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

Interim Results for the 6 months ended 30 June 2022

Mears Group PLC, the leading provider of services to the Housing sector in the UK, announces its interim financial results for the 6 months ended 30 June 2022 ("H1 2022").

Strong first half performance with an improved full year trading outlook

Financial summary

Continuing operations	**H1 2022**	H1 2021	Change %
Revenue	**£485.0m**	£443.7m	+9.3%
Statutory profit before tax	**£17.9m**	£5.6m	
Adjusted profit before tax	**£18.1m**	£11.1m	+62.7%
Statutory diluted EPS	**12.70p**	4.13p	
Adjusted diluted EPS	**12.70p**	8.01p	+58.6%
Dividend per share	**3.25p**	2.50p	+30.0%
Average daily net cash / (debt)	**£28.4m**	(£8.1m)	

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

Financial highlights

- Trading in the first half has been excellent across the Group with good growth in revenues, margins, profits, and cash
- Group revenues up 9.3% year-on-year to £485.0m (H1 2021: £443.7m)
- Adjusted profit before tax up 62.7% at £18.1m (H1 2021: £11.1m)
    - Operating margins strengthened further to 3.9% (H1 2021: 3.1%)
- Average daily adjusted net cash of £28.4m (H1 2021: £8.1m adjusted net debt)
    - Cash conversion at 134% of EBITDA
    - Adjusted net cash (pre-IFRS 16) at 30 June 2022 of £89.9m (31 December 2021: £54.6m)
- Board is declaring an interim dividend of 3.25p per share, an increase of 30% (H1 2021: 2.50p) in line with its progressive dividend policy

Operating and strategic highlights

- Mears benefits from the increasing regulatory drivers and operational complexity in clients' housing needs
- Contractual indexation mechanisms and a collaborative approach with clients has helped to mitigate the supply chain, inflationary and labour market challenges during the period
- Positive momentum in pipeline conversion underpins organic growth strategy
    - Strong win-rate of tenders in H1 of 40% has contributed £165m to the current order book of £2.3bn (FY 2021: £2.4bn), reflecting successful contract retentions and extensions
    - Good progress on North Lanarkshire bid (estimated at £1.8bn) and MoJ (8 additional regions), provides additional upside potential
    - A further £0.75bn of target opportunities identified for contracts to be awarded in 2023
- Launch of *Mears' ESG Strategic Approach 2022-2030*

Current trading, outlook, and full year guidance

- The trading momentum experienced in the first half has continued into H2 2022

- Whilst mindful of the well-publicised macroeconomic headwinds many businesses are facing, the Board is confident in its outlook for the second half of the year, and is upwardly revising its expectations for the full year
- Revenues for the full year are now expected to be materially ahead of current market consensus, being in excess of £910m, with adjusted profit before tax to be at least £32m, representing 25% growth versus the prior year

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

"I'm delighted to report that the trading and operational performance in the first half has been excellent across the Group and is reflected in this strong set of interim results. Our continued momentum is evidence that our core strategy and resilient operating platform is yielding a market leadership position, which is key to delivering incremental results and positions the Group for further sustainable growth.

"Mears' market leadership and long track-record for quality and operating excellence ensures that we are seen as a trusted partner to Local and Central Government as they seek to address or alleviate the challenges within the UK's affordable housing sector."

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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About Mears

Mears is the leading provider of services to the Affordable Housing sector in the UK: responsible for the maintenance of c.10% of the UK's social housing stock; and managing over 10,000 homes for local and central government.

Mears currently employs around 5,500 people and provides services in every region of the UK. In partnership with our Housing clients, we maintain, repair, and upgrade the homes of hundreds of thousands of people in communities from remote rural villages to large inner-city estates. Mears has extended its activities to provide broader housing solutions to solve the challenge posed by the lack of affordable housing and to provide accommodation and support for the most vulnerable.

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

CHIEF EXECUTIVE OFFICER REVIEW

INTRODUCTION

Trading and operational performance in the first half has been excellent across the Group and is reflected in this strong set of interim results. The strong trading performance is evidence that the strategic actions of recent years and our resilient operating platform are delivering positive results and has positioned the Group well for sustainable growth.

The long-term structural challenge of the UK's aging social and affordable housing stock has been compounded by the more recent pressures of the pandemic, de-carbonisation commitments and fuel poverty. Meanwhile, political pressure and legislation are increasing regulation and scrutiny to drive higher standards across the sector. Mears' market leadership and long track-record for quality and operating excellence ensures that we are seen as a trusted partner to Local and Central Government as they seek to address and alleviate these challenges.

OPERATING REVIEW

The financial performance across the Group was strong throughout the period.

Continuing activities	**H1 2022**	H2 2021	H1 2021
	£m	£m	£m
Revenue			
Maintenance-led	**272.5**	257.9	286.5
Management-led	**200.2**	168.9	139.5
Development	**12.3**	7.9	17.7
Total	**485.0**	434.7	443.7
Operating profit measures:			
Statutory operating profit	**20.7**	14.7	9.7
Adjusted operating profit (pre-IFRS 16)	**19.1**	15.9	13.7
Operating profit margin (pre-IFRS 16)	**3.9%**	3.7%	3.1%
Profit before tax measures:			
Statutory profit before tax	**17.9**	10.7	5.6
Adjusted profit before tax	**18.1**	14.5	11.1

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

Maintenance-led activities

The Group's Maintenance-led contracts made good progress in the first half, delivering revenues of £272.5m, up 5.7% on H2 2021. Reactive maintenance activities have returned to normal levels, and Mears has been focussed on working through the order backlog which built up as a result of the Covid pandemic.

Planned maintenance activities remain below pre-pandemic levels, as clients' primary focus has been on day-to-day maintenance activities. While the return of planned works has been slower than expected, and timing remains uncertain, this spend is non-discretionary over the longer-term and remains a relatively small component of the Group's maintenance-led revenues (<10%).

The first half saw the start of a new 10-year contract with 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, with additional resource applied through the centralised 'Task Team', ensuring that the Group delivered a high level of customer service from day one. This is an excellent achievement given the current backdrop of supply chain pressures and skill shortages and reflects the strength of the Mears operating model.

