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.

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.

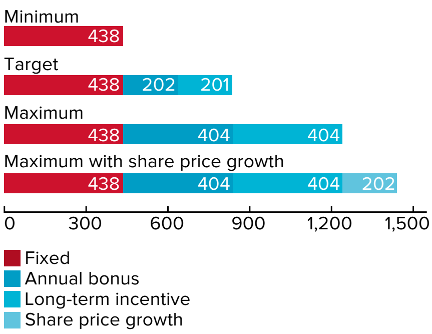
These discretions, which in certain circumstances can be operated in both an upward and a downward manner, are consistent with market practice and are deemed necessary for the proper and fair operation of the schemes in order to achieve their original purpose. It is the Committee's policy, however, that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

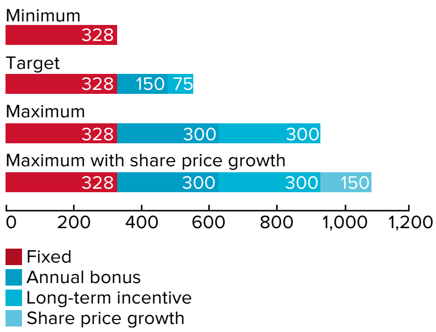
CEO

David Miles salary 2023 (£'000)



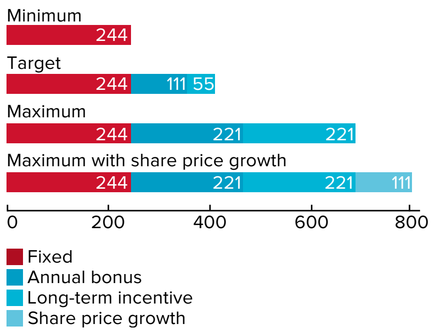
CFO

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).

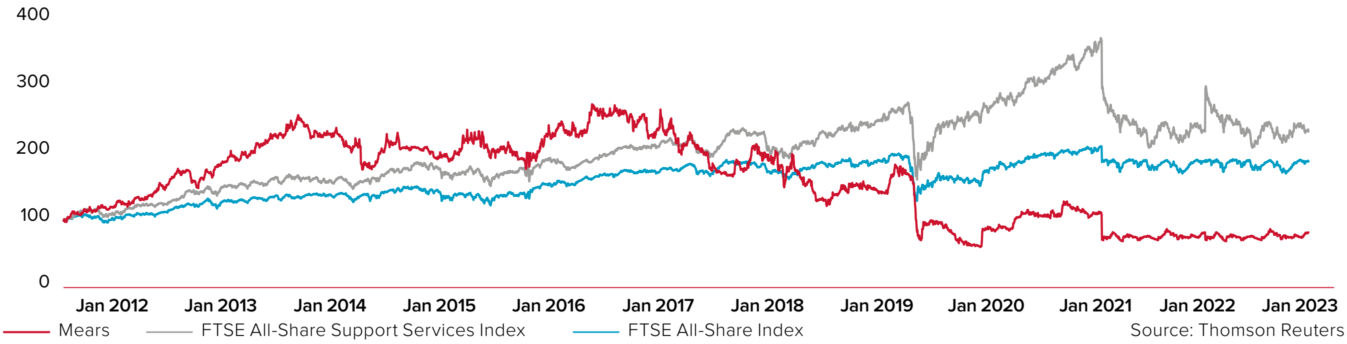
SHAREHOLDER DILUTION

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



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