Nominations Committee, without my participation, it was decided to appoint our Senior Independent Director, Chris Loughlin, to the role. More detail can be found in the Report of the Nominations Committee.

During 2022, the Board also considered the role of the Employee Director as one mechanism for ensuring that the 'employee voice' is heard at the Board table. We concluded that it would be appropriate to continue with such a position. Claire Gibbard's term in that role came to an end in December 2022 and the Board appointed Hema Nar to succeed her. More details can be found in the Report of the Nominations Committee.

PEOPLE AND CULTURE

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. We consider that the wellbeing of our workforce and our customers is critical to the creation of long-term commercial 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. During 2022, the Employee Director created a new body, the Employee Forum, whose purpose is to bring together colleagues from all areas of the business to discuss common issues and make recommendations for change to management and Board. The first meeting of the Forum looked at the effectiveness of the recruitment of apprentices and the Company's induction programme. It also reviewed the results of the Best Companies Survey.

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, holding a discussion with the chairman of that body, Terrie Alafat. The Board also reviews the social value activities of the Company's employees at each meeting and once a year considers the report of the Company's ESG Board. That body consists of three independent members with expertise in the effective development of diversity and social value and is chaired by an Executive Director.

In all of these ways, the Board seeks to contribute to the Company's objective of becoming the most socially responsible business in the UK housing sector by 2025.

STRATEGY

During the first quarter of 2022, the Board re-examined the Group's five-year plan, first created in 2021. We concluded that Mears should remain a specialist provider of housing services, largely to the public sector. We will continue to strengthen our leadership position, grow where profitable opportunities exist, and develop our offer to improve the environmental footprint of the UK's public housing stock. We will use small-scale M&A as a tool to develop our capabilities where that is the most effective mechanism to do so. We are developing our plans to limit the environmental impact which our operations have on the planet and on our local communities. We will be recognised as a leading socially responsible company and one of the UK's Best Large Companies to Work For.

SHAREHOLDER RELATIONS

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

AGM

I look forward to meeting in person any shareholders who wish to come to the forthcoming Annual General Meeting.

K MURPHY
CHAIRMAN
28 April 2023

Board of Directors



KIERAN MURPHY
Chairman

Age
64

Tenure
4 years

Skills and experience
Kieran is a very experienced Non-Executive Director and Chairman. He spent much of his executive career working in finance. At Kleinwort Benson, he built a market-leading corporate finance advisory business in the building and construction sector and became a member of the bank's Investment Bank Management Committee. More recently, at Gleacher Shacklock, Kieran extended his advisory work into the business services sector.

Principal external appointments
Aliaxis S.A.,
University of London

Departing 2023

DAVID J MILES
Chief Executive Officer

Age
57

Tenure
26 years (16 years on the Board)

Skills and experience
David joined Mears in May 1996 and, prior to his appointment to the Board in January 2007, was Managing Director of the Mears Social Housing division. Before joining Mears, David held a senior position with the MITIE Group. His background is in electrical engineering.

Principal external appointments
None

Retiring 2023

ANDREW C M SMITH
Chief Financial Officer

Age
50

Tenure
23 years (16 years on the Board)

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

LUCAS CRITCHLEY
Chief Operating Officer

Age
40

Tenure
19 years (Joined the Board on 1 January 2023)

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. Now in his 19th year with Mears, Lucas has been announced as the successor as Chief Executive to David Miles who will retire in 2023.

Principal external appointments
None

ANGELA LOCKWOOD
Non-Executive Director

Age
60

Tenure
1 year

Skills and experience
Angela has extensive experience gained from a career in housing spanning 30 years. Starting her career at Sunderland Council, Angela then worked for Home Housing and subsequently joined Endeavour Housing Association, firstly as Housing Director and then Managing Director. She joined North Star in 2009, holding the position of CEO. Angela holds an MBA and is a Fellow of the Chartered Institute of Housing.

Principal external appointments
CEO of North Star Housing, Joseph Rowntree Housing Trust, National Housing Federation Board, NE Advisory Board of BITC



HEMA NAR
Employee Director

Age
46

Tenure
Appointed on 1 January 2023

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

CHRISTOPHER LOUGHLIN
Non-Executive Director, Senior Independent Director, Remuneration Committee Chair

Age
70

Tenure
3 years

Skills and experience
Chris is a very experienced CEO. His last executive role, prior to his retirement in 2020, was Chief Executive Officer of Pennon Group plc, the listed company which owned South West Water and the waste business Viridor. He was previously CEO of South West Water and before that held roles at Lloyds Register, British Nuclear Fuels Plc and Magnox.

Principal external appointments
Portsmouth Water, Magnon, Augean, Reall

DAME JULIA UNWIN
Independent Non-Executive Director

Age
66

Tenure
7 years

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)

JIM CLARKE
Independent Non-Executive Director and Audit and Risk Committee Chair

Age
63

Tenure
3 years

Skills and experience
Jim is a very experienced company Chief Financial Officer. He qualified as a Chartered Accountant in 1984. He has spent much of his career in senior finance roles in consumer-facing industries, having been Chief Financial Officer at David Lloyd Leisure, JD Wetherspoon and Countrywide.

Principal external appointments
None

BEN WESTRAN
Company Secretary

Age
46

Tenure
19 years (8 years as 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

Roles and responsibilities

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

Corporate governance framework

BOARD ATTENDANCE

During the course of the year, there were 11 scheduled and 4 unscheduled Board meetings with full attendance. There were also 8 Audit and Risk Committee meetings, 6 Remuneration Committee meetings and 4 Nominations Committee meetings, and attendance is detailed in the respective reports.

INDEPENDENCE AND CONFLICTS OF INTEREST

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.

INDEMNIFICATIONS OF DIRECTORS

In accordance with our Articles of Association and to the extent permitted by the laws of England and Wales, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their position in office. However, our indemnity does not cover Directors or officers in the event of being proven of acting dishonestly or fraudulently.

BOARD AND COMMITTEE GOVERNANCE

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

During the course of 2021, following an independent appraisal of the effectiveness of the Board, an exercise was undertaken to review and update the documents which set out the role of the Board, the Chairman, and the CEO/executive management and to review the matters reserved for Board approval. The full text of these documents can be found on the Group website.

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

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 2022 are set out on page 68. The composition of the Board and the evaluation process undertaken during the year is set out on page 71. The Chairman's review of 2022 is set out on pages 6 to 7 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 2022 is set out on pages 74 to 79.

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 2022 is set out on pages 80 to 97.

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 2022 is set out on pages 72 and 73.

THE CHIEF EXECUTIVE AND EXECUTIVE MANAGEMENT GENERALLY

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 CEO's report is set out on pages 10 to 13 of this Annual Report.

Key activities of the Board

ACTIVITIES OF THE BOARD IN 2022

The Board met a total of 13 times in 2022, of which 11 were planned meetings and 2 were shorter ad hoc discussions convened during the year to discuss particular topics. All meetings were attended by all the Directors.

In 2022, the Board operated a mixed ecosystem, holding some meetings in person and some virtually. The success of this methodology was debated during the year. Members agreed that, while it was practicable to make effective decisions and exercise effective oversight in the virtual format, the quality of overall Board discussion was typically better when we met in person, a conclusion reinforced by the conclusions of the Board evaluation process. Members also concluded that a total of 13 meetings per year was more than was necessary for the effective operation of the Board. Accordingly, for 2023, it has been decided to hold a total of eight planned meetings, of which six would be in person. The remaining two meetings, which will focus primarily on the interim and preliminary results announcements respectively, will be held virtually.

The Board agenda is set by the Chairman with support from the Company Secretary. Early in 2022, 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.

At every planned Board meeting, each of the Executive Directors and the Employee Director provides a report and a verbal summary in relation to the activities for which they have responsibility. In addition, the Board receives verbal updates from the chairs of each of the three Board committees on activity which has occurred since the last Board meeting.

Finally, the Board receives a verbal report on any site visits undertaken by the Chairman or other Non-Executive Directors since the last Board meeting. 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.

The table below sets out the other substantive matters with which the Board dealt during 2022:

Strategy and performance	Finance and risk	People	Statutory and governance
Re-evaluation of the Group's five-year strategy	Review of the strategic risk register, following recommendations from internal audit and the Audit and Risk Committee	Deep dive reviews of health and safety and other compliance issues and performance	Approval of the Company's Annual Report, AGM documents and resolutions, preliminary and interim financial statements, and ad hoc trading statements
Deep dives into the operations of the housing business, the homelessness business, and the care and facilities management operations	Review and approval of the Company's insurance programme, reflecting Group risk appetite	Review of workforce survey data and trends	Approval of certain Group policies, including in relation to going concern and viability assessment, tax, and modern slavery
Review of the IT function and key related issues	Review of a valuation of the Group prepared by the Company's advisers and of stock market perspectives	Review of the ESG strategy and determination of key targets	Approval of the dividend policy, and of proposed dividend payments
Review of the report of the Mears Customer Scrutiny Board	Review of the Company's capital allocation policy	Review of pay and the Gender Pay Gap report, following discussion at Remuneration Committee	Review of the results of the Board evaluation exercise
Review of the potential for business growth from the 'green' agenda	Approval of the annual budget for 2023	Deep dive on key workforce policies and issues, including in relation to disability in the workforce	Review of the Company's plans to reduce its environmental footprint
Review of other new business, M&A, and financing opportunities		Review of issues arising from proposed CEO succession	
		Approval of the appointment of a new Executive Director and Employee Director with effect from 1 January 2023	

Stakeholder engagement

BOARD ENGAGEMENT WITH KEY STAKEHOLDERS

Within the Strategic Report, we detail how we engage with our key stakeholders, and explain how each stakeholder group impacts upon our business model and our ability to deliver against our strategic priorities. The Board recognises that engagement with key stakeholder groups strengthens our relationships and is an ongoing part of the operational management of the Group. This includes employee surveys, assessments of customer satisfaction, and ongoing conversations with regulators and non-governmental organisations. 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.

The table below sets out the different stakeholders with whom we engage and how the Board monitors these important relationships.

CLIENTS

How the Board is kept informed

- Executive team has daily contact with key clients
- Regular discussion of key issues at each Board meeting
- Access to external press and news flow

TENANTS AND CUSTOMERS

How the Board is kept informed

- Monthly customer performance statistics, including satisfaction, complaints, and compliments
- Executive Director attendance at tenant panel meetings
- Customer Scrutiny Board

COMMUNITIES

How the Board is kept informed

- Monthly social value measures
- Social Value Annual Report

COLLEAGUES

How the Board is kept informed

- Close monitoring of staff surveys
- Monthly People KPIs
- Employee Director

SUPPLIERS

How the Board is kept informed

- Engagement with supply chain

SHAREHOLDERS AND DEBT FUNDERS

How the Board is kept informed

- Investor roadshows and investor briefings
- Shareholder feedback gathered bi-annually
- Analyst research notes
- Regular dialogue with shareholders and funding banks
- Engagement with supply chain

Stakeholder engagement continued

INVESTOR MEETINGS

Investor meetings are predominantly attended by the Group CEO, CFO, and Head of Investor Relations, 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 Chair 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.

ANNUAL GENERAL MEETING

Shareholder participation at each AGM is usually encouraged. Full details of the 2023 AGM will be set out in the Notice of Meeting. In normal circumstances, all shareholders are invited to attend the Company's AGM, 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.

The Group also has regular dialogue with its banking partners. During the year the Group extended its £70m revolving credit debt facility to December 2026. The Directors value the close relationship with Barclays, HSBC and Citi Bank.

Shareholders holding over 2% of issued share capital	Holding at March 2023 % IC	Holding at March 2022 % IC
Fidelity Management & Research	10.0%	9.9%
LOYS AG	9.2%	5.1%
Premier Miton Investors	8.0%	8.2%
Shareholder Value Management	7.0%	10.3%
Heronbridge Investment Management	5.9%	6.5%
Artemis Investment Management	5.8%	10.2%
Milkwood Capital	4.5%	1.0%
Dimensional Fund Advisors	4.4%	4.3%
Huntngton Management	4.1%	4.3%
Liontrust Asset Management	4.0%	7.8%
Columbia Threadneedle Investments	3.5%	5.3%

2022 INVESTOR RELATIONS PROGRAMME:

JANUARY
- Shareholder calls available on request

FEBRUARY
- Non-holder investor roadshow
- Chairman's roadshow with top shareholders

MARCH
- Preliminary results for FY2021 released followed by full investor roadshow

APRIL
- Close period

MAY
- AGM and trading update followed by calls with major shareholders

JUNE
- Investor Support Services Conference

JULY
- Close period

AUGUST
- Interim results for H1 FY2022 released followed by full investor roadshow

SEPTEMBER
- Ad hoc non-holder investor meetings

OCTOBER
- Ad hoc non-holder investor meetings

NOVEMBER
- Appointment of Numis Securities and Panmure Gordon as Joint Brokers
- Trading update followed by calls with major shareholders

DECEMBER
- Trading update
- Ad hoc non-holder investor meetings
- Remuneration Policy consultations with major shareholders

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 in January 2019. The other four Non-Executive Directors (Angela Lockwood, Julia Unwin, Chris Loughlin, and Jim Clarke) are all considered to be independent for the purposes of the Code. The three Executive Directors and the Employee Director (by virtue of her employment in an executive role within the Group) are not considered to be independent.

The Company considers that it has been in compliance with the Code requirements as to independence throughout 2022.

b) Tenure

All Directors are subject to annual re-election by shareholders at the AGM. The length of service of each Director as at the end of 2022 is set out in their biographies on pages 64 and 65.

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.

This assessment underpinned the decision making behind the recruitment of a new Non-Executive Director on 1 January 2022.

d) Diversity

As at the end of 2022, the Board had nine Directors, three of whom were female. Of the Non-Executive Directors (including the Chairman), three were male and two female. There were no Directors from an ethnic minority background in 2022 but this will change in 2023 with the appointment of Hema Nar as the new Employee Director.

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 Employee Director and a new Executive Director, the Chairman and the Company Secretary reviewed the Company's induction programme. This now provides for a comprehensive series of meetings with each of the Directors and senior managers in the Group, access to the Board and Committee papers prepared and discussed over the last 12 months, a programme of visits to some of the Group's key operating locations, and access to tailored external training and education programmes.

f) Commitment

The Directors, Executive and Non-Executive, are required to devote as much time as is reasonably required to discharge their duties effectively and the Board is satisfied that the Directors do so. Attendance at Board and Committee meetings, which are each comprised of all of the Non-Executive Directors, continued at very high levels. Directors wishing to take up additional external appointments require the permission of the Board, acting 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 Board operates a policy to identify and manage situations declared by any Director in which they or their connected parties have, or may have, an actual or potential conflict of interest with the business of the Company. No such situation currently exists or existed in 2022.

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

2. EVALUATION

During 2022, an updated evaluation of the effectiveness of the Board and its committees was undertaken. A description of this process and the outcomes is set out in the Report of the Nominations Committee.

Report of the Nominations Committee

This report briefly describes the key issues debated by the Committee in 2022.

Meeting attendance

K Murphy	7/7
C Loughlin	7/7
J Unwin	7/7
J Clarke	7/7
A Lockwood	7/7

INTRODUCTION

In terms of Board membership, 2022 was a period of stability with no changes throughout the year. The work of the Committee focused on Executive and Chairman succession planning, an update on Board effectiveness and, towards the end of the year, the selection of the new Employee Director.

EXECUTIVE SUCCESSION

The major task for the Committee in early 2022 was to decide on the successor to David Miles as Group CEO. During the early part of the year, a number of conversations were held with David and with the internal candidate, Lucas Critchley. A thorough exercise was undertaken, supported by a professional recruitment firm, to assess the internal candidate's capabilities to assume the role and his likely developmental needs. In parallel, and supported by the same external adviser, an exercise was undertaken to understand the field of potential external candidates for the role. On the basis of this work, the Committee concluded that it would be appropriate to nominate Lucas as the intended successor to David. Accordingly, the Company announced in May 2022 that David intended to work towards his planned retirement from the Board and that he would be succeeded in due course by Lucas.

In the latter half of 2022, the Committee discussed in detail with David and Lucas the potential organisational consequences of this change and of the planned retirement of Alan Long at the end of the year and the impact which these changes might have on the future roles of members of the senior management team. On the basis of these discussions, the Company announced in December 2022 that Lucas would become a Director of the Company with effect from 1 January 2023 and would assume the role of CEO during the course of this year. Alan Long's retirement from the Board was formally announced at the same time.

CHAIRMAN SUCCESSION

In autumn 2022, I indicated to Board colleagues that, having essentially completed the strategic reorganisation of the Group, and with the CEO succession also settled, I proposed to stand down from the Board with effect from the AGM in 2023. The Committee met, without my participation, to consider the consequences of this decision and to select my successor. Chris Loughlin, the Senior Independent Director, indicated his willingness to serve in the role. The Committee concluded that, given Chris's extensive Executive and Non-Executive experience, his understanding of the business, culture, and ethos of Mears, and the desirability for a period of continuity while Lucas assumed the role of Group CEO, it would be appropriate to ask Chris to assume the leadership of the Board with effect from the AGM. This was announced in December 2022.



The major task for the Committee in early 2022 was to decide on the successor to David Miles as Group CEO.

K MURPHY
NOMINATIONS COMMITTEE CHAIRMAN

BOARD EFFECTIVENESS

As foreshadowed in last year's report, the Board undertook a brief evaluation of the changes which had been put in place over the course of the period since the external evaluation by Independent Audit in 2021. This evaluation was also facilitated by Independent Audit and the Board is grateful for their contribution.

EMPLOYEE DIRECTOR

Claire Gibbard's term as Employee Director came to a conclusion at the end of 2022. During the course of the year, consideration was given to the effectiveness of this method for ensuring that the 'employee voice' was represented at Board level. It was concluded that the Company should appoint a new Employee Director to succeed Claire.
A selection process was run to identify candidates from within the Company and three individuals were interviewed by the Chairman and one of the Non-Executive Directors. As a result of this process, Hema Nar was appointed, with effect from 1 January 2023, as the Company's new Employee Director. Hema has been a Mears employee since 2020 and is a Bid Manager in the Business Development function.

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.

This exercise concluded that:

A
the Company had continued to develop positively and the executive team ran day-to-day operations well, a CEO succession process had been put in place, and there had been good debates both on the consequences of that succession and on strategic questions;

B
there were regular effective discussions among the Non-Executive Directors, including with the new Non-Executive Director, and there was a developing programme of visits for Non-Executives to parts of the operations of the Group;

C
the Board plan for 2023 provided for the majority of meetings to be held face to face; and

D
there was clarity on the roles and responsibilities of the CEO and Chair.

There remained scope for further improvement in dialogue, in Non-Executive Director engagement, and in providing adequate support for the secretarial function to facilitate that engagement.

Report of the Audit and Compliance Committees

This report briefly describes the key issues debated by the Committees in 2022.

Meeting attendance

J Clarke	6/6
C Loughlin	4/6
J Unwin	6/6
A Lockwood	6/6

This report sets out how the Committee has fulfilled its responsibilities during the year and in relation to financial reporting matters, the significant issues that were considered, and how they were addressed.

Ernst & Young LLP (EY) is in its third year as external auditor, having been appointed in 2020. The Senior Statutory Auditor (SSA), Paul Mapleston, indicated his intention to retire from EY and a replacement was found. Due to an unanticipated absence, the new SSA was not available to complete the audit process and Nigel Meredith stepped in to perform this role. However we have seen good continuity across the audit team, meaning we have retained much of the learning and knowledge accumulated in the previous two years. The Committee is keen to see the change in SSA provide further fresh challenge and drive to deliver an efficient process.

The Committee has reviewed the significant financial reporting matters and judgements identified by the management team and EY through the audit process, and the approach to addressing these is detailed on pages 76 and 77 of this report.

The 2022 financial year was a period of stability and strengthening; the areas within the financial statements requiring significant estimates and judgement are not new to the management team or any of the Committee members. These are covered in greater detail below, but it is reassuring for the Committee that the risk and uncertainties associated with these key areas have reduced over recent periods.

The Group's Compliance Committee, which was set up in 2019 as a sub-committee to the Audit and Risk Committee, has played a pivotal role in recognising and mitigating the most significant risk areas. The Group's ethos of ensuring the health, safety, and wellbeing of our people and those we serve is the central theme within their terms of reference. During 2022, the Committee worked closely with all necessary stakeholders, both internal and external, to ensure the Group's operational teams are compliant and able to meet the challenges of the new Building Safety Act 2022. The increasing activity seen within the Group's AASC and MoJ contracts have been, and will remain, a significant area of focus for the Committee, where dealing with two extremely vulnerable service user groups brings significant operational challenges.

The ever-increasing importance of data security is a key strategic consideration for the Group and in this regard, the Compliance Committee's role has been widened to encompass greater scrutiny of this essential area. The Committee's scrutiny of the Group's data security function is proceeding well. The Information Security Team has initiated a new security strategy designed to enhance controls, drive improved compliance, and secure high level, external accreditation of the governance process.

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 has delivered an improved quality output and better value, allowing KPMG to bring in specialists on an ad hoc basis rather than adding full-time employment for what are mainly 'task and finish' projects. The overall lead for our internal audit work continues to sit with KPMG, although, during the year, we have seen a planned change in personnel. This was



The ever-increasing importance of data security is a key strategic consideration for the Group, and the Compliance Committee's role has been widened to encompass greater scrutiny of this essential area.

J CLARKE
AUDIT AND RISK COMMITTEE CHAIRMAN

KPMG's third year under this co-sourced arrangement during which it has overseen an initial three-year plan. The work carried out during 2022, and the Committee's priorities for 2023, are detailed within this report.

The Committee is mindful of the continued reform to the UK's audit and corporate governance framework and recognises that revisions to the Code, which are expected to come into force in 2024, will require the Group to maintain a stronger basis for evidencing the effectiveness of internal control around the year end reporting process The Committee has held discussions with the Company's management and KPMG to ensure that the Group will be ready to comply with the additional requirements, and this is a key feature in the Group's 2023 internal audit plan.

Our regular programme of meetings and discussions, supported by our interactions with the Company's management and external and internal auditors, and the quality of the reports and information provided to us, enable the Committee members to effectively discharge their duties and responsibilities.

HOW THE AUDIT AND RISK COMMITTEE OPERATES

The Committee provides independent review and monitoring of the risk management and control procedures within the Group. Each Committee member is independent and has broad commercial experience. Jim Clarke is a Chartered Accountant and has significant recent and relevant financial experience, most recently at Countrywide as Group CFO. Chris Loughlin has held several CEO and COO roles within large, quoted entities and brings broader, more operationally focused commercial expertise. Julia Unwin has held senior roles within the housing and care sectors which bring industry specific expertise, whilst also currently engaged by the Financial Reporting Council. The final Committee member, Angela Lockwood, has held senior roles within the housing sector which bring industry specific expertise.

During the year, the Committee held six meetings. These meetings were also attended by the Group Chief Executive Officer, the Chief Financial Officer, and the Group Chairman. The internal and external auditors were invited to all meetings. The Company Secretary acts as secretary to the Committee.

The Audit and Risk Committee Chairman meets with the external auditor and lead internal auditor regularly throughout the year.

COMPLIANCE COMMITTEE

In addition, the Audit and Risk Committee has a very active sub-committee, being the Compliance Committee. This reflects the significant focus that the Group gives to dealing with health, safety, and environmental risks. The Compliance Committee is a sub-committee of the Audit and Risk Committee and is chaired by Jason Burt, the Group Director of Health, Safety, and Compliance, a former specialist health and safety lawyer. He has an extensive and detailed working knowledge of the issues which can adversely impact the efficiency of health, safety and compliance governance systems, and cause and drive regulatory prosecutions and employers' and public liability claims.

The extent to which the full integration of health, safety, and environmental risks is now embedded in the governance structures of the Group is highlighted by the members of the Compliance Committee, who include the Group's Chief Executive Officer, Health and Safety Director and internal Health and Safety legal adviser. Others are called upon to attend as required.