Management-led activities

The Group's management-led activities continued to perform strongly in the first half, with revenues up 44% year-on-year and 19% from H2 2021. This was driven by the Asylum Accommodation and Support Contract ('AASC') which experienced further increases to volumes across the entire process, with a net increase of service users during the period. The Group had expected some degree of normalisation in service user numbers during FY 2022, but this has not occurred and looks less likely in the short-term. The Mears operational teams have done an incredible job in supporting such large numbers of vulnerable people, including those requiring dispersal accommodation.

As reported previously, Mears was successful in extending the term of its contract with the Ministry of Justice (MoJ) to provide transitional housing services for low and medium risk prisoners on release. This pilot contract was in respect of two geographical regions. As a result of the success of the pilot, the MoJ has launched a tender process to extend the service nationally and Mears is bidding on a further eight regions with an aggregate annual value of approximately £35m.

As both AASC and MOJ contracts expand in terms of user numbers and regional coverage, the Group is reviewing selective property purchases on a small scale in certain areas where suitable leasehold accommodation is in short supply, thereby maintaining appropriate service levels.

The Group's Residential Living Accommodation Project contract ("RLAP") with the Defence Infrastructure Organisation mobilised on 1 April. Under the contract, Mears will provide 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 has been successfully providing similar services since 2016 under the predecessor Substitute Service Accommodation contract. The new contract is for a period of up to 7 years and has an annual value of around £50m. The new contract has started well with both operational and financial metrics showing good progress.

Supply chain

The Group has deployed significant resource in managing the current inflationary headwinds and availability of materials within its supply chain. The Group benefits from annual price adjustment mechanisms which are structured within all customer contracts, and are typically benchmarked against RPI, CPI or other bespoke maintenance related indices. Most contractual increases are effective in April of each year, being aligned to our clients' financial years. However, the Group is not immune to the accelerating cost pressures being widely experienced across the UK. Only through careful planning, strong financial management and a collaborative approach with our clients, were cost pressures able to be managed without impacting on operating margins.

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. There are early signs that these supply issues appear to be easing.

The Mears model has always been to prioritise the investment in, and retention of, our own staff, with lesser reliance on sub-contracted and other short-term labour, especially relative to our peers. The Group made several improvements during the period to employee remuneration, holiday and sick pay entitlements and other terms and conditions. We have always been proud of our track record on employee welfare and engagement, and this has been recognised in Mears again being voted one of the Top 25 Big Companies in the UK to work for (*Sunday Times*). In line with national trends, our employee turnover has slightly increased in recent months but remains low relative to the industry. In common with the rest of the industry, the recruitment of skilled staff remains difficult and lead times are increasing. These labour shortages are proving a constraint on our ability to pursue certain new opportunities. We continue to invest and innovate to attract the best talent.

Customer satisfaction

Mears conducts several thousand surveys each 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 group which has customer representation both from our maintenance and management services

In the first half of 2022, overall customer satisfaction was 87% (2021: 86%) and we are pleased to see complaint levels remaining low across the Group. Those complaints that we do have are also being resolved efficiently and quickly, with all learnings 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, the more traditional routes are still preferred.

De-carbonisation

We have an end-to-end carbon reduction service in place for our clients' housing stock. This starts with the ability to help measure existing carbon efficiency, enables us to design a programme to cost effectively deliver improvements and then to measure success. In the short term, the cost-of-living crisis has given further urgency to this work, as have energy availability concerns brought on by the situation in the Ukraine.

We have already secured three pieces of work for our clients through the Social Housing Decarbonisation Fund ("SHDF") first wave, which will be delivered from Q3 2022. The second wave of funding will be available in the Autumn, and we are confident that we will secure additional work at this point. Further SHDF funding waves will follow in future years and the forthcoming ECO 4 pot will also bring opportunity. While we recognise that the level of overall funding currently available does not allow this opportunity to be delivered in full, we will work with our clients to ensure that the maximum possible is achieved within whatever funding constraints exist.

We have made the commitment to achieve Net Zero on Scope 1 and 2 emissions by 2030. This means the electrification of our fleet and enabling further efficiencies in our working practices.

Development

The Group remains on track to complete its exit from Development by the end of FY 2022. A further 22 units were sold in the first half, generating £12.3m of revenues (H1 FY2021: £17.7m). As of 30 June 2022, there remains 12 completed units and 2 units under construction. Cashflow was positive in the period, with the spot working capital utilisation as at 30 June 2022 reducing to £4.3m (31 December 2021: £12.0m). Realised pricing has been in-line with carrying values.

CASH FLOW AND WORKING CAPITAL MANAGEMENT

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 in the first half, with EBITDA to operating cash conversion of 134%. The reported cash conversion has been enhanced further as the working capital absorbed within the Group's Development activities, which have been in run-off phase for the past 2-years, has delivered a permanent release of around £5.3m in the half. In addition, the Group has continued to benefit from payments received on account from customers, increasing in the period by approximately £5.5m to £33.3m at 30 June 2022. After adjusting for these two items, which could be considered non-underlying in nature, the Group has delivered EBITDA to operating cash conversion of 108%.

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 181-day period. The healthy period end balance is a reflection of the average daily net cash figure during the first half year of £28.4m, which represents a significant improvement from the prior year, where the Group had a daily net debt position of £8.1m.

	H1 2022 £'000	**H1 2021 £'000**	**FY 2021 £'000**
Average daily adjusted net cash / (debt)	**28,365**	(8,082)	400
Adjusted net cash/ (debt) at period end	**89,859**	47,591	54,632

ORDER BOOK AND PIPELINE

The order book stands at £2.3bn (31 December 2021: £2.4bn), reflecting the timing of contract renewals over the last twelve months. The Group secured contracts in 2022 YTD valued at over £165m with a win rate (by value) of 40%. The key orders secured are detailed below:

Contracts awarded in 2022 to date	**Type**	**Base term (years)**	**Extension option (years)**	**Annual value £m**	**Base contract value £m**	**New / Retention / Extension**
Tower Hamlets Homes	Maintenance	5	5	15	75	Retention
South Cambridgeshire District Council	Maintenance	5	-	7	37	Retention
London Borough of Havering	Maintenance	10	-	5	50	New
SHDF (various)	Maintenance	1	-	15	15	New
Ministry of Justice	Management	2	-	10	10	Extension

Over the course of the past eighteen months, the Group has seen a high number of existing contracts approaching 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). The Board is pleased with its contract retention rate, but it is inevitable that a busy period of re-bids will result in some loss of work. Consequently, the Group will see its work with Welwyn Hatfield Borough Council, with an annual value of circa £15m, come to an end in October 2022, after more than 20-years' service. Looking forward, the Group expects the coming eighteen months to be weighted towards new bidding opportunities. We are seeing an increase in the levels of bid activity after two years of reduced volume as a result of Covid. 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. Furthermore, 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.

