An effective culture of governance

“MEARS MUST BE EQUIPPED WITH A BOARD THAT CAN PROVIDE A WIDE RANGE OF VIEWS, SKILLS AND EXPERIENCE TO WORK WITH AND CHALLENGE THE MANAGEMENT TEAM.”

KIERAN MURPHY
CHAIRMAN

Dear shareholder,

On behalf of the Board, I am pleased to present my corporate governance report for the year ended 31 December 2019. As in previous years, we report against the UK Corporate Governance Code 2018 (the ‘Code’) issued by the Financial Reporting Council (FRC). I am pleased to confirm that during 2019 we have fully complied with the provisions of the Code.

BOARD ACTIVITIES

Later in this report, shareholders will find a summary of the matters which the Board discussed during 2019. These include regular reports on performance but also specific strategic questions and developments in relation to workforce engagement and engagement with end customers of the Group.

BOARD COMPOSITION

In my first report as Chairman last year, I said that Mears must be equipped with a Board that can provide a wide range of views, skills and experience to work with and challenge the management team and accordingly that the balance of capabilities around the Board table would be kept under review so as to ensure that the Group had what it needed for effective leadership.

In accordance with those principles, the Board appointed two new Non-Executive Directors in 2019, Jim Clarke and Chris Loughlin. The process for their appointment is set out in the report of the Nomination Committee. Two existing Non-Executive Directors, Liz Corrado and Jason Burt, have stood down with effect from the end of 2019 and the end of March 2020. Importantly, although Jason is leaving the Board, he is being retained to continue to increase the governance around health safety and environmental matters and will continue to attend the Audit Committee. Our Employee Director, Amanda Hillerby, left the Board early in 2020 consequent on the completion of the sale of the Group's domiciliary care activities in England and Wales. Preparations are underway to appoint a new Employee Director in due course as the Group sees this role as one of the most effective means of employee engagement.

With the resignations noted above those Directors did not have any concerns about the operations of the Board or the management of the Group.

As Chairman I take it upon myself to ensure that there are no conflicts of interest around the Board in any discussions and that all Directors have the time and resources to conduct their role effectively.

BOARD EVALUATION

The Chairman is in regular discussion with the Non-Executive Directors about their contribution to the success of the Company. The Senior Independent Director will provide a review of the performance of the Chairman. In the light of the extensive Board changes in 2019, no independent review was undertaken last year but it is intended to undertake such a review in 2020.

COMMITTEE GOVERNANCE

Within this annual report, shareholders will find reports from the chairman of each of the main Board Committees, respectively audit, nomination and remuneration. Committee meetings have taken place throughout the year. I would like to thank in particular the Committee chairs for their work during the year but also my fellow Non-Executive Directors for their commitment to the work which is increasingly undertaken at Committee level rather than at the main

Board. The Committee chairs have remained available to shareholders throughout the year.

WIDER SOCIETY

The Code draws attention to the contribution which each company, and thus its board, makes to society as a whole. Mears has been a strong advocate of the importance of social value for many years and this year's activities are summarised in the Diversity and Social Impact section of the Strategic Report. Mears' contribution to social value is discussed at each Board meeting. In doing so the Board monitors culture and, where not satisfied, is clear in ensuring that management has taken meaningful corrective action.

SHAREHOLDER ENGAGEMENT

The Board continued to engage with shareholders in an open and meaningful way throughout 2019. Since my appointment, I have met with each of our major shareholders on more than one occasion to understand their views and concerns. I intend to continue this dialogue throughout 2020.

K MURPHY
CHAIRMAN
kieran.murphy@mearsgroup.co.uk
22 May 2020

Corporate governance

The right skills and experience to deliver our strategy

KIERAN MURPHY
INDEPENDENT NON-EXECUTIVE CHAIRMAN

Age: 61
Tenure: 1 year
Skills and experience: Kieran has spent much of his career working in finance, holding senior positions. 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, the boutique corporate finance advisory firm, Kieran extended his advisory work into the business services sector.
Principal external appointments:
Aliaxis SA., Ordnance Survey, University of London

DAVID J MILES
CHIEF EXECUTIVE OFFICER

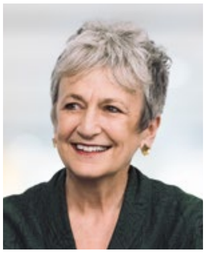
Age: 54
Tenure: 23 years (13 years on the Board)
Skills and experience: David joined Mears in 1996 and, prior to his appointment to the Board in January 2007, was Managing Director of the Mears Social Housing division. Prior to joining Mears, David held a senior position with the Mitie Group. His background is in electrical engineering.
Principal external appointments:
None

ANDREW C M SMITH
FINANCE DIRECTOR

Age: 47
Tenure: 20 years (13 years on the Board)
Skills and experience: Andrew joined Mears in 1999 and, prior to his appointment to the Board, was Finance Director 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

ROY IRWIN
INDEPENDENT NON-EXECUTIVE DEPUTY CHAIRMAN AND CHAIR OF THE REMUNERATION COMMITTEE

Age: 65
Tenure: 3 years
Skills and experience: Roy has significant experience in the social housing sector, having lately been Chief Inspector of the Audit Commission following a career of over 30 years in public sector housing. Since 2013, Roy has held the position of Non-Executive Chairman of Plexus and Omega Housing, being Mears' Registered Providers of social housing with the Regulator of Social Housing.
Principal external appointments:
None



DAME JULIA UNWIN
INDEPENDENT NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR

Age: 63
Tenure: 4 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 ten years.
Principal external appointments:
Yorkshire Water Services Limited, Financial Reporting Council

ALAN LONG
EXECUTIVE DIRECTOR

Age: 57
Tenure: 14 years (10 years on the Board)
Skills and experience: Alan joined Mears in 2005 and, prior to his appointment to the Board in August 2009, was Managing Director of the Group's Care division, having previously held the position of Group Sales and Marketing Director. Prior to joining Mears, Alan held senior roles at Britannia Building Society, Mars and Smith & Nephew.
Principal external appointments:
None

GERAINT DAVIES CBE
INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF THE AUDIT COMMITTEE

Age: 65
Tenure: 4 years
Skills and experience: Geraint is a fellow member of the Institute of Chartered Accountants in England and Wales. He was previously a partner for a leading professional practice for over 25 years. His commercial experience includes working with Registered Social Landlords and a number of organisations in the healthcare sector.
Principal external appointments:
Cardiff International Airport Limited

JIM CLARKE
INDEPENDENT NON-EXECUTIVE DIRECTOR

Age: 60
Tenure: 9 months
Skills and experience: Jim qualified as a Chartered Accountant in 1984. He has spent much of his career in senior finance roles in consumer facing industries, having been Finance Director at David Lloyd Leisure and subsequently JD Wetherspoon. He joined Countrywide as Group Chief Financial Officer in 2007, retiring early in 2017. Jim joined following Countrywide being taken private in 2007 and led subsequent significant restructuring and recapitalisations of the business which culminated in a successful return to the public markets via an IPO in early 2013.
Principal external appointments:
None

CHRIS LOUGHLIN
INDEPENDENT NON-EXECUTIVE DIRECTOR

Age: 67
Tenure: 7 months
Skills and experience: Since 2016, Chris has been Chief Executive Officer of Pennon Group plc, the listed company which owns South West Water and the waste business Viridor. He was previously CEO of South West Water for a decade and before that held roles as Chief Operating Officer at Lloyds Register, as an Executive Director of British Nuclear Fuels Plc and Executive Chairman of Magnox Electric Plc.
Principal external appointments:
Pennon Group plc, British Water, Water UK, Reall

BEN WESTRAN
COMPANY SECRETARY

Age: 43
Tenure: 16 years (5 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

Corporate governance report
Corporate governance statement

HOW THE BOARD OPERATES
The Board leads and provides strategic direction to the Group and carries ultimate responsibility for management of the Group's activities and financial performance. The Board acknowledges accountability to shareholders for proper conduct of the business, and responsibility for the long-term success of the Group, having regard to the interests of all stakeholders.