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

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

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

Main activities of the Committee during the year

Internal audit
- Reviewed and monitored progress against the 2022 internal audit plan
- Reviewed the quality and effectiveness of the outsourced arrangement
- Reviewed the internal audit plan for 2023

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

Financial performance
- Reviewed the basis of preparation of the financial statements as a going concern and the long-term viability review
- Reviewed and discussed reports from the CFO on the financial statements and considered the significant accounting judgements or where there is estimation uncertainty
- Considered reports from the external auditor in respect of the suitability of the accounting policies and the integrity of the financial reporting
- Reviewed the 2022 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be fair, balanced, and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model, and strategy

External auditor
- Agreed the audit fee for the year ended 31 December 2022
- Reviewed the proposed audit plan for the 2022 statutory audit
- Reviewed recommendations arising from the 2021 statutory audit

Report of the Audit and Compliance Committees continued

Significant issue		The Audit and Risk Committee addressed this area of judgement in the following ways
Revenue recognition	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 accounting policy within note 2 to the consolidated financial statements sets out the principal types of contracts and how the revenue is recognised in accordance with IFRS 15. Determining future contract profitability requires estimates of future revenues, costs to complete, stage of completion of certain contracts and the recovery of work in progress, mobilisation costs, and contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract. The Group utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.	— The Committee reviewed the key judgements report prepared by management, which provided a detailed explanation in respect of the valuation of unbilled works and the recognition of revenues. — The Committee took comfort from the contract management system which is central in generating the valuation of works (both billed and unbilled) and the integrated process that follows to ensure an accurate cut-off so that revenue is appropriately matched to cost. — EY carried out substantive testing of the amounts recoverable on contracts, adopting a blend of risk-based and random sampling approaches to testing, and provided detailed feedback to the Committee in this area.
Valuation of provisions	Provisions are recognised in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' which requires a provision to be recognised when an entity has a present obligation resulting from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The amount required to be recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. IAS 37 also prescribes the disclosures required in the notes to financial statements to enable users to understand the nature, timing, and amount of the provision. The events and circumstances requiring a provision will typically vary on a case-by-case basis and a flexible approach by the Committee is needed to understand the unique circumstances. In respect of the 2022 year end, the most material and significant provisions relate to a contract termination which was proved to be unlawful on adjudication, and an uninsured remedial works claim in respect of a capital works order delivered in 2012.	— The Committee reviewed the key judgements report prepared by the CFO, which provided a detailed explanation and commercial assessment in respect of each material provision. The Committee was also provided access to the internal legal team to ensure that the Committee was receiving a balanced view as to the strengths, weaknesses, and likely prospects. — EY provided additional challenge, having reviewed the supporting documentation and expert opinions in detail, and provided detailed feedback to the Committee in this area.
Lease accounting	IFRS 16 was adopted in 2019 and initially proved a difficult standard to implement and one which has required significant changes to the systems and day-to-day processes. Under IFRS 16, a lessee will recognise its right to use a leased asset along with a lease liability representing its obligation to make lease payments. However, many of the Group's operating leases do not meet the definition of IFRS 16, which means this area contains significant judgement and is considered an area of risk. Leasing properties for rental to tenants is a core business activity for Mears. As a result, Mears currently holds around 10,000 residential property leases and a further 3,500 office property and vehicle leases. A lease should be accounted for under IFRS 16 only if Mears has the right to direct its use which, through its decision making rights, can affect the economic benefit derived from that asset. Around one half of the Group's residential leases meet the criteria for recognition on the balance sheet. Those that do not meet the criteria are typically due to them being short term in nature, often driven by the existence of a two-way break clause (a practical expedient offered under IFRS 16 allows those leases with a term of less than 12 months to be expensed). To reduce the financial reporting risk, the Group has endeavoured to standardise the form of leases; however, operational demands dictate that many leases have wording to address the specific operational need and to manage the associated operational and financial risks.	— The Committee challenged management in respect of the processes and controls that were in place throughout the year to ensure the completeness of the right of use asset and lease obligations. The Committee recognised this to be a high risk area given the complexities of IFRS 16. — The Committee has reviewed the assumptions and key judgements provided by management in respect of lease identification. — The Committee recognises that lease accounting is very significant to Mears and is a key area for stakeholders to fully understand. The Committee encouraged management to provide additional disclosure to assist readers of the financial statements. — The completeness of the lease obligation is identified as a key audit area and EY has provided further detail as to how this matter was addressed during its audit work on page 106.

Significant issue		The Audit and Risk Committee addressed this area of judgement in the following ways
Determination of the amount of the Group's retirement benefit obligations	At 31 December 2022, the Group reported a net retirement benefit surplus of £3.1m, being the difference between the fair value of the scheme assets less the present value of the benefits expected to be paid to members of the schemes. This assessment requires an assumption to be made in respect of mortality rates and future inflation rates which will result in an increase in future benefits received by members. This also requires an appropriate discount rate to calculate the present value of these future obligations for the future payments. Where the Group has a contractual right to recover the costs of making good any deficit pension scheme, the fair value of that asset has been recognised and disclosed.	— 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. — 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. — The accounting for defined benefit pension schemes is also identified as a key audit area and EY provides further detail as to how this matter was addressed during its audit work on page 107.
Goodwill impairment	At 31 December 2022, the Group reported goodwill with a carrying value of £121.9m. Each branch within the group is a cash-generating unit (CGU), however goodwill contributes to cash inflows for multiple CGUs and is therefore allocated to groups of CGUs for the purpose of impairment testing. Under IAS 36, goodwill cannot be allocated to groups of CGUs larger than individual operating segments and therefore goodwill has been assigned to groups of CGUs in respect of Maintenance, Management and the continuing Care activities (referred to as 'Housing with Care'). Determining whether goodwill is impaired requires an estimate of the value in use of each of the groups of CGUs to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the group of CGUs using the current one-year budget, extrapolated for five years to December 2027, requiring a medium-term growth assumption and a general terminal growth rate, and an assessment of an appropriate discount rate to calculate present values. The Committee took comfort from the fact that there was significant headroom when reviewing any impairment in the prior year.	— The key assumptions, and a discussion of how they are established, as well as the sensitivity analysis are described in note 12 to the consolidated financial statements. — The Committee placed some comfort upon the work of BDO LLP, which was engaged to support management in setting the discount rate, and which also provided support to management to identify the acquisition intangibles following the acquisition of IRT Survey Limited, as detailed in note 28 to the consolidated financial statements.

COMPLIANCE COMMITTEE ACTIVITIES

The primary focus of the Compliance Committee during 2022 was directed towards the following areas:

— Monitoring and review of the Group's policies in relation to health, safety, and environmental (HSE) matters.
— Review of HSE risks and risk assessments on the Group risk register and mitigation actions and controls related thereto, including subcontractor controls and related procurement.
— Providing an operational focal point and report for KPMG, the Group's independent internal auditor.
— Considering any other significant HSE matters, including emerging risks and unforeseen risks as they arose.
— Providing greater scrutiny on data security and enhancing the level of information available to the main Board.

The necessity to keep our people and customers safe remained one of the primary concerns of the Compliance Committee throughout 2022. The ever-changing environment meant there were challenges across our entire range of operations, most notably in asylum support and care services.

The Group's ethos of ensuring the health, safety, and wellbeing of our people and those we serve is always at the heart of everything we do. Pleasingly, the Group received its 20th consecutive ROSPA Gold Award and in so doing was also awarded RoSPA's coveted Order of Distinction.

Following the recent implementation of the Building Safety Act 2022, the Group is working closely with all necessary stakeholders, both internal and external, to ensure the Group's operational teams are compliant and able to meet the challenges this legislation poses. Building safety will likely remain a rapidly developing area of regulation for years to come and the Board will ensure that the Group always remains vigilant and agile.

The AASC was also a key area of focus as its operational challenges were impacted by the unprecedented increase in the number of asylum seekers entering the country, necessitating further reliance on hotel-based accommodation. The Compliance Committee provided support and guidance to the relevant teams, linked to the procurement, maintenance, and day-to-day running, and implemented enhanced governance protocols to ensure compliance with the Group's internal procedures and wider regulatory obligations.

The Compliance Committee also worked closely with the team mobilising the Ministry of Justice CAS 3 contract, to ensure robust governance policies and procedures were embedded into the contract delivery. In this regard, the Group's knowledge, expertise, and experience derived from managing the AASC was exceptionally beneficial and was a key element in the very successful deployment of services during the latter part of the year.

The Compliance Committee's scrutiny of the Group's data security function commenced as planned and is proceeding well. The Information Security Team has initiated a new security strategy designed to enhance controls, drive improved compliance, and secure high level, external accreditation of the governance process.

Report of the Audit and Compliance Committees continued

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for establishing the Group's overall risk appetite and ensuring that the Group has in place 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 Group's overall systems of internal controls and risk management has been delegated to the Committee.

The Committee also 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.

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 or loss. It includes all controls including financial, operational, and compliance controls and risk management procedures. These include health and safety, people, legal compliance, quality assurance, insurance, security, and reputational, social, ethical, and environmental risks.

The Group's principal risk report captures and assesses the principal risks facing the Group. This forms part of the Group's framework for determining risk and risk appetite. This document is updated regularly and is considered at both Committee and Board level throughout the year. Further details are included within the Strategic Report on pages 42 to 51.

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. In January 2023, the Audit and Risk Committee agreed the FY23 audit plan to be undertaken by the internal audit team. The audit plan coverage is based on risk, strategic priorities, and consideration of the strength of the control environment. The internal audit function prepares audit reports and recommendations following each audit, and appropriate measures are then taken to ensure that all recommendations are implemented. Significant issues, if any, are raised at once.

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

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

Throughout the year, the Group's principal risks have been regularly reviewed by management to provide assurance on the robustness, integrity, and effectiveness of the systems in place, including those that could threaten its business model, operations, future performance, solvency, and liquidity.

The Board also seeks to ensure that a sound system of internal controls, based on the Group's policies, standards, and procedures, is in place in all material associate and joint arrangement entities. Our systems of internal controls and risk management are designed to identify, mitigate, and manage rather than eliminate business risk and can only ever provide reasonable, and not absolute, assurance against material financial misstatement or fraud.

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 pages 44 and 45 of the Strategic Report.

Principal risk description	Inherent risk rating	Residual risk rating	Internal audit plan FY20	FY21	FY22	FY23
1 & 2. Failure to successfully deliver the AASC	Severe	Severe		■	■	■
3. Uncertainty from political changes and market disruptions	High	High				
4. Major breach of information or data security	Severe	High	■	■		■
5. Failure to manage the impact of a health and safety incident, including Covid-19 related, leads to reputational damage and/or high financial penalties	Severe	High	■	■	■	■
6. Failure in governance, control, processes, systems, and structure, including managing the new MoJ contract and in particular the impact on Housing Officers	Severe	High	■	■	■	■
7. Failure to recover operations on a disaster or crisis (business continuity)	High	Medium	■	■	■	■
8. Ensuring that the business has the right people with the right skills, particularly in the context of the shortages and a high competitive market for skilled labour	High	Medium		■	■	
9. Serious damage to or loss of brand integrity including to poor management of the publicity and external communications	Severe	Medium		■	■	
10. Serious failure to manage the housing subcontractors	High	Medium	■	■	■	■
11. Risk of perceived and actual discrimination leading to reputational damage and financial penalties	High	Medium		■	■	

Risk assessment key Severe · High · Medium · Principal risk addressed in internal audit plan in year

The Company's risk-based internal audit programme for 2022 was considered and approved by the Committee in December 2021. This programme was developed further during the year to consider the Company's principal risks and to identify where they primarily occur in the business; through discussions with the Committee and senior management; by recognising changes within the Group and the external environment; and with consideration to prior audit coverage. In approving the 2023 audit programme, the Committee considered the coverage of the principal risks by the proposed audits, and it was agreed that primary focus should be on the following areas:

RISK MANAGEMENT

- Refresh of principal risks, mitigating actions, and assurance review
- Fraud Risk register facilitation

CORE CONTROLS

- Core controls spot checks
- Scheme of Delegated Authority
- Preparation and planning required to enhance the Group's internal control regime with the anticipated adoption in 2024 of the UK's audit and corporate governance framework and revisions to the Code

SPECIFIC RISK AREAS

- Management of key contracts, notably AASC and MoJ
- Legal and compliance framework
- Operational focus areas, including branch spot visits together with business continuity and subcontractor management
- Cyber risks, IT systems, controls, and security

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 few 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.

There is a culture across the Group of active monitoring by Executive and senior management. Our focus this year was on management's oversight of branches. Internal audits were carried out on two key contracts and a further three branch audits were completed, and the themes identified during those audits will be developed further.

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

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of the consolidated financial statements that are produced by the Group finance function, which is responsible for the review and compilation of reports and financial results from each of the operating subsidiaries in accordance with the Group reporting procedures. 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.

As at the end of the period covered by this report, the Audit and Risk Committee, with the participation of the Chief Executive Officer and the Chief Financial Officer, 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.

EXTERNAL AUDITOR

The external auditor engagement was re-tendered in 2020, at which point EY was appointed, replacing Grant Thornton UK LLP, which had been appointed since 1996.

Following the conclusion of the 2021 audit, the Senior Statutory Auditor (SSA), Paul Mapleston, indicated his intention to retire from EY and a replacement was found. Due to an unanticipated absence, the new SSA was not available to complete the audit process and Nigel Meredith stepped in to perform this role. Positively, we have seen good continuity across the audit team, meaning we have retained much of the learning and knowledge accumulated in the previous two years. The SSA is required to rotate after a maximum of five years, meaning that Nigel may continue in this role until the year ending December 2026 being his last possible financial year.

The Committee expects that the next tender date will be no later than 2030 in accordance with the current regulation that requires a tender every 10 years.

Annually, the Committee reviews the external auditor's audit plan and reviews and assesses information provided by it confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards.

The Committee also reviews the auditor's effectiveness, which involves assessment of the auditor by the Committee and key Executives; and confirmation that the auditor meets minimum standards of qualification, independence, expertise, effectiveness, and communication. These assessments are carried out prior to the Committee recommending to the Board that the external auditor be proposed for reappointment at the Company's AGM.

EXTERNAL AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Company has adopted a strict policy of prohibiting the external auditor from carrying out non-audit services, to safeguard audit objectivity and independence. The Committee is responsible for approval of all non-audit services provided by EY; however, this is in exceptional circumstances only. In such an exceptional event, the Audit and Risk Committee would approve such work only where the Company would be disadvantaged by engaging an alternative provider, for instance where EY possesses a detailed knowledge of the structure of the business or an understanding of the markets within which the Group operates. No non-audit services were provided by EY during 2022.

J CLARKE
AUDIT AND COMPLIANCE COMMITTEE CHAIRMAN
jim.clarke@mearsgroup.co.uk
28 April 2023

Report of the Remuneration Committee

This report sets out the key matters which were addressed by the Committee in 2022.

Meeting attendance

C Loughlin	3/3
J Unwin	3/3
J Clarke	3/3
K Murphy	3/3
A Lockwood	0/1

Dear shareholders

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022.

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 proposed Director's Remuneration Policy (the 'Policy'), which is subject to a binding shareholder vote at the 2023 Annual General Meeting and, if approved, will apply for three years and replace the previous Policy which was approved by shareholders in June 2020.
- 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 2022 and (ii) how we intend to implement the Directors' Remuneration Policy in 2023.

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

BUSINESS CONTEXT

2022 was a very strong year for the Group. The strong operational and financial performance is further evidence that the strategic actions of recent years and our resilient operating platform are delivering positive results. The strengthening trading performance is underpinned by the strategic actions of recent years and our market leadership which positions the Group well for sustainable growth over the medium term.

This is reflected in our financial results, with revenue increasing by 9% to £959.6m. Adjusted profit before tax (PBT) increased to £35.2m and we ended the year with a net cash balance of £98.1m having reported EBITDA to operating cash conversion of over 100%. Excellent working capital management, along with strategic disposals, transformed the Group's financial position and created the current position of balance sheet strength which Mears is determined to retain into the future. The Board has proposed a final dividend of 7.25p per share, bringing the total dividend for the year to 10.50p per share.

For the third successive year we secured our place in the top 25 of the UK's Best Large Companies to Work For in the UK, with our 2022 score higher than the previous two years. This has been further endorsed by Mears being named by the Chartered Institute of Housing, an organisation in which almost all our clients have members, as the Employer of the Year in 2022. Our staff and therefore our employee proposition is very important to us and during the year, following feedback from employees, we implemented the following initiatives:

- Improved holiday and sick pay for front line operatives.
- Building the workforce of tomorrow, through investing in apprentices, supporting the Kickstart programme, and creating new entry level roles to drive social mobility.



The Committee is satisfied that pay outcomes reflect the performance of the business during the year

C LOUGHLIN
REMUNERATION COMMITTEE CHAIRMAN

- Introducing flexible benefits and enabling a better balance between home and office working.
- Continuing our investment in staff, through bespoke training such as our Emerge development programme, for staff looking to progress to senior management positions.
- We remain one of the very few listed companies with an Employee Director on the main Board.
- Externally appointed Social and Diversity Impact Board and accredited by the Housing Diversity Network, including growing the number of women in management positions and reducing the gender pay gap.
- Providing comprehensive mental health and wellbeing support, especially given the difficult situations many of our staff face on a day-to-day basis.

INCENTIVE OUTCOMES FOR 2022

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 2022 annual bonus was based 40% on Group adjusted profit before tax, 30% on average daily net debt/cash, and 30% on strategic objectives relating to customers, employees, and the generation of social value. These targets were set early in the year and were not adjusted at any point thereafter. The achievements against the targets were as follows:

Profit before tax (40%)

- The Group delivered adjusted profit before tax of £35.2m, which was above the maximum target of £29.3m. We benefitted from strong revenue growth (up 9% over the prior year largely which included increased volumes within the AASC) and delivered a modest increase in operating margins. This reflects the positive steps taken by the Group over the previous two years, actions which have at times resulted in a reduction in revenues but improved profitability. As a result, this element of the bonus will pay out in full.

Average daily net debt/cash (30%)

- The daily average net cash position over the course of the year was £42.9m which was significantly ahead of the maximum target of £17.5m. The outperformance was largely down to excellent working capital management. The position was further improved by the working capital absorbed within the Group's Development activities failing to below £2m (2021: £12m); however, without this enhancement, the Group would still have delivered above target. Therefore, this part of the bonus was also fully met.

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

- Our employee engagement criterion was measured by reference to the independent scoring awarded by the UK's Best Large Companies to Work For. This was achieved, at scoring which implied further improvement versus previous years.
- The customer satisfaction criterion based on NPS and our score of 87.6% was between the threshold and maximum targets. Further detail is given in the strategy and KPI outcomes on pages 22 to 25.
- The economic and social value generated for the communities in which we serve is measured as social value created per Mears employee. For 2022, we generated value of £16,900 per employee, which was above the maximum stretch target of £3,000 which itself required 7.5% growth on the prior year.

Overall, the strong performance over the year resulted in a formulaic bonus outcome of 96.2% of the maximum. In line with our Policy, 67% of the bonus will be paid in cash, with the balance deferred in shares for a period of three years.

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

LTIP outcome

There were no long-term incentive plan (LTIP) awards capable of vesting for performance ending at 31 December 2022 or shortly after. The first awards granted during the year under the LTIP adopted as part of the Directors' Remuneration Policy approved at the 2020 AGM were made in June 2021 and these will vest subject to performance in June 2024.

Report of the Remuneration Committee continued

DIRECTORS' REMUNERATION POLICY REVIEW

During 2022, the Remuneration Committee undertook a thorough review of the Directors' Remuneration Policy in advance of the Policy renewal at the 2023 AGM. The Committee concluded that the overall structure of remuneration worked effectively and that no increases to the bonus or LTIP grant levels were necessary. Therefore there have been minimal changes to the Policy with the exception of aligning executive pension arrangements to the workforce rate and inclusion of market standard in-employment and post-employment shareholding guidelines. Mears operates many different pension plans and the workforce rate of 6% has been based on the Committee's assessment of the current weighted average workforce contribution in percentage of salary terms. We hope shareholders will be supportive of our new Policy.

BOARD CHANGES

After 17 years at Mears, Alan Long stepped off the Board on 31 December 2022. Alan remains an employee of the Group and still plays an important role in supporting the Executive team. Having worked the full 2022 financial year, he will receive an annual bonus for 2022 performance as set out above. Alan holds unvested deferred bonus which will be retained and may continue to vest at their normal vesting dates. Alan's unvested LTIP awards will be retained and may continue to vest at their normal vesting dates, with vesting subject to performance and a pro rata reduction to reflect his period of employment. To the extent that awards vest, dividend equivalents will be payable and a further two-year holding period will apply. Alan will not receive an LTIP award in 2023.

David Miles indicated during 2022 that after 26 years at Mears he wished to transition towards retirement from the role of CEO. David remains as CEO and a further announcement of David's retirement from this role will be set out in due course.

On the same date, we announced that Lucas Critchley had been selected to work alongside David and assume the role of CEO at a future date. Lucas subsequently joined the Mears Board on 1 January 2023 and will move to become CEO upon David's retirement as CEO. Lucas's base salary upon joining the Board has been set at £221,000 and it is expected that his salary will be increased when he takes on the CEO role during 2023. Details of his CEO salary will be determined at the time he takes on the role and will be reported in next year's Remuneration Report.

Kieran Murphy has notified the Board that he does not intend to stand for re-election at the 2023 AGM. Following his departure, I was appointed by the Board to fill the role of Chairman. A new Chair of the Remuneration Committee will be appointed shortly and I wish them well in their role.

MEARS-WIDE PAY REVIEW

At a time when unemployment is low and where competition for resources labour 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 our employee brand proposition, emphasising more clearly the benefits of working for Mears. We will continue our progressive approach of enhancing packages to enhance retention.

Given the significant cost of living pressures being encountered by our staff, we were very focused on directing much of the increase to the lowest paid. We brought forward our annual pay review from 1 April to 1 January 2023 and this resulted in a £2,000 increase to basic pay for all our employees (except where certain employees' pay is linked to national or local agreements). For our front line care workers the Group applied an interim increase in October 2022 and from 1 April 2023 the headline pay rate within the Supported Living business will increase from £11.00 to £12.00 per hour and within the Extra Care business from £9.90 to £11.00 per hour. We have also improved holidays, sick pay, and other family friendly benefits across the Group.

APPLYING THE POLICY IN 2023

Base salaries

The Committee has agreed that the Executive team will not receive an inflationary increase from 1 April 2023 given the focus on increasing pay for the lowest paid in the Group. As detailed within last year's Remuneration Report, the Committee carried out a review of base salary positioning, recognising the proposed Board changes and the rebalancing of workloads and responsibilities across the senior management team. Andrew Smith's salary was increased to £300,000 in light of the additional responsibilities taken on as the Board plans for the David Miles stepping down during 2023. This includes management responsibility for IT and Systems; Legal; Health, Safety and Compliance together with Commercial.

Annual bonus 2023

As part of the Policy review work, the Committee considered the most appropriate measures and weightings for the 2023 annual bonus plan.

The Committee has decided that PBT should continue to apply to 40% of the bonus and that a new measure, operating profit margin, should have a 10% weighting. As the Group is now in a healthy cash positive position, average daily net debt/cash will be replaced by a cash conversion metric which will account for 20% of the total bonus. This ensures a focus remains on effective working capital management and continues our focus on cash generation. The remaining 30% will continue to be based on customer satisfaction (10%), employee engagement measured by UK's Best Large Companies to Work For score (10%), and the generation of social value (10%). In addition, the Committee will 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 2022 and forecasts for 2023. The actual targets for 2023 and performance outcomes will be reported retrospectively in next year's report.

LTIP 2023

The third set of awards under the LTIP scheme adopted as part of the Remuneration Policy approved at the 2020 AGM will be made in 2023 at a level of 100% of salary to each of the Executive Directors. The 2023 LTIP will consist of two measures, being EPS growth relating to targets for FY2025 and total shareholder return (TSR) measured relative to the FTSE SmallCap (excluding investment trusts, financial services, and natural resource companies). 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.

Pension

With effect from 1 January 2023, pension contributions for the current Executive Directors were reduced from 15% of salary to 6% of salary, being the Committee's estimate of the weighted average pension contribution across the Group. The contribution level for any new Executive Director hires (including Lucas Critchley) will be aligned with the workforce rate immediately on joining.

CONCLUSION

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

I believe the Committee has considered carefully the pay outcomes for the year to ensure there is an appropriate link between reward, financial and strategic delivery, and stakeholders' interests. I hope you find the report informative and will be supportive of the two pay resolutions which will be tabled at the 2023 AGM.

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

C LOUGHLIN
REMUNERATION COMMITTEE CHAIRMAN
28 April 2023

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy (the 'Policy') which, subject to shareholder approval at the 2023 AGM, shall take binding effect from the date of that meeting and shall be in place for the next three-year period unless a new Policy is presented to shareholders before then. Subject to approval by shareholders, 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 have been careful to take full account of the provisions of the Code and it will continue to be a key touchstone for the Committee. In summary, with regard to how we have sought to comply with the six factors outlined in Provision 40 of the Code, we believe the following are worthy of particular note:

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

Summary of the key changes from the previous policy

The key differences between the Policy approved by shareholders in 2020 and the proposed 2023 Policy are as follows:

- A change to the in-employment shareholding guideline with all current and future Executive Directors expected to build up a minimum shareholding to the value of 200% of salary.
- Introduction of a post-cessation shareholding guideline requiring Executives to hold the lower of shares held and 200% of salary for a period of two years after ceasing to be a Director. In the proposed Policy, Non-Executives are encouraged to build a shareholding in the business over time.
- A change to the normal base salary review implementation date from 1 April to 1 January (to align with all employees).
- A change to the pension policy to align all Executive Directors (current and future recruits) with the workforce percentage contribution rate in place at the time. The previous policy was to provide a 15% of salary contribution for current Executive Directors and a workforce aligned contribution for new Executive Directors.

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 88.

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Base salary The purpose of the base salary is to: — help recruit and retain individuals of the necessary calibre to execute the business strategy; — reflect the individual's experience, role and contribution within the Group; and — ensure fair reward for 'doing the job'.	Salaries will be eligible for increases during the three-year period that the Remuneration Policy operates. The Committee reviews base salaries annually with any change typically effective from 1 January. The Committee will retain the discretion to increase an individual's salary where there is a significant difference between current levels and a market competitive rate. When determining base salaries and whether to increase levels the Committee will take the following into consideration: — the performance of the individual Executive Director; — the individual Executive Director's experience and responsibilities; — the impact on fixed costs of any increase; — pay and conditions throughout the Group; and — the economic environment. When setting the salary levels for the Executive Directors, in addition to the factors summarised above, salary levels paid by companies of a similar size and complexity to Mears are taken into account.	The Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope, or responsibility of the role and/or to take into account relevant market movements.	Not applicable.