This reported pipeline excludes the following larger contract bid opportunities:

- *North Lanarkshire Housing and Corporate Maintenance and Investment Services* contract estimated to generate more than £1.8bn 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.

- *Ministry of Justice CAS 3 temporary accommodation programme* in a further eight regions estimated at annual revenues of £35m.

HEALTH, SAFETY AND COMPLIANCE

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.

In terms of current primary focus, following the recent implementation of the new Building Safety Act, 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 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.

WORKFORCE

Mears has invested in our workforce for many years and for the third year running, we have been listed in the Top 25 Sunday Times Big Companies to work for. 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.

This long-term staff investment in our Workforce, is proving particularly important at a time where 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.

Alongside our comprehensive training programmes, we also now have an MBA program, to support the succession planning of future senior managers and Directors. We are also investing in new skills, such as those required for the emerging carbon opportunity, including developing apprentices with skills in this space.

ESG

As a responsible service-provider to the public sector, Mears has always been committed to the lives of the end users we support, the communities in which they live, the quality of our staff experience and more recently the environmental agenda. This is a core commitment we give to our public sector clients and accordingly is a core purpose for the company and those who work within it. Recognising that clients and investors now review these attributes within the Environmental, Social and Governance (ESG) framework, Mears has brought together its existing work in these areas and enhanced its ambitions and plans in a single charter. Adopted by the Board and published in May 2022 the '*Mears Environmental, Social and Governance Strategic Approach 2022-2030'* sets out our current record in these areas and our ambitious targets and plans for the future. Details can be found on the ESG section of our website www.mearsgroup.co.uk/esg/esg.

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. Indeed, the Scottish Government is making it clear that larger organisations, must demonstrate strong ESG arrangements, especially around carbon reduction, if they are even to be allowed to bid for public sector work. Standards are also being raised in the rest of the UK. We have already consulted on and launched a set of commitments, a Charter, as to how we will fulfil our ESG responsibilities in Scotland and are currently consulting on a similar Charter for the rest of the UK. This will complete before the end of 2022.

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	H1 2022 progress
To be recognised as the most trusted large private provider working in Housing with the public sector	• Launch of Mears ESG Strategic Approach 2022-2030
To have the highest levels of customer service in the affordable housing sector where we operate	• While Covid created a repairs backlog with some clients, it is pleasing to note that customer service levels are now recovering towards Mears' usual high standards. • We are receiving an increasing number of requests from Local Government and Housing Associations, who currently operate a largely internal repairs workforce (known as a DLO), 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	• The carbon section of this document reports on the positive progress in winning carbon reduction work and how our enhanced capability will lead to us securing additional work in 2022 and beyond. • We are investing in the further development of our in-house core operating system MCM to support both maintenance and management. 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 will continue to review potential small bolt on acquisitions that can further broaden our housing and de-carbonisation capabilities.
To maintain and grow a resilient business with long term partnerships, a strong balance sheet, along with a committed, engaged workforce	• Our cash position is very strong, with an average daily net cash of £28m for the first half of 2022. • We have secured new work with a contract value of £165m and have developed new partnerships such as with the Ministry of Justice, where we see significant opportunity for growth. • We are now bidding on the largest maintenance contract that we have ever bid, this being 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. • In housing management, 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.

CURRENT TRADING, OUTLOOK, AND GUIDANCE

The Board is mindful of the well-publicised macroeconomic headwinds and as such, looks to maintain a level of conservatism when forecasting. In addition, the continuing elevated performance of the Management-led activities brings some short-term financial betterment, but the medium-term focus is to deliver both a reduction in service user numbers and revenues. The precise timing and phasing for this reduction is uncertain. Positively, as detailed above, the Group has a number of new bidding opportunities to fill any gaps, as the management-led activities return to normal levels.

The Board is delighted at the strong trading performance of the Group during the first half of FY 2022 and this momentum has continued into the second half. Revenues for the full year are now expected to be materially ahead of market consensus, being in excess of £910m, with adjusted profit before tax to be at least £32m, representing 25% growth versus the prior year.

DIVIDEND AND CAPITAL ALLOCATION

Given the excellent trading performance of the Group in the first half, the continued strong cash performance and the positive pipeline outlook, the Directors are pleased to declare an interim dividend of 3.25p (H1 2021: 2.50p; FY 2021 full year: 5.50p) reflecting the Board's confidence in the prospects of the Company. This interim dividend is in-line with the Board's stated progressive dividend policy.

The Board continues to keep under review its capital allocation priorities, which extends to small-scale M&A opportunities that could enhance its product capabilities, particularly in data collection and measurement for decarbonisation projects.

The Group's de-geared balance sheet and cash conversion in excess of 100% (EBITDA to operating cashflow) facilitates this on-going investment in product capabilities, supply chain and employee development and helps underpin long term sustainable growth prospects and improving shareholder returns.

ALTERNATIVE PERFORMANCE MEASURES ('APM')

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

These APMs should not be considered to be a substitute for or superior to IFRS measures, and the Board has endeavored to report both statutory and alternative measures with equal prominence throughout the Interim Results.

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

Alternative Profit Measures

A reconciliation between the statutory profit measures and the adjusted results for both H1 2022, H1 2021 and FY 2021 is detailed below.