LEADERSHIP AND EFFECTIVENESS

Our Board

Role and responsibilities
- Assesses and evaluates critically proposals on strategy developed by management so as to deliver value to shareholders and stakeholders.
- Monitors management activity and performance against targets.
- Provides constructive challenge to management.
- Sets the parameters for promoting and engaging the interests of shareholders and investors.
- Ensures that satisfactory dialogue with shareholders takes place.

Matters reserved for the Board's decision
- Group strategy, business objectives, long-range plans and annual budgets.
- Annual and interim results approval.
- Material acquisitions, disposals and contract bidding approval.
- Major changes to internal controls, risk management or financial reporting policies and procedures.
- Changes to advisers.
- Setting the risk appetite of the Group.
- Changes to capital and management structure.
- Succession planning for the Board and senior management.
- Board appointments and independence.
- Appointment, termination and remuneration of Directors and the Company Secretary.

CORPORATE GOVERNANCE FRAMEWORK

The Chairman

Key responsibilities
- Is responsible for the leadership of the Board and ensuring its effectiveness.
- Sets the Board's agenda and ensures adequate time is available for discussion of all agenda items.
- Ensures all discussion is in the context of the long-term success of the Group.
- Promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors.
- Ensures that the Directors receive accurate, timely and clear information.
- Is responsible for designing a rigorous annual evaluation of the performance of the Board and individual Directors.

The Board

Audit Committee

KEY OBJECTIVE
The Audit Committee is responsible for effective corporate governance in respect of financial reporting, agreeing the scope of the external audit, the setting of the auditor's remuneration, the development of strategic risk plans and reviewing the effectiveness of the Group's internal controls, risk management and internal audit processes.

Read the Report of the Audit Committee on pages 82 to 87

Remuneration Committee

KEY OBJECTIVE
The Remuneration Committee is responsible for setting, reviewing and recommending the remuneration policy and strategy in respect of Executive Director and senior management remuneration.

Read the Report of the Remuneration Committee on pages 88 to 90

The Board's prime objective is to ensure the ongoing commercial and financial success of the Group. The Board provides entrepreneurial leadership of the Group within a sound and prudent risk management framework using effective internal control systems which enable risk to be assessed and managed. The Board sets the Group's strategic objectives, and the nature and extent of principal risks it is willing to take in achieving these strategic objectives, and ensures that the necessary financial and human resources are in place for the Group to meet these objectives. The Board sets the Group's values and standards, and ensures that the Group's obligations to its shareholders and others are understood and met.

- Develops a dialogue with key shareholders and other stakeholders to understand their likely requirements from the Group.
- Holds meetings from time to time with the Non-Executive Directors without the Executive Directors present.
- Reviews the performance of each of the Non-Executive Directors annually.

Nomination Committee

KEY OBJECTIVE

The Nomination Committee is responsible for ensuring that the Board and senior management positions has the skills, experience and diversity needed to enable the Group to be managed effectively. It is also responsible for overseeing Group succession planning.

Read the Report of the Nomination Committee on pages 80 and 81

The Chief Executive Officer

Key responsibilities

- Manages the day-to-day business operations of the Group.
- Ensures appropriate standards of corporate governance permeate throughout the organisation.
- Recommends key strategies to the Board and is responsible for execution of those agreed by the Board.
- Takes a leading role in the relationship with all external agencies and in promoting Mears Group PLC.
- Directs the risk profile of the Group in line with the risk appetite and categories of risk identified and accepted by the Board.

Read the Chief Executive Officer's review on pages 14 to 19

Divisional boards and management

KEY OBJECTIVE

Carries out activities delegated by the Board, including:

- Day-to-day operational management of the business.
- Monitoring service delivery performance measures and driving improvements.
- Financial performance reviews and comparison to forecasts and updated forecasts.
- Business development activity not subject to Board approval.

Corporate governance report continued
Corporate governance statement

Board composition and meetings in 2019

GOVERNANCE FRAMEWORK

Our governance framework supports the development of good governance practices throughout the Group. No one individual has unfettered powers of decision. The Board works closely with the Executive team which ensures that the Board and its culture are effectively communicated and embedded within the Group. Regular updates are received from the Executive Directors in order to keep the Non-Executive Board members informed of how the business is progressing.

Role	Potential	Attended	Responsibilities include:
Chairman			
Kieran Murphy	8	8	▶ Promoting a culture of challenge, debate, openness and support. ▶ Leadership of the Board and ensuring its effectiveness. ▶ Ensuring that Directors allocate sufficient time to the Company to discharge their responsibilities effectively. ▶ Effective communication between the Board, the sub-committees and its key stakeholders. ▶ Ensuring that the Board demonstrates culture, values and behaviours of the Group. ▶ Ensuring that the Board presents a fair, balanced and understandable assessment of the position and prospects of the Group.
Senior Independent Director			
Julia Unwin	8	8	▶ Being the principal conduit between the Chairman, Non-Executive Directors and shareholders. ▶ Leading the annual performance evaluation of the Chairman, including collecting the views of the Executive Directors. ▶ Providing a sounding board for the Chairman.
Independent Non-Executive Directors			
Jason Burt	8	8	▶ Promoting the highest standards of integrity, probity and corporate governance throughout the
Roy Irwin	8	7	Group and the Board.
Geraint Davies	8	8	▶ Constructively challenging decisions proposed by the Executive Directors.
Elizabeth Corrado	8	8	▶ Assisting in developing proposals on strategy.
Jim Clarke	3	3	▶ Contributing to the performance evaluation of the Chairman.
Chris Loughlin	2	2	▶ Briefing the Board on decisions made and key issues from each Committee Chair.
Employee Director			
Amanda Hillerby	8	1	▶ Promoting the highest standards of integrity and probity. ▶ Assisting in developing proposals on strategy. ▶ Ensuring that the Board receives 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.
Executive Directors			
David Miles Chief Executive Officer	8	8	▶ 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.
Andrew Smith Group Finance Director	8	8	▶ Supporting the Chief Executive Officer in developing strategy and meeting objectives. ▶ 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.
Alan Long Group Executive Director	8	8	▶ 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.

As noted above, in addition to formal Board meetings, the Chairman meets with the Non-Executive Directors to discuss, collectively and individually, Group performance, strategy, governance and other relevant matters. The Executive Directors do not attend these meetings.

The Board considers all Non-Executive Directors who served during the year to be independent in terms of judgement and character and free from any relationship that might materially interfere with the exercise of independent judgement.

What did the Board do this year?

STRATEGY

- Reviewed the mix of businesses within the Group and their contribution to overall Group strategy and financial performance
- Resolved to downsize the capital allocated to the housing development division and options for executing on that decision
- Considered the optimal positioning of care activities within the Group
- Resolved to explore options to exit the Group's stand-alone domiciliary care businesses
- Commenced a three-year review of overall Group strategy
- Reviewed and approved the annual budget for 2019
- Reviewed the Group's state of preparedness for Brexit and the potential impact of party political manifesto commitments prior to the general election

MANAGEMENT

- Reviewed operational and financial updates from the CEO and CFO at each Board meeting
- Questioned the CEO on the mobilisation of the Group's new Asylum contracts, with particular reference to their financial and operational complexity and the fact that the client is new to the Group
- Regularly reviewed progress on the integration of MPS
- Received reports on bidding activity for new contracts and progress on rebidding for existing contracts
- Received reports on any significant litigation concerning the Group
- Received reports on questions on regulatory matters relating to the Group from the Health and Safety Executive, the Regulator of Social Housing and other bodies

FINANCIAL REPORTING

- Approved the Group's Annual Report and Accounts, half year financial statements and considered and approved dividend payments to shareholders
- Reviewed and approved the viability statement for the Annual Report
- Reviewed the Audit Committee's advice on internal audit planning, progress and reviews
- Reviewed the Audit Committee's advice on making the 'fair, balanced and understandable' statement in the Annual Report
- Reviewed reports on the management of working capital within the Group

WORKFORCE

- Reviewed the results of the Group's annual 'say what you see' survey and monitored progress against improvement measures in poorly performing branches
- Reviewed health and safety reports at each Board meeting assessing accidents and other issues affecting Group employees, subcontractors and, where relevant, end customers
- Reviewed the Group's report on gender pay and options for improvement
- Reviewed an initial senior management succession plan
- Routinely reviewed reports arising from concerns raised by the workforce

COMMUNICATIONS

- Reviewed reports from the CEO and the Chairman on the views of shareholders as to Mears' strategy and performance
- Reviewed the creation of the new Customer Scrutiny Board and agreed that, in the first instance, the chair be the link between the two Boards

APPOINTMENTS

- Approved the appointment of Jim Clarke and Chris Loughlin as Non-Executive Directors
- Approved the appointment of Peel Hunt as the Company's brokers and Investec as the Company's financial advisers, following a competitive process

Corporate governance report continued
Corporate governance statement

BOARD PERFORMANCE EVALUATION

Early in 2019, the Board received a report from the Chairman which, inter alia, addressed the composition and effectiveness of the Board. After discussion based on that report, the Board undertook the changes to its composition which are described elsewhere in this Annual Report.