Report of the Remuneration Committee continued

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

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Long-term incentive plan Its purpose is to incentivise and reward the delivery of strategic priorities and sustained performance over the longer term. To provide greater alignment with shareholders' interests.	The LTIP provides for awards of free shares (i.e. either conditional shares or nil or nominal cost options) normally on an annual basis which are eligible to vest after three years subject to continued service and the achievement of challenging performance conditions. Vested awards are subject to a two-year post-vesting holding period. In exceptional circumstances such as due to regulatory or legal reasons, vested awards may also be settled in cash. Dividend equivalent payments may be made on vested LTIP awards and may assume the reinvestment of dividends, on a cumulative basis. In the event that there was (i) a material misstatement of the Company's results; (ii) a miscalculation or an assessment of any performance conditions based on incorrect information; (iii) misconduct on behalf of an individual; (iv) the occurrence of an insolvency or administration event; (v) reputational damage; or (vi) serious health and safety events, malus and/or clawback provisions may apply for three years from an award becoming eligible to vest.	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. The actual grant level will take into account the share price performance of the Group.	The Committee may set such performance conditions as it considers appropriate reflecting the medium-term priorities of the Group. The choice of measures and their weightings will be determined prior to each grant. Up to 25% of awards will vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets. No awards vest for performance below threshold. A graduated vesting scale operates between threshold and maximum performance levels. The Committee may adjust LTIP vesting outcomes, based on the result of testing the performance condition, if it considers the quantum to be inconsistent with the performance of the Company, business, or individual during the three-year performance period. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual Report on Remuneration.
All-employee share plans Encourages employees to own shares in order to increase alignment over the longer term.	All employees are eligible to participate in the Company's Share Incentive Plan (SIP) and Sharesave plan (Save As You Earn). Under the terms of the Sharesave plan, all employees can apply for three or five-year options to acquire the Company's shares priced at a discount of up to 20%. Under the terms of the SIP, the Company can choose to offer free shares, partnership shares, matching shares (up to two for one on any partnership shares purchased), and/or dividend shares. In addition, the Company operates a discretionary unapproved share plan and a Company Share Option Plan (CSOP). No awards to Executive Directors are proposed under these plans.	Under the SIP, Sharesave plan and CSOP, the maximum amount is equal to the HMRC limits set from time to time.	Not applicable.

Report of the Remuneration Committee continued

SHAREHOLDING GUIDELINES

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

The shareholding requirement will operate in the following manner:

- Shares unconditionally owned by the Executive Director will count towards the requirement.
- Unvested deferred bonus shares or vested LTIP shares which are subject to a holding period may count towards the guideline on a net of tax basis.
- All vested deferred bonus and LTIP awards must be retained until the guideline has been achieved, unless the Committee believes that there are exceptional circumstances.

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

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 annual bonus and long-term incentive plans 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.
- 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.

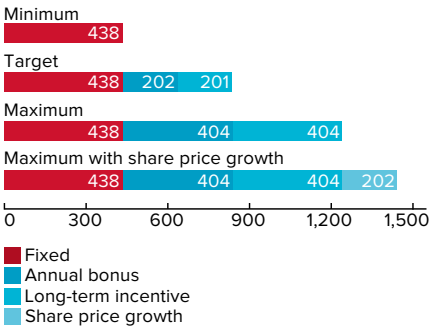
These discretions, which in certain circumstances can be operated in both an upward and a downward manner, are consistent with market practice and are deemed necessary for the proper and fair operation of the schemes in order to achieve their original purpose. It is the Committee's policy, however, that 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.

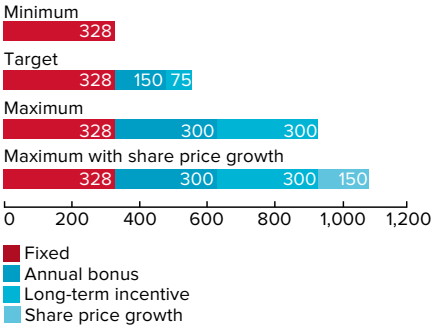
CEO

David Miles salary 2023 (£'000)



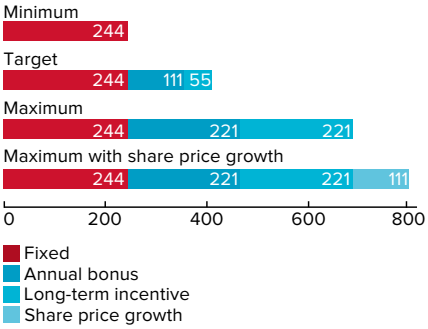
CFO

Andrew Smith salary 2023 (£'000)



Executive Director

Lucas Critchley salary 2023 (£'000)



ASSUMPTIONS:

- Minimum performance includes only fixed pay (base salary from 1 April 2023, the value of 2022 benefits as per the single figure of remuneration table or based on an estimate, 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 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.

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.

Report of the Remuneration Committee continued

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).

CHAIR AND NON-EXECUTIVE DIRECTOR FEES

The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors, other than the Chair, 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 Chair and Non-Executive Directors.

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

REMUNERATION FRAMEWORK – AT A GLANCE

The following section sets out our remuneration framework, a summary of how our Policy was applied in 2022 in the context of our business performance, and from page 95 details of how the Committee intends to implement the Policy in 2023.

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

- **Deepening our client relationships**
- **Increasing quality leadership**
- **Growing and improving our business**
- **Developing our people**
- **Continue to innovate**

How we have measured progress against these objectives

- Exceptional health and safety performance, with the Group being awarded its 19th consecutive RoSPA Gold Award and retaining its place on RoSPA's Order of Merit
- Improvement in Group operating profit margins
- Continue to unwind the Group's Housing Development activities with a positive impact to net debt
- Top 25 UK's Best Large Companies to Work For

How are our strategic objectives 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%)**
- **Social value (10%)**

LTIP (capped at 100% of salary with three-year performance targets)

- **Total shareholder return**
- **Earnings per share**

Report of the Remuneration Committee continued

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.

The Committee has not expressly sought the views of employees and no remuneration comparison measurements were used when drawing up the Directors' Remuneration Policy. Through the Board, however, the Committee is updated as to employee views on remuneration generally.

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 2023 Policy is largely the same as the previous one, for which a comprehensive shareholder consultation exercise was undertaken.

The Company will continue to monitor shareholder comments and retain an open dialogue as necessary.

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 2022 and how the new Policy, which is subject to shareholder approval at the 2023 AGM, will be implemented for the 2023 financial year.

SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED)

Executive Directors

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

Executive Director (£'000)	Year	Salary[1]	Taxable benefits[1]	Pension[2]	*Fixed pay and benefits sub-total*	Annual bonus[3]	Long-term incentives[4]	*Variable pay sub-total*	Total remuneration
D J Miles	2022	404	10	61	*475*	388	–	*388*	863
	2021	400	25	60	*485*	353	–	*353*	838
A C M Smith	2022	269	11	40	*320*	258	–	*258*	578
	2021	267	11	40	*318*	235	–	*235*	553
A Long	2022	221	10	33	*264*	212	–	*212*	476
	2021	218	11	33	*262*	193	–	*193*	455

1 Benefits included a Company-provided car or an allowance in lieu, life assurance, and private medical insurance.
2 Executive Directors received a cash allowance in lieu of pension. The pension contribution has been reduced to 6% of salary from 1 January 2023.
3 Full details of the annual bonus outcomes are set out in the section below. No discretion was used in determining the bonus outcome.
4 There were no long-term incentives granted with performance periods ending on 31 December 2022 or shortly after. The vesting outcome of the 2021 LTIP awards will be reported in next year's directors' remuneration report.

2022 ANNUAL BONUS OUTCOME (AUDITED)

The performance measures and targets for the annual bonus for the year ended 31 December 2022 are detailed below.

The annual bonus measures chosen for 2022 were dependent upon the achievement of a number of objectives detailed below; 70% of the annual bonus was linked to financial measures with the remaining 30% based on strategic objectives relating to customer satisfaction, employee engagement, and monetary social value generated. The actual performance achieved in respect of the annual bonus for 2022 is also summarised below against each target.

Measure	Weighting (% of salary)	Threshold (20% payable)	Maximum (100% payable)	Actual performance for 2022	Bonus outcome (% of maximum)
Adjusted Group PBT[1]	40%	£26.7m	£29.1m	£35.2m	100%
Average daily net debt/cash[2]	30%	£7.5m net debt	£17.5m net cash	£42.9m	100%
Customer satisfaction[3]	10%	85%	90%	87.6%	61.6%
Employee engagement; UK's Best Large Companies score (January 2022)[4]	10%	671	676	709.4	100%
Creation of social value[5]	10%	£2,794	£3,000	£16,900	100%
Total					96.2%

1 Adjusted Group PBT is stated before the amortisation of acquisition intangibles and non-underlying items. It is assessed on all activities comprising a PBT on continuing activities of £34.9m adjusted for amortisation of acquisition intangibles of £0.2m.
2 Average daily net debt/cash is derived from 365-day average bank statement balance. The outcome for the year was a positive cash average daily cash position of £42.9m.
3 Customer satisfaction is based on percentage of customers that rate Mears' service at 7 out of 10 or above, with methodology signed off by the independent Customer Scrutiny Board.
4 The employee engagement measure is set against the overall score awarded to the Group by the UK's Best Large Companies to Work For awards.
5 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 £35.2m was ahead of the maximum target set by the Committee and benefitted from higher Group revenues and operating margin. This reflects the positive steps taken by the Group over the previous two years, actions which have at times resulted in a reduction in revenues but improved profitability. Average daily cash over the period was £42.9m which was also above the maximum target set. This cash performance was largely due to strong working capital management during the period with the year-end cash balance at £98.1m. The position was further improved by the working capital absorbed within the Group's Development activities failing to below £2m (2021: £12m); however, without this enhancement, the Group would still have delivered above target.

The non-financial measures were based on customer satisfaction, employee engagement, and creation of social value. The customer satisfaction score of 87.6% was between threshold and maximum, employee engagement was 709.4, and the Group delivered £16,900 of social value per employee which was above the maximum target of £3,000. Overall, performance against the non-financial measures resulted in a payout of 26.2% out of 30%.

The annual bonus outcome resulted in an overall bonus of 96.2% of maximum. The aggregate bonus entitlement across the three Executive Directors was £858,000 and is included within the single total figure of remuneration. Two thirds of this entitlement is paid in cash and one third of the bonus will be deferred in shares for a period of three years.

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.

LTIP VESTING (AUDITED)

There were no LTIP awards granted in 2020 and therefore no LTIP awards are capable of vesting in 2023 based on performance to 31 December 2022.

Report of the Remuneration Committee continued

NON-EXECUTIVE DIRECTORS' SINGLE FIGURE

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[4]	Taxable benefits	Fixed pay sub-total	Total remuneration
K Murphy	2022	161	–	161	161
K Murphy	2021	160	–	160	160
J Unwin	2022	66	–	66	66
J Unwin	2021	63	–	63	63
J Clarke	2022	76	–	76	76
J Clarke	2021	68	–	68	68
C Loughlin	2022	76	–	76	76
C Loughlin	2021	70	–	70	70
A Lockwood[1]	2022	66	–	66	66
A Lockwood[1]	2021	–	–	–	–
G Davies[2]	2022	–	–	–	–
G Davies[2]	2021	38	–	38	38
R Irwin[2]	2022	–	–	–	–
R Irwin[2]	2021	43	–	43	43
C Gibbard[3]	2022	56	2	58	58
C Gibbard[3]	2021	56	–	56	56

1 A Lockwood joined the Board in January 2022.
2 G Davies and R Irwin stepped down from the Board in June 2021.
3 C Gibbard stepped down from the Board on 31 December 2022. Her remuneration for 2022 included a £2,300 car benefit.

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

SHARE AWARDS MADE DURING THE YEAR

The following LTIP awards were granted on 11 April 2022:

Director	Face value as % of salary	Face value[1]	Number of shares	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
D J Miles	100%	£404,044	199,692	25%	100%	31 December 2024
A C M Smith	100%	£269,932	133,409	25%	100%	31 December 2024
A Long	100%	£221,144	109,296	25%	100%	31 December 2024

1 The face value of the awards is based on a share price of 202.3p, 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 11 April 2025. Awards may become exercisable subject to the achievement of relative TSR (50%) and EPS (50%) performance conditions.

Description	Weighting	Calculation	Targets
Total shareholder return	50%	Relative TSR versus the constituents of the FTSE SmallCap (excluding investment trusts, financial services, and natural resources companies) measured over a three-year performance period.	Threshold: Median (25% vests) Maximum: Upper Quartile (100% vests)
Earnings per share	50%	Adjusted EPS target relating to the 2024 financial year. None of this part of the award will vest if 2023 EPS is less than 21p; 25% shall vest for EPS of 21p, increasing to full vesting for 24p 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: 21p (25% vests) Maximum: 24p (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 2021 financial year:

Director	Date of grant	Number of deferred shares granted[1]	Vesting date
D J Miles	11 April 2022	57,762	11 April 2025
A C M Smith	11 April 2022	38,513	11 April 2025
A Long	11 April 2022	31,511	11 April 2025

1 The face value of the awards is based on a share price of 202.3p, being the three-day average share price directly prior to the grant of the award.

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

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED)

Directors' share interests as at 31 December 2022 are set out below:

Director	Number of beneficially owned shares	Options vested but not exercised	Options subject to performance conditions	Unvested deferred bonus awards	Total interests held at year end	Shareholding guideline met?
D J Miles	336,769	–	413,568	90,007	840,344	199% of salary; guideline not met
A C M Smith	270,000	–	276,012	60,012	606,024	214% of salary; guideline not met
A Long	92,957	–	225,971	49,101	368,029	113% of salary; guideline not met

There were no changes to the holdings set out above from the period 31 December 2022 to the date this report has been signed off.

No Non-Executive Director holds an interest in shares.

The current Executive Directors each have a shareholding requirement of 400% of salary under the Policy approved by shareholders in 2020. Under the proposed Policy which is being put forward for shareholder approval at the 2023 AGM, the shareholding guideline for all Executive Directors (current and new) will be 200% of salary.

As at 31 December 2022, based on beneficially owned shares and deferred bonus awards (on a net of tax basis), D J Miles, A C M Smith and A Long had shareholdings equal to 199%, 214%, and 113% respectively of their base salaries (based on a share price of £2.08).

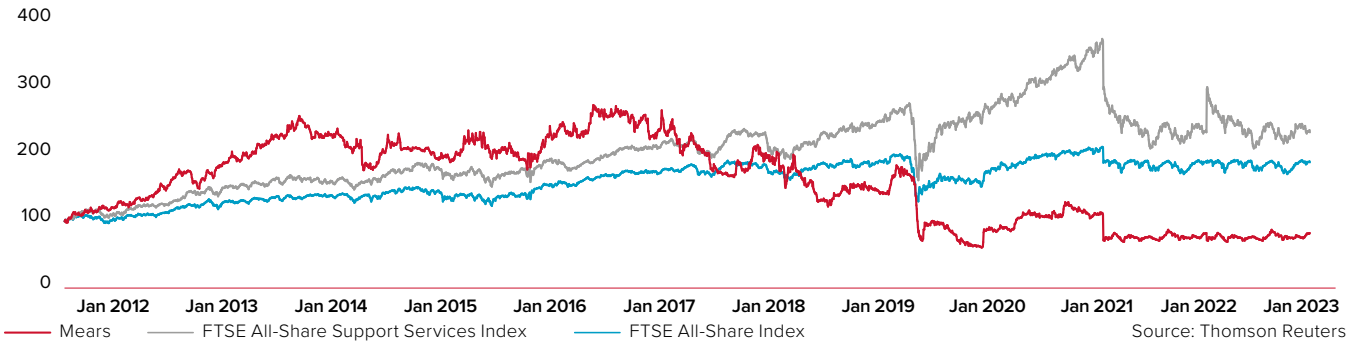
SHAREHOLDER DILUTION

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

PERFORMANCE GRAPH AND TABLE (UNAUDITED)

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

Total shareholder return



Source: Thomson Reuters

Report of the Remuneration Committee continued

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 % maximum opportunity)	Long-term incentive vesting (as % maximum opportunity)
2022	D J Miles	863	96%	–
2021	D J Miles	838	88%	–
2020	D J Miles	600	47%	–
2019	D J Miles	469	–	–
2018	D J Miles	455	–	–
2017	D J Miles	443	–	–
2016	D J Miles	436	–	–
2015	D J Miles	436	–	20%
2014	D J Miles	412	–	35%
2013	D J Miles	825	–	100%

PERCENTAGE CHANGE IN REMUNERATION OF DIRECTORS COMPARED WITH OTHER EMPLOYEES (UNAUDITED)

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

	Remuneration								
	Salary/fee[4]			Benefits			Annual bonus		
	2022	2021	2020	**2022**	2021	2020	**2022**	2021	2020
D J Miles	0.4%	2.0%	2.0%	(60%)	(4%)	–	10%	187%	–
A C M Smith	0.6%	2.0%	2.0%	–	22%	–	10%	187%	–
A Long	0.7%	2.0%	2.0%	–	(27%)	–	10%	187%	–
K Murphy	1.0%	–	–	–	–	–	–	–	–
J Unwin	2.5%	–	–	–	–	–	–	–	–
C Loughlin	2.1%	–	–	–	–	–	–	–	–
J Clarke	2.1%	–	–	–	–	–	–	–	–
A Lockwood[1]	–	–	–	–	–	–	–	–	–
G Davies[2]	–	–	–	–	–	–	–	–	–
R Irwin[2]	–	–	–	–	–	–	–	–	–
C Gibbard[2]	3.8%	2.0%	2.0%	–	–	–	–	–	–
All employees' salaries	3.7%	2.0%	2.0%	–	–	–	–	–	–

1 A Lockwood joined the Board in January 2022.
2 G Davies and R Irwin stepped down from the Board in June 2021 and A Long and C Gibbard stepped off the Board on 31 December 2022.
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.
4 The 2022 salary/fee increase matches the general workforce increase of 4% but capped at £1,600 for any individual.

CEO TO EMPLOYEE PAY RATIO (UNAUDITED)

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

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

The 25th, 50th (median), and 75th percentile ranked individuals have been identified using the gender pay gap survey data for 2022, i.e. as allowed for under method B of the UK reporting requirements. This was deemed to be the most reasonable and practical approach to identifying the relevant individuals for the purposes of this disclosure. The day by reference to which the 25th, 50th (median), and 75th percentile employees were determined was 6 April 2022. The CEO pay figure is the total remuneration figure as set out in the single figure table on page 90 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 £22,617, £42,833, and £44,840 respectively. The salary element for each of these figures are £18,314, £39,708, and £40,396 respectively.

RELATIVE IMPORTANCE OF SPEND ON PAY (UNAUDITED)

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

Significant distributions	2022 £'000	2021 £'000	% change
Total spend on employee pay	190,940	191,281	–
Profit distributed by way of dividend*	11,651	8,865	31.4%
Operating profit before non-underlying items (continuing activities)	41,531	33,686	23.3%

* Profit distributed by way of dividend includes proposed final dividend of 7.25p per share in 2022 and 5.50p per share in 2021.

DETAILS OF SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Director	Date of contract/letter of appointment	Notice period by Company or Director
Executive		
D J Miles	June 2008	Twelve months
A C M Smith	June 2008	Twelve months
H Nar	January 2023	One month
L Critchley	January 2023	Twelve months
Chairman/Non-Executive		
K Murphy	January 2019	Six months
G Davies	October 2015	Six months
J Unwin	January 2016	Six months
J Clarke	July 2019	Six months
C Loughlin	September 2019	Six months
A Lockwood	January 2022	Six months

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE (AUDITED)

There were no payments for loss of office or to past Directors during the year.

After 17 years of service, Alan Long stepped off the Board on 31 December 2022. Alan remains an employee of the Group and still plays an important role in supporting the Executive team. Having worked the full 2022 financial year, he will receive an annual bonus for 2022 performance. Alan holds unvested deferred bonus which will be retained and may continue to vest at their normal vesting dates. Alan's unvested LTIP awards will be retained and may continue to vest at their normal vesting dates, with vesting subject to performance and a pro rata reduction to reflect his period of employment. To the extent that awards vest, dividend equivalents will be payable and a further two-year holding period will apply. Alan will not receive an LTIP award in 2023.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE 2023 FINANCIAL YEAR

Executive Directors

Base salary

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

Executive Director	2023 £'000	2022 £'000	% change
D J Miles	404,044	404,044	–
A C M Smith	300,000	269,932	11.1%
L Critchley	221,000	–	–

The Committee has agreed that the Executive team will not receive an inflationary increase from 1 April 2023 given the focus on increasing pay for the lowest paid in the Group. As detailed within last year's Remuneration Report, the Committee carried out a review of base salary positioning, recognising the proposed Board changes and the rebalancing of workloads and responsibilities across the senior management team. Andrew Smith's salary was increased to £300,000 in light of the additional responsibilities taken on as the Board plans for David Miles stepping down during 2023. Lucas Critchley's base salary has been set at £221,000 to reflect his appointment as a new Executive Director. It is expected that his salary will be increased when he takes on the role of CEO during 2023 and his salary as CEO will be reported in next year's report.

This includes management responsibility for IT and Systems; Legal; Health, Safety and Compliance together with Commercial.

Report of the Remuneration Committee continued

Pension
Details of pension contributions for the year commencing 1 January 2023 are set out below:

Executive Director	Pension
D J Miles	6%
A C M Smith	6%
L Critchley	6%

Executive Directors' pension contribution rates have been reduced from 15% to 6% of base salary from 1 January 2023. There are a number of pension schemes in operation at Mears and a 6% of salary pension contribution is the current estimate of the average workforce pension contribution rate. As a new Director appointed to the Board, Lucas Critchley's pension contribution has been set at 6% of base salary.

Annual bonus 2023
The maximum bonus potential will be 100% of salary and will be dependent upon the following performance measures:

- Profit before tax (40%)
- Operating profit margin (10%)
- Cash conversion (20%)
- Strategic objectives (30%) relating to customer satisfaction (10%), employee engagement (10%), and monetary social value generated (10%).

The above metrics include operating profit margin for the first time with a weighting of 10%. Margin improvement is a key management goal for 2023. Reflecting the Group's progress in moving from a net debt to a net cash position over the last two years and to ensure we maintain a strong 'cash culture', the cash measure has been set as underlying EBITDA to operating cash conversion. 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, which will be built around the Group's strategy for customer success and supported by our independently chaired Customer Scrutiny Board, reflect the Group's commitment to serving our clients and customers; to further developing our social value offer to add value in the communities we serve; and to securing high levels of positive employee engagement through net promoter scores and validation by external accreditation.

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

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

LTIP for 2023
It is intended that awards will be made at 100% of salary to each of the Executive Directors. The measures will remain EPS and TSR and targets will be as follows:

Description	Weighting	Calculation	Targets
Total shareholder return	50%	Relative TSR target against the constituents of the FTSE SmallCap (excluding investment trusts, financial services, and natural resources companies) measured over a three-year performance period.	Threshold: Median (25% vests) Maximum: Upper Quartile (100% vests)
Earnings per share	50%	Adjusted EPS target relating to the 2025 financial year, i.e. the third year of the three-year performance period. The Committee will consider ROCE performance over the performance period and may reduce the EPS vesting outcome if the Committee is not satisfied that the level of EPS vesting is justified on account of the Group's ROCE over the performance period.	Threshold: 25p (25% vests) Maximum: 28p (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.

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 effective from 1 April of each year, and for the following 12 months):

	2023 £'000	2022 £'000	% change
Chairman fee	£161,500	£161,600	–
Base fee	£51,600	£51,600	–
Committee Chairman fee	£15,000	£15,000	–
Committee membership fee	£5,000	£5,000	–

C Loughlin will become Chair of the Board when K Murphy steps off the Board at the 2023 AGM. C Loughlin's fee has been set at the same as his predecessor's fee.

The NED fees will remain unchanged for 2023 in line with the Group's focus on enhancing the earnings of lower-paid employees.

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 is responsible for:

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

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

During the year the Committee addressed the following main topics:

- Undertook a review of Directors' remuneration which culminated in the preparation of a revised Remuneration Policy which will be put to shareholders for approval at the 2023 AGM.
- Reviewed the pension contributions of the Executive Directors to align the contributions to the workforce level by 1 January 2023.
- 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.
- Reviewed and approved the remuneration packages for our joining and departing Executive Directors.
- Finalised the annual bonus payments for the 2021 financial year to the Executive Directors.
- Determined the measures, weightings, and targets for the 2022 annual bonus plan and for the 2022 grant of long-term incentive awards under the LTIP.

COMPOSITION OF THE REMUNERATION COMMITTEE

The members of the Committee during the year were Chris Loughlin (Chair), Julia Unwin, Jim Clarke, and Kieran Murphy.

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 in 2019 following a tender process and has provided advice in 2022 in relation to general remuneration matters and the review of the Remuneration Policy. Fees paid to FIT in relation to advice to the Committee in 2022 were £20,612 (excluding VAT). FIT did not provide any other 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 GENERAL MEETING

The table below shows the voting outcome in respect of the remuneration related resolutions at the 2022 AGM.

Item	Votes for	%	Votes against	%	Votes withheld
To approve the Directors' Remuneration Report	84,282,609	92.3%	6,989,739	7.7%	10,034

The Committee was pleased with the high level of support provided by shareholders at the 2022 AGM.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2022.

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 2022 of 3.25p per share was paid to shareholders in October 2022. The Directors recommend a final dividend of 7.25p per share for payment in June 2023. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2022.

CORPORATE GOVERNANCE

Details of the Group's corporate governance are set out on pages 62 to 100.

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 24 and 25.

DIRECTORS

The present membership of the Board is set out with the biographical detail on pages 64 and 65.

In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the AGM in June 2023. Any person appointed by the Directors must retire at the next AGM 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 2022 are detailed within the Remuneration Report on page 93.