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

Continuing activities[1]	**H1 2022 £'000**	**H1 2021 £'000**	**FY 2021 £'000**
Statutory profit before tax	**17,935**	5,645	16,333
Non-underlying items (see note ii)	**123**	5,454	9,281
Profit before non-underlying items and tax ('Adjusted profit before tax')	**18,058**	11,099	25,614
Removal of IFRS 16 profit impact (see note i)	**1,256**	1,359	2,876
Net finance (income)/costs (non-IFRS 16)	**(170)**	1,260	1,148
Operating profit pre-IFRS-16 before non-underlying items ('Adjusted operating profit (pre-IFRS-16)')	**19,144**	13,718	29,638
Amortisation of software intangibles	**952**	1,090	2,123
Depreciation and loss on disposal (non IFRS 16)	**5,122**	2,604	5,884
EBITDA pre-IFRS 16 and before non-underlying items	**25,218**	17,412	37,644
IFRS 16 profit impact (see note i)	**(1,256)**	(1,359)	(2,876)
Finance costs (IFRS 16)	**3,568**	3,249	6,921
Depreciation and loss on disposal (IFRS 16)	**21,659**	20,896	43,386
EBITDA post-IFRS-16 before non-underlying items	**49,189**	40,198	85,075
Amortisation of software intangibles	**(952)**	(1,090)	(2,123)
Depreciation and loss on disposal (IFRS 16)	**(21,659)**	(20,896)	(43,386)
Depreciation and loss on disposal (non-IFRS 16)	**(5,122)**	(2,604)	(5,884)
Operating profit post IFRS 16 and before non-underlying items	**21,456**	15,608	33,683

(i) Non-underlying items

Non-underlying items are items which are considered outside normal operations. They are material to the results of the Group either through their size or nature. These items have been disclosed separately in the adjusted result above to provide a better understanding of the underlying performance of the Group.

	H1 2022 £'000	H1 2021 £'000	FY 2021 £'000
Repayment of furlough payments received	**–**	1,627	1,627
Amortisation of acquisition intangibles	**123**	3,827	7,654
	123	5,454	9,281

A charge for amortisation of acquisition intangibles arose in the period of £0.1m (H1 2021: £3.8m). This charge has historically been much larger however the most significant of the Group's acquisition related intangibles were fully amortised in 2021. The Group's shareholders and market analysts typically add back this item in their analysis and the Group's alternative performance measure is aligned to that approach. Management believes that reporting profit figures that exclude this item can help the reader to better understand the underlying performance of the business.

During 2021, the Directors elected to voluntarily repay to HMRC amounts previously received of £1.1m and, in addition, to not submit a claim for a further amount of £0.5m under the Coronavirus Job Retention Scheme ('furlough'). Given the strong performance of the business in 2021, the Directors believed that to continue to claim furlough was no longer necessary and was not within the spirit of the legislation. Several Mears' clients looked to the Group to continue to utilise the furlough scheme and the cost reduction was passed to those clients as part of the open book reconciliation, leaving Mears Group PLC to subsidise this voluntary repayment. The Directors believe that the repayment of furlough should be disclosed within non-underlying items; this voluntary repayment is not a trading item and by its nature is unique and non-recurring.

(ii) IFRS 16 Profit impact

	H1 2022 £'000	H1 2021 £'000	FY 2021 £'000
Charge to income statement on a post-IFRS 16 basis	**(25,227)**	(24,145)	(50,307)
Charge to Income Statement on a pre-IFRS 16 basis	**(23,971)**	(22,786)	(47,431)
Profit impact from the adoption of IFRS 16	**(1,256)**	(1,359)	(2,876)

Alternative operating margin %

Continuing activities	H1 2022 £'000	H1 2021 £'000	FY 2021 £'000
Revenue	**484,971**	443,731	878,420
Adjusted operating profit (pre-IFRS 16)	**19,144**	13,718	29,638
Operating profit margin (pre-IFRS-16)	**3.9%**	3.1%	3.4%

Alternative Earnings per share measures

	Diluted (continuing)		
	H1 2022 p	H1 2021 p	FY 2021 p
Statutory earnings per share	**12.70**	4.13	11.50
Effect of non-underlying items	**0.11**	4.56	7.94
Effect of full tax charge adjustment	**(0.11)**	(0.68)	(1.21)
Adjusted earnings per share	**12.70**	8.01	18.23

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

	Continuing		
	H1 2022 £'000	**H1 2021 £'000**	FY 2021 £'000
Profit/(loss) attributable to shareholders:	**14,393**	4,672	12,996
Non-underlying items	**123**	5,161	8,972
Full tax adjustment	**(123)**	(769)	(1,365)
Adjusted earnings	**14,393**	9,064	20,603

Alternative Net cash/(debt) measures

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

	H1 2022 £'000	**H1 2021 £'000**	**FY 2021 £'000**
Cash and cash equivalents	**89,859**	92,203	54,632
Long-term borrowings and overdrafts	**–**	(44,612)	–
Adjusted net cash	**89,859**	47,591	54,632
Lease liabilities (current)	**(38,276)**	(34,814)	(41,600)
Lease liabilities (non-current)	**(173,664)**	(168,131)	(175,290)
Net debt	**(122,081)**	(155,354)	(162,258)

Alternative Cash conversion measure

Continuing activities	**H1 2022 £'000**	**H1 2021 £'000**	**FY 2021 £'000**
EBITDA post-IFRS-16 before non-underlying items	**49,189**	40,198	85,075
Non-underlying items (excluding amortisation)	**-**	(1,627)	(1,627)
EBITDA post-IFRS-16 before non-underlying items	**49,189**	38,571	83,448
Cash inflow from operating activities	**66,152**	20,969	60,362
Cash conversion	**134%**	54%	**72%**

The Group has delivered strong cash generation in the first half, with EBITDA to operating cash conversion of 134%. The Group benefited from a number of temporary cash benefits as a result of Covid-19; notably a deferral of the Group's March 2020 VAT liability of £16.0m together with contract payments received on account relating to interim Covid-19 arrangements. To remove this temporary impact, the Directors previously reported performance for the eighteen-month period to 30 June 2021 (cash conversion 131%) and for the twenty-four-month period to 31 December 2021 (cash conversion 117%).