As a result, the Board has a significantly different mix of Non-Executive Directors from that which it had some 12 months ago. The Chairman regularly discusses with each Non-Executive Director their contribution to the Company's overall success. The Senior Independent Director provides feedback to the Chairman on his performance, having canvassed opinion from the other Directors and more widely.

Having regard to the changing composition of the Board, no formal independent review was undertaken in 2019. However, it is intended to undertake such a review in 2020. The last such independent review was undertaken in 2017.

All Directors have access to the Company Secretary, who is responsible for all Board compliance requirements, to ensure they are updated on all legislative developments. In addition to this, the Company Secretary ensures that the Board agenda and papers are provided usually at least seven days in advance of the meeting. Minutes and actions from previous meetings are distributed on a timely basis. As per the Board policies and procedures, any Non-Executive Director may, on request through the Company Secretary or the Chairman, meet with any member of staff in the Group. Non-Executive Directors are able to request the support of an independent adviser from the Company Secretary.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS AND RE-ELECTION OF DIRECTORS

The Board adopts the principles of the Code regarding tenure of the Board. In accordance with Code requirements, each of the Directors offer themselves for re-election annually. The Board considers that each of the Non-Executive Directors continues to be effective and that they are considered to demonstrate appropriate commitment to the role.

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.

Shareholder engagement

Principal methods of communication with investors:

- Annual Report and Accounts
- Interim statements
- Trading updates
- Quarterly newsletters
- Group website **www.mearsgroup.co.uk**
- Individual meetings with management and/or Non-Executive Directors

INVESTOR RELATIONS

The Company is committed to maintaining good communication with investors. Normal shareholder contact is the responsibility of the Executive Directors, who respond on a daily basis to queries from institutional and private investors. The Chairman, the Senior Independent Director and other Non-Executive Directors are available to shareholders to discuss any matters they wish to raise. Directors are available at each AGM and shareholder participation is encouraged.

The Board is committed to maintaining 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).

There is an active programme of communication with existing and potential shareholders which was especially intense during the first half of 2019. There is increased dialogue with institutional investors following the publication of final and interim results, which is facilitated through a series of formal presentations. The Company also held additional investor days during the year to ensure that they are better informed of market and Company developments. A Capital Markets Day in February 2019 provided background information on the Asylum Accommodation and Support Services Contract (AASC) award and the Mitie Property Services acquisition (MPS). A further day in January 2020 provided an update on the AASC.

The Group regularly receives and responds to questions raised by small private shareholders through the investor enquiry portal within the Group's website.

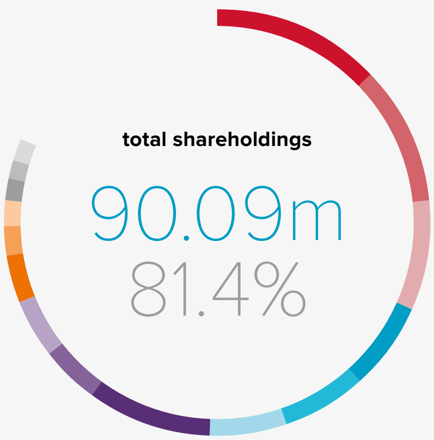
Feedback from communication with shareholders and other investors is discussed at Board meetings. Feedback from this year's shareholder dialogue, particularly discussions with the Chairman in the first half of the year, provided broad support for the Company's strategy in relation to housing maintenance and management but dissatisfaction with the following:

A Activities were insufficiently focused and some did not contribute adequately to shareholder value.
B Indebtedness was too high and efforts needed to be made significantly to reduce it.
C Market expectations were too often not matched by corporate performance.
D The Board with insufficient representation from the corporate sector.

During the course of 2019, a number of steps have been taken in order to address these concerns. The streamlining of the Group's activities has been discussed under strategy above while Board changes have been discussed under Board developments above. The Group ended 2019 achieving its forecast profit level and with a significant reduction in net indebtedness relative to the end of 2018. However, for a number of reasons, and as noted under results above, disappointing progress was made in reducing the Group's average net indebtedness during the year. This will continue to remain a focus for the Group and, while progress to reduce indebtedness will likely be inhibited by the changes necessary to protect the Group during the COVID related emergency in 2020, the Board will continue to seek progress in 2021.

The Group also has regular dialogue with its banking partners, valuing the close relationship with Barclays, HSBC and Bank of Ireland.

K MURPHY
CHAIRMAN
22 May 2020



Shareholder	Shares (m)	% IC
PrimeStone Capital London	14.40	13.0%
Shareholder Value Management Frankfurt	11.66	10.5%
Majedie Asset Management London	9.08	8.2%
Fidelity Management & Research Boston	7.41	6.7%
Heronbridge Investment Management Bath	7.14	6.5%
Columbia Threadneedle Investments London	6.37	5.8%
Artemis Investment Management London/Edinburgh	10.28	9.3%
Legal & General Investment Management London	5.05	4.6%
Dimensional Fund Advisors London	4.86	4.4%
M&G Investments London	3.91	3.5%
Montanaro Asset Management London	2.50	2.3%
Slater Investments London	2.36	2.1%
Wells Fargo Securities Charlotte	1.79	1.6%
Close Asset Management London	1.70	1.5%
BlackRock Investment Management London	1.58	1.4%

Q1 2019

- Investor meetings prior to the close period.
- Capital Markets Day held in February 2019 to focus on Asylum Accommodation and Support Services Contract (AASC) award and the Mitie Property Services acquisition (MPS).
- Following release of final results for 2018, investor roadshow spanning six days, meeting with both 'buy' and 'sell' sides.

Q2 2019

- Regular update meetings with existing and prospective shareholders.
- AGM held in May 2019, providing an opportunity to meet a number of private investors.

Q3 2019

- Following release of interim results for 2019, investor roadshow spanning five days, meeting with both 'buy' and 'sell' side.

Q4 2019

- Regular update meetings with existing and prospective shareholders.
- Retendered our corporate broker engagement. Peel Hunt was appointed sole broker and Investec appointed as financial adviser.
- Investor lunch providing cross-section of fund managers to meet the key management beneath the PLC Board.

Report of the Nomination Committee

Meeting attendance

J Unwin	●●●
K Murphy	●●●
G Davies (from 16 April 2019)	●●
R Irwin (from 16 April 2019)	●●

Key
● Attended ○ Absent

In addition to formal meetings of the Committee, there were extensive telephonic communications amongst the Committee members, especially during the selection processes described below.

The main focus of the Committee in 2019 was the process to rebalance the Board and especially to introduce some skills and experience at non-executive level which were underrepresented. During the course of the first half of the year, the Committee identified the desirability of strengthening the Board's overall capabilities in two areas: financial control, reporting and management, and senior commercial strategic general management.

During May 2019, the Chairman engaged in detailed discussions with almost all of the Company's largest shareholders and sought their views on the appointment of two new Non-Executive Directors. Those discussions included the relative merits of the proposal put forward by way of a resolution at the Annual General Meeting by one of the major shareholders and the Committee's own process. The shareholders voted at the AGM to support the Committee's process.

Throughout the period March to August 2019, the Committee ran two robust processes, in each case using a different search firm. We also ensured that these new positions were advertised widely, being mindful of both gender equality and social mobility.