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 2022 AGM held in May 2022 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 £369,845 plus an additional one third of issued share capital of £369,606 that can only be used for a rights issue or similar fundraising;
- the Directors to issue shares for cash on a non-pre-emptive basis. This authority was limited to 5% of the issued share capital of £55,476 and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing;
- the convening of general meetings (other than an AGM) on 14 days' notice. Section 307A of the Companies Act 2006 provides that listed companies must hold general meetings (other than annual general meetings) on 21 days' notice unless the members of that company pass a special resolution agreeing to a shorter notice period which cannot be any less than 14 clear days. It is therefore necessary for the Company to pass this resolution allowing the Company to continue to hold general meetings (other than annual general meetings) on not less than 14 clear days' notice; and
- authority to purchase up to 10% of the issued ordinary share capital of the Company. The resolution specified a maximum number of shares of 11,095,377, 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 2022 Notice of AGM. Shareholders are also referred to the 2023 Notice of AGM, which contains similar provisions in respect of the Company's equity share capital.

AGM

The 2023 AGM will be held in June 2023. 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 46 to 51. Details of financial risk management and exposure to price risk, credit risk, and liquidity risk are given in note 24 to the consolidated financial statements.

CONTRACTS OF SIGNIFICANCE

The Group is party to significant contracts. The Directors do not consider that any one of those contracts is essential in its own right to the continuation of the Group's activities. As detailed within the Strategic Report on pages 59 and 60, 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 34 days (2021: 33 days) of average supplies for the year.

CAPITAL STRUCTURE

The Group is financed through both equity share capital and debt. Details of changes to the Company's share capital are given in note 26 to the consolidated financial statements. The Company has a single class of shares – ordinary 1p shares – with no right to any fixed income and with each share carrying the right to one vote at the general meetings of the Company. Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the AGM. 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.

SUBSTANTIAL SHAREHOLDINGS

As at 31 March 2023 the Company has been notified of, or is aware of, the shareholders holding 2% or more of the issued share capital of the Company. These shareholders are detailed on page 70.

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.

GHG EMISSIONS

The Group's carbon emissions data for the year is provided within the Task Force on Climate-related Financial Disclosures on pages 38 to 41.

EMPLOYEE INFORMATION AND CONSULTATION

The Group has received recognition under the 'Investors in People' award. The Group continues to involve its staff in the future development of the business. Information is provided to employees through a daily news email, a quarterly newsletter posted out to all staff, the Group website, and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

CREST

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

GOING CONCERN

The Directors do not consider going concern to be a critical accounting judgement. In reaching this determination, the Directors have taken account of:

- excellent trading delivered during 2022;
- a strongly positive daily net cash position throughout 2022;
- a strong order book, which provides excellent visibility of future sales; and
- the Group's budget for 2023 forecasting continued strong financial performance.

Notwithstanding the UK economic backdrop, the Board approved a budget for 2023 which reflects margin and profit growth compared to the prior year. The Group is well positioned, underpinned by the non-discretionary nature of the Group's activities and public sector client group. The Board recognises that it is not immune to labour shortages, supply chain challenges, and inflationary pressures, and has included a contingency amounting to circa 1% on Group costs (excluding direct labour) within its base financial forecasts to reflect this uncertainty. 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. It is from this position of strength that the Board completes this going concern assessment.

In making its going concern assessment, the Directors are required to consider as to 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 Board has adopted a going concern period for this purpose up to 30 June 2024. 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 2023, 31 December 2023 and 30 June 2024. On 31 December 2022, the Group held £70m of committed borrowing facilities, maturing in December 2026. The principal borrowing facilities are subject to covenants as detailed within the Financial review section of the Strategic Report. The Strategic Report also details the principal risks and uncertainties and how the Group manages its risks.

The Group reported a net cash position of £98.1m on 31 December 2022, but the Directors believe that the average daily net cash, which averaged £42.9m during 2022, provides stakeholders 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 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, including the covenant tests on 30 June 2023, 31 December 2023 and 30 June 2024.

In making its assessment of going concern, the Board has confirmed that there have been no post balance sheet changes which have a material impact on the business or affect liquidity.

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. 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 implausible. The Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence until 30 June 2024. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

AUDITOR

Ernst & Young LLP offers itself for reappointment as auditor in accordance with Section 489 of the Companies Act 2006.

By order of the Board

B WESTRAN
COMPANY SECRETARY
ben.westran@mearsgroup.co.uk
28 April 2023

Statement of Directors' responsibilities

The Directors are required to prepare the financial statements for the Company and the Group at the end of each financial year in accordance with all applicable laws and regulations. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable;
- state whether the consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards (IFRS) and in conformity with the Companies Act 2006;
- state for the Company financial statements whether United Kingdom Accounting Standards and applicable law, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company to enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the consolidated financial statements, IFRS. The Directors are also responsible for the system of internal controls, for safeguarding the assets of the Group and the Company, and taking reasonable steps to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and corporate governance statement that comply with that law and those regulations.

The Directors confirm that:

- so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

The Board confirms that to the best of its knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced, and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model, and strategy.

On behalf of the Board

A C M SMITH
CHIEF FINANCIAL OFFICER
andrew.smith@mearsgroup.co.uk
28 April 2023

Independent auditor's report to the members of Mears Group PLC

OPINION

In our opinion:

- Mears Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mears Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise:

Group	Parent company
Consolidated statement of profit or loss for the year then ended	Balance sheet as at 31 December 2022
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated balance sheet as at 31 December 2022	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies
Consolidated cash flow statement for the year then ended	
Consolidated statement of changes in equity for the year then ended	
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

INDEPENDENCE

We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- testing the clerical accuracy of the model used to prepare the Group's going concern assessment.
- assessing the reasonableness of the cashflow forecast by analysing management's historical forecasting accuracy. We evaluated the key assumptions underpinning the Group's forecasts by proposing alternatives and challenging management's position.
- considering whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including goodwill impairment.
- challenging, based on our own independent analysis, whether the severe downside cases prepared by management could lead either to a loss of liquidity or a covenant breach and whether these scenarios were plausible. Our assessment included consideration of the impact and likelihood of management's scenarios as follows, including a combination of them:
  - a cyber breach scenario which results in additional irrecoverable costs to the business
  - an inability to secure new work and a lack of success on contract rebids
  - an inability to recover additional inflationary costs
- considering the mitigating actions that management could undertake in a severe but plausible downside scenario and challenging their feasibility.
- Considering, independently, a "reverse stress-test" scenario that would lead to either a loss of liquidity or a covenant breach. Our reverse stress-test scenario utilised management's scenarios and additionally assumed increased costs due to inflation that could not be passed on to customers.
- We also confirmed the cash position at 31 December 2022 by agreeing to confirmations received directly from the bank, as well as availability of debt facilities and considered their underlying terms, including covenants, by examination of executed documentation.

Independent auditor's report to the members of Mears Group PLC continued

Our key observations arising from the procedures are that at 31 December 2022 the Group has £98m cash and undrawn facilities amounting to £70m which expire in December 2026. Management have prepared a base case forecast, a range of severe-downside cases and a reverse stress test. Management have concluded that the conditions that would need to exist to result in a loss of liquidity or covenant breach are remote.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period to 30 June 2024.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

OVERVIEW OF OUR AUDIT APPROACH

Audit scope	— We performed an audit of the complete financial information of 3 components and audit procedures on specific balances for a further 10 components. — The components where we performed full or specific audit procedures accounted for 99% of Profit before tax, 100% of Revenue and 100% of Total assets.
Key audit matters	— Management override via topside adjustments posted to accruals and provisions through the P12 financial statement close process and consolidation process — Appropriateness of lease accounting under IFRS 16 — Valuation of the Group and parent's defined benefit pension obligation and valuation of hard to value scheme assets — Appropriateness of revenue recognition including contract accounting, contract assets, and contract accruals
Materiality	— Overall Group materiality of £1.7m which represents 5% of profit before tax from continuing operations.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures. We determined materiality for the Group to be £1.7 million (2021: £1.1 million), which is 5% (2021: 5%) of profit before tax from continuing operations (2021: normalised profit before tax from continuing operations). We believe that profit before tax provides the most relevant performance measure to the stakeholders of the group. Materiality in 2021 was based on our judgement of normalised earnings of the group from continuing operations due to the partial impact of Covid-19.

We determined materiality for the parent company to be £1.7 million (2021: £1.1 million), which is capped to Group materiality being 0.9% of total assets (2021: 1% of net assets) being a reflection of what we considered to be important to the users of the financial statements.

During the course of our audit, we reassessed initial materiality and adjusted our final materiality to reflect the final profit before tax for 2022.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £850,000 (2021: £550,000). We have set performance materiality at this percentage due to audit differences identified in the prior year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole, and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £85,000 to £637,500 (2021: £55,000 to £412,500).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £85,000 (2021: £55,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above, and in light of other relevant qualitative considerations in forming our opinion.

AN OVERVIEW OF THE SCOPE OF THE PARENT COMPANY AND GROUP AUDITS

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent Internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 18 reporting components of the Group, we selected 12 components covering entities within the UK and 1 component based in Channel Islands, which represent the principal business units within the Group.

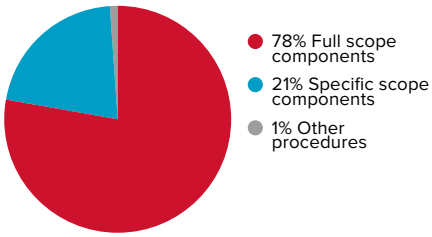
Of the 13 components selected, we performed an audit of the complete financial information of 3 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 10 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99% (2021: 100%) of the Group's Profit before tax, 100% (2021: 100%) of the Group's Revenue and 100% (2021: 100%) of the Group's Total assets. For the current year, the full scope components contributed 78% (2021: 79%) of the Group's Profit before tax, 82% (2021: 79%) of the Group's Revenue and 82% (2021: 82%) of the Group's Total assets. The specific scope components contributed 21% (2021: 21%) of the Group's Profit before tax, 18% (2021: 20%) of the Group's Revenue and 18% (2021: 18%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component, but will have contributed to the coverage of significant accounts tested for the Group.

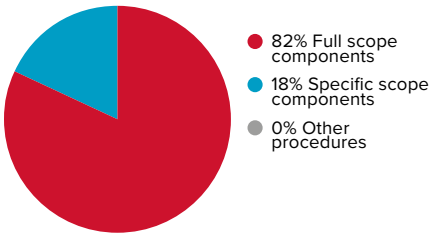
Of the remaining 5 components that together represent 1% of the Group's Profit before tax, none are individually greater than 1% of the Group's profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

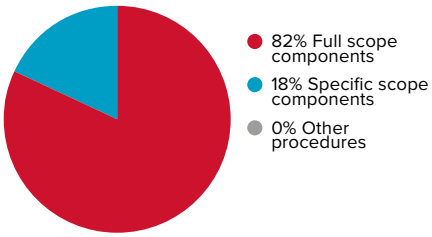
Profit before tax



Revenue



Total assets



Changes from the prior year

The total coverage from full and specific scope components was at similar levels to the prior year.

	2022	2021
Full scope	**3**	3
Specific scope	**10**	8
Remaining components	**5**	4
Total components	**18**	15

The increase in components compared to the prior year reflects 3 newly incorporated / acquired components in 2022, 1 added to specific scope and 2 to remaining components. Further, 1 specific scope component in 2021 has moved to remaining components in 2022 and 2 remaining components in 2021 has moved to specific scope in 2022.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact Mears Group plc. The Group has determined that the most significant future impacts from climate change on its operations will be from the desire to achieve net zero status by 2050. This is explained on pages 38-41 in the Task Force for Climate related Financial Disclosures and on page 47 in the principal risks and uncertainties. They have also

Independent auditor's report to the members of Mears Group PLC continued

explained their climate commitments on pages 42 to 43. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the group's business and any consequential material impact on its financial statements.

The Group has explained in Note 1 how they have reflected the impact of climate change in their financial statements Significant judgements and estimates relating to climate change are included in note 1.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments the effects of material climate risks and the significant judgements and estimates disclosed in note 1and whether these have been appropriately reflected. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override via topside adjustments posted to accruals and provisions through the P12 financial statements close process and consolidation process *Refer to the Audit Committee Report (page 76); Accounting policies in Note 1 of the Consolidated Financial Statements (page 117)* There is a level of complexity within the business which necessitates high volumes of journal entries at the year end, and top-side adjustments in preparing the consolidated financial statements. This increases the risk that management will post an erroneous journal that will materially affect the financial statements. There are also a number of provisions and accruals at year end that are based on management estimation.	We performed audit procedures over this risk area centrally, covering both full and specific scope components. We walked through the financial statement close and consolidation processes to assess the design and implementation of key controls. We independently verified the results and balances of the consolidated entities by agreeing the results and balances included in the consolidation directly to the trial balances for all full and specific scope components. We obtained an understanding of all material year-end financial statement close and consolidation journal entries posted, and specifically tested a sample of the journals to supporting evidence. We have further tested journal entries throughout the audit process using our data analytics general ledger analyser tools to identify and investigate unusual items having considered criteria that we believed indicated a higher likelihood of material misstatement. We identified 3 journal source types that in our judgement may be more susceptible to management override. We assessed that size was an important factor in relation to the risk of management override and tested all journals in these source types over £85,000 affecting accruals and provisions in the month of December 2022, as we assessed that there was greater risk of management override close to the year-end date. We also tested the same journal source types to the same threshold in January 2023 to understand if there were any unusual amendments which should have been reflected in the 2022 financial statements. We understood the nature and appropriateness of material round sum amounts in accruals and provisions at the year-end. We also ensured we understood the reason for significant movements in provisions and accruals from the prior year and challenged management where there had been no movement. Our work included corroborating the year-end accruals and provisions to supporting information, looking back at prior years to assess management's ability to estimate, and challenging the most significant assumptions. As described in note 22 to of the consolidated financial statements, during the year a claim for losses was raised by a former customer of the Group ("Claimant") after a ruling was made by an adjudicator in favour of the Claimant in respect of a claim for breach of contract. The Directors of the Group dispute a number of estimates and assumptions underlying the value of the claim and subsequent to the year end, the matter has been taken to adjudication by the Claimant with a claim value of £9.3m. A response was filed by the Group in its defence and the timeline for a decision is expected on 2 May 2023. The Directors have considered a range of possible outcomes and have provided a sum of £5.7m, which they believe represents the best estimate of the likely outcome. We have obtained a reconciliation between the customer's claim amounting to £9.3m and the carrying value of the provisions of £5.7m. We have involved our forensics specialists to support the audit team in challenging the reconciling items, reviewing the contract and the customer's expert report. We have challenged management's assessment and calculated our estimated range for the provision. We have then assessed the adequacy of disclosures made in respect of this matter. All audit work in relation to this key audit matter was undertaken by the Group engagement team.	We conclude that based on the audit procedures performed, the year-end journal entries and top-side consolidation adjustments relating to judgemental provisions (including the provision for losses raised by the Claimant) and accruals are appropriate. Our procedures did not identify any instances of management override.

Independent auditor's report to the members of Mears Group PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Appropriateness of lease accounting under IFRS 16: Right of use ("ROU") assets in Group £213.4m (2021 £204.9m), parent company 2022 £21.8m (2021 £21.4m); **Lease liabilities in Group £225.4m (2021 £216.9m), parent company 2022 £22.0m (2021 £21.7m).** *Refer to the Audit Committee Report (page 76); Accounting policies (page 131); and Note 15 and Note 20 of the Consolidated Financial Statements (pages 131 and 138 respectively)* The accounting of IFRS 16 is complex and requires a number of estimates and judgements. The most significant estimate is the discount rate (Incremental Borrowing Rate, 'IBR') to apply to each lease. Key judgements are made when assessing whether leasing arrangements fall within the scope of IFRS 16, and in determining the appropriate lease term at the inception of the lease where leased assets are subject to extension or termination options. Further, the Group has a high volume of leases, some of which are complex in nature, and the Group uses a combination of manual bespoke excel modelling templates, and an off the shelf software package to derive the ROU asset and lease liability values. Due to the significant financial statement impact of IFRS 16, the high level of estimation and judgement required in determining the appropriate accounting treatment, and the manual modelling of the impact on some lease categories, we identified IFRS 16 as a significant risk.	We performed audit procedures over this risk area which covered 100% of the risk amount. **Our procedures included:** **Assessing management's process:** We gained an understanding through a walkthrough of the process and controls management have in place over the completeness of IFRS 16. **Key estimate:** We have assessed the appropriateness of the IBR by reviewing management's methodology. With the support of our Corporate Treasury specialists, we reperformed the calculations and challenged their validity by comparing to observable market rates. **Key judgments:** We challenged the key judgements and assumptions used by management in relation to, assessing whether leasing arrangements fall within the scope of IFRS 16, and in determining the appropriate lease term at the inception of the lease where leased assets are subject to extension or termination options. We made inquiries of management, and selected a sample of leases, inspecting the arrangement terms and reaching an independent opinion on the IFRS 16 accounting treatment. **Tests of detail:** We assessed the completeness of the population of leases by selecting a sample of lease payments made during the year, and post year end through to 31 January 2023, from the appropriate income statement general ledger codes which included all lease payments made during the year. We obtained and inspected a copy of the underlying supporting evidence and independently assessed whether management's lease identification basis is aligned with IFRS 16, by either tracing the asset through to the correct ROU model, or ensuring it was not included within any ROU models, if IFRS 16 recognition criteria were not met. We selected a sample of vendor payments to obtain an understanding of the nature of transactions by analysing the vendor accounts, and where necessary obtaining underlying supporting evidence to identify transactions which might indicate completeness issues. For a sample of leases, we assessed the measurement/valuation of the underlying lease data by checking the key inputs used in the models to the original contract or other supporting data, and recalculating the ROU asset and corresponding lease liability. We interrogated the integrity and mechanical accuracy of the bespoke excel modelling templates used to derive the IFRS 16 journals for vehicles, residential property used directly in the business, and some of the residential property sub-leased to customers. We did this through the application of our EY AI Spreadsheet analyser which highlights, amongst other things, complex sheets, hardcoded items, inconsistencies in the logical design, unexpected formula changes, and by searching the models for potential duplicate assets. The integrity and mechanical accuracy of the software package used to derive the IFRS 16 journals for office and residential fixed leases was validated by independently calculating the cash flows for a sample of leases and comparing the output to the output from the software package. We considered the adequacy of IFRS16 disclosures, including sensitivity of the lease liabilities to the key assumptions. All audit work in relation to this key audit matter was undertaken by the group engagement team with assistance from our valuation specialists.	Based on our audit procedures performed we conclude the key estimates and judgments underpinning the IFRS 16 ROU assets and lease liabilities are appropriate, and the disclosures within notes 15 and 20 are in accordance with the requirements of IFRS 16, Leases.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of the group and parent company's defined benefit **i) pension obligation: Group: net surplus £20.5m, (2021: £20.2m); Parent company: net surplus £0.3m, (2021: £1.8m), and** **ii) Valuation of hard to value scheme assets: Group: £203.8m, (2021: £419.3m), parent company: £12.4m, (2021: £19.7m)** *Refer to the Audit Committee Report (page 77); Accounting policies (page 148); and Note 29 of the Consolidated Financial Statements (page 148).* *The Group operates a number of defined benefit pension schemes ('Group schemes') and is an admitted body of other defined benefit local government pension schemes ('LGPS').* **Subjective valuation using complex actuarial assumptions:** A gross defined benefit pension liability of £202.8m was held at 31 December 2022 (2021: £434.9m) in respect of all defined benefit pension schemes. Small changes in the assumptions and estimates used to value the group's and parent company's pension obligation (before deducting scheme assets) would have a significant effect on the carrying value of those pension obligations. The effect of these matters is that, as part of our risk assessment, we determined that the group's and parent company's pension obligation have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 29) disclose the estimation uncertainty identified by the group and parent company. **Valuation of defined benefit pension assets:** The fair value of the defined pension scheme assets in aggregate as at 31 December 2022 was £261.7m (2021: £492.9m). Judgement is applied in valuing the more complex level 2 and level 3 group schemes' assets, while the LGPS assets are estimated by rolling forward the published asset position from the previous year using market index returns over the period.	We performed audit procedures over this risk area centrally, which covered 100% of the risk amount. **Our procedures included:** **Assessing management's process:** We have understood management's process and methodology for calculating the pension liability for each scheme, including discussions with management's external actuaries, walkthrough of the processes, understanding the key inputs and the design and implementation of key controls. We performed a fully substantive audit approach rather than testing the operating effectiveness of key controls. **Assessing management's experts:** We have assessed the independence, objectivity and competence of the group's external actuaries. This included understanding the scope of services being provided and considering the appropriateness of the qualifications of the external actuary. **Benchmarking assumptions:** With the support of our pension actuarial specialists, we assessed and challenged the appropriateness of the assumptions adopted by the Directors by comparing them to the expectations of our pension actuarial specialists which they had derived from broader market data. **Assessing source data:** We tested a sample of the membership data used by the actuaries to the group's records. We directly confirmed the existence and valuation of pension scheme assets with asset managers and custodians for the group Schemes and analysed the movements on assets for LGPS. With the support of our valuation and actuarial specialists we independently challenged the valuation of hard to value scheme assets by performing detailed testing on a sample of level 2 and level 3 group scheme's assets and the LGPS assets. We identified market indices that most accurately reflect the expected performance of the fund (based on the underlying investment/asset portfolio of the fund) for 2022. Using the suitable/relevant market index, we set an expectation of the performance of the fund in order to determine the expected value of the fund as at 31 December 2022. We then compared the expected value of the fund as at 31 December 2022 to the value per the investment manager at year end to determine whether this met our expectations. We considered the adequacy of IAS 19 disclosures, including sensitivity of the obligation to the key assumptions. All audit work in relation to this key audit matter was undertaken by the group engagement team with assistance from our actuarial and valuation specialists.	The two group Schemes and the LGPS all have different scheme liability durations. However, the financial assumptions have been set consistently across the group schemes and LGPS based on a weighted average duration of all schemes. All assumptions used in the assessment of scheme liabilities fell within an acceptable range. Our testing of the Group scheme hard to value assets did not identify any material misstatements which required adjustment to the financial statements. We are satisfied with the adequacy of disclosure within the financial statements.

Independent auditor's report to the members of Mears Group PLC continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Appropriateness of revenue recognition including contract accounting, contract assets and contract accruals: **Group revenue: £959.6m, (2021: £878.4m)** *Refer to the Audit Committee Report (page 76); Accounting policies (page 118); and Note 2 of the Consolidated Financial Statements (page 118)* Mears has 4 different patterns of revenue each with its own revenue accounting policy. Determining the amount of revenue to be recognised requires management to make significant judgements and estimates in the application of IFRS 15, including the stage of completion of certain contracts and the recoverability of contract assets and completeness of contract liabilities. There is considered to be a risk of material error and management override in making this assessment, which makes this a significant risk to the audit.	We performed audit procedures over this risk area which covered 100% of the risk amount. We performed walkthroughs of the revenue recognition process for all material patterns of revenue to assess the design and implementation of key controls. We used data analysis tools on 100% of revenue transactions in the year to test the correlation between revenue, trade debtors and cash receipts to verify the occurrence of revenue. We performed test of details on non-correlating entries by obtaining underlying supporting evidence and explanations for the correlation difference for a sample of revenue transactions to ensure that revenue had been appropriately recognised. We obtained the schedule of contract assets and liabilities, and selected a sample of contracts using the lower range of our testing threshold to include an element of unpredictability. We investigated the recoverability of contract assets balances by reference to post balance sheet cash collection, obtained the evidence from the work certified by the customers or group's, internal or independent quantity surveyor. For revenue recognised, but not certified by the customers or Group's, internal or independent quantity surveyor, we inquired of the reason for non-certification and challenged the recognition of contract assets and related revenue. We challenged the estimated contract cost to complete including obtaining evidence to support our independent conclusions where relevant. For example, we verified the cost to complete by verifying the work orders issued to sub-contractors and challenging the management's estimation of overhead costs. We held meetings with the in-house legal counsel and reviewed the board meeting minutes to identify and assess the impact of any ongoing disputes in relation to the recoverability of the contract asset balances, and challenged the management on the recoverability of such contract assets where they had been recognised. For a sample of contracts, where the forecasted margin is negative, we challenged management on the appropriateness of their onerous contracts provision. For a sample of customers, we obtained direct confirmations to verify their contract trade terms with Mears. We have obtained the schedule of contract liabilities and performed a recalculation of income recognised during the year and deferred at the year end. We obtained supporting evidence for a sample of transactions and ensured that the revenue has been recognised in accordance with IFRS 15. We selected a sample of revenue transactions recorded before and after year end to verify that the revenue had been recorded in the appropriate period. We selected a sample of credit notes issued after year-end and obtained documentation to verify that revenue adjustments at year end had been recorded appropriately. **Disclosure:** We assessed the adequacy of group's disclosures in accordance with the requirements of IFRS 15. All audit work in relation to this key audit matter was undertaken by the group engagement team.	For the year to 31 December 2022, we conclude that based on the audit procedures performed, revenue transactions have been recognised appropriately. Our procedures did not identify instances of inappropriate management override in the recognition of revenue across the group. We are satisfied with the adequacy of disclosure within the financial statements.

In the prior year, our auditor's report included a key audit matter in relation to the intended disposal of Haydon Mechanical & Electrical LLC. In the current year, we have not considered this to be a key audit matter as based on the audit procedures performed in the prior year. We concluded that whilst Mears has the right to control Haydon UAE, there are barriers preventing control, and as a result the entity has not been consolidated. We also concluded that Mears' exposure to any further liability is remote. There is no change in our conclusion in relation to this matter based on the updated procedures performed in the current year.