Half-year condensed consolidated statement of profit or loss

For the six months ended 30 June 2022

	Note	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Continuing operations				
Sales revenue	3	**484,971**	443,731	878,420
Cost of sales		**(386,100)**	(354,542)	(697,933)
Gross profit		**98,871**	89,189	180,487
Administrative expenses		**(78,168)**	(79,492)	(156,940)
Operating profit		**20,703**	9,697	23,547
Share of profits of associates		**630**	457	855
Finance income	5	**640**	264	835
Finance costs	5	**(4,038)**	(4,773)	(8,904)
Profit for the period before tax		**17,935**	5,645	16,333
Tax expense	6	**(3,308)**	(1,031)	(3,192)
Profit for the period from continuing operations		**14,627**	4,614	13,141
Discontinued operations				
(Loss)/profit for the period from discontinued operations	7	**(76)**	885	940
Tax charge on discontinued operations	6	**–**	–	182
(Loss)/profit for the period after tax from discontinued operations		**(76)**	885	1,122
Profit for the period from continuing and discontinued operations		**14,551**	5,499	14,263
Attributable to:				
Owners of Mears Group PLC		**14,317**	5,557	14,119
Non-controlling interest		**234**	(58)	144
Profit for the period		**14,551**	5,499	14,263
Earnings per share – from continuing operations				
Basic	9	**12.97p**	4.21p	11.72p
Diluted	9	**12.70p**	4.13p	11.50p
Earnings per share – from continuing and discontinued operations				
Basic	9	**12.90p**	5.01p	12.73p
Diluted	9	**12.63p**	4.91p	12.49p

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

Half-year condensed consolidated statement of comprehensive income

For the six months ended 30 June 2022

	Note	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Profit for the period		**14,551**	5,499	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 period		**–**	441	1,023
• reclassification to the Consolidated Statement of Profit or Loss		**–**	465	(85)
Decrease in deferred tax asset in respect of cash flow hedges		**–**	(172)	(178)
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:				
Actuarial gain on defined benefit pension scheme	17	**15,682**	36,959	59,721
Pension guarantee asset movements in respect of actuarial gain	17	**(5,363)**	(18,654)	(19,018)
Decrease in deferred tax asset in respect of defined benefit pension schemes		**(2,580)**	(3,375)	(8,809)
Other comprehensive income for the period		**7,739**	15,664	32,654
Total comprehensive income for the period		**22,290**	21,163	46,917
Attributable to:				
Owners of Mears Group PLC		**22,056**	21,221	46,773
Non-controlling interest		**234**	(58)	144
Total comprehensive income for the period		**22,290**	21,163	46,917
Total comprehensive income for the period attributable to owners of Mears Group PLC arises from:				
Continuing operations		**22,132**	20,336	45,651
Discontinued operations		**(76)**	885	1,122
Total comprehensive income for the period attributable to owners of Mears Group PLC		**22,056**	21,221	46,773

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

Half-year condensed consolidated balance sheet

As at 30 June 2022

	Note	As at 30 June 2022 (unaudited) £'000	As at 30 June 2021 (unaudited) £'000	As at 31 December 2021 (audited) £'000
Assets				
Non-current				
Goodwill		**118,873**	118,873	118,873
Intangible assets		**6,030**	10,916	6,610
Property, plant and equipment		**18,846**	23,610	20,712
Right of use assets		**200,665**	194,073	204,949
Investments		**1,343**	1,423	713
Loan notes		**3,673**	3,318	3,476
Pension and other employee benefits	17	**43,756**	16,436	37,651
Pension guarantee assets	17	**7,904**	14,256	12,975
Deferred tax asset		**–**	458	–
		401,090	383,363	405,959
Current				
Inventories	10	**13,126**	21,709	22,869
Trade and other receivables	11	**156,705**	152,968	148,305
Current tax assets		**–**	894	2,154
Cash and cash equivalents		**89,859**	92,203	54,632
		259,690	267,774	227,960
Total assets		**660,780**	651,137	633,919
Equity				
Equity attributable to the shareholders of Mears Group PLC				
Called up share capital	15	**1,110**	1,109	1,109
Share premium account		**82,303**	82,249	82,265
Share-based payment reserve		**1,688**	1,507	1,313
Hedging reserve		**–**	(26)	–
Merger reserve		**7,971**	7,971	7,971
Retained earnings		**123,531**	84,023	107,578
Total equity attributable to the shareholders of Mears Group PLC		**216,603**	176,833	200,236
Non-controlling interest		**1,036**	600	802
Total equity		**217,639**	177,433	201,038
Liabilities				
Non-current				
Long-term borrowing and overdrafts		**–**	44,612	–
Pension and other employee benefits	17	**7,710**	20,812	16,995
Deferred tax liabilities		**9,301**	–	6,676
Interest rate swaps	14	**–**	90	–
Lease liabilities		**173,664**	168,131	175,290
Non-current provisions		**3,800**	3,667	3,800
		194,475	237,312	202,761
Current				

	Note	As at 30 June 2022 (unaudited) £'000	As at 30 June 2021 (unaudited) £'000	As at 31 December 2021 (audited) £'000
Trade and other payables	12	**205,620**	201,058	184,047
Interest rate swaps	14	**–**	176	–
Lease liabilities		**38,276**	34,814	41,600
Provisions	13	**3,339**	344	4,473
Current tax liabilities		**1,431**	–	–
Current liabilities		**248,666**	236,392	230,120
Total liabilities		**443,141**	473,704	432,881
Total equity and liabilities		**660,780**	651,137	633,919