Both of these processes produced shortlists of high quality candidates. In the first, the Committee interviewed five individuals, each of whom either was or had been the Chief Financial Officer of a listed company of at least comparable size and complexity to Mears. At the conclusion of this process, the Committee was pleased to offer the appointment to Jim Clarke. During his executive career, Jim had been Chief Financial Officer at a number of consumer oriented listed businesses, including Countrywide, JD Wetherspoon and David Lloyd Leisure and had extensive experience of effective investor relations. Jim had also had experience as a CFO under private equity ownership and as the chair of an audit committee at a listed company. Overall, the Committee considered that Jim's experience and skills were an excellent fit to the needs of the Group.

In the second process, the Committee interviewed four candidates, each of whom was or had been the chief executive of another group, some, but not all, listed. The Board was pleased to appoint Chris Loughlin, who is the current CEO of Pennon Group. During his career, Chris has had extensive experience of businesses requiring long-term strategic planning, of dealing with Local Authority clients and of businesses with a strong interface with both the consumer and Government sectors. He has also had considerable investor relations experience. The Committee considered that Chris's mix of skills and experience were again an excellent fit to the Group's requirements.

Post these appointments, the Committee also discussed the need to bring the size of the Board back towards that at which it had started the year.

We briefly considered the culture of the Board and the Group as a whole during our discussions this year. The Mears culture is articulated in the Social value section of the Strategic Report, which can be found on pages 54 to 69. The Nomination Committee plays a role in embedding the culture throughout the Group by ensuring that our succession planning and appointment processes identify candidates who demonstrate our vision, values and desired culture. This, and executive succession planning, will likely be an area of greater focus for the Committee going forward.

The Committee also expects to put in place a formal and probably independent evaluation of the effectiveness the Board and its various committees during the course of 2020.

Mears has a clear policy on equality, diversity and inclusion, and an evaluation of the effectiveness of this policy will also be part of the Committee's workplan for 2020.

The appointments made during 2019 have had the undesirable effect of reducing the gender diversity of the Board. As at the end of the year, the Board had 25% female representation. Since then, the departure of a number of Directors has further reduced this level of diversity. This issue will be a key consideration in any further recruitment in 2020.

At senior management level, there were 26.5% female staff at end 2019.

ROLE OF THE COMMITTEE

The Nomination Committee's responsibilities include:

- keeping under review the composition of the Board and succession to it, and succession planning for senior management positions within the Group;
- making recommendations to the Board concerning appointments to the Board, whether of Executive or Non-Executive Directors, having regard to the balance of skills, knowledge, experience and diversity of the Board;
- reviewing the length of service of Non-Executive Directors to ensure a progressive refreshing of the Board, whilst retaining the correct level of experience;
- making recommendations to the Board concerning the re-appointment of any Non-Executive Director at the conclusion of his/her specified term and the re-election of any Director by shareholders under the retirement provisions of the Company's Articles of Association;
- managing a formal, rigorous and transparent procedure for any appointments of new Directors to the Board;
- prior to the appointment of a Director, requiring that the proposed appointee discloses any other business interests that may result in a conflict of interest and reports any future business interests that could result in a conflict of interest; and
- ensuring that, on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, Committee service and involvement outside Board meetings.

ACTIVITIES DURING THE YEAR

- Reviewed Board governance, Executive and Non-Executive Director succession and deliberation of person requirements for the appointments to the Board.
- Entered into dialogue with major shareholders, canvassing their views on the Board.
- Carried out a rigorous appointment process to appoint two new Non-Executive Directors.
- Recommended to the Board that all Directors stand for re-election.

The terms and conditions of each of the Non-Executive Directors are made available on request of the Company Secretary, and are available for inspection at the AGM.

K MURPHY
NOMINATION COMMITTEE CHAIRMAN
22 May 2020

Report of the Audit Committee
Corporate governance statement

Meeting attendance

G Davies	●●●●●●
J Burt	●●●●●●
J Clarke (from 2 July 2019)	●●●
C Loughlin (from 3 December 2019)	●
E Corrado (left on 31 December 2019)	○●●●●●

Key
● Attended ○ Absent

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.

During the year, the Committee was strengthened with the addition of Jim Clarke and Chris Loughlin. Both Jim and Chris are Chartered Accountants and have, over an extended period of time, held senior positions within UK listed entities. Both individuals bring significant recent and relevant experience to the Committee and the Committee has already benefitted from their involvement.

I also wish to thank Elizabeth Corrado who left the Board in December 2019 for her diligent work during her time on this Committee.

COMPLIANCE COMMITTEE

Last year, a new Compliance Committee dealing with health, safety and environmental risks was formed. This Compliance Committee is a sub-committee of the Audit Committee and is chaired by Jason Burt, who has a detailed working knowledge of the factors which 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 if required.

The Compliance Committee has detailed terms of reference which include:

- to review and monitor the Group's policies in relation to health, safety and environmental (HSE) matters;
- to review HSE risks and risk assessments on the Group risk register and mitigation actions and controls related thereto, including subcontractor controls and related procurement;
- to review Group buildings compliance and safety including fire and other risks;
- to consider and approve major SHE projects and any related investment including use of consultants; and
- to consider any other significant SHE matters including emerging risks and unforeseen risks as they arise.

During the year, the Compliance Committee has focused its attention on four key risk areas:

- the integration of MPS;
- fleet driver licensing compliance;
- contractor management; and
- the mobilisation of the Asylum contract.

The acquisition of MPS created the need for all MPS safety policies, procedures and staff training to be aligned with the main Group, a process that has been successfully completed.

The Compliance Committee also initiated two new audit and monitoring processes designed to enhance the Group's existing control measures around fleet driving licence compliance and contractor management. The latter included the recruitment of two specialist auditors whose focus is the policing of branch-level management adherence with the Group's contractor management requirements.

The mobilisation and subsequent commencement of the Asylum contract brings the potential for risk in a number of areas and the Compliance Committee is monitoring and reviewing all compliance issues via a bespoke health, safety and welfare focused risk register.

The Group's Safety, Health, Environment and Quality team ('SHEQ') performed well throughout the year, achieving 17 RoSPA 'Gold' standards and receiving their 'Highly Commended' accreditation.

In relation to risk management and internal controls, the Board and Audit Committee are mindful of the importance of improving both control and output in this area. The Group previously employed a Chief Risk Officer together with an in-house internal audit team whose annual audit plan is based on the Group risk register and approved by the Compliance Committee annually and continually reviewed during the course of the year. The 2018 Annual Internal Audit Report, presented to the Compliance Committee for approval in February 2019, included more coverage than ever before. I was pleased to note the extent to which management has responded positively and quickly to the system changes suggested by the internal audit work. During the year, the Compliance Committee, with the subsequent approval of the Board, took the decision to strengthen the Internal Audit Function by co-sourcing with a major provider. KPMG, who have carried out ad hoc internal audit assignments previously, were appointed. Their initial work was to review the business's key risks and the appropriateness of the controls and mitigations around them and to review the universe of internal controls and internal testing to give comfort to the Compliance Committee that the 'Three lines of Defence' were both appropriate and effective. At the year end, KPMG were assisting the Executive Directors in finalising the internal audit plan for the next three years. By co-sourcing the Compliance Committee has added the potential to bring on ad hoc basis specialists to our business rather than adding full time employment for what are mainly 'task and finish' projects. The overall lead for our internal audit work will sit with KPMG.

In previous years, the carrying value of Care goodwill was a significant judgement because of its inherent materiality. Following the announcement to exit standalone Domiciliary Care, a significant proportion of the goodwill balance attached to the Care activities has been impaired with the residual element relating to Housing with Care being transferred to the Housing goodwill balance. Although there are judgements around the values transferred, the balances form part of the goodwill impairment modelling carried out by management and reviewed and tested by Grant Thornton. The Committee took comfort that there is a higher level of headroom within the impairment test for the continuing business.

ROLE OF THE COMMITTEE

The Committee has access to the financial expertise of the Group and its auditor and, as and when it can, seeks further professional advice at the expense of the Group.