OTHER INFORMATION

The other information comprises the information included in the annual report set out on pages 1 to 164, including the Strategic Report, set out on pages 1 to 61, Corporate Governance, set out on pages 62 to 100, and Shareholder information, set out on pages 163 to 164, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Independent auditor's report to the members of Mears Group PLC continued

CORPORATE GOVERNANCE STATEMENT

We have reviewed the Directors' Statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements, or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 99;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 59 to 60;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities as they fall due over the period of their assessment set out on page 99;
- Directors' statement on fair, balanced and understandable set out on page 75;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 44 to 51;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 75; and;
- The section describing the work of the audit committee set out on page 74 to 79.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' Responsibilities Statement set out on page 100, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and parent company and determined that the most significant are those that relate to the reporting framework (IFRS, FRS101 and the Companies Act 2006, the Financial Reporting Council (FRC) and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.
- We understood how Mears Group plc is complying with those frameworks by reading internal policies and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the Chair of the Audit Committee, the Group's legal counsel and internal audit, of any known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. In light of the identified matters which required further consideration we utilised the experience of our specialists to determine that our response was appropriate.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the programs and controls that the Group and parent company has established to address risks identified by the entity, or that otherwise prevent, deter and detect fraud. We looked at how senior management monitor those programs and controls, evaluating conditions in the context of incentive and/or pressure to commit fraud, considering the opportunity to commit fraud and the potential rationalisation of the fraudulent act.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Group Finance Director, the Company Secretary, the Chair of the Audit Committee, and other members of senior management including the Group Director of Health Safety & Compliance, Group HR Director. As well as attendance and enquiry at meetings, our procedures involved a review of minutes of board meetings, internal audit reports, and other committee minutes to identify any non-compliance with laws and regulations. We planned our audit procedures to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation. Further detail of our approach to address the identified risks of management override are set out in the key audit matters section of our report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Following the recommendation from the audit committee we were appointed by the parent company on 9 September 2020 to audit the financial statements of the Group and parent company for the year ending 31 December 2020 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 December 2020 to 31 December 2022.

- The audit opinion is consistent with the additional report to the audit committee.

USE OF OUR REPORT

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

NIGEL MEREDITH (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP, STATUTORY AUDITOR
BIRMINGHAM
28 APRIL 2023

Consolidated statement of profit or loss
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Continuing operations			
Sales revenue	2	**959,613**	878,420
Cost of sales		**(763,927)**	(697,933)
Gross profit		**195,686**	180,487
Administrative expenses		**(155,259)**	(156,940)
Operating profit	4	**40,427**	23,547
Share of profits of associates	16	**858**	855
Finance income	5	**2,033**	835
Finance costs	5	**(8,374)**	(8,904)
Profit for the year before tax		**34,944**	16,333
Tax expense	8	**(6,441)**	(3,192)
Profit for the year from continuing operations		**28,503**	13,141
Discontinued operations			
Profit from discontinued operations	9	**542**	940
Tax (charge)/credit on discontinued operations	8	**(48)**	182
Profit for the year after tax from discontinued operations		**494**	1,122
Profit for the year from continuing and discontinued operations		**28,997**	14,263
Attributable to:			
Owners of Mears Group PLC		**28,307**	14,119
Non-controlling interest		**690**	144
Profit for the year		**28,997**	14,263
Earnings per share – from continuing operations			
Basic	11	**25.07p**	11.72p
Diluted	11	**24.51p**	11.50p
Earnings per share – from continuing and discontinued operations			
Basic	11	**25.51p**	12.73p
Diluted	11	**24.94p**	12.49p

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

Consolidated statement of comprehensive income
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Profit for the year		**28,997**	14,263
Other comprehensive income:			
Which will be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Cash flow hedges:			
— gains arising in the year		**–**	1,023
— reclassification to the Consolidated Statement of Profit or Loss		**–**	(85)
Decrease in deferred tax asset in respect of cash flow hedges	25	**–**	(178)
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:			
Actuarial (loss)/gain on defined benefit pension schemes	29	**(3,041)**	59,721
Pension guarantee asset movements in respect of actuarial gain	29	**(6,754)**	(19,018)
Increase/(decrease) in deferred tax in respect of defined benefit pension schemes	25	**2,449**	(8,809)
Other comprehensive income for the year		**(7,346)**	32,654
Total comprehensive income for the year		**21,651**	46,917
Attributable to:			
Owners of Mears Group PLC		**20,961**	46,773
Non-controlling interest		**690**	144
Total comprehensive income for the year		**21,651**	46,917
Total comprehensive income for the year attributable to owners of Mears Group PLC arises from:			
Continuing operations		**20,467**	45,651
Discontinued operations		**494**	1,122
Total comprehensive income for the year attributable to owners of Mears Group PLC		**20,961**	46,773

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

Consolidated balance sheet
As at 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current			
Goodwill	12	**121,868**	118,873
Intangible assets	13	**7,452**	6,610
Property, plant and equipment	14	**20,188**	20,712
Right of use assets	15	**213,432**	204,949
Investments	16	**1,271**	713
Loan notes and other non-current receivables	24	**4,073**	3,476
Pension and other employee benefits	29	**23,672**	37,651
Pension guarantee assets	29	**3,136**	12,975
		395,092	405,959
Current			
Inventories	17	**6,879**	22,869
Trade and other receivables	18	**128,334**	148,305
Current tax assets		**459**	2,154
Short-term financial assets	24	**1,963**	–
Cash and cash equivalents	24	**98,138**	54,632
		235,773	227,960
Total assets		**630,865**	633,919
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	26	**1,110**	1,109
Share premium account		**82,351**	82,265
Share-based payment reserve		**1,801**	1,313
Merger reserve		**7,971**	7,971
Retained earnings		**119,100**	107,578
Total equity attributable to the shareholders of Mears Group PLC		**212,333**	200,236
Non-controlling interest		**1,492**	802
Total equity		**213,825**	201,038
Liabilities			
Non-current			
Pension and other employee benefits	29	**3,136**	16,995
Deferred tax liabilities	25	**4,898**	6,676
Lease liabilities	20	**181,045**	175,290
Other non-current liabilities	21	**682**	–
Non-current provisions	23	**3,110**	3,800
		192,871	202,761
Current			
Trade and other payables	19	**171,013**	184,047
Lease liabilities	20	**44,376**	41,600
Provisions	22	**8,780**	4,473
Current liabilities		**224,169**	230,120
Total liabilities		**417,040**	432,881
Total equity and liabilities		**630,865**	633,919

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 28 April 2023.

D J MILES
DIRECTOR
Company number: 03232863

A C M SMITH
DIRECTOR

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

Consolidated cash flow statement
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Operating activities			
Result for the year before tax		**34,944**	16,333
Adjustments	27	**60,524**	65,902
Change in inventories		**15,991**	12,944
Change in trade and other receivables		**13,855**	(2,244)
Change in trade, other payables and provisions		**(9,760)**	(32,573)
Cash inflow from operating activities of continuing operations before taxation		**115,554**	60,362
Taxes paid		**(4,128)**	(3,752)
Net cash inflow from operating activities of continuing operations		**111,426**	56,610
Net cash (outflow)/inflow from operating activities of discontinued operations	9	**(494)**	59
Net cash inflow from operating activities		**110,932**	56,669
Investing activities			
Additions to property, plant and equipment		**(8,052)**	(7,587)
Additions to other intangible assets		**(1,364)**	(1,182)
Proceeds from disposals of property, plant and equipment		**–**	46
Expenditure on acquisition of subsidiary, net of cash acquired	28	**(2,928)**	–
Loans repaid by related parties		**–**	500
Distributions from associates	16	**300**	1,108
Amounts placed on short-term deposit in excess of three months	24	**(1,963)**	–
Interest received		**764**	413
Net cash outflow from investing activities of continuing operations		**(13,243)**	(6,702)
Net cash inflow from investing activities of discontinued operations	9	**7,333**	500
Net cash outflow from investing activities		**(5,910)**	(6,202)
Financing activities			
Proceeds from share issue		**87**	40
Net cash movement in revolving credit facility		**–**	(40,000)
Loans provided to other entities (non-controlled)		**(225)**	–
Repayment of loan acquired with subsidiary	28	**(37)**	–
Discharge of lease liabilities		**(43,169)**	(40,258)
Interest paid		**(8,425)**	(8,844)
Dividends paid – Mears Group shareholders	10	**(9,692)**	(2,773)
Net cash outflow from financing activities of continuing operations		**(61,461)**	(91,835)
Net cash outflow from financing activities of discontinued operations	9	**(55)**	(220)
Net cash outflow from financing activities		**(61,516)**	(92,055)
Cash and cash equivalents, beginning of year		**54,632**	96,220
Net increase/(decrease) in cash and cash equivalents		**43,506**	(41,588)
Cash and cash equivalents, end of year		**98,138**	54,632

Consolidated statement of changes in equity
For the year ended 31 December 2022

	Attributable to equity shareholders of the Company							
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2021	1,109	82,225	1,312	(760)	7,971	63,536	658	156,051
Net result for the year	–	–	–	–	–	14,119	144	14,263
Other comprehensive income	–	–	–	760	–	31,894	–	32,654
Total comprehensive income for the year	–	–	–	760	–	46,013	144	46,917
Deferred tax on share-based payments	–	–	–	–	–	228	–	228
Issue of shares	–	40	–	–	–	–	–	40
Share options – value of employee services	–	–	575	–	–	–	–	575
Share options – exercised or lapsed	–	–	(574)	–	–	574	–	–
Dividends	–	–	–	–	–	(2,773)	–	(2,773)
At 1 January 2022	1,109	82,265	1,313	–	7,971	107,578	802	201,038
Net result for the year	–	–	–	–	–	28,307	690	28,997
Other comprehensive income	–	–	–	–	–	(7,346)	–	(7,346)
Total comprehensive income for the year	–	–	–	–	–	20,961	690	21,651
Deferred tax on share-based payments	–	–	–	–	–	142	–	142
Issue of shares	1	86	–	–	–	–	–	87
Share options – value of employee services	–	–	599	–	–	–	–	599
Share options – exercised or lapsed	–	–	(111)	–	–	111	–	–
Dividends	–	–	–	–	–	(9,692)	–	(9,692)
At 31 December 2022	**1,110**	**82,351**	**1,801**	**–**	**7,971**	**119,100**	**1,492**	**213,825**

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 2022

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 accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted international accounting standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of contingent consideration, derivative financial instruments and share-based payments. 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 2022. 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 incorporated and domiciled in England and Wales (registration number 03232863). Its registered office and principal place of business is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH. Mears Group PLC's shares are listed on the Main Market of the London Stock Exchange.

Basis of consolidation
The Consolidated Balance Sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2022. 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. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

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 consider that, as at the date of approving the financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period until 30 June 2024. When making the 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 30 June 2023, 31 December 2023 and 30 June 2024. At 31 December 2022, the Group had £70m of committed borrowing facilities, maturing in December 2026; however, no amount was drawn on the facility. The principal borrowing facilities are subject to covenants, as detailed with the Financial review section of the Strategic Report on page 58. The Principal Risks and Uncertainties section of the Strategic Report on page 48 also details the principal risks and uncertainties and how the Group manages its risks. The Group has modelled its cash flow outlook for the period to 30 June 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, including the covenant tests at 30 June 2023, 31 December 2023 and 30 June 2024.

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 have modelled a number of downside scenarios. Further detail is provided in the Going Concern section of the Report of the Directors on page 99. After making these assessments, the Directors consider any scenario or combination of scenarios that could cause the business to be no longer 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 for the period to 30 June 2024. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Notes to the financial statements – Group continued
For the year ended 31 December 2022

1. ACCOUNTING POLICIES CONTINUED

Fair value

The Group measures certain assets and liabilities at fair value on a recurring basis, including its interest rate swaps, contingent consideration and assets in the Group's defined benefit pension schemes.

Trade and other receivables, trade and other payables and other loans are initially measured at fair value and are subsequently held at amortised cost. Other assets are measured at fair value when they are assessed for impairment or on classification as held for sale.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses valuation techniques that maximise the use of relevant observable inputs using the following valuation hierarchy, ordered from highest to lowest priority:

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included in level 1 that are observable either directly or indirectly.
Level 3 – Unobservable inputs, typically derived from the Group's own information with any necessary adjustments to eliminate factors specific to the Group.

For assets and liabilities measured at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by assessing the lowest level input that is significant to the most recent measurement.

Details of the particular valuation techniques used by the Group are provided in the relevant notes for each type of asset or liability measured at fair value.

Use of judgements and estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of these consolidated financial statements, key estimates and judgements have been made by management concerning provisions necessary for certain liabilities, estimates used in forecasts used to assess future profitability, the discount rates used and other judgements when recognising right of use assets for lease accounting, the timing of revenue recognition, the recoverability of contract assets and work in progress, actuarial estimates in respect of defined benefit pension schemes, the fair value of acquired intangibles and other similar evaluations. Actual amounts could differ from those estimates. Further details of key estimates and judgements are provided in the appropriate notes.

New standards and interpretations not yet applied

IFRS 17 'Insurance Contracts' is a new standard effective for accounting periods commencing on or after 1 January 2023. In addition, a number of standards have been modified with effect for accounting periods commencing on or after 1 January 2023. These include IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. None of these amendments are expected to have a material effect on the Group's financial statements.

2. REVENUE

Accounting policy

Revenue is recognised in accordance with IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 provides a single, principles-based, five-step model to be applied to all sales contracts. It is based on the transfer of control of goods and services to customers. The detail below sets out the principal types of contract and how the revenue is recognised in accordance with IFRS 15.

Repair and maintenance contracts

For contracts in this category, the customer raises orders on demand, for example to carry out responsive repairs. Revenue is derived from a mixture of lump-sum periodic payments and task-based payments depending on the terms of the individual contract.

Where a lump-sum payment is in place it may cover the administrative element of the contract or may cover the majority of the tasks undertaken within that contract with exclusions to this being charged in addition to the lump-sum charge. For the works covered by the lump-sum payment, the performance obligation is being available to deliver the goods and services in the scope of the contract, not the performance of the individual works orders themselves. Revenue is recognised on a straight-line basis as performance obligations are being met over time.

For works orders not covered by a lump-sum payment, each works order represents a distinct performance obligation and, as the customer controls the asset being enhanced through the works, the performance obligation is satisfied over time. Each works order can be broken down into one or more distinct tasks which are either complete or not complete. The stage of completion of the works order is assessed by looking at which tasks are complete. The transaction price for partly completed works orders is recognised as cost plus expected margin. The

transaction price for completed works orders is the invoice value, which is typically determined by a pricing schedule referred to as a Schedule of Rates that provides a transaction price for each particular task.

Some contracts may include an element of variable revenue based on certain key performance indicators (KPIs). These are recognised either at a point in time or over time, depending on the nature of the KPI and the contractual agreement in which it is contained. Where there is uncertainty in the measurement of variable consideration, at both the start of the contract and subsequently, management will consider the facts and circumstances of the contract in determining either the most likely amount of variable consideration when the outcome is binary, or the expected value based on a range of possible considerations. Included within this assessment will be the extent to which there is a high probability that a significant reversal in variable consideration revenues will not occur once the uncertainty is subsequently resolved. This assessment will include consideration of the following factors: the total amount of the variable consideration; the proportion of consideration susceptible to judgements of customers or third parties, for example KPIs; the length of time expected before resolution of the uncertainty; and the Group's previous experience of similar contracts.

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

Where the Group is providing a management service, Mears recognises revenue as an agent (the net management fee) on a straight-line basis. Where significant initial costs are required to make good the housing to perform Housing Management activities, the costs directly attributable to the initial upgrade will be recognised as costs incurred to fulfil a contract and held within current assets, to the extent that it is determined that costs are recoverable.

Where the Group is providing an accommodation and support service, revenue is recognised at a point in time for each night that the accommodation is occupied.

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.

Mobilisation
Across all revenue types, where a contract includes a mobilisation element, consideration is initially given to whether the mobilisation element contains any discrete performance obligations. If this is the case, an element of the total contract price is allocated to those performance obligations and recognised either at a point in time or over time, depending on the nature of the performance obligation. Mobilisation income is included in the revenue category to which the contract relates.

Where amounts are received for mobilisation elements that are not performance obligations, these amounts are allocated to the performance obligations in the contract to which they relate.

No revenue was recognised during 2021 or 2022 in respect of mobilisation performance obligations.

Contracting projects
For contracting projects, the contract states the scope and specification of the construction works to be carried out, for a fixed price. Mears is continuously satisfying this single performance obligation as cost is incurred, determining progress against the performance obligation on either an input or an output basis. The customer controls the site or output as the work is being performed on it and therefore revenue is recognised over time where there is an enforceable right to payment for works completed to date and the work completed does not create an asset with an alternative use to the Group. An assessment is made of costs incurred to date and the costs required to complete the project. If a project is not deemed to be profitable, the unavoidable costs of fulfilling the contract are provided for immediately. This category also includes construction contracts where an end customer has not yet been identified and the revenue is recognised at the point of sale of the property, rather than over time.

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.

Notes to the financial statements – Group continued
For the year ended 31 December 2022

Key sources of estimation uncertainty
Contract recoverability
Determining future contract profitability requires estimates of future revenues and costs to complete. In making these assessments there is a degree of inherent uncertainty. The Group utilises the appropriate expertise in determining these estimates and has well-established internal controls to assess and review the expected outcome.

2. REVENUE CONTINUED
Critical judgements in applying the Group's accounting policies
Revenue recognition
The estimation techniques used for revenue and profit recognition in respect of contracting and variable consideration contracts require judgements to be made about the stage of completion of certain contracts and the recovery of work in progress, mobilisation costs and contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract.

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

	2022 £'000	2021 £'000
Revenue from contracts with customers		
Repairs and maintenance	**451,063**	481,647
Contracting	**83,463**	101,599
Property income	**376,296**	240,641
Care services	**19,544**	19,446
Other	**345**	295
	930,711	843,628
Lease income	**28,902**	34,792
	959,613	878,420

A total of £24.3m of revenue was recognised in respect of the balance of contract liabilities at the start of the year (2021: £13.2m).

Repairs and maintenance and care service revenue is typically invoiced between one 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:

	2022 £'000	2021 £'000
Less than 1 year	**3,245**	7,535
Between 1 and 2 years	**1,537**	2,365
Between 2 and 3 years	**1,531**	2,060
Between 3 and 4 years	**1,531**	1,750
Between 4 and 5 years	**1,150**	1,544
Over 5 years	**393**	812
	9,387	16,066

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.

During the year, the Directors revisited the Group's segmental reporting, resulting in a change in the disclosure with respect to reportable segments. As there has been no change during the year in the financial information reported to the chief operating decision maker, the change has been accounted for as a correction of the prior year, in accordance with IAS 8, paragraph 49, and the prior year comparative figures have been amended accordingly.

The Executive Directors manage the group as a single Housing business, but information provided to the Board and historically to stakeholders has included a split between Maintenance, Management and Development. Therefore, the Directors have concluded that providing segmental information along the same lines would be helpful to the users of the financial statements.

	2022				2021			
	Maintenance £'000	**Management £'000**	**Development £'000**	**Total £'000**	Maintenance £'000	Management £'000	Development £'000	Total £'000
Revenue	**535,336**	**405,776**	**18,501**	**959,613**	572,377	280,422	25,621	878,420
Profit/(loss) before tax and amortisation of acquisition intangibles	**12,022**	**24,281**	**(1,114)**	**35,189**	12,718	12,554	(1,285)	23,987
Amortisation of acquisition intangibles				**(245)**				(7,654)
Profit before tax				**34,944**				16,333
Tax expense				**(6,441)**				(3,192)
Profit/(loss) for the year				**28,503**				13,141

The revenues in respect of the Housing with Care element of the business are included within Maintenance as these services do not include the provision of a property. In the Chief Executive Officer's review in the 2021 Annual Report, these figures were included in the 'Management-led' line.

All revenue and all non-current assets arise within the United Kingdom. All of the revenue reported is external to the Group. The Group's largest single customer relationship is in respect of the Asylum Accommodation and Support Contract (AASC) with the Home Office, included within the Management segment. At the time that this contract was won, the Group expected to report annual revenues of around £120m, which would, under normal conditions, amount to around 15% of Group revenues. The AASC has experienced elevated volumes as a result of a backlog linked to the challenges of the Covid-19 pandemic. As a result, this customer relationship accounted for over 30% of Group revenues in 2022 and this elevated position has continued into 2023. In the longer term, this contract is expected to reduce back to a normal level. No other customer comprises more than 10% of reported revenue.

For the purposes of the disaggregation of revenue in note 2, all Property income and Lease income is included within the Management segment and the Development segment contains only Contracting Revenue. All other revenue is included within the Maintenance segment.

4. OPERATING COSTS

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

	2022 £'000	2021 £'000
Share-based payments	**599**	575
Depreciation	**51,508**	49,029
Amortisation of acquisition intangibles	**245**	7,654
Amortisation of other intangibles	**2,055**	2,123
Loss on disposal of property, plant and equipment	**2**	273
Profit on disposal of right of use assets	**(227)**	(27)

A current year charge of £5.7m has been incurred in respect of a matter referred to adjudication ruling in favour of a former client for breach of contract (see note 22).

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

	2022 £'000	2021 £'000
In respect of continuing activities:		
Fees payable to the auditor for the audit of the Group's financial statements	**416**	150
Other fees payable to the auditor in respect of:		
— auditing of accounts of subsidiary undertakings pursuant to legislation	**500**	600
— additional fees in respect of the prior year audit	**65**	273
Total auditor's remuneration	**981**	1,023

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For the year ended 31 December 2022

5. FINANCE INCOME AND FINANCE COSTS

	2022 £'000	2021 £'000
Interest charge on overdrafts and loans	**(625)**	(1,408)
Interest charge on hedged items	**–**	(310)
Interest on lease obligations	**(7,617)**	(6,952)
Other interest	**(58)**	(3)
Finance costs on bank loans, overdrafts and leases	**(8,300)**	(8,673)
Interest charge on defined benefit pension obligation	**(74)**	(231)
Total finance costs	**(8,374)**	(8,904)
Interest income resulting from short-term bank deposits	**870**	1
Interest income resulting from defined benefit pension asset	**769**	106
Income from settlement of hedge instruments	**–**	395
Other interest income	**394**	333
Finance income	**2,033**	835
Net finance charge	**(6,341)**	(8,069)
Gains and losses on hedged items recognised in other comprehensive income		
Gains/(losses) arising in the year	**–**	1,023
Reclassification to the Consolidated Statement of Profit or Loss	**–**	(85)
Changes in mark-to-market of interest rate swaps	**–**	938

6. EMPLOYEES
Staff costs during the year were as follows:

	2022 £'000	2021 £'000
Wages and salaries	**165,348**	166,304
Social security costs	**16,795**	16,425
Other pension costs	**8,797**	8,552
	190,940	191,281

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

	2022	2021
Site workers	**2,482**	2,873
Carers	**558**	664
Office and management	**1,950**	1,860
	4,990	5,397

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 2022 the Group maintained three (2021: three) active share-based payment schemes for employee remuneration.

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

	2022		2021	
	Number '000	**Weighted average exercise price p**	Number '000	Weighted average exercise price p
Outstanding at 1 January	**4,827**	**110**	5,292	131
Granted	**442**	**1**	544	1
Forfeited or lapsed	**(643)**	**108**	(965)	177
Exercised	**(74)**	**116**	(44)	92
Outstanding at 31 December	**4,552**	**99**	4,827	110

The weighted average share price at the date of exercise for share options exercised during the period was 199p. At 31 December 2022, 0.7m options had vested and were still exercisable at prices between 1p and 429p. These options had a weighted average exercise price of 245p and a weighted average remaining contractual life of 4.3 years.

The fair values of options granted were determined using the Monte Carlo option pricing model. Significant inputs into the calculation include the market price at the date of grant, the exercise price and share price volatility. Furthermore, the calculation incorporates an estimate of the future dividend yield and the risk-free interest rate. The share price volatility was determined from the daily log normal distributions of the Company share price over a period commensurate with the expected life as calculated back from the date of grant. The risk-free interest rate utilised the zero-coupon bond yield derived from UK Government bonds as at the date of calculation for a life commensurate with the expected life. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions.

There were 0.44m options granted during the year and 0.64m options that lapsed during the year. The market price at 31 December 2022 was 208p and the range during 2022 was 182p to 224p.

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:

	2022 £'000	2021 £'000
Giving rise to share-based payment reserve:		
— SAYE	**165**	295
— CSOP	**–**	133
— LTIP	**434**	147
	599	575

The Group is currently running three active schemes, detailed below:

Share save plan (Save As You Earn)
Options are available to all employees. Options are granted for a period of three years. Options are exercisable at a price based on the quoted market price of the Company's shares at the time of invitation, discounted by up to 20%. Options are forfeited if the employee leaves Mears Group before the options vest, which impacts on 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 (CSOP)
The Company operates a discretionary unapproved share plan and a CSOP. Options are exercisable at a price below market value at the date of grant and often at nominal value. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves Mears Group before the options vest. No awards to Executive Directors are proposed under these plans.

Long-term incentive plan
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. The first award under this scheme was made during 2021. Options are granted under this scheme to key senior management subject to performance conditions as detailed on page 92 of the Remuneration Report.