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

Half-year condensed consolidated cash flow statement

For the six months ended 30 June 2022

	Note	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Operating activities				
Result for the period before tax		**17,935**	5,645	16,333
Adjustments	16	**31,288**	33,100	65,902
Change in inventories		**9,743**	9,548	12,944
Change in trade and other receivables		**(13,264)**	(6,962)	(2,244)
Change in trade, other payables and provisions		**20,450**	(20,362)	(32,573)
Cash inflow from operating activities of continuing operations before taxation		**66,152**	20,969	60,362
Taxes paid		**322**	(2,253)	(3,752)
Net cash inflow from operating activities of continuing operations		**66,474**	18,716	56,610
Net cash (outflow)/inflow from operating activities of discontinued operations		**(212)**	67	59
Net cash inflow from operating activities		**66,262**	18,783	56,669
Investing activities				
Additions to property, plant and equipment		**(3,194)**	(2,534)	(7,587)
Additions to other intangible assets		**(494)**	(629)	(1,182)
Proceeds from disposals of property, plant and equipment		**–**	21	46
Loans repaid by related parties		**–**	500	500
Distributions from associates		**–**	–	1,108
Interest received		**63**	160	413
Net cash outflow from investing activities of continuing operations		**(3,625)**	(2,482)	(6,702)
Net cash inflow from investing activities of discontinued operations		**5,000**	–	500
Net cash inflow/(outflow) from investing activities		**1,375**	(2,482)	(6,202)
Financing activities				
Proceeds from share issue		**39**	24	40
Net movement in revolving credit facility		**–**	5,260	(40,000)
Discharge of lease liabilities		**(22,269)**	(20,962)	(40,258)
Interest paid		**(4,022)**	(4,547)	(8,844)
Dividends paid – Mears Group shareholders		**(6,103)**	–	(2,773)
Net cash outflow from financing activities of continuing operations		**(32,355)**	(20,225)	(91,835)
Net cash outflow from financing activities of discontinued operations		**(55)**	(93)	(220)
Net cash outflow from financing activities		**(32,410)**	(20,318)	(92,055)
Cash and cash equivalents, beginning of period		**54,632**	96,220	96,220
Net increase/(decrease) in cash and cash equivalents		**35,227**	(4,017)	(41,588)
Cash and cash equivalents, end of period		**89,859**	92,203	54,632
The Group considers its revolving credit facility to be an integral part of its cash management:				
• Cash and cash equivalents		**89,859**	92,203	54,632
• Revolving credit facility		**–**	(44,612)	–
Cash and cash equivalents, including revolving credit facility		**89,859**	47,591	54,632

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

Half-year condensed consolidated statement of changes in equity

For the six months ended 30 June 2022 (unaudited)

	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 period	–	–	–	–	–	5,557	(58)	5,499
Other comprehensive income	–	–	–	734	–	14,930	–	15,664
Total comprehensive income for the period	–	–	–	734	–	20,487	(58)	21,163
Issue of shares	–	24	–	–	–	–	–	24
Share options – value of employee services	–	–	195	–	–	–	–	195
At 30 June 2021	1,109	82,249	1,507	(26)	7,971	84,023	600	177,433
At 1 January 2022	1,109	82,265	1,313	–	7,971	107,578	802	201,038
Net result for the period	–	–	–	–	–	14,317	234	14,551
Other comprehensive income	–	–	–	–	–	7,739	–	7,739
Total comprehensive income for the period	–	–	–	–	–	22,056	234	22,290
Issue of shares	1	38	–	–	–	–	–	39
Share options – value of employee services	–	–	375	–	–	–	–	375
Dividends	–	–	–	–	–	(6,103)	–	(6,103)
At 30 June 2022	**1,110**	**82,303**	**1,688**	**–**	**7,971**	**123,531**	**1,036**	**217,639**

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

Notes to the half-year condensed consolidated financial statements

For the six months ended 30 June 2021

1. Corporate information

Mears Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded. The half-year condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2022 were authorised for issue in accordance with a resolution of the Directors on 4 August 2022.

2. Basis of preparation and accounting principles

(a) Basis of preparation

The financial information comprises the unaudited results for the six months ended 30 June 2022 and 30 June 2021, together with the audited results for the year ended 31 December 2021. The half-year condensed consolidated financial statements for the six months ended 30 June 2022 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, with IAS 34 'Interim Financial Reporting', as contained in UK-adopted international accounting standards, and with the Accounting Standards Board's 2017 statement 'Half-yearly financial reports'. The half-year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2021, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International accounting standards.

This half-year condensed consolidated financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2021 were approved by the Board of Directors on 31 March 2022. Those accounts, which contained an unqualified audit report under Section 495 of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

The half-year condensed consolidated financial statements for the six months ended 30 June 2022 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on the Review of Interim Financial Information.

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

Going concern

The Directors consider that, as at the date of approving the interim financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period to at least 30 September 2023. When making this assessment, management considers whether the Group will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants applicable to those facilities which will be measured at 31 December 2022 and 30 June 2023. As at 30 June 2022 and 4 August 2022, the Group had £70m of committed borrowing facilities of which none was drawn. The principal borrowing facilities are subject to covenants as detailed on page 61 of the 2021 Annual Report. The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 50 to 54 of the 2021 Annual Report and are not expected to change over the next 12 months. The Group has modelled its cash flow outlook for the period to 30 September 2023 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 31 December 2022 and 30 June 2023. The Group's existing debt facilities run to December 2025.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to £nil. Further detail regarding the Group's stress testing is provided in the Business Planning and Financial Viability section on pages 62 and 63 of the 2021 Annual Report and the same scenarios were modelled to support the assessment of the Directors in this interim statement. Combining these scenarios shows that the Group would remain viable even in the event of a severe business failure over an extended period.

Consequently, the Directors consider any scenario which would cause the business to be no longer a going concern to be implausible. The Group has continued to trade profitably during the first half of 2022 and has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, should they be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits.

After making these assessments, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim statement.

(b) Significant accounting policies

The accounting policies adopted in the preparation of the half-year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

3. Revenue

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

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000
Revenue from contracts with customers		
Repairs and maintenance	**241,555**	248,245
Contracting	**47,384**	59,384
Property income	**171,771**	109,789
Care services	**10,029**	9,678
Other	**72**	127
	470,811	427,223
Lease income	**14,160**	16,508
	484,971	443,731

All of the above categories fall exclusively within the Housing segment.

4. Segment reporting

The Group had one continuing operating segment during the period:

- Housing – following the disposal of the Group's domiciliary care operations, all services provided by the Group fall within this segment. This includes housing repairs and maintenance services, a full housing management service and Care services directly related to housing provision.