The key responsibilities of the Committee are to:

- consider the appointment of the external auditor, its reports to the Committee and its independence, including an assessment of its appropriateness to conduct any non-audit work;
- review the financial statements and announcements relating to the financial performance of the Company;
- review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- discuss with the external auditor the nature and scope of the audit;
- review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board;
- formally review the effectiveness of the external and internal audit processes;
- consider management's response to any major external or internal audit recommendations;
- review the Company's plans for business continuity;
- report to the Board and recommend adoption of the viability statement
- review the Company's plans for prevention and detection of fraud, bribery and corruption;
- review the effectiveness of the whistleblowing arrangements; and
- report to the Board on how it has discharged its responsibilities.

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

COMMITTEE MEETINGS

The Committee met six times during the year with attendance by all members. These meetings were also attended by the Group Chief Executive Officer, the Group Finance Director and as required by invitation from the Chairman of the Audit Committee. The external auditor, Grant Thornton UK LLP, was invited to all meetings. KPMG as internal auditors were invited to all meetings post appointment. There was also significant dialogue outside formal meetings between Committee members, Executive Directors, KPMG and the external auditor, particularly during the audit process and the preparation of the Annual Report. The Audit Committee Chairman meets with the external auditor regularly throughout the year.

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR

Financial and business reporting

The Audit Committee shares the responsibility with the Board for reviewing the appropriateness of the Annual Report and half-year announcements, to ensure that they properly reflect the Group's business model, strategic priorities, key risks, and financial and non-financial performance. Consideration is given on the whole, as to whether the annual report and accounts are fair, balanced and understandable, which includes the reasonableness of the accounting policies, adherence to accounting standards, and sufficiency and clarity of the information disclosed.

The primary areas of judgement considered by the Committee in relation to the 2019 accounts, and how these were addressed, were:

REVENUE RECOGNITION

The Audit Committee reviewed in detail the impact of the accounting standard, IFRS 15, which came into effect on 1 January 2018 and which impacts on the timing of recognising revenue and costs on a number of contracts:

- The judgements applied under IFRS 15 more closely align timing of revenue recognition with cash inflows where the contractual mechanism contains uncertainty. Previously, the Group utilised expected value calculations in determining the variable consideration revenue to be recognised.
- The application of IFRS 15 to the AASC contract requires disaggregation into separately identifiable performance obligations which cover from mobilisation to transportation, initial accommodation and remote accommodation. Each performance obligation requires revenue to be recognised as the obligation is fulfilled. Given the scale and complexity of the contract the Committee spent much time in discussions with management and ensuring that they provided all the explanations and detailed analysis necessary for Grant Thornton.

The Audit Committee addressed this area of judgement in the following ways:

- 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. Grant Thornton 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. Grant Thornton's comments can be seen on page 110. Grant Thornton also carried out a detailed review of the impact of IFRS 15 on the AASC contract.

THE IMPLEMENTATION OF IFRS 16 'LEASES'

IFRS 16 'Leases' has proved a difficult standard to implement and one which requires significant change 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. The depreciation cost of the newly recognised 'right of use' lease asset will be charged to profit within administrative costs, whilst the interest cost of the newly recognised lease liability will be charged to net finance costs. On the basis that depreciation is required to be charged on a straight-line basis, whilst the interest element is charged on a reducing balance basis, this results in a higher overall charge being applied to the income statement in the early years of a lease, with this impact reversing over the later years. The profit impact over the life of a lease is neutral and IFRS 16 has no impact on pre-tax cash flows.

The impact of IFRS 16 on the Group resulted in the recognition of a right of use asset and an associated lease obligation of in excess of £190m at the point of transition. The Group adopted the modified retrospective approach, meaning that the Group does not restate its comparative figures, but recognises the cumulative effect of adopting IFRS 16 as an adjustment to equity at the beginning of the current period as detailed in note 3. The application of IFRS 16 is complex and sensitive to relatively small changes in the incremental borrowing rate attached to each class of leased asset where judgement has to be applied.

Due to the potential material impact of very small changes in relation to, in particular, the term premium percentage, management sought external advice in determining an artificial credit rating for the Group, and the related yield curves that would be expected from an entity with that risk profile.

In addition the AASC contract had a major impact on the number of properties secured through lease during the year with a variety of lease terms between three and ten years although many have early break clauses. This created a significant increase in right of use assets and associated lease obligations in the year.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the assumptions and key judgements provided by management which gave a detailed explanation as to how both the opening adjustment and the additions in the year were arrived at. The Committee took comfort from the external expert report in arriving at the pro forma credit rating and yield curves.
- The Committee took additional comfort from the work of the external auditors who undertook detailed testing of the assumptions and the models behind the amounts included in the Balance Sheet and discussions with them as to the adequacy of the related disclosures.

ACCOUNTING FOR THE ACQUISITION OF MPS HOUSING AND MPM HOUSING

In November 2018, the Group acquired the entire share capital of MPS Housing Limited and Mitie Property Management Limited. This acquisition had a material impact on the financial statements, resulting in the recognition of goodwill and intangible assets of £21.5 million. The goodwill measured at the acquisition date was the fair value of the consideration, including the estimated value of contingent consideration, less the net recognised amount of identifiable assets acquired and liabilities assumed. The estimates were provisional for 2018 and were finalised during the course of 2019. Following a detailed review of the completion Balance Sheet, significant provisions were made against contract assets and adjustments were also required to accruals and contract liabilities. Significant judgement was required in finalising the acquisition accounting, although the passage of time has provided some additional assurance in this area. Having finalised the net recognised amount, the assessment of identified intangible was reviewed, with the residual amount allocated to goodwill. Whilst there was contingent consideration payable on this transaction, given that a significant part of the earn-out period has now elapsed, the assessment of contingent consideration is not considered a significant judgement for the 2019 year end.

The Audit Committee addressed this area of judgement in the following ways:

- Obtaining an understanding of the acquisition through review of legal agreements and discussion with management. The Committee took comfort from the fact that the acquired activities are very similar in nature to the Group's core activities, and management has been shown over many years to have a high level of expertise in this area. This was reflected in a good understanding of the underlying contracts and the bases for valuing unbilled works;
- Considering the assumptions set by management in respect of discount rate, customer attrition and long-term growth rate through the sales pipeline. These are the most sensitive assumptions which impact upon both the estimated value of the contingent consideration and the recognition of acquired intangibles;
- Reviewing the adjustments at the one year anniversary date which takes the provisional numbers to final; and
- Reviewing with Grant Thornton their work and their detailed feedback to the Committee.

DEFINED BENEFIT PENSION VALUATION

A number of key estimates have been made, which are given below and which are largely dependent on factors outside the control of the Group:

- Inflation rates
- Mortality
- Discount rate
- Salary and pension increases

Details of the particular estimates used are included in the pensions note 32 to the financial statements on pages 162 to 166.

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 right to recover costs is limited to exclude situations where the Group causes the scheme to incur service costs in excess of those which would have been incurred were the members employed within Local Government. The Directors have made judgements in respect of whether any of the deficit is as a result of such situations.

The right to recover costs is also limited to situations where the cap on contributions payable by the Group is not set so as to contribute to reducing the deficit in the scheme. The Directors, in conjunction with the scheme actuaries, have made judgements in respect of the predicted future service cost and contributions to the scheme to reflect this in the fair value of the asset recognised.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the key assumptions proposed by management, notably assumptions in respect of discount rate, RPI, CPI and future salary increases. Given the materiality of this area, the Committee reviewed a report prepared by PricewaterhouseCoopers LLP which validated the assumptions set by management and provided a comparison with other quoted companies.
- The Committee reviewed the accounting treatment of pension related transactions. Full disclosure has been provided within the pensions note (note 32) to the financial statements on pages 162 to 166 and the Committee concurred with the analysis provided on pages 43 to 53 of the Financial Review in respect of defined benefit scheme pension obligations.
- Given the technical nature of this area, the Committee placed reliance upon the actuarial reports prepared by the respective scheme actuaries in respect of each of the defined benefit pension schemes, including an assessment of gender equalisation.