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For the year ended 31 December 2022

8. TAX EXPENSE
Accounting policy

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the accounting periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the Consolidated Statement of Profit or Loss, any related tax generated is recognised as a component of tax expense in the Consolidated Statement of Profit or Loss. Where an item is recognised directly to equity or presented within the Consolidated Statement of Comprehensive Income, any related tax generated is treated similarly.

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences in full with no discounting. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred taxation is calculated using the tax rates and laws that are expected to apply in the period when the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to either the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income or equity to the extent that it relates to items charged or credited. Deferred tax relating to items charged or credited directly to equity is also credited or charged to equity.

Tax recognised in the Consolidated Statement of Profit or Loss:

	2022 £'000	2021 £'000
United Kingdom corporation tax	**6,449**	2,407
Adjustment in respect of previous periods	**(675)**	(450)
Total current tax charge recognised in Consolidated Statement of Profit or Loss	**5,774**	1,957
Deferred taxation charge:		
— on defined benefit pension obligations	**(41)**	154
— on share-based payments	**27**	–
— on capital allowances	**65**	806
— on amortisation of acquisition intangibles	**(65)**	(1,372)
— on short-term temporary timing differences	**149**	(45)
— on corporate tax losses	**264**	1,003
— other timing differences	**18**	(50)
— statutory rate changes	**–**	742
Adjustment in respect of previous periods	**250**	(3)
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	**667**	1,235
Total tax charge recognised in Consolidated Statement of Profit or Loss on continuing operations	**6,441**	3,192
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss on discontinued operations	**48**	(182)
Total tax charge recognised in Consolidated Statement of Profit or Loss	**6,489**	3,010

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

	2022 £'000	2021 £'000
Profit for the year on continuing operations before tax	**34,944**	16,333
Profit for the year on discontinued operations before tax	**542**	940
Result for the year before tax	**35,486**	17,273
Result for the year multiplied by standard rate of corporation tax in the United Kingdom for the period of 19.0% (2021: 19.0%)	**6,742**	3,282
Effect of:		
— expenses not deductible for tax purposes	**362**	112
— income not subject to tax	**(264)**	–
— tax impact of employee share schemes	**129**	102
— tax losses not previously recognised in deferred tax	**–**	(593)
— impact of statutory rate changes	**–**	742
— adjustment in respect of prior periods	**(480)**	(635)
Actual tax charge	**6,489**	3,010

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 £25.5m (2021: £25.5m) across several entities in the Group as it is not expected that they will be eligible to be utilised against profits in the future.

Deferred tax is also recognised on short-term temporary timing differences, primarily relating to provisions. These differences are expected to reverse in the following year and arise because tax relief is only available when the costs are incurred.

Capital allowances represent tax relief on the acquisition of property, plant and equipment and are spread over several years at rates set by legislation. These differ from depreciation, which is an estimate of the use of an item of property, plant and equipment over its useful life. Deferred tax is recognised on the difference between the remaining value of such an asset for tax purposes and its carrying value in the accounts.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end, to the extent those balances are expected to impact on current tax after 1 April 2023.

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

	2022 £'000	2021 £'000
Deferred tax (credit)/charge recognised in other comprehensive income		
— on defined benefit pension obligations	**(2,449)**	8,809
— on cash flow hedges	**–**	178
Total deferred tax (credit)/charge recognised in other comprehensive income	**(2,449)**	8,987
Deferred tax recognised directly in equity		
Deferred tax credit:		
— on share-based payments	**(142)**	(228)
Total deferred tax recognised in equity	**(142)**	(228)

Notes to the financial statements – Group continued
For the year ended 31 December 2022

9. DISCONTINUED ACTIVITIES

During 2020, the Group completed the disposal of its Domiciliary Care business and disposed of its Planning Solutions business.

A small amount of expenditure was incurred in respect of the Domiciliary Care business during 2022, primarily in respect of costs for a number of leased properties that were not included in the sale and whose leases came to an end in March 2022. These transactions are recognised in discontinued operations.

In addition, the consideration for the disposal of the Planning Solutions business included a contingent element that was received during 2022. The amount received of £7.3m exceeded the fair value carried at 31 December 2021 and the resultant profit in 2022 of £0.8m has been recognised in discontinued operations, along with a small amount of costs associated with agreeing the final value.

The results of the operations which have been included in the consolidated financial statements are as follows:

	2022 £'000	2021 £'000
Revenue and profits		
Sales revenue	**–**	57
Cost of sales	**–**	(53)
Administrative expenses	**(261)**	(161)
Increase in fair value of contingent consideration	**803**	1,100
Finance costs	**–**	(3)
Profit for the year before tax on discontinued operations	**542**	940
Tax on discontinued operations	**(48)**	182
Profit for the year after tax on discontinued operations	**494**	1,122

The results of all disposed businesses prior to their disposal are presented within discontinued cash flows in the Consolidated Cash Flow Statement.

The results of the operations which have been included in the Consolidated Cash Flow Statement are as follows:

	2022 £'000	2021 £'000
Operating activities		
Result for the year before tax	**542**	940
Net finance costs	**–**	3
Share-based payments	**–**	–
Depreciation and amortisation	**–**	–
Net profit on disposal of investments	**–**	–
Fair value movement	**(803)**	(1,100)
Change in operating receivables	**–**	–
Change in operating payables	**(233)**	34
Net cash outflow from operating activities before taxation	**(494)**	(123)
Taxes repaid	**–**	182
Net cash (outflow)/inflow from operating activities	**(494)**	59
Investing activities		
Proceeds from disposal of subsidiaries	**7,333**	500
Net cash inflow from investing activities	**7,333**	500
Financing activities		
Discharge of lease liabilities	**(55)**	(217)
Interest paid	**–**	(3)
Net cash outflow from financing activities	**(55)**	(220)
Net increase in cash and cash equivalents	**6,784**	339

10. DIVIDENDS

Accounting policy

Dividend distributions payable to equity shareholders are included in 'Current financial liabilities' when the dividends are approved in a general meeting prior to the balance sheet date.

The following dividends were paid on ordinary shares in the year:

	2022 £'000	2021 £'000
Final 2021 dividend of 5.5p (2021: final 2020 dividend of 0p) per share	**6,092**	–
Interim 2022 dividend of 3.25p (2021: interim 2021 dividend of 2.5p) per share	**3,600**	2,773
	9,692	2,773

The Directors recommend a final dividend of 7.25p per share. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2022.

11. EARNINGS PER SHARE

	Continuing		Discontinued		Continuing and discontinued	
	2022 p	2021 p	2022 p	2021 p	2022 p	2021 p
Earnings per share	**25.07**	11.72	**0.44**	1.01	**25.51**	12.73
Diluted earnings per share	**24.51**	11.50	**0.43**	0.99	**24.94**	12.49

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

	Continuing		Discontinued		Continuing and discontinued	
	2022 p	2021 p	2022 p	2021 p	2022 p	2021 p
Profit for the year	**28,503**	13,141	**494**	1,122	**28,997**	14,263
Attributable to non-controlling interests	**(690)**	(144)	**–**	–	**(690)**	(144)
Earnings	**27,813**	12,997	**494**	1,122	**28,307**	14,119

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.

	2022 Millions	2021 Millions
Weighted average number of shares in issue:	**110.96**	110.93
Dilutive effect of share options	**2.52**	2.13
Weighted average number of shares for calculating diluted earnings per share	**113.48**	113.06

12. GOODWILL

Accounting policy

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and liabilities acquired, and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combinations exemption of IFRS 1, goodwill previously written off directly to reserves under UK Generally Accepted Accounting Practice (GAAP) is not recycled to the Consolidated Statement of Profit or Loss on calculating a gain or loss on disposal.

Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows: CGUs. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill or 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.

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12. GOODWILL CONTINUED

Impairment continued

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 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 CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2021 and 1 January 2022	114,831	4,042	118,873
Acquisition of subsidiary	2,995	–	2,995
At 31 December 2022	**117,826**	**4,042**	**121,868**
Accumulated impairment losses			
At 1 January 2021, at 1 January 2022 and at 31 December 2022	–	–	–
Carrying amount			
At 31 December 2022	**117,826**	**4,042**	**121,868**
At 31 December 2021	114,831	4,042	118,873

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 CGU groupings to which goodwill is allocated cannot be larger than the operating segments of the business. Following the review of the Group's segmental disclosures, the Directors reassessed the CGU groupings for goodwill, resulting in the previous Housing grouping being split between Maintenance and Management. The revised calculations showed that no impairment is required at either 31 December 2022 or 31 December 2021.

The carrying value of goodwill is allocated to the following groups of CGUs:

	Goodwill arising on consolidation		Purchased goodwill		Total	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Maintenance	**65,290**	62,295	**4,042**	4,042	**69,332**	66,337
Management	**33,447**	33,447	**–**	–	**33,447**	33,447
Housing with Care	**19,089**	19,089	**–**	–	**19,089**	19,089
	117,826	114,831	**4,042**	4,042	**121,868**	118,873

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 31 December 2022 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 of 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 a CGU's carrying amount 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	11.25%	14.43%	2.00%	1.70%
Management	11.25%	13.38%	2.00%	1.70%
Housing with Care	11.25%	14.55%	3.00%	1.90%

13. OTHER INTANGIBLE ASSETS

Accounting policy

In accordance with IFRS 3 (Revised) 'Business Combinations', an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair values of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives. Intangible assets are amortised over the useful economic life of those assets.

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

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

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

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

Amortisation commences upon completion of the asset and is shown within other administrative expenses. Until the asset is available for use on completion of the project, the assets are subject to impairment testing only. Development expenditure is amortised over the period expected to benefit.

The identifiable intangible assets and associated periods of amortisation are as follows:

Order book	over the period of the order book, typically three years
Client relationships	over the period expected to benefit, typically five years
Supplier relationships	over the period expected to benefit, typically two years
Development expenditure	over the useful life of the resulting software, typically five to ten years
Software	25% p.a., reducing balance

Notes to the financial statements – Group continued
For the year ended 31 December 2022

13. OTHER INTANGIBLE ASSETS CONTINUED
Accounting policy continued

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

	Acquisition intangibles						
	Client relationships £'000	Order book £'000	Supplier relationships £'000	Total acquisition intangibles £'000	Development expenditure £'000	Software £'000	Total intangibles £'000
Gross carrying amount							
At 1 January 2021	65,987	17,770	2,172	85,929	19,960	–	105,889
Additions	–	–	–	–	1,182	–	1,182
At 1 January 2022	65,987	17,770	2,172	85,929	21,142	–	107,071
Reclassification	–	–	–	–	–	6,087	6,087
Additions	–	–	–	–	1,090	274	1,364
Acquired with subsidiary	–	–	–	–	1,117	–	1,117
Disposals	(61,097)	(17,770)	(2,172)	(81,039)	–	(85)	(81,124)
At 31 December 2022	**4,890**	**–**	**–**	**4,890**	**23,349**	**6,276**	**34,515**
Amortisation							
At 1 January 2021	59,782	14,105	1,739	75,626	15,058	–	90,684
Provided in the year	3,556	3,665	433	7,654	2,123	–	9,777
At 1 January 2022	63,338	17,770	2,172	83,280	17,181	–	100,461
Reclassification	–	–	–	–	–	5,426	5,426
Provided in the year	245	–	–	245	1,849	206	2,300
Eliminated on disposal	(61,097)	(17,770)	(2,172)	(81,039)	–	(85)	(81,124)
At 31 December 2022	**2,486**	**–**	**–**	**2,486**	**19,030**	**5,547**	**27,063**
Carrying amount							
At 31 December 2022	**2,404**	**–**	**–**	**2,404**	**4,319**	**729**	**7,452**
At 31 December 2021	2,649	–	–	2,649	3,961	–	6,610

Development expenditure is an internally developed intangible asset and relates largely to the development of the Group's Housing job management system. During the year, the Group acquired a subsidiary, IRT Surveys Limited, which itself had internally developed software for the purpose of assessing residential properties for decarbonisation retrofits. More details of this acquisition can be found in note 28.

Development expenditure is amortised over its useful economic life of either five or ten years, depending on the resulting software. The weighted average remaining economic life of the asset is 3.9 years (2021: 3.1 years).

During the year, a reclassification was made for purchased software that had historically been recognised in 'Fixtures, fittings and equipment' in Property, Plant and Equipment. This software is now recognised in 'Software' above. The net book value of the software reclassified was £0.7m.

During the year, intangible assets that had been fully amortised in either the current or a prior period were reviewed and, where appropriate, disposed of, resulting in a reduction in gross carrying amount and accumulated amortisation.

All amortisation is included within other administrative expenses.

14. PROPERTY, PLANT AND EQUIPMENT
Accounting policy

Items of property, plant and equipment are stated at historical cost, net of depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow into the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated to write down the cost less estimated residual value over their estimated useful economic lives. The rates generally applicable are:

- Freehold buildings — 2% p.a., straight line
- Leasehold improvements — over the period of the lease, straight line
- Plant and machinery — 20% p.a., straight line
- Equipment — 20% p.a., straight line
- Fixtures and fittings — 50% p.a., straight line
- Motor vehicles — 25% p.a., reducing balance

During the period, the Group reviewed its estimation of the useful economic lives of plant and machinery, and equipment. As a result of this review, the rates of depreciation generally applicable for these categories were changed to 20% straight line from 25% reducing balance. The current year impact of this change in estimate of £2.1m was recognised as an expense during the year in 'Administrative expenses'.

Residual values are reviewed annually and updated if appropriate. The carrying value is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Administrative expenses' in the Consolidated Statement of Profit or Loss.

Identifying whether there are indicators of impairment in respect of property, plant and equipment involves some judgement and a good understanding of the drivers of value behind the asset. At each reporting period an assessment is performed in order to determine whether there are any such indicators, which involves considering the performance at both a contract and business level, and any significant changes to the markets in which we operate. This is not considered to be a critical judgement or an area of significant uncertainty.

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
Gross carrying amount							
At 1 January 2021	926	19,170	2,049	35,647	984	5,839	64,615
Additions	101	5,225	9	2,051	–	216	7,602
Disposals	–	–	(500)	(8,343)	–	–	(8,843)
Transfer to inventories	–	–	–	–	–	(6,055)	(6,055)
At 1 January 2022	1,027	24,395	1,558	29,355	984	–	57,319
Reclassification	–	–	–	(6,087)	–	–	(6,087)
Additions	1,635	4,508	–	1,988	–	–	8,131
Acquired with subsidiary	–	–	–	10	19	–	29
Disposals	–	(2)	(1,166)	(10,386)	(488)	–	(12,042)
At 31 December 2022	**2,662**	**28,901**	**392**	**14,880**	**515**	**–**	**47,350**
Depreciation							
At 1 January 2021	68	8,888	1,551	28,042	966	1,500	41,015
Provided in the year	30	3,241	118	2,222	5	–	5,616
Eliminated on disposals	–	–	(426)	(8,098)	–	–	(8,524)
Transfer to inventories	–	–	–	–	–	(1,500)	(1,500)
At 1 January 2022	98	12,129	1,243	22,166	971	–	36,607
Reclassification	–	–	–	(5,426)	–	–	(5,426)
Provided in the year	17	3,914	227	3,856	7	–	8,021
Eliminated on disposals	–	(2)	(1,166)	(10,384)	(488)	–	(12,040)
At 31 December 2022	**115**	**16,041**	**304**	**10,212**	**490**	**–**	**27,162**
Carrying amount							
At 31 December 2022	**2,547**	**12,860**	**88**	**4,668**	**25**	**–**	**20,188**
At 31 December 2021	929	12,266	315	7,189	13	–	20,712

During the year, a reclassification was made for purchased software that had historically been recognised in Fixtures, fittings and equipment. This software is now recognised in 'Software' in 'Intangible assets'. The net book value of the software reclassified was £0.7m.

15. RIGHT OF USE ASSETS

Accounting policy

Where an asset is subject to a lease, the Group recognises a right of use asset and a lease liability on the balance sheet. The right of use asset is measured at cost, which matches the initial measurement of the lease liability and any costs expected at the end of the lease, and then depreciated on a straight-line basis over the lease term.

The lease liability is measured at the present value of the future lease payments discounted using the Group's incremental borrowing rate. Lease payments include fixed payments, variable payments based on an index and payments arising from options reasonably certain to be exercised.

The Group has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right of use asset and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right of use assets and lease liabilities are presented separately.

Notes to the financial statements – Group continued
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15. RIGHT OF USE ASSETS CONTINUED

Critical judgements in applying the Group's accounting policies

The Group holds more than 15,000 leases across its portfolio of residential properties, offices and vehicles. Whilst the Group endeavours to standardise the form of leases, operational demands dictate that many leases have specific wording to address particular operational needs and also to manage the associated operational and financial risks. As such, each lease requires individual assessment and the Group is required to make key judgements which include:

- the identification of a lease;
- assessing the right to direct the use of the underlying asset;
- determining the lease term; and
- an assessment as to the level of future lease payments, including fixed and variable payments.

The most typical challenges encountered and which form the key judgements are:

- where the lease contains a one-way no-fault break in Mears' favour, the Group measures the obligation based on the Group's best estimate of its future intentions;
- where the lessor has a right of substitution meaning that the lessor can swap one property for another without Mears' approval;
- where Mears does not in practice have the right to control the use of the asset and the key decision making rights are retained by the supplier;
- where a wider agreement for a supply of services includes a lease component which meets the definition of a lease under 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.

Key sources of estimation uncertainty

Additions and remeasurements to right of use assets in respect of lease agreements are equivalent to the present value (or change in present value) of the relevant lease obligation. Unless there is an interest rate implicit in the lease itself, the Group's Incremental Borrowing Rate (IBR) is used to calculate the present value of future lease payments. Estimation is required in deriving an appropriate IBR. The Directors believe that the best approximation for IBR is the currently applicable margin from the grid contained within the Group's rolling credit facility (RCF) agreement, added to an appropriate base rate. The Group's RCF is linked to SONIA, so that is considered the most appropriate base rate to use.

The sensitivity of the lease liability to the assumptions used in these estimations is indicated in note 20.

Investment property

Included within right of use assets are certain properties classified as investment properties in accordance with IAS 40. These properties are held primarily in order to earn rentals. The Group has chosen to apply the cost model to all investment property and therefore measurement is in line with IFRS 16 as described in the Leased assets accounting policy.

Properties that generate rentals but are primarily held for the provision of social benefits are not considered to meet the definition of investment property.

	Assets that are sub-leased to customers		Assets that are used directly within the business			
	Investment property £'000	Residential property £'000	Residential property £'000	Offices £'000	Motor vehicles £'000	Total £'000
Gross carrying amount						
At 1 January 2021	27,528	112,039	75,307	11,076	37,906	263,856
Additions*	417	5,824	29,646	1,262	12,895	50,044
Disposals	–	(4,674)	(1,487)	(910)	(19,761)	(26,832)
At 1 January 2022	27,945	113,189	103,466	11,428	31,040	287,068
Additions*	2,193	3,438	38,441	608	8,008	52,688
Disposals	–	(3,019)	(5,921)	(1,529)	(1,491)	(11,960)
At 31 December 2022	**30,138**	**113,608**	**135,986**	**10,507**	**37,557**	**327,796**
Depreciation						
At 1 January 2021	3,030	17,151	19,612	4,568	19,454	63,815
Provided in the year	1,553	8,609	21,589	1,741	9,921	43,413
Eliminated on disposals	–	(4,140)	(795)	(910)	(19,264)	(25,109)
At 1 January 2022	4,583	21,620	40,406	5,399	10,111	82,119
Provided in the year	1,615	7,428	25,422	1,799	7,222	43,486
Eliminated on disposals	–	(2,901)	(5,516)	(1,529)	(1,295)	(11,241)
At 31 December 2022	**6,198**	**26,147**	**60,312**	**5,669**	**16,038**	**114,364**
Carrying amount						
At 31 December 2022	**23,940**	**87,461**	**75,674**	**4,838**	**21,519**	**213,432**
At 31 December 2021	23,362	91,569	63,060	6,029	20,929	204,949

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

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 £2.3m (2021: £1.7m). Direct operating expenses arising from investment property that generated rental income during the period was £3.6m (2021: £3.3m). The carrying value of the right of use asset in respect of investment property is considered to be approximately equal to its fair value.

16. INVESTMENTS

Accounting policy

Investments include those over which the Group has significant influence but which it does not control. These are categorised as associates. It is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. The Group also holds investments in joint ventures where the Group and other parties have joint control over their activities.

The basis by which associates and joint ventures are consolidated in the Group financial statements is through the equity method, as outlined in the basis of consolidation.

In addition to associates and joint ventures, the Group holds investments in entities over which it does not exert significant influence. These are accounted for at fair value through profit or loss.

	Associates £'000	Other investments £'000	Total £'000
At 1 January 2021	901	65	966
Share of profit	855	–	855
Distributions received	(1,108)	–	(1,108)
At 1 January 2022	648	65	713
Share of profit	858	–	858
Distributions received	(300)	–	(300)
At 31 December 2022	**1,206**	**65**	**1,271**

Other investments represents the Group's 6.16% holding in Mason Topco Limited, which is mandatorily held at fair value through profit or loss. There have been no changes in the fair value of the investment during the year (2021: none).

Associates

Set out below is the investment in an associate as at 31 December 2022, which in management's opinion is significant to the Group:

				Carrying value	
	Nature of relationship	Proportion held	Country of registration	2022 £'000	2021 £'000
Pyramid Plus South LLP	Associate	30%	England and Wales	1,206	648

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.

During the year, the Group received distributions of £0.3m (2021: £1.1m) from Pyramid Plus South LLP. Summarised financial information for Pyramid Plus South LLP for the year is shown below:

	2022 £'000	2021 £'000
Revenue and profits		
Revenue	**21,600**	19,866
Expenses	**(18,738)**	(17,017)
Profit for the year	**2,862**	2,849
Other comprehensive income	**–**	–
Total comprehensive income	**2,862**	2,849
Share of profit at 30%	**858**	855
Net assets		
Non-current assets	**–**	–
Current assets	**7,795**	6,498
Current liabilities	**(3,763)**	(4,291)
Non-current liabilities	**–**	–
Total assets less total liabilities	**4,032**	2,207

Cash and cash equivalents of £2.5m (2021: £1.9m) were included in current assets above.

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16. INVESTMENTS CONTINUED

The subsidiary undertakings within the Group at 31 December 2022 are shown below:

	Proportion held	Country of registration	Nature of business
3c Asset Management Limited	100%	England and Wales	Dormant
Careforce Group Limited	100%	England and Wales	Dormant
Helcim Group Limited	100%	England and Wales	Dormant
Helcim Homes Limited	100%	England and Wales	Dormant
IRT Energy Limited	100%	Scotland	Dormant
IRT Surveys Limited	100%	Scotland	Housing technology provider
Let to Birmingham Limited	100%	England and Wales	Housing management services
Manchester Working Limited	80%	England and Wales	Housing services
Mears Energy Limited	100%	England and Wales	Dormant
Mears Estates Limited	100%	England and Wales	Grounds maintenance
Mears Extra Care Limited	100%	England and Wales	Provision of care
Mears Facility Management Limited	100%	England and Wales	Dormant
Mears Home Improvement Limited	100%	England and Wales	Housing services
Mears Homecare Limited	100%	England and Wales	Provision of care
Mears Homes Limited	100%	England and Wales	Dormant
Mears Housing Management Limited	100%	England and Wales	Housing management services
Mears Housing Management (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio (Holdings) Limited	100%	England and Wales	Intermediate holding company
Mears Housing Portfolio 4 Limited	100%	England and Wales	Dormant
Mears Insurance Company Limited	99.99%	Guernsey	Insurance services
Mears Learning Limited	90%	England and Wales	Dormant
Mears Limited	100%	England and Wales	Housing services
Mears New Homes Limited	100%	England and Wales	House building
Mears Property Company Limited	100%	England and Wales	Property acquisition
Mears Property Company 2 Limited	100%	Scotland	Property acquisition
Mears Scotland (Housing) Limited	100%	Scotland	Dormant
Mears Scotland (Services) Limited	66.67%	Scotland	Dormant
Mears Scotland LLP	66.67%	Scotland	Housing services
Mears Social Housing Limited	100%	England and Wales	Dormant
Mears Supported Living Limited	100%	Scotland	Provision of care
Mears Wales Limited	100%	England and Wales	Dormant
MHM Property Services Limited	100%	England and Wales	Maintenance services
Morrison Facilities Services Limited	100%	Scotland	Maintenance services
MPM Housing Limited	100%	England and Wales	Dormant
MPS Housing Limited	100%	England and Wales	Housing services
O&T Developments Limited	100%	England and Wales	Housing management services
Omega Housing Limited	100%	England and Wales	Housing registered provider
Plexus UK (First Project) Limited	100%	England and Wales	Housing registered provider
Scion Group Limited	100%	England and Wales	Dormant
Scion Property Services Limited	100%	England and Wales	Dormant
Scion Technical Services Limited	100%	England and Wales	Maintenance services
Tando Homes Limited	100%	England and Wales	Housing management services
Tando Property Services Limited	100%	England and Wales	Housing management services

All subsidiary undertakings prepare accounts to 31 December.