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

5. Finance income and finance costs

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000
Interest charge on overdrafts and loans	**(368)**	(873)
Interest charge on hedged items	**–**	(465)
Interest on lease obligations	**(3,574)**	(3,249)
Other interest	**(5)**	–
Finance costs on bank loans, overdrafts and finance leases	**(3,947)**	(4,587)
Interest charge on net defined benefit scheme obligation	**(91)**	(186)
Total finance costs	**(4,038)**	(4,773)
Interest income resulting from short-term bank deposits	**43**	2
Interest income resulting from net defined benefit scheme asset	**380**	104
Other interest income	**217**	158
Finance income	**640**	264
Net finance charge	**(3,398)**	(4,509)

6. Tax expense

Tax recognised in the Consolidated Statement of Profit or Loss:

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000
United Kingdom corporation tax	**3,262**	1,717
Adjustment in respect of previous periods	**–**	–
Total current tax charge recognised in Consolidated Statement of Profit or Loss	**3,262**	1,717
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	**46**	(686)
Total tax charge recognised in Consolidated Statement of Profit or Loss on continuing operations	**3,308**	1,031
Total tax charge recognised in Consolidated Statement of Profit or Loss on discontinued operations	**–**	–
Total tax charge recognised in Consolidated Statement of Profit or Loss	**3,308**	1,031

7. Discontinued activities

As described in the 2020 Annual Report, during 2020 the Group completed the disposal of its Domiciliary Care business and its Planning Solutions business. At the time of the disposals, the Group was committed to a small number of unavoidable costs, largely in respect of retained offices. The final costs in respect of these commitments have been presented in discontinued operations for the current period.

An element of the consideration receivable for the sale of the Group's Planning Solutions business is contingent on the performance of the disposed business against a profit target in the financial year ending 31 December 2021. This contingent consideration is carried at fair value and the increase in fair value of £0.1m during the period was recognised in the Consolidated Statement of Profit or Loss and is also presented in discontinued operations.

The results of the discontinued operations are detailed below:

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000
Revenue and profits		
Sales revenue	**–**	127
Cost of sales	**–**	(53)
Administrative expenses	**(212)**	(36)
Increase in fair value of contingent consideration	**136**	849
Finance costs	**–**	(2)
(Loss)/profit for the year on discontinued operations	**(76)**	885

8. Dividends

The following dividends were paid on ordinary shares in the year:

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000
Final 2021 dividend of 5.5p per share	**6,103**	**–**

The Board is recommending an interim dividend of 3.25p (2021: nil) per share. This is not recognised as a liability at 30 June 2022 and will be payable on 28 October 2022 to shareholders on the register of members at the close of business on 7 October 2022.

9. Earnings per share

	Continuing		Discontinued		Continuing and discontinued	
	Six months ended 30 June 2022 (unaudited) p	Six months ended 30 June 2021 (unaudited) p	Six months ended 30 June 2022 (unaudited) p	Six months ended 30 June 2021 (unaudited) p	Six months ended 30 June 2022 (unaudited) p	Six months ended 30 June 2021 (unaudited) p
Basic earnings per share	**12.97**	4.21	**(0.07)**	0.80	**12.90**	5.01
Diluted earnings per share	**12.70**	4.13	**(0.07)**	0.78	**12.63**	4.91

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

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000
Continuing profit attributable to shareholders	**14,393**	4,672
Discontinued (loss)/profit attributable to shareholders	**(76)**	885
Profit attributable to shareholders	**14,317**	5,557

The calculation of EPS is based on a weighted average of ordinary shares in issue during the period. The diluted EPS is based on a weighted average of ordinary shares calculated in accordance with IAS 33 'Earnings per Share', which assumes that all dilutive options will be exercised. IAS 33 defines dilutive options as those whose exercise would decrease earnings per share or increase loss per share from continuing operations.

	Six months ended 30 June 2022 (unaudited) Million	Six months ended 30 June 2021 (unaudited) Million
Weighted average number of shares in issue:	**110.95**	110.90
• Dilutive effect of share options	**2.38**	2.32
Weighted average number of shares for calculating diluted earnings per share	**113.33**	113.22

10. Inventories

	As at 30 June 2022 (unaudited) £'000	As at 30 June 2021 (unaudited) £'000	As at 31 December 2021 (audited) £'000
Materials and consumables	**1,472**	3,341	1,650
Work in progress	**11,654**	18,368	21,219
	13,126	21,709	22,869

11. Trade and other receivables

	As at 30 June 2022 (unaudited) £'000	As at 30 June 2021 (unaudited) £'000	As at 31 December 2021 (audited) £'000
Trade receivables	**27,685**	47,094	28,571
Contract assets	**103,380**	85,188	97,680
Contract fulfilment costs	**1,115**	1,201	1,242
Prepayments and accrued income	**16,121**	9,915	9,277
Deferred consideration	**–**	500	–

Contingent consideration	**1,667**	6,280	6,531
Other debtors	**6,737**	2,790	5,004
Total trade and other receivables	**156,705**	152,968	148,305

Contingent consideration of £1.7m (June 2021: £6.3m) is receivable in respect of the disposal of the Group's Planning Solutions business. The guaranteed amount of contingent consideration of £5.0m was received in March 2022 and the carrying value at 30 June 2022 represents the remaining amount due, which is expected to be received in the second half of the year.

12. Trade and other payables

	As at 30 June 2022 (unaudited) £'000	**As at 30 June 2021 (unaudited) £'000**	**As at 31 December 2021 (audited) £'000**
Trade payables	**73,277**	108,486	69,555
Accruals	**64,979**	47,770	51,343
Social security and other taxes	**27,754**	30,559	29,724
Contract liabilities	**33,304**	11,736	27,843
Other creditors	**6,306**	2,507	5,582
	205,620	201,058	184,047

13. Provisions

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
Utilised during the year	(1,400)	(175)	(59)	(1,634)
Provided during the year	–	–	500	500
At 30 June 2022	**–**	**555**	**2,784**	**3,339**

At 31 December 2021, the Group identified a small number of maintenance contracts where the estimate of unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. These were categorised as onerous contracts. In each case, the Group has triggered the contractual break clause and the respective contracts concluded in the early part of 2022.

Property provisions were recognised during 2021 in respect of the expected costs of reinstating several properties to their original condition. The remainder of this provision is expected to be utilised within one year.

Legal provisions relate to sub-contractor and employee related legal claims which are also expected to be utilised within one year.