DISCONTINUED ACTIVITIES

During 2019, the Board took the decision to exit from standalone Domiciliary Care. Whilst an active sales process was underway at the balance sheet date, no disposal had been completed. The Group completed the sale of the England and Wales Domiciliary Care business in January 2020. The sales process on the Scotland activities has not concluded. The results for the standalone Domiciliary Care activities have been reported within discontinued operations. The Audit Committee considered whether the disclosures within the Financial Statements are appropriate. Notably, whether the activities are properly categorised as discontinued, and met the criteria for disclosing as 'Assets held for resale'. The Committee concluded that the disposal represented a single co ordinated plan to dispose of a separate major line of business and supported the classification within discontinued operations.

The Audit committee addressed this area of judgement in the following ways:

The Committee considered the guidelines of IFRS 5 'Non-current assets held for sale and discontinued operations', and considered whether the six conditions had been met for an asset to be classified as held for sale, notably that: (i) management is committed to a plan to sell; (ii) the asset is available for immediate sale; (iii) an active programme to locate a buyer is initiated; (iv) the sale is highly probable, within 12 months of classification as held for sale; (v) the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and (vi) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

- The Committee considered the conditions set by IFRS 5 for each 'disposal group'. For this purpose, the Domiciliary Care activities in England and Wales Care were considered separately from those of Scotland Domiciliary Care. The Audit Committee concluded that both disposal groups met the definition of Assets held for resale.
- The Committee took additional comfort from the work of the external auditors.

GOODWILL IMPAIRMENT

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows; these are termed as cash-generating units (CGUs). Due to the Board successfully integrating the newly acquired MPS business into the existing Housing business, there have been two CGUs identified: Housing and Care. Determining whether goodwill is impaired requires an estimate of the value in use of each of the CGUs to which goodwill has been allocated. The value-in-use calculation involves an estimate of the future cash flows of the CGU and also the selection of an appropriate discount rate to calculate present values. Future cash flows are estimated using the current one-year budget, extrapolated for five years to December 2024 using specific rates with a general terminal growth rate being used thereafter. This has been derived

Report of the Audit Committee continued
Corporate governance statement

from the extensive business planning process described in greater detail within note 13 to the financial statements on pages 145 to 146. Estimated growth rates over each period are based on past experience and knowledge of the individual sector's markets. The value in use is most sensitive to changes in the terminal growth rate, the explicit growth rate during the forecast period and the discount rate.

Past experience has indicated significant headroom in the goodwill balance relating to Housing. The impairment review of the Care intangible has historically reported much less headroom. However, following the decision to dispose of the standalone Care activities, a significant impairment has been recognised during the year, resulting in an impairment of £80.6m, leaving a residual goodwill value, attached to the continuing Care activities, of £19.1m. The Committee took comfort that, following the impairment, the residual value is less material and the impairment review showed a higher level of headroom.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the key assumptions proposed by management, notably forecast growth rate, discount rate, terminal growth rate, and carer recruitment and retention rates.
- The Committee revisited the 2018 impairment review to gain comfort that, whilst a significant impairment has been recognised in the current year, this did not reflect any error in the judgements made in the previous year.
- The Committee reviewed the disclosure in the notes to the financial statements.
- This area represented a prime area of audit focus and Grant Thornton UK LLP provided detailed feedback to the Committee.

GOING CONCERN

With the advent of the COVID-19 pandemic and its impact on the Group, customers and supply chain, the Committee was very mindful that a very detailed assessment be carried out to assure the Board that the Group could continue to trade as a going concern for the foreseeable future and prepare the Annual Report and Accounts on that basis.

The Audit Committee addressed this area of judgement in the following ways:

- The Committee reviewed the assumptions behind the most severe downside scenario used in preparing the Viability Statement and recognised that under this scenario there is a material uncertainty which could cast doubt on the Group's ability to continue as a going concern.
- The Committee also reviewed the assumptions behind the assessment of the most likely impact of COVID-19; understanding the impact of mitigating actions and newly introduced Central Government reliefs.
- The Committee noted the very detailed review carried out by Grant Thornton in reaching their conclusion on the adoption of the going concern principle in the preparation of the financial statements.
- The Committee recognised that the financial statements did not include any of the adjustments to the carry value or classification of assets and liabilities that would result if the Group was unable to continue as a going concern.
- The Committee satisfied itself that the Board had taken account of the combination of the various options and uncertainties and the impact of a potential liquidity shortfall in the event of a longer period of impact from the pandemic and was satisfied that the Board could therefore adopt a going concern basis for the preparation of the financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

The Group is required to disclose information on standards that are in issue, not yet effective that have not been early adopted in the financial statements.

- On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.
- On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The Committee satisfied itself after discussions with management and the review of the external auditor that the disclosures were appropriate internal controls and risk management

With respect to its oversight of risk management and internal controls, the Board reviewed and discussed a wide range of matters with management, internal audit and external audit, as appropriate. This extends to cover all material controls, including operational, compliance and financial controls and risk management systems. The Directors are satisfied that procedures are in place to ensure that the Group complies with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council in September 2014.

The Board has delegated some of these responsibilities to this Committee which has reviewed the effectiveness of the system of internal controls and ensured that any remedial action has been or is being taken on any identified weaknesses. 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.

In addition, the Audit Committee has a very active sub-committee, the Compliance Committee. An overview of the terms of reference of this Committee and its areas of principal oversight in the year is included within the Audit Committee Chairman's introduction; the Compliance Committee reports to the Audit Committee under these terms of reference.

The Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Group endeavours to ensure that the appropriate controls, systems and training are in place and has established procedures for all business units to operate appropriate and effective risk management.

The processes used to assess the effectiveness of the internal control systems are ongoing, allowing a cumulative assessment to be made, and include the following:

- Delegation of day-to-day management to operational management within clearly defined systems of control, including:
- The identification of levels of authority within clearly identified organisational reporting structures;
- The identification and appraisal of financial risks both formally, within the annual process of preparing business plans and budgets, and informally, through close monitoring of operations;
- A comprehensive financial reporting system within which actual results are compared with approved budgets, quarterly reforecasts and previous years' figures on a monthly basis and reviewed at both local and Group level; and
- An investment evaluation procedure to ensure an appropriate level of approval for all capital and revenue expenditure.
- Discussion and approval by the Board of the Group's strategic directions, plans and objectives and the risks to achieving them, combined with regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them.
- Review and approval by the Board of annual budgets, combined with regular operational and financial reviews of performance against budget, prior year results and regular forecasts by management and the Board.
- Regular reviews by the Board and the Audit Committee of identified fraudulent activity and actions being taken to remedy any control weaknesses.
- Regular reviews by management and the Audit Committee of the scope and results of internal and external audit work across the Group and the implementation of recommendations.
- Consideration by the Board and by the Audit Committee of the major risks facing the Group and of the procedures in place to manage them and to ensure controls react to changes in the Group's overall risk profile. These include health and safety, people, legal compliance, quality assurance, insurance and security, and reputational, social, ethical and environmental risks.
- Discussion relating to a presentation from the IT Director on cyber-security, including an assessment of vulnerabilities and the programmes being implemented to protect the Group against this evolving and potentially catastrophic risk.
- Consideration and discussion relating to regular updates from the Finance Director regarding developments within the finance function.

The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations. During the year a decision was taken to strengthen the review of internal controls by co-sourcing the internal audit provision with KPMG who were initially tasked to review the Group's risk management framework and mitigations in place. KPMG are now extending this piece of work to embedding the risk management framework and provide further assurance in respect of fraud risk management and the core controls in respect of the scheme of delegated authority. The Committee is pleased with the additional support provided by KPMG and has concluded that the system of internal controls and risk management is embedded into the operations of the Group and the actions taken to mitigate any weaknesses are carefully monitored.

The key controls in place are:

- a defined organisational structure and an appropriate level of delegated responsibility to operational management;
- authorisation limits for financial and non-financial transactions;
- written operational procedures;
- a robust system of financial budgeting and forecasting;
- a robust system of financial reporting with actual results compared to budget and forecast results; and
- regular reporting of operational performance and risks to the Board, including the work of the Compliance Committee.

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 consolidated accounts. The consolidated financial statements 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 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 Committee, with the participation of the Chief Executive Officer and the Finance Director, 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.