The Group includes the following three subsidiaries with non-controlling interests: Manchester Working Limited, Mears Learning Limited and Mears Scotland LLP. The table below sets out selected financial information in respect of those subsidiaries:

	2022 £'000	2021 £'000
Revenue and profits		
Revenue	**63,061**	54,447
Expenses and taxation	**(61,764)**	(54,539)
Profit for the year	**1,297**	(92)
Other comprehensive expense	**–**	–
Total comprehensive income	**1,297**	(92)
Profit/(loss) for the year allocated to non-controlling interests	**690**	144
Total comprehensive expense allocated to non-controlling interests	**–**	–
Net assets		
Non-current assets	**93**	178
Current assets	**19,643**	14,985
Current liabilities	**(13,074)**	(10,339)
Non-current liabilities	**(1,963)**	(1,393)
Total assets less total liabilities	**4,699**	3,431
Equity shareholders' funds	**3,207**	2,629
Non-controlling interests	**1,492**	802
Total equity	**4,699**	3,431

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 2022:

	Registration number
IRT Surveys Limited	SC227199
Let to Birmingham Limited	08757503
Mears Estates Limited	03720903
Mears Extra Care Limited	03689426
Mears Homecare Limited	02744787
Mears Home Improvement Limited	03716517
Mears Housing Management Limited	03662604
Mears Housing Management (Holdings) Limited	04726480
Mears Housing Portfolio (Holdings) Limited	10908305
Mears Housing Portfolio 4 Limited	10952906
Mears New Homes Limited	08780839
Mears Property Company Limited	14425736
Mears Property Company 2 Limited	SC750308
Mears Supported Living Limited	SC662805
MHM Property Services Limited	07448134
Morrison Facilities Services Limited	SC120550
MPM Housing Limited	03528320
MPS Housing Limited	11655167
O&T Developments Limited	05692853
Scion Group Limited	03905442
Scion Technical Services Limited	03671450
Tando Homes Limited	09260353
Tando Property Services Limited	07405761

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For the year ended 31 December 2022

17. INVENTORIES

Accounting policy

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

Work in progress is included in inventories after deducting any foreseeable losses and payments on account not matched with revenue. Work in progress represents costs incurred on new build residential construction projects where the eventual sale will be of the completed property. Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and any subcontracted work that has been incurred in bringing the inventories and work in progress to their present location and condition.

	2022 £'000	2021 £'000
Materials and consumables	**1,329**	1,650
Work in progress	**5,550**	21,219
	6,879	22,869

The Group consumed inventories totalling £93.9m during the year (2021: £167.3m). No items are being carried at fair value less costs to sell (2021: £nil).

18. TRADE AND OTHER RECEIVABLES

Accounting policy

Trade receivables represent amounts due from customers in respect of invoices raised. They are initially measured at their transaction price and subsequently remeasured at amortised cost.

Retention assets represent amounts held by customers for a period following payment of invoices, to cover any potential defects in the work. Retention assets are included in trade receivables and are therefore initially measured at their transaction price.

Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

Critical judgements and key sources of estimation uncertainty

The estimation techniques used for revenue in respect of contracting require judgements to be made about the stage of completion of certain contracts and the recovery of contract assets. Each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract. Contract assets represent revenue recognised in excess of the total of payments on account and amounts invoiced.

However, due to the estimation uncertainty across numerous contracts each with different characteristics, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts.

	2022 £'000	2021 £'000
Current assets		
Trade receivables	**21,483**	28,571
Contract assets	**84,797**	97,680
Contract fulfilment costs	**1,283**	1,242
Prepayments and accrued income	**13,257**	9,277
Contingent consideration	**–**	6,531
Other debtors	**7,514**	5,004
Total trade and other receivables	**128,334**	148,305

Included in trade receivables is £4.3m (2021: £4.9m) in respect of retention payments due in more than one year.

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables and accrued income are subject to credit risk exposure.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customers are primarily a mix of Local and Central Government and Housing Associations where credit risk is minimal. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty.

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group measures loss allowances at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

The ageing analysis of trade receivables is as follows:

	2022			2021		
	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	**18,661**	**(986)**	**17,675**	27,641	(1,110)	26,531
Less than three months past due	**3,051**	**(504)**	**2,547**	2,063	(429)	1,634
More than three months past due	**1,946**	**(685)**	**1,261**	5,873	(5,467)	406
Total trade receivables	**23,658**	**(2,175)**	**21,483**	35,577	(7,006)	28,571

For expected credit losses with large organisations, such as Government bodies or Housing Associations, expected credit losses are calculated on an individual basis, taking account of all the relevant factors applicable to the amount outstanding. The Group has no history of defaults with these types of customers, so expected credit losses relate to specific disputed balances.

For individual tenant customers, expected credit losses are calculated based on the Group's historical experience of default by applying a percentage based on the age of the customer's balance. During 2022, the Directors took the decision to write off debts of £3.0m in respect of historical ex-tenants where the prospect of recovery is limited. These debts had already been fully provided over a number of years, so there was no impact on the carrying value of trade receivables as a result of this decision.

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

	2022 £'000	2021 £'000
As at 1 January	**7,006**	8,165
Changes in amounts provided	**1,208**	196
Amounts utilised	**(6,039)**	(1,355)
As at 31 December	**2,175**	7,006

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

	2022 £'000	2021 £'000
As at 1 January	**97,680**	88,594
Recognised on completion of performance obligations	**906,415**	843,628
Invoiced during the year	**(919,298)**	(834,542)
As at 31 December	**84,797**	97,680

Included in other debtors is an amount of £2.9m (2021: £2.9m) recoverable from the Group's fronting insurers. An equal and opposite amount is also included within other creditors.

19. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	**55,854**	69,555
Accruals	**60,278**	51,343
Social security and other taxes	**26,343**	29,724
Contract liabilities	**23,672**	27,843
Other creditors	**4,866**	5,582
	171,013	184,047

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.

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For the year ended 31 December 2022

19. TRADE AND OTHER PAYABLES CONTINUED
The movement in contract liabilities during the period is shown below:

	2022 £'000	2021 £'000
As at 1 January	**27,843**	25,330
Revenue recognised in respect of contract liabilities	**(24,296)**	(13,197)
Payments received in advance of performance obligations being completed	**20,125**	15,710
As at 31 December	**23,672**	27,843

Contract liabilities relate to payments received from the customer on the contract, and/or amounts invoiced to the customer in advance of the Group performing its obligations on contracts where revenue is recognised either over time or at a point in time. These amounts are expected to be recognised within revenue within one year of the balance sheet date.

Included in other creditors is an amount of £2.9m (2021: £2.9m) payable to the Group's fronting insurers. An equal and opposite amount is also included within other debtors reflecting the subsequent reimbursement due to the Group's insurance captive.

20. LEASE LIABILITIES
Lease liabilities are separately presented on the face of the Consolidated Statement of Financial Position as shown below:

	2022 £'000	2021 £'000
Current	**44,376**	41,600
Non-current	**181,045**	175,290
	225,421	216,890

The Group had not committed to any leases which had not commenced at 31 December 2022. 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 longer term will apply. In some cases, a portfolio of leases with similar lease terms is considered together and, where a rolling notice period is available to the Group, an average expected lease life may be applied.

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:

	2022 £'000	2021 £'000
Short-term leases	**46,683**	46,780
Low value leases	**1,096**	879
Variable lease payments	**1,236**	1,550

The portfolio of short-term leases to which the Group is committed at the end of the reporting period is not dissimilar to the portfolio to which the above disclosure relates.

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

	Note	2022 £'000	2021 £'000
Depreciation of right of use assets during the year	15	**43,486**	43,413
Additions during the year	15	**52,688**	50,044
Carrying value at the year end	15	**213,432**	204,949
Interest on lease liabilities during the year – continuing activities	5	**7,617**	6,952
Total cash outflow in respect of leases during the year	27	**50,827**	47,399

The Group's lease liabilities are subject to changes in certain key assumptions in estimating the IBRs used to calculate the liabilities. The IBRs used during the year ranged from 2.79% to 6.90%. The impact of an increase in all IBRs applied during 2022 by 0.5% is a £0.4m reduction in the lease liability and a £0.1m reduction in profit before tax.

21. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities of £0.7m (2021: £nil) consist of deferred and contingent consideration due in more than one year, as described in note 24.

22. 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. The Directors have estimated provisions based on all relevant information available to them. For individually material provisions further information has been provided on the maximum likely outflow, in addition to the best estimate.

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

	Onerous contract provisions £'000	Property provisions £'000	Legal provisions £'000	Total £'000
At 1 January 2022	1,400	730	2,343	4,473
Provided during the year	1,400	360	8,419	10,179
Utilised during the year	(2,800)	(255)	(2,817)	(5,872)
At 31 December 2022	**–**	**835**	**7,945**	**8,780**

In the year ended 31 December 2021, the Group identified a small number of maintenance contracts where the estimate of unavoidable costs of meeting contractual obligations exceeded the remuneration expected to be received. These were categorised as onerous contracts of £1.4m at 1 January 2022. The contracts all terminated during the course of 2022 and there is no remaining onerous contract provision.

Property provisions have been recognised during the year in respect of the expected costs of reinstating several office properties to their original condition.

At 1 January 2022, legal provisions of £2.3m related to various subcontractor and employee related legal claims which were largely settled during the year. One of the subcontractor claims increased during the year and is still unresolved, with a provision of £1.5m at 31 December 2022. This is expected to be utilised within one year.

During the year, the Group took legal advice in respect of one particularly challenging client relationship and, believing that the client was acting in breach of contract, served a notice of termination. This matter was subsequently referred to adjudication and the outcome of that process has ruled in favour of the former client. The consequence of this is that the former client can rely upon the adjudicator's decision to bring a claim for damages. The Group has received an initial indication of damages from the claimant of £9.3m; however, the claimant has refused to provide sufficient detail to support this figure, and the Directors dispute a number of estimates and assumptions which underpin the value. The Directors have carried out their own assessment, mindful of the limitation of the information provided. The Directors have considered a range of possible outcomes and have provided a sum of £5.7m, which they believe represents the best estimate of the likely outcome.

23. NON-CURRENT PROVISIONS

Accounting policy

The Group self-insures certain fleet and liability risks. A provision for claims incurred but not received is recognised in respect of these potential claims. The value of this provision is estimated based on past experience of claims.

	2022 £'000	2021 £'000
Non-current provisions	**3,110**	3,800

Non-current provisions represent self-insured claims incurred but for which the final cost has not been agreed. £2.0m of the provision was utilised during the year and £1.3m of additional amounts were provided. The timing of the utilisation of the provision is uncertain as it depends upon the timing of insurance claims against the Group. However, the majority of the carrying value is expected to be utilised in more than one year and, as such, the provision is considered to be non-current.

Notes to the financial statements – Group continued
For the year ended 31 December 2022

24. FINANCIAL INSTRUMENTS

Accounting policy

The Group uses a limited number of financial instruments comprising cash and liquid resources, borrowings, interest rate swaps and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. The Group seeks to finance its operations through a combination of retained earnings and borrowings and investing surplus cash on deposit. The Group uses financial instruments to manage the interest rate risks arising from its operations and sources of finance but has no interests in the trade of financial instruments.

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

Financial assets

Investments in unlisted equities that do not convey control or significant influence over the underlying entity are recognised at fair value. They are subsequently remeasured at fair value with any changes being recognised in the Consolidated Statement of Profit or Loss.

Contingent consideration is held by the Group in order to collect the associated cash flows but until the amount is determined, these are not solely payments of principal and interest and therefore these assets are measured both initially and subsequently at fair value, with any changes being recognised in the Consolidated Statement of Profit or Loss.

Loan notes and other non-current debtors are held by the Group in order to collect the associated cash flows and not for trading. They are therefore initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

Financial assets generated from goods or services transferred to customers are presented as either trade receivables or contract assets. All of the Group's trade receivables are short-term in nature, with payments typically due within 60 days of the works being performed. The Group's contracts with its customers therefore contain no significant financing component.

Mears recognises a loss allowance for expected credit losses on financial assets subsequently measured at amortised cost using the 'simplified approach'. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are grouped into credit risk categories and reviewed in aggregate.

Trade receivables and cash at bank and in hand are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are initially recorded at fair value net of transaction costs, being invoiced value less any provisional estimate for impairment should this be necessary due to a loss event. Trade receivables are subsequently remeasured at invoiced value, less an updated provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Consolidated Statement of Profit or Loss.

Cash and cash equivalents include cash at bank and in hand and bank deposits available with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances. The Group considers its revolving credit facility to be an integral part of its cash management.

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'.

All interest related charges are recognised as an expense in 'Finance costs' in the Consolidated Statement of Profit or Loss with the exception of those that are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Bank and other borrowings are initially recognised at fair value net of transaction costs. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in 'Finance income' and 'Finance costs'. Borrowing costs are recognised as an expense in the period in which they are incurred with the exception of those which are directly attributable to the construction of a qualifying asset, which are capitalised as part of that asset.

Trade payables on normal terms are not interest bearing and are stated at their fair value on initial recognition and subsequently at amortised cost.

Categories of financial instruments

	2022 £'000	2021 £'000
Non-current assets		
Fair value (level 3)		
Investments – other investments	**65**	65
Amortised cost		
Loan notes and other non-current debtors	**4,073**	3,476
Current assets		
Fair value (level 3)		
Contingent consideration	**–**	6,531
Amortised cost		
Trade receivables	**21,483**	28,571
Other debtors	**7,514**	5,004
Short-term financial assets	**1,963**	–
Cash at bank and in hand	**98,138**	54,632
	129,098	88,207
Non-current liabilities		
Fair value (level 3)		
Contingent consideration	**(438)**	–
Amortised cost		
Lease liabilities	**(181,045)**	(175,290)
Deferred consideration	**(244)**	–
	(181,289)	(175,290)
Current liabilities		
Amortised cost		
Trade payables	**(55,854)**	(69,555)
Lease liabilities	**(44,376)**	(41,600)
Other creditors	**(4,614)**	(5,582)
Deferred consideration	**(252)**	–
	(105,096)	(116,737)
	(153,587)	(193,748)

The amount recognised as an allowance for expected credit losses on trade receivables during 2022 was £1.2m (2021: £0.2m).

The IFRS 13 hierarchy level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1, where instruments are quoted on an active market, through to level 3, where the assumptions used to arrive at fair value do not have comparable market data.

The fair values of investments in unlisted equity instruments are determined by reference to an assessment of the fair value of the entity to which they relate. This is typically based on a multiple of earnings of the underlying business.

There have been no transfers between levels during the year.

Fair value information

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

Notes to the financial statements – Group continued
For the year ended 31 December 2022

24. FINANCIAL INSTRUMENTS CONTINUED

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.

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 total borrowing facilities of £73.0m with Barclays Bank PLC, HSBC Bank PLC and Citi, of which £nil was utilised at 31 December 2022.

The facilities comprise a committed four-year £60.0m revolving credit facility and unsecured overdraft facilities of £13.0m.

Details of the Group's banking covenants are provided on page 58.

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 2022 the Group had minimal exposure to movements in interest rates as it had no drawn borrowings.

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 generally carried out at a local level in the operating companies of the Group in accordance with the practice and limits set by the Group. These limits vary by location and take into account the liquidity and nature of the market in which the entity operates.

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
2022					
Non-derivative financial liabilities					
Trade and other payables	**55,854**	**–**	**–**	**–**	**55,854**
Lease liabilities	**47,320**	**37,821**	**68,502**	**116,218**	**269,861**
Other creditors	**4,614**	**–**	**–**	**–**	**4,614**
Deferred and contingent consideration	**260**	**860**	**–**	**–**	**1,120**
2021					
Non-derivative financial liabilities					
Trade and other payables	69,555	–	–	–	69,555
Lease liabilities	42,302	30,769	63,899	123,394	260,364
Other creditors	5,582	–	–	–	5,582

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables, contract assets and work in progress.

Trade receivables are normally due within 30 to 60 days. Trade and other receivables included in the Consolidated Balance Sheet are stated net of an expected credit loss provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the expected credit loss provision when management considers that the debt is no longer recoverable.

Housing customers are typically Local and Central Government and Housing Associations. The nature of these customers means that credit risk is minimal. Other trade receivables contain no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

The Group continually monitors the position of major customers and incorporates this information into its credit risk controls. External credit ratings are obtained where appropriate.

Details of the ageing of trade receivables are shown in note 18.

Loan notes receivable
The loan notes included within non-current assets were received as part of the disposal of the Terraquest Group. They are repayable in December 2028 and accrue interest at 10% per annum. Their carrying value including accumulated interest at 31 December 2022 was £3.8m (2021: 3.5m).

Short-term financial assets
Short-term financial assets are fixed-term deposits with financial institutions with a maturity of more than three months at inception. Similar deposits with a maturity of three months or less at inceptions are presented within 'Cash and cash equivalents'. 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 receivable
The table below shows the movements in deferred and contingent consideration receivable:

	Deferred £'000	Contingent £'000	Total £'000
At 1 January 2021	500	5,431	5,931
Movement in fair value of contingent consideration	–	1,100	1,100
Received during the year	(500)	–	(500)
At 1 January 2022	–	6,531	6,531
Movement in fair value of contingent consideration	–	802	802
Received during the year	–	(7,333)	(7,333)
At 31 December 2022	**–**	**–**	**–**

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 2021 and 1 January 2022	–	–	–
Fair value of deferred and contingent consideration on acquisition of IRT Surveys Limited	496	438	934
At 31 December 2022	**496**	**438**	**934**

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 the Director's expectation of the amount that will be payable. The factors determining the amount payable are detailed in note 28. This figure is then discounted at a rate in line with the weighted average cost of capital of the Group. The value of contingent consideration could vary by up to £0.4m based on the factors detailed in note 28.

Capital management
The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and
- to maintain an optimal capital structure to reduce the cost of capital.

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

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25. 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 2022 £'000	At 31 December 2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Pension schemes	**(5,800)**	(8,315)	**66**	(1,003)	**2,449**	(8,809)
Share-based payments	**704**	588	**(26)**	79	**142**	228
Cash-flow hedges	**–**	–	**–**	–	**–**	(178)
Tax losses	**–**	249	**(249)**	(1,030)	**–**	–
Provisions	**–**	149	**(149)**	73	**–**	–
Acquisition intangibles	**(601)**	(662)	**61**	1,213	**–**	–
Capital allowances	**317**	647	**(330)**	(676)	**–**	–
Leases	**625**	668	**(43)**	107	**–**	–
Fair value of software development	**(143)**	–	**3**	–	**(146)**	–
	(4,898)	(6,676)	**(667)**	(1,237)	**2,445**	(8,759)

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. Deferred tax on the fair value of software development was recognised directly in the balance sheet on the acquisition of IRT Surveys Limited, as described in note 28.

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 £25.5m (2021: £25.5m) have not been recognised as management does not consider that it is probable that they will be recovered.

Intangible assets acquired as part of a business combination are capitalised at fair value at the date of the acquisition and amortised over their useful economic lives. The UK tax regime calculates tax using the individual financial statements of the members of the Group and not the consolidated accounts. Hence, the tax base of acquisition intangible assets arising on consolidation is £nil. Furthermore, no UK tax relief is available on the majority of acquisition intangibles within individual entities, so the tax base of these assets is also £nil. The estimated tax effect of this £nil tax base is accounted for as a deferred tax liability which is released over the period of amortisation of the associated acquisition intangible asset.

26. SHARE CAPITAL AND RESERVES
Classes of reserves
Share capital represents the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Share-based payment reserve represents employee remuneration which is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The merger reserve relates to the difference between the nominal value and total consideration in respect of acquisitions, where the Company was entitled to the merger relief offered by the Companies Act 2006.

Share capital

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
At 1 January 110,926,510 (2021: 110,881,897) ordinary shares of 1p each	**1,109**	1,109
Issue of 74,379 (2021: 44,613) shares on exercise of share options	**1**	–
At 31 December 111,000,889 (2021: 110,926,510) ordinary shares of 1p each	**1,110**	1,109

During the year 74,379 (2021: 44,613) ordinary 1p shares were issued in respect of share options exercised.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2022 £'000	2021 £'000
Depreciation	**51,508**	49,024
(Profit)/loss on disposal of assets	**(224)**	245
Amortisation	**2,299**	9,777
Share-based payments	**599**	575
IAS 19 pension movement	**859**	(933)
Share of profits of associates	**(858)**	(855)
Finance income	**(2,033)**	(835)
Finance cost	**8,374**	8,904
Total	**60,524**	65,902

Movements in financing liabilities during the year are as follows:

	Revolving credit facility £'000	Lease liabilities £'000	Total £'000
At 1 January 2021	39,353	209,071	248,424
Inception of new leases*	–	50,044	50,044
Termination of leases	–	(1,750)	(1,750)
Interest	966	6,955	7,921
Arrangement fees	647	–	647
Cash outflows including in respect of interest	(40,966)	(47,430)	(88,396)
At 1 January 2022	–	216,890	216,890
Inception of new leases*	–	52,688	52,688
Termination of leases	–	(947)	(947)
Interest	424	7,617	8,041
Arrangement fees	201	–	201
Cash outflows including in respect of interest	(625)	(50,827)	(51,452)
At 31 December 2022	**–**	**225,421**	**225,421**

* Including modifications to existing leases resulting in a change in lease liabilities.

Cash outflows in respect of lease liabilities include £7.6m (2021: £6.9m) in respect of interest paid and £43.2m (2021: £40.3m) in respect of discharge of the underlying lease liabilities. In 2021, an additional £0.2m was included in cash outflows from financing activities of discontinued operations, in respect of lease liabilities.

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28. BUSINESS COMBINATIONS

Accounting policy

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Balance Sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Where applicable, the consideration for an acquisition includes any assets or liabilities arising from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values as well as any other changes in the assets and liabilities acquired, are adjusted against the cost of acquisition where they result from additional information obtained up to one year from the acquisition date about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IFRS 9 in the Consolidated Statement of Profit or Loss.

For transactions with non-controlling parties that do not result in a change of control, the difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognised in equity.

Any business combinations prior to 1 January 2010 were accounted for in accordance with the standards in place at the time, which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Critical judgements and key sources of estimation uncertainty

The allocation of the purchase consideration between goodwill and the fair value of the acquired intangible assets involves judgement and estimation in respect of certain key assumptions that underpin the value of the software development intangible. In particular, the useful life of the underlying software resulting from the development expenditure is a key input into the valuation. If the valuation of the intangible assets was changed, this would result in a complementary change in the amount of goodwill recognised.

On 12 August 2022 the Group acquired the entire issued share capital of IRT Surveys Limited (IRT). IRT provides a range of data-led services focused on addressing fuel poverty, decarbonisation and energy efficiency. IRT has developed a proprietary technology platform (DREam) that has been engineered to assess the energy performance of housing portfolios and provide solutions for the most efficient way to complete retrofits.

The acquisition was undertaken in order to enhance the Group's offering in its Housing segment, particularly with respect to future decarbonisation projects that will be increasingly important to clients in reaching their Net Zero targets.

The total consideration for the transaction was up to £4.3m made up of £3.2m cash paid on the acquisition date plus up to £1.1m of consideration payable over the course of two years and partly contingent on the performance of IRT in that time. The Directors have assessed the fair value of this contingent consideration as £0.9m based on the present value of the expected consideration to be paid.

The effect of the acquisition of IRT is disclosed below:

	£'000
Assets	
Non-current	
Intangible assets	1,117
Property, plant and equipment	29
Current	
Trade and other receivables	213
Cash and cash equivalents*	224
Total assets	1,583
Liabilities	
Current	
Trade and other payables	(332)
Lease liabilities	(3)
Non-current	
Lease liabilities	(11)
Total liabilities	(346)
Net assets acquired at fair value	1,237
Deferred tax recognised in respect of fair value adjustments	(146)
	1,091
Goodwill	2,995
	4,086
Satisfied by:	
— cash	3,152
— fair value of deferred consideration	496
— fair value of contingent consideration	438
	4,086

* Cash and cash equivalents includes £0.05m in respect of the exercise price of share options held by employees of IRT and exercised immediately prior to acquisition.

The only significant fair value adjustment to the carrying value of IRT assets and liabilities was for the intangible asset in respect of software development, which was increased by £0.6m from the carrying value. The Group engaged a third party expert in order to determine the fair value of this asset, using the excess earnings method. The fair value adjustment will be amortised over 10 years, in line with the underlying development expenditure. Due to the relatively short period between the acquisition and the year end, the initial accounting for the acquisition remains provisional. However, the Directors do not anticipate significant movements in the values recognised above in the remaining measurement period.

The valuation of the software development intangible is primarily sensitive to changes in the estimated useful life of the software. This estimated useful life was arrived at through discussions with the developers of the obsolescence rate of the software, taking into account historical information and expected future developments. Reducing the estimated useful life of the software by two years would result in a £0.3m reduction in its fair value.

The Directors consider that the value assigned to goodwill represents the benefits arising from the enhanced offering now available to the Group's existing and future clients. This synergy would not necessarily be available to typical market participants and therefore results in a higher proportion of goodwill arising from this acquisition.

Deferred consideration of £0.5m is payable in two instalments, both one year and two years after acquisition. Contingent consideration is payable two years after acquisition with an undiscounted range of £nil to £0.6m based upon the increase in the number of properties serviced by the DREam platform over the course of the two years.

The fair value of 'Trade and other receivables' at acquisition was as disclosed in the table above. The gross contractual amounts receivable were £0.3m, and £0.1m was not expected to be collected as at the date of acquisition. There has been no change in the Group's assessment of the recoverability of those amounts since acquisition.

In the period ended 31 December 2022, the acquisition contributed revenue of £0.2m and an operating loss of £0.1m. Costs relating to the acquisition of £0.1m have been expensed in the year and are recognised in 'Administrative expenses' in the Consolidated Statement of Profit or Loss.

For the year ended 31 December 2022, had the acquisitions taken place on 1 January 2022, the combined Group full year revenue is estimated at £960.0m and the combined Group profit for the year before taxation is estimated at £34.9m.

Included within 'Trade and other payables' in the table above is £0.04m of bank loans which were repaid following acquisition.