14. Financial instruments

Categories of financial instruments

	As at 30 June 2022 (unaudited) £'000	**As at 30 June 2021 (unaudited) £'000**	**As at 31 December 2021 (audited) £'000**
Non-current assets			
Fair value (level 3)			
Investments – other investments	**65**	65	65
Amortised cost			
Loan notes	**3,673**	3,318	3,476
Current assets			

	As at 30 June 2022 (unaudited) £'000	As at 30 June 2021 (unaudited) £'000	As at 31 December 2021 (audited) £'000
Fair value (level 3)			
Contingent consideration	**1,667**	6,280	6,531
Amortised cost			
Trade receivables	**27,685**	47,094	28,571
Deferred consideration	**–**	500	–
Other debtors	**6,737**	2,790	5,004
Cash at bank and in hand	**89,859**	92,203	54,632
	124,281	142,587	88,207
Non-current liabilities			
Fair value (level 2)			
Interest rate swaps – effective	**–**	(19)	–
Interest rate swaps – ineffective	**–**	(71)	–
Interest rate swaps	**–**	(90)	–
Amortised cost			
Long-term borrowing and overdrafts	**–**	(44,612)	–
Lease liabilities	**(173,664)**	(168,131)	(175,290)
	(173,664)	(212,743)	(175,290)
Current liabilities			
Fair value (level 2)			
Interest rate swaps – effective	**–**	(25)	–
Interest rate swaps – ineffective	**–**	(151)	–
Interest rate swaps	**–**	(176)	–
Amortised cost			
Trade payables	**(73,278)**	(108,486)	(69,555)
Lease liabilities	**(38,276)**	(34,814)	(41,600)
Other creditors	**(6,306)**	(2,507)	(5,582)
	(117,860)	(145,807)	(116,737)
	(161,838)	(206,566)	(193,748)

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 amount of contingent consideration receivable is determined by performance against a profit target of the disposed business in the financial year ending 31 December 2021. The fair value of this contingent consideration has been calculated by management with reference to draft income and expenditure of the disposed business and the terms of the sale (level 3).

A 1% change in the eventual profit of the disposed business would result in an approximately £0.3m change in the fair value of the contingent consideration.

The increase in the fair value of contingent consideration of £0.1m during the period was recognised in the Consolidated Statement of Profit or Loss and presented in discontinued operations, as detailed in note 8.

The fair values of investments in unlisted equity instruments are determined by reference to an assessment of the fair value of the entity to which they relate. This is typically based on a multiple of earnings of the underlying business (level 3).

There have been no transfers between levels during the period.

Fair value information

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

Contingent consideration

The table below shows the movements in consideration receivable:

	Contingent £'000
At 1 January 2022 (audited)	6,531
Movement in fair value during the period	136
Consideration received	(5,000)
At 30 June 2022 (unaudited)	**1,667**

The balance of contingent consideration is expected to be received within one year.

15. 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 (audited)	**1,109**	1,109
Issue of 32,160 (2020: 16,753) shares on exercise of share options	**1**	–
At 30 June 110,958,670 (2021: 110,898,650) ordinary shares of 1p each (unaudited)	**1,110**	1,109

During the period 32,160 (2020: 16,753) ordinary 1p shares were issued in respect of share options exercised.

16. Notes to the Consolidated Cash Flow Statement

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

	Six months ended 30 June 2022 (unaudited) £'000	Six months ended 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Depreciation	**26,781**	23,506	49,024
Loss on disposal of property, plant and equipment	**–**	(33)	245
Amortisation	**1,075**	4,917	9,777
Share-based payments	**375**	195	575
IAS 19 pension movement	**289**	545	(933)
Equity accounted income from investments	**(630)**	(457)	(855)
Finance income	**(640)**	(160)	(835)
Finance cost	**4,038**	4,587	8,904
Total	**31,288**	33,100	65,902

17. Pensions

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

In certain cases, the Group will participate under Admitted Body status in the LGPS. The Group will contribute for a finite period up until the end of the particular contract. The Group is required to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases, these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Group has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised as a separate pension guarantee asset.

For the purposes of the interim financial statements management has estimated the movements in pension liabilities by reference to the changes in principal assumptions since 31 December 2021, using the sensitivities calculated at that time to movements in these assumptions. The movements in pension assets have been estimated by reference to market index returns over the period for different asset classes in line with the asset portfolios held at 31 December 2021.

The principal actuarial assumptions that have changed since 31 December 2021 are as follows:

	As at 30 June 2022 (unaudited)	As at 31 December 2021 (audited)
Discount rate	**3.80%**	2.00%
Retail prices inflation	**2.90%**	3.00%
Consumer prices inflation	**2.50%**	2.60%
Rate of increase of salaries	**2.90%**	3.00%

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

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Group's estimated asset share	**149,054**	**295,815**	**444,869**	196,912	296,571	493,483
Present value of funded scheme liabilities	**(105,298)**	**(190,566)**	**(295,864)**	(159,261)	(275,828)	(435,089)
Funded status	**43,756**	**105,249**	**149,005**	37,651	20,743	58,394
Scheme surpluses not recognised as assets	**–**	**(112,959)**	**(112,959)**	–	(37,738)	(37,738)
Pension asset/(liability)	**43,756**	**(7,710)**	**36,046**	37,651	(16,995)	20,656
Pension guarantee assets	**–**	**7,904**	**7,904**	–	12,975	12,975

The movements in the net pension assets/liabilities for the six months ended 30 June 2022 are:

	Group schemes £'000	Other schemes £'000	Total £'000
Pension asset/(liability) at 1 January 2022 (audited)	37,651	(16,995)	20,656
Recognised in the Consolidated Statement of Profit or Loss	257	(549)	(292)
Recognised in other comprehensive income	5,848	9,834	15,682
Pension asset/(liability) at 30 June 2022 (unaudited)	**43,756**	**(7,710)**	**36,046**

Changes in the fair value of guarantee assets are as follows:

	£'000
Fair value of guarantee assets at 1 January 2022 (audited)	12,975
Recognised in the Consolidated Statement of Profit or Loss	292
Recognised in other comprehensive income	(5,363)
Fair value of guarantee assets at 30 June 2022 (unaudited)	**7,904**

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. A 0.1% reduction in the net discount rate (the base discount rate less the rate of inflation) would result in an increase in the present value of the defined benefit obligation of approximately 1.8%, although an element of the increase would be mitigated by an increase in the pension guarantee assets, as described above.

18. Half-year condensed consolidated financial statements

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

19. Principal risks and uncertainties

The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 50 to 54 of the 2021 Annual Report and Accounts and is not expected to change over the next six months.

20. Forward-looking statements

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

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

The names and functions of the Directors of Mears Group PLC are as listed in the Group's Annual Report for 2021.

By order of the Board

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4 August 2022