The Committee carried out a review of its effectiveness with input from Committee and Board members, management and the external auditor. The review concluded that the Audit Committee members had sufficient expertise and committed time to discharge their responsibilities.

EXTERNAL AUDIT RELATED SERVICES

The External Auditor engagement was last retendered in 2018 at which point the incumbent, Grant Thornton UK LLP, was reappointed, having originally been appointed in 1996.

The Company has adopted a strict policy of prohibiting the external auditor from carrying out non-audit services, in order to safeguard audit objectivity and independence. The Committee is responsible for approval of all non-audit services provided by Grant Thornton UK LLP; however, this is considered to be in exceptional circumstances only. In such an exceptional event, the Audit Committee would approve only where the Company would be disadvantaged by engaging an alternative provider, for instance where Grant Thornton UK LLP 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 Grant Thornton UK LLP during 2019.

As part of its annual inspection of audit firms the Audit Quality Review team of the Financial Reporting Council ("FRC") reviewed Grant Thornton's audit of the Group's report and accounts for the year ended 31 December 2018. The Audit Committee discussed the findings of the report and the actions undertaken by Grant Thornton to address the matters raised. The Committee met with Grant Thornton to gain assurance that all the areas identified for improvement by Grant Thornton have been addressed in the audit of the 2019 year end.

G DAVIES
AUDIT COMMITTEE CHAIRMAN
geraint.davies@mearsgroup.co.uk
22 May 2020

Report of the Remuneration Committee

Meeting attendance

R Irwin	●●●●
J Unwin	●●●●
K Murphy	●●●●
C Loughlin (from 1 October 2019)	●

Key
● Attended ○ Absent

Dear shareholders,

I am pleased to present on behalf of the Board the Directors' Remuneration Report for the year ended 31 December 2019, which was operated in line with the Directors' Remuneration Policy that was approved by shareholders on 7 June 2017.

The Annual Report on Remuneration sets out payments and awards to made to Directors and the link between company performance and remuneration for 2019. As the current Directors' Remuneration Policy approaches the end of its three-year life, the report also sets out the proposed new Policy in full.

You will have seen earlier in the annual report that 2019 has been a year of re-focusing the business whilst mobilising the significant Asylum Accommodation and Support contracts and the incorporation of the MPS acquisition into the Group. Both of these business streams have progressed well.

Since the end of 2019, COVID-19 has had an unprecedented impact on society and the economy. Mears has the resolve, resources and relationships to manage its way through these unforeseen challenges and is well positioned for the new normal as it emerges.

The Committee has reviewed the performance of the business and the achievement of the targets set for the Executive team and have concluded that no Executive Incentive Plan (EIP) awards should be made under the current Directors' Remuneration Policy in respect of performance in financial year 2019. The Executive Team concurs with this view.

NEW DIRECTORS' REMUNERATION POLICY

During the year we undertook a comprehensive review of senior executive pay arrangements, including a full consultation exercise with our major shareholders, and will be asking all shareholders to approve a new Remuneration Policy at the forthcoming AGM in June 2020. There will be the usual advisory shareholder vote on the other aspects of the remuneration report including the payments and awards made to the Directors in respect of performance for the period ended 31 December 2019. There will also be a vote to approve a new Long-Term Incentive Plan to reflect the proposed changes to the Remuneration Policy.

BUSINESS CONTEXT AND AIMS OF THE NEW POLICY

In 2019 the Board made a number of key strategic changes to the mix of activities on which Mears will focus on in the future. These changes include the refocus of our housing development activity so as to reduce the amount of our own capital utilized in that area. The Board also decided to exit the domiciliary care market in England and Wales together with the intention of disposing of our Scottish domiciliary care business at the earliest opportunity in 2020.

The Board believes that these changes will enable the Group to more effectively provide housing with care solutions for our clients where we can do so in a way which creates value for the business and for our customers.

The Board's future strategy, set in a COVID-19 impacted environment, will be based on our vision to be the UK's most respected and trusted provider of housing and care with the ongoing evaluation of our portfolio of businesses to ensure that they fit with that vision and provide a sound basis for sustainable growth in shareholder value.

Aligned with these aims, the Committee wishes to ensure that:

- the Remuneration Policy is effective and fairly incentivises and rewards our Executive team to maintain and enhance a successful business as well as striving to lead the way in terms of social value creation;
- there is an appropriate balance between fixed and performance-related pay;

- incentive measures are appropriately aligned to both short and long-term strategy execution and stakeholders' interests, including customers, employees and shareholders; and
- our remuneration policies and practices are in line with good practice and take account of market developments, particularly in light of the publication of the UK Corporate Governance Code in 2018 and latest institutional investor best practice guidance.

In order to meet the design objectives set out above, the Committee is proposing the following policy changes:

Policy change	Commentary and rationale
1. Replacing the existing Executive Incentive Plan (EIP) with separate short and long-term incentive schemes – an Annual Bonus scheme and performance shares under a new Long-Term Incentive Plan.	The current EIP has two parts – share awards are made under Part A if an earnings growth underpin test has been met and, under Part B, share awards are granted if performance criteria have been achieved. The underpin and performance criteria are both measured over a 12-month period (i.e. over the financial year prior to grant). Any awards vest in tranches after three, four and five years. The Remuneration Committee is proposing to replace the EIP with a more conventional set of incentive arrangements: ▶ An annual bonus scheme: the bonus scheme will operate in a similar fashion to Part B of the EIP in that pay-outs are based on annual performance criteria set at the start of each financial year. At the end of the year, the Committee will assess the extent to which the criteria have been met and if a bonus is due, it will be delivered in a mix of cash (67%) payable after the end of the performance year and deferred share awards (33%) which will vest after three years; and ▶ A Long-Term Incentive Plan: annual awards of performance shares, structured as nil or nominal cost options will be granted. These awards will vest after three years subject to performance against specific measures and continued employment. A two-year holding period will also apply. The key difference between the proposed Policy and the existing one is the inclusion of the LTIP which incentivises and measures performance over a three-year period, while the existing scheme is based on an assessment of annual performance only. The Committee believes it is important to reward the delivery of strategic priorities and sustained performance over both one- and three-year-time horizons.
2. Alignment of pension provision for any new Executive Director appointments with the workforce level	For any new Executive Director appointments (including internal promotions), the pension contribution will be aligned with the prevailing level available to the majority of the workforce. The Company is in the process of carrying out a review of Company-wide pension arrangements. There are currently 50 pension schemes in operation at Mears reflecting employee transfer arrangements under contract awards as well as business acquisitions. Under some arrangements contributions are at circa 3% of salary while others are significantly in excess of the current 15% of salary contribution rate for Executive Directors. Further work is being carried out in order to arrive at the 'typical' Mears workforce contribution rate. As part of the review, the Committee will also consider whether and how any reductions to incumbents' pension contributions may be applied. We will provide an update on progress in this area in next year's report.
3. Shareholding guideline of 200% of base salary for new Directors and introduction of post-cessation shareholding policy	The current Executive Directors' shareholding guideline is set at 400% of salary and will remain at this level over the life of the new remuneration Policy. For new Director appointments, a 200% of salary shareholding guideline will apply. The 400% of salary shareholding guideline was included as part of a transition to a new incentive arrangement (the 2017 EIP) which provided greater certainty on incentive pay. A revised 200% of salary guideline is felt to be more appropriate for new Director appointments because (i) it is a more realistic guideline when considered against the current incentive opportunity and (ii) it is market standard for a company of Mears' size. The UK Corporate Governance Code asks for a formal policy on the treatment of vested and unvested share awards upon cessation of employment. We have taken the opportunity to formalise our policy in this regard such that, for good leavers: ▶ unvested deferred bonus awards will vest on their normal vesting dates; ▶ unvested LTIP awards will vest on their normal vesting dates, be tested for performance and be subject to a pro-rata reduction for time served relative to the three-year vesting period. Awards will normally also be subject to a two-year holding period; and ▶ any vested LTIP awards that are subject to a holding period at the time of leaving will normally be released only once the holding period has expired.
4. Malus and claw back provisions strengthened	Malus and claw back provisions will be enhanced to ensure that a comprehensive set of triggers will operate and enforceability will also be strengthened.

The above changes are subject to the approval of the new Remuneration Policy by shareholders at the 2020 AGM.

APPLYING THE POLICY IN 2020

Base salaries

For the 2020/21 period, the base salaries of the Executive Directors will be increased by 2% with effect from 1 April 2020. This is in line with the increase of 2% awarded to the workforce which took effect from 1 January 2020.

Transitioning to the new incentive arrangements

The Committee has considered carefully how best to transition from the EIP to the proposed bonus and LTIP.

The proposed annual bonus scheme will become operational from 1 January 2020. Performance will be assessed, and the bonus outcome determined, in April 2021. Any bonus earned will be delivered in cash (67%) and deferred shares (33%).

As the underpin test in respect of 2019 performance has not been achieved (see below), no award will be made under the EIP in April 2020. Therefore, no EIP awards were granted under the entire life of the expiring Directors' Remuneration Policy.

The first LTIP award will be made in 2021 and not 2020. The delayed grant ensures that the opportunity for making two long-term incentive grants in the same financial year is avoided.

Incentive measures

In order to simplify the operation of the annual bonus, two rather than three financial measures will apply for 2020 – adjusted Group operating profit for 40% of the bonus and average daily net debt for 30%. The remaining 30% will be based on a basket of strategic measures to include those relating to Customer Satisfaction, Employees and Social Value. Further details are provided in the Annual Report on Remuneration.

With the first LTIP grant not being scheduled until 2021, the Remuneration Committee will consider the most appropriate measures during the course of 2020 and will consult with major shareholders to ensure their views are taken into account. The Committee envisages earnings per share growth will feature as a measure.

REGULATORY AND GOVERNANCE CHANGES

In carrying out the remuneration review, the Committee has considered the various changes to the regulatory environment and in particular the revised UK Corporate Governance Code and the new legislation requiring companies to make additional pay disclosures. The Committee has sought to align practice and disclosures to the new requirements. This includes:

- including discretion in our new annual bonus and LTIP schemes to permit the Committee to override formulaic outcomes to ensure any payments are appropriately aligned with underlying Company performance and to the experience of our shareholders and other key stakeholders;
- a comprehensive review of the recovery and withholding provisions in our incentive schemes with changes reflecting best practice in this area;
- pension equalisation with the workforce for new Director appointments;
- introduction of a formal policy on the treatment of vested and unvested shares post-cessation;
- updated terms of reference to reflect the expanded scope of the Remuneration Committee;
- as disclosed last year, the Committee strengthened its membership through the inclusion of our Chairman Kieran Murphy; and
  - **Clarity** – the policy is well understood by our Directors and has been clearly articulated to shareholders and proxy voting agencies.
  - **Simplicity** – the Committee believes the proposed, market standard remuneration structure is simpler and will be better understood than the previous EIP scheme. 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 claw back 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 reward scenario charts on page 96. 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.

As mentioned above, we have undertaken a comprehensive review of our Remuneration Policy and hope you will support the binding and advisory remuneration votes and the resolution to approve the LTIP rules. I would like to thank all shareholders and proxy voting agencies that participated in the shareholder consultation exercise and the helpful feedback that has contributed to the new Policy.

I am always happy to hear from the Company's shareholders and you can contact me direct, or via the Company Secretary, Ben Westran, if you have any questions on this report or more generally in relation to the Company's remuneration.

R IRWIN
REMUNERATION COMMITTEE CHAIRMAN
roy.irwin@mearsgroup.co.uk
22 May 2020

Directors' Remuneration Policy for 2020 to 2022

This part of the Directors' Remuneration report sets out the Directors' Remuneration Policy (the 'Policy') which, subject to shareholder approval at the 2020 Annual General Meeting, 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 and other good practice guidelines from institutional shareholders and shareholder bodies.

SUMMARY OF THE KEY CHANGES FROM THE PREVIOUS POLICY

The key differences between the Policy approved by shareholders in 2017 and the proposed 2020 Policy are described in full in the Remuneration Committee Chairman's annual statement. In summary, the key changes are as follows:

- The EIP will be replaced by two separate and distinct incentive schemes – an annual bonus scheme delivered in a mix of cash and deferred share awards and a Long-Term Incentive Plan under which performance share awards will be granted.
- The shareholding guideline for Executive Directors will be reduced from 400% to 200% of salary for new appointments (retained at 400% for incumbent Executive Directors). All Executive Directors will be required to retain 100% of vested LTIP and deferred bonus share awards (on a net of tax basis) until the shareholding guideline has been met.
- Malus and claw back provisions in the bonus and LTIP have been reviewed and additional triggers have been included in both incentive schemes.
- Pension contribution rates (as a percentage of salary) for new Executive Directors and employees promoted to the Board will be aligned with the workforce contribution rate.

The following table summarises the main elements of the Executive Directors' Remuneration Policy for 2020 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 98.

EXECUTIVE DIRECTORS

The table below sets out the key elements of the Policy for Executive Directors:

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 April. 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.

Directors' Remuneration Policy for 2020 to 2022 continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
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.
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.	The current Executive Directors receive a contribution of up to 15% of salary. Any new Executive Director appointments to the Board after 1 January 2020 will receive a pension contribution (in percentage of salary terms) in line with the prevailing contribution for the majority of the Mears workforce.	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 pay out is determined by the Committee after the end of the financial year, based on performance against targets set for the one-year financial 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. 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 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.

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
Long-Term Incentive Plan A new Long-Term Incentive Plan is being put forward for shareholder approval at the 2020 AGM. 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. It is anticipated that the first award under this scheme for current Directors will be made in 2021. 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 and the number of awards made in previous years.	The Committee may set such performance conditions on LTIP awards 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.
Executive Incentive Plan (EIP) *(no further awards will be made under this scheme following the approval of this Directors' Remuneration Policy)* To provide a link between reward and corporate performance in order to appropriately retain and motivate the Executive Directors and senior management who are critical to executing the business strategy. To align the interests of Executive Directors and senior management more closely with shareholders over the longer term and provide a greater exposure to share price movements over this period.	Annual awards of nil-cost options are made based on the achievement of annual performance measures. Awards are made in two parts: ▶ 50% of the maximum award will be granted in deferred shares ('Part A'); and ▶ 50% of the maximum award will be granted based on the achievement of a range of annual performance measures ('Part B'). Both awards vest 60% after three years, with a further 20% after four years and the remaining 20% after five years. The Committee may award dividends/dividend equivalents on shares to the extent that the shares vest. In exceptional circumstances (such as recruitment) the Committee retains the discretion to provide an element of the award in cash. Further details of the operation of the EIP, including the performance measures that applied for 2019, are set out on page 99.	Annual awards for Executive Directors are capped at a maximum of 200% of salary. For Part A of the award, 100% will vest if the EPS metric is met in full. For Part B of the award: ▶ 20% of the award will vest for threshold performance; and ▶ 100% of the award will vest for maximum performance. There is straight-line vesting between these points.	The performance measure for Part A was based on earnings per share. The performance measures for Part B of the 2019 awards were as follows: earnings per share (EPS), return on capital employed (ROCE), cash conversion, customer satisfaction, and health and safety. The EIP contains malus (up to date of vesting) and clawback (two years post vesting) provisions.

Directors' Remuneration Policy for 2020 to 2022 continued

Objective and link to strategy	Operation	Maximum opportunity	Performance measures and assessment
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 Share save Plan (Save As You Earn). Under the terms of the Share save 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, Share save Plan and CSOP, the maximum amount is equal to the HMRC limits set from time to time.	Not applicable.
Shareholding requirement 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 shareholding requirement will operate in the following manner: ▶ shares unconditionally owned by the Executive Director will count towards the requirement; and ▶ 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. It is expected that the shareholding is built up over a five-year period from implementation of this policy.	Minimum shareholding requirement is 400% of salary for the current Directors (in place at 1 January 2020) and 200% of salary for new Director appointments. Any vested share deferred bonus and LTIP shares must be retained on a net of tax basis until the guideline has been achieved.	Not applicable.

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 wanted 