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29. PENSIONS

Accounting policy

Retirement benefit obligations

The Group operates both defined benefit and defined contribution pension schemes as follows:

Defined contribution pensions

A defined contribution plan is a pension plan under which the Group pays fixed contributions to an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

The assets of the schemes are held separately from those of the Group in an independently administered fund.

Defined benefit pensions

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

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

Scheme liabilities are measured using the projected unit funding method, applying the principal actuarial assumptions at the balance sheet date. Assets are measured at market value. In accordance with IFRIC 14, the asset that is recognised is restricted to the amount by which the IAS 19 service cost is expected, over the lifetime of the scheme, to exceed funding contributions payable in respect of accruing benefits.

Where the Group has a contractual obligation to make good any deficit in its share of a Local Government Pension Scheme (LGPS) but also has the right to recover the costs of making good any deficit from the Group's client, the fair value of that guarantee asset has been recognised and disclosed. Movements in the guarantee asset are taken to the Consolidated Statement of Profit or Loss and to the Consolidated Statement of Comprehensive Income to match the movement in pension assets and liabilities.

The Group recognises the pension liability and guarantee assets separately on the face of the Consolidated Balance Sheet.

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

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

When the Group ceases its participation in a defined benefit pension scheme, the difference between the carrying value of the scheme as calculated on an IAS 19 basis and any deficit payment or surplus receipt due are recognised in the Consolidated Statement of Profit or Loss as a settlement.

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

Defined benefit assets

Scheme assets for LGPS have been estimated by rolling forward the published asset position from the previous year using market index returns over the period. This is considered to provide a good estimate of the fair value of the scheme assets and the values will be updated to actuals each time a triennial valuation takes place.

Defined benefit liabilities

A number of key estimates have been made, which are given below, and which are largely dependent on factors outside the control of the Group:

- inflation rates;
- mortality;
- discount rate; and
- salary and pension increases.

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

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 the 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 £4.4m (2021: £4.0m) to these schemes.

Defined benefit schemes

The Group participated in 17 (2021: 23) 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 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.

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.

The disclosures in respect of the two (2021: two) Group defined benefit schemes and the 15 (2021: 22) other defined benefit schemes in this note have been aggregated. Details of movements in pension guarantee assets are presented in a separate table.

Costs and liabilities of the schemes are based on actuarial valuations. The latest full actuarial valuations for the schemes were updated to 31 December 2022 by qualified independent actuaries using the projected unit funding method.

The principal actuarial assumptions at the balance sheet date are as follows:

	2022 £'000	2021 £'000
Rate of increase of salaries	**3.00%**	3.00%
Rate of increase for pensions in payment – based on CPI with a cap of 5%	**2.55%**	2.55%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	**2.80%**	2.90%
Rate of increase for pensions in payment – based on CPI with a cap of 3%	**2.05%**	2.15%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	**2.20%**	2.35%
Discount rate	**4.75%**	2.00%
Retail prices inflation	**3.00%**	3.00%
Consumer prices inflation	**2.60%**	2.60%
Life expectancy for a 65-year-old male*	**21.5 years**	21.5 years
Life expectancy for a 65-year-old female*	**24.1 years**	24.1 years

* This assumption is set on a scheme-by-scheme basis, taking into account the demographics of the relevant members. The figures disclosed are an average across all schemes.

Notes to the financial statements – Group continued
For the year ended 31 December 2022

29. PENSIONS CONTINUED

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

	2022			2021		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Quoted assets						
Equities	**–**	**59,914**	**59,914**	–	139,695	139,695
Bonds	**103,829**	**21,380**	**125,209**	109,157	62,509	171,666
Property	**4,193**	**957**	**5,150**	5,075	22,893	27,968
Pooled investment vehicles						
Multi-asset funds	**17,417**	**1,068**	**18,485**	75,002	4,085	79,087
Alternative asset funds	**4,783**	**78**	**4,861**	9,840	226	10,066
Return seeking funds	**2,035**	**746**	**2,781**	2,035	333	2,368
Other assets						
Equities	**–**	**14,447**	**14,447**	–	14,133	14,133
Bonds	**–**	**4,004**	**4,004**	–	3,170	3,170
Property	**–**	**10,174**	**10,174**	–	4,275	4,275
Derivatives	**1,822**	**291**	**2,113**	1,979	331	2,310
Cash and other	**6,153**	**20,639**	**26,792**	4,470	44,921	49,391
Investment liabilities						
Derivatives	**(12,209)**	**(9)**	**(12,218)**	(10,646)	–	(10,646)
Group's estimated asset share	**128,023**	**133,689**	**261,712**	196,912	296,571	493,483
Present value of funded scheme liabilities	**(104,351)**	**(98,412)**	**(202,763)**	(159,261)	(275,828)	(435,089)
Funded status	**23,672**	**35,277**	**58,949**	37,651	20,743	58,394
Scheme surpluses not recognised as assets	**–**	**(38,413)**	**(38,413)**	–	(37,738)	(37,738)
Pension asset/(liability)	**23,672**	**(3,136)**	**20,536**	37,651	(16,995)	20,656
Pension guarantee assets	**–**	**3,136**	**3,136**	–	12,975	12,975

The amounts recognised in the Consolidated Statement of Profit or Loss are as follows:

	2022			2021		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Current service cost	**1,705**	**3,553**	**5,258**	2,154	4,277	6,431
Settlement and curtailment	**–**	**(242)**	**(242)**	–	(687)	(687)
Administration costs	**409**	**–**	**409**	545	–	545
Total operating charge	**2,114**	**3,311**	**5,425**	2,699	3,590	6,289
Net interest	**(769)**	**(464)**	**(1,233)**	(69)	282	213
Effects of limitation of recognisable surplus related to net interest	**–**	**643**	**643**	–	152	152
Total charged to the result for the year	**1,345**	**3,490**	**4,835**	2,630	4,024	6,654

Cumulative actuarial gains and losses recognised in other comprehensive income (OCI) are as follows:

	2022			2021		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Return on plan assets in excess of that recorded in net interest	**(70,326)**	**(25,802)**	**(96,128)**	12,093	11,691	23,784
Actuarial gain arising from changes in demographic assumptions	**8**	**(34)**	**(26)**	292	1,001	1,293
Actuarial gain arising from changes in financial assumptions	**58,597**	**86,474**	**145,071**	17,044	31,648	48,692
Actuarial (loss)/gain arising from liability experience	**(2,994)**	**(737)**	**(3,731)**	4,364	8,032	12,396
Effects of limitation of recognisable surplus related to OCI movements	**–**	**(48,227)**	**(48,227)**	–	(26,444)	(26,444)
Total gains and losses recognised in OCI	**(14,715)**	**11,674**	**(3,041)**	33,793	25,928	59,721

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

	2022			2021		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Present value of obligations at 1 January	**159,261**	**275,828**	**435,089**	181,184	320,186	501,370
Current service cost	**1,705**	**3,553**	**5,258**	2,154	4,277	6,431
Interest on obligations	**3,144**	**4,094**	**7,238**	2,413	3,808	6,221
Plan participants' contributions	**210**	**470**	**680**	236	540	776
Benefits paid	**(4,358)**	**(6,407)**	**(10,765)**	(5,026)	(6,348)	(11,374)
Contract transfer	**–**	**(92,419)**	**(92,419)**	–	(2,212)	(2,212)
Settlements	**–**	**(1,004)**	**(1,004)**	–	(3,742)	(3,742)
Actuarial gain arising from changes in demographic assumptions	**(8)**	**34**	**26**	(292)	(1,001)	(1,293)
Actuarial gain arising from changes in financial assumptions	**(58,597)**	**(86,474)**	**(145,071)**	(17,044)	(31,648)	(48,692)
Actuarial (loss)/gain arising from liability experience	**2,994**	**737**	**3,731**	(4,364)	(8,032)	(12,396)
Present value of obligations at 31 December	**104,351**	**98,412**	**202,763**	159,261	275,828	435,089

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

	2022			2021		
	Group schemes £'000	**Other schemes £'000**	**Total £'000**	Group schemes £'000	Other schemes £'000	Total £'000
Fair value of plan assets at 1 January	**196,912**	**296,571**	**493,483**	185,436	288,491	473,927
Expected return on plan assets	**3,913**	**4,558**	**8,471**	2,482	3,526	6,008
Employer's contributions	**2,081**	**1,432**	**3,513**	2,236	3,279	5,515
Plan participants' contributions	**210**	**470**	**680**	236	540	776
Benefits paid	**(4,358)**	**(6,407)**	**(10,765)**	(5,026)	(6,348)	(11,374)
Scheme administration costs	**(409)**	**–**	**(409)**	(545)	–	(545)
Contract transfer	**–**	**(136,371)**	**(136,371)**	–	(1,553)	(1,553)
Settlements	**–**	**(762)**	**(762)**	–	(3,055)	(3,055)
Return on plan assets above that recorded in net interest	**(70,326)**	**(25,802)**	**(96,128)**	12,093	11,691	23,784
Fair value of plan assets at 31 December	**128,023**	**133,689**	**261,712**	196,912	296,571	493,483

Notes to the financial statements – Group continued
For the year ended 31 December 2022

29. PENSIONS CONTINUED

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

	2022 £'000	2021 £'000
Fair value of guarantee assets at 1 January	**12,975**	30,705
Transferred in on scheme entry	**525**	5,710
Transferred out on scheme exit	**(4,768)**	(6,369)
Recognised in the Consolidated Statement of Profit or Loss		
Guarantee asset movement in respect of service cost	**1,053**	1,707
Guarantee asset movement in respect of net interest	**105**	240
Recognised in other comprehensive income		
Guarantee asset movement in respect of actuarial losses	**(6,754)**	(19,018)
Fair value of guarantee assets at 31 December	**3,136**	12,975

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 2023 amount to £3.5m.

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 2022.

	2022 £'000	2021 £'000
Rate of inflation – decrease/increase by 0.1%	**(2,435)**	2,435
Rate of increase in salaries – decrease/increase by 0.1%	**(723)**	723
Discount rate – decrease/increase by 0.1%	**3,013**	(3,013)
Life expectancy – decrease/increase by 1 year	**(6,533)**	6,533

30. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2022 or at 31 December 2021.

31. CONTINGENT LIABILITIES

The Group has guaranteed that it will complete certain Group contracts that it has commenced. At 31 December 2022 these guarantees amounted to £13.1m (2021: £15.7m).

The Group had no other contingent liabilities at 31 December 2022 or at 31 December 2021.

32. 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 29.

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:

	2022 %	2021 %
Directors	**0.5**	0.6

Key management personnel's compensation is as follows:

	2022 £'000	2021 £'000
Salaries including social security costs	**1,714**	1,659
Contributions to defined contribution pension schemes	**134**	134
Share-based payments	**434**	146
	2,282	1,939

Further details of Directors' remuneration are disclosed within the Remuneration Report.

Dividends totalling £0.06m (2021: £0.02m) 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 £10.2m (2021: £10.2m). Pyramid Plus South LLP also made recharges of certain staff costs to the Group totalling £0.2m (2021: £0.2m). At 31 December 2022, £1.0m (2021: £1.0m) was due to the Group in respect of these transactions.

Parent Company balance sheet
As at 31 December 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Right of use assets	6	**21,828**	21,417
Investments	7	**139,398**	139,398
Loan notes	11	**3,848**	3,476
Pension and other employee benefits	15	**304**	1,920
		165,378	166,211
Current assets			
Debtors	8	**19,525**	45,933
Cash at bank and in hand		**9,407**	649
		28,932	46,582
Creditors: amounts falling due within one year	9	**(50,123)**	(71,216)
Net current liabilities		**(21,191)**	(24,634)
Total assets less current liabilities		**144,187**	141,577
Creditors: amounts falling due after more than one year	10	**(14,110)**	(15,492)
		130,077	126,085
Capital and reserves			
Called up share capital	12	**1,110**	1,109
Share premium account		**82,351**	82,265
Share-based payment reserve		**1,801**	1,313
Profit and loss account		**44,815**	41,398
Shareholders' funds		**130,077**	126,085

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 £14.2m (2021: loss of £15.2m) which is recognised within the financial statements of the Company.

The financial statements were approved by the Board of Directors on 28 April 2023.

D J MILES
DIRECTOR
Company number:

A C M SMITH
DIRECTOR
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 2022

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021	1,109	82,225	1,312	(760)	54,675	138,561
Net result for the year	–	–	–	–	(15,229)	(15,229)
Other comprehensive income	–	–	–	760	4,151	4,911
Total comprehensive income for the year	–	–	–	760	(11,078)	(10,318)
Issue of shares	–	40	–	–	–	40
Share options – value of employee services	–	–	575	–	–	575
Share options – exercised, cancelled or lapsed	–	–	(574)	–	574	–
Dividends	–	–	–	–	(2,773)	(2,773)
At 1 January 2022	1,109	82,265	1,313	–	41,398	126,085
Net result for the year	–	–	–	–	14,239	14,239
Other comprehensive income	–	–	–	–	(1,241)	(1,241)
Total comprehensive income for the year	–	–	–	–	12,998	12,998
Issue of shares	1	86	–	–	–	87
Share options – value of employee services	–	–	599	–	–	599
Share options – exercised, cancelled or lapsed	–	–	(111)	–	111	–
Dividends	–	–	–	–	(9,692)	(9,692)
At 31 December 2022	**1,110**	**82,351**	**1,801**	**–**	**44,815**	**130,077**

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 2022

1. ACCOUNTING POLICIES
Accounting policies are detailed in their respective notes, where relevant. Policies that are not specific to a particular note are detailed below.

Statement of compliance
Mears Group PLC is a public limited company incorporated in England and Wales. Its registered office is 1390 Montpellier Court, Gloucester Business Park, Brockworth, Gloucester GL3 4AH.

Basis of preparation
The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 101 and the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments specified in the accounting policies below. The financial statements are presented in Sterling.

The financial statements have been prepared on a going concern basis. Further details of the considerations made by management when making this assessment are provided in note 1 to the consolidated financial statements.

The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 from disclosing its individual profit and loss account.

The Company has taken advantage of the reduced disclosures for subsidiaries and the ultimate parent provided for in FRS 101 and has therefore not provided a cash flow statement or certain disclosures in respect of share-based payments.

The principal accounting policies of the Company are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Deferred taxation
Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax and laws that have been enacted or substantively enacted by the balance sheet date.

Critical judgements and key sources of estimation uncertainty
Critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty are disclosed in the Group's accounting policies.

2. RESULT FOR THE FINANCIAL YEAR
This result for the year is stated after charging auditor's remuneration of £200,000 (2021: £150,000) relating to audit services.

3. DIRECTORS AND EMPLOYEES
Employee benefits expense:

	2022 £'000	2021 £'000
Wages and salaries	**13,234**	13,283
Social security costs	**1,763**	1,510
Other pension costs	**669**	512
	15,666	15,305

A Coronavirus Job Retention Scheme grant of £nil (2020: £0.6m) was recognised as other income.

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

	2022	2021
Management	**293**	287

Remuneration in respect of Directors was as follows:

	2022 £'000	2021 £'000
Emoluments	**1,429**	1,427
Pension contributions to personal pension schemes	**134**	134
Gains on exercise of options	**–**	–
	1,563	1,561

During the year contributions were paid to personal pension schemes for four Directors (2021: four).

No Directors exercised share options during 2022 or 2021.

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 2022 the Group maintained three share-based payment schemes for employee remuneration. The details of each scheme are included within note 7 to the consolidated financial statements.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

5. DIVIDENDS

The following dividends were paid on ordinary shares in the year:

	2022 £'000	2021 £'000
Final 2021 dividend of 5.5p (2021: final 2020 dividend of 0p) per share	**6,092**	–
Interim 2022 dividend of 3.25p (2021: interim 2021 dividend of 2.5p) per share	**3,600**	2,773
	9,692	2,773

The Directors recommend a final dividend of 7.25p per share. This has not been included within the consolidated financial statements as no obligation existed at 31 December 2022.

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.

Notes to the financial statements – Company continued
For the year ended 31 December 2022

6. RIGHT OF USE ASSETS CONTINUED
On the statement of financial position, right of use assets and lease liabilities are presented separately.

	Offices £'000	Motor vehicles £'000	Total £'000
Gross carrying amount			
At 1 January 2021	1,109	37,906	39,015
Additions*	(10)	12,896	12,886
Disposals	(81)	(19,761)	(19,842)
At 1 January 2022	1,018	31,041	32,059
Additions*	–	8,007	8,007
Disposals	–	(1,492)	(1,492)
At 31 December 2022	**1,018**	**37,556**	**38,574**
Depreciation			
At 1 January 2021	415	19,454	19,869
Provided in year	197	9,921	10,118
Eliminated on disposals	(81)	(19,264)	(19,345)
At 1 January 2022	531	10,111	10,642
Provided in the year	177	7,222	7,399
Eliminated on disposals	–	(1,295)	(1,295)
At 31 December 2022	**708**	**16,038**	**16,746**
Carrying amount			
At 31 December 2022	**310**	**21,518**	**21,828**
At 31 December 2021	487	20,930	21,417

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

7. FIXED ASSET INVESTMENTS
Accounting policy
Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at deemed cost less impairment. Dividends on equity securities are recognised in income when receivable.

	Investment in subsidiary undertakings £'000
At 1 January 2021, 31 December 2021 and 31 December 2022	**139,398**

Details of the subsidiary undertakings of the Company are shown in note 16 to the consolidated financial statements.

8. DEBTORS

	2022 £'000	2021 £'000
Amounts owed by Group undertakings	**18,234**	38,528
Other receivables	**1,291**	7,405
	19,525	45,933

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

	2022 £'000	2021 £'000
Trade creditors	**3,655**	12,855
Amounts owed to Group undertakings	**36,954**	49,455
Accruals	**949**	1,727
Corporation tax	**577**	346
Lease obligations	**7,926**	6,720
Other payables	**62**	113
	50,123	71,216

10. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2022 £'000	2021 £'000
Lease obligations	**14,034**	15,012
Deferred tax	**76**	480
	14,110	15,492

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 with no notice or less than three months' notice from inception that are subject to an insignificant risk of changes in value. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Financial liabilities

Basic financial liabilities, including trade and other payables, and amounts payable to Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Bank borrowings are non-basic financial liabilities and are initially recognised at fair value, being the present value of future payments discounted at a market rate of interest. Bank borrowings are remeasured at fair value.

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:

	2022 £'000	2021 £'000
Financial assets that are debt instruments measured at amortised cost:		
— Loan notes	**3,848**	3,476
— Amounts owed by Group undertakings	**18,234**	38,528
— Other receivables	**1,291**	7,405
Financial liabilities that are measured at amortised cost:		
— Trade creditors	**(3,655)**	(12,855)
— Lease obligations	**(21,960)**	(21,732)
— Amounts owed to Group undertakings	**(36,954)**	(49,455)
— Other payables	**(62)**	(113)
	(39,258)	(34,746)

Notes to the financial statements – Company continued
For the year ended 31 December 2022

11. FINANCIAL INSTRUMENTS CONTINUED

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

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
At 1 January 110,926,510 (2021: 110,881,897) ordinary shares of 1p each	**1,109**	1,109
Issue of 74,379 (2021: 44,613) shares on exercise of share options	**1**	–
At 31 December 111,000,889 (2021: 110,926,510) ordinary shares of 1p each	**1,110**	1,109

During the year 74,379 (2021: 44,613) ordinary 1p shares were issued in respect of share options exercised.

Classes of reserves

Share capital represents the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

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 2022 or at 31 December 2021.

14. CONTINGENT LIABILITIES

The Company has guaranteed that it will complete certain Group contracts that its subsidiaries have commenced. At 31 December 2022 these guarantees amounted to £13.1m (2021: £15.7m).

The Company had no other contingent liabilities at 31 December 2022 or at 31 December 2021.

15. PENSIONS

Accounting policy

Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

Defined benefit pensions

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

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

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

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

Other movements in the net surplus or deficit are recognised in the profit and loss account, including the current service cost, any past service cost and the effect of curtailments or settlements. The interest costs less the expected return on assets are also charged to the Consolidated Statement of Profit or Loss. The amount charged to the Consolidated Statement of Profit or Loss in respect of these plans is included within operating costs.

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

Defined contribution schemes
The Company contributes to the personal pension schemes of certain employees.

Defined benefit scheme
The Company operates a defined benefit pension scheme for the benefit of certain employees of its subsidiary companies. The assets of the schemes are administered by trustees in a fund independent from the assets of the Company.

Costs and liabilities of the scheme are based on actuarial valuations. The actuarial valuations were reviewed and updated to 31 December 2022 by a qualified independent actuary using the projected unit funding method.

The principal actuarial assumptions at the balance sheet date are as follows:

	2022 £'000	2021 £'000
Rate of increase of salaries	**3.00%**	3.00%
Rate of increase for pensions in payment – based on RPI with a cap of 5%	**2.80%**	2.90%
Rate of increase for pensions in payment – based on RPI with a cap of 3%	**2.55%**	2.35%
Discount rate	**4.75%**	2.00%
Retail prices inflation	**3.00%**	3.00%
Consumer prices inflation	**2.60%**	2.60%
Life expectancy for a 65-year-old male	**20.9 years**	21.0 years
Life expectancy for a 65-year-old female	**23.7 years**	23.9 years

The amounts recognised in the Parent Company Balance Sheet and major categories of plan assets as a percentage of total plan assets are as follows:

	2022 £'000	2021 £'000
Quoted assets		
Bonds	**6,263**	3,378
Property	**872**	853
Other assets		
Multi-asset funds	**8,131**	16,272
Alternative asset funds	**1,284**	2,205
Return seeking funds	**330**	335
Derivatives	**688**	564
Cash and other	**1,135**	1,251
Investment liabilities		
Derivatives	**(2,829)**	(34)
Group's estimated asset share	**15,874**	24,824
Present value of funded scheme liabilities	**(15,570)**	(22,904)
Funded status	**304**	1,920
Related deferred tax liability	**(76)**	(480)
Pension asset	**228**	1,440

The amounts recognised in the profit and loss account are as follows:

	2022 £'000	2021 £'000
Current service cost	**–**	8
Administration costs	**146**	167
Total operating charge	**146**	175
Net interest	**(38)**	37
Total charged to the result for the year	**108**	212

Notes to the financial statements – Company continued
For the year ended 31 December 2022

15. PENSIONS CONTINUED

	2022 £'000	2021 £'000
Present value of obligations at 1 January	**22,904**	25,866
Current service cost	**–**	8
Interest on obligations	**453**	345
Plan participants' contributions	**–**	2
Benefits paid	**(503)**	(535)
Actuarial gain arising from changes in demographic assumptions	**(198)**	(402)
Actuarial gain arising from changes in financial assumptions	**(7,888)**	(2,420)
Actuarial loss arising from liability experience	**802**	40
Present value of obligations at 31 December	**15,570**	22,904

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

	2022 £'000	2021 £'000
Fair value of plan assets at 1 January	**24,824**	23,050
Expected return on plan assets	**491**	308
Employer's contributions	**146**	231
Plan participants' contributions	**–**	2
Benefits paid	**(503)**	(535)
Administration costs	**(146)**	(167)
Return on plan assets above that recorded in net interest	**(8,938)**	1,935
Fair value of plan assets at 31 December	**15,874**	24,824

The movements in the net pension liability and the amount recognised in the Parent Company Balance Sheet are as follows:

	2022 £'000	2021 £'000
Deficit in schemes at 1 January	**1,920**	(2,816)
Current service cost	**–**	(8)
Administration costs	**(146)**	(167)
Contributions	**146**	231
Other finance cost	**38**	(37)
Actuarial gain arising from changes in demographic assumptions	**198**	402
Actuarial gain arising from changes in financial assumptions	**7,888**	2,420
Actuarial loss arising from liability experience	**(802)**	(40)
Return on plan assets above that recorded in net interest	**(8,938)**	1,935
Deficit in schemes at 31 December	**304**	1,920

No employer's contributions are expected to be paid during the financial year ending 31 December 2023.

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 32 to the consolidated financial statements.

Five-year record (unaudited)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUING ACTIVITIES)

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Revenue	**959,613**	878,420	805,817	881,457	771,861
Gross profit	**195,686**	180,487	156,287	206,109	184,928
Operating profit before acquisition intangible amortisation and exceptional costs	**40,672**	33,683	5,528	40,229	39,093
Exceptional items	**–**	(1,627)	(2,279)	(2,018)	(5,657)
Operating profit/(loss) including share of profits of associates	**41,285**	24,402	(6,276)	28,089	29,698
Profit/(loss) for the year before tax	**34,944**	16,333	(15,218)	20,253	27,377
Profit/(loss) before taxation before acquisition intangible amortisation and exceptional costs	**35,189**	25,614	(3,414)	32,393	36,772
Earnings per share					
Basic	**25.07p**	11.72p	(10.66)p	15.72p	21.91p
Diluted	**24.51p**	11.50p	(10.66)p	15.64p	21.78p
Normalised	**24.51p**	18.23p	(2.29)p	23.74p	27.70p
Dividends per share	**10.50p**	8.0p	0.0p	3.65p	12.40p

CONSOLIDATED BALANCE SHEET

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Non-current assets	**395,092**	405,959	408,369	409,151	304,549
Current assets	**235,773**	227,960	267,720	284,230	244,272
Current liabilities	**(224,169)**	(230,120)	(255,318)	(326,329)	(222,909)
Non-current liabilities	**(192,871)**	(202,761)	(264,720)	(248,715)	(115,632)
Total equity	**213,825**	201,038	156,051	118,337	210,280
Cash and cash equivalents, end of year	**98,138**	54,632	56,867	(50,986)	(65,904)

Shareholder and corporate information

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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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luminous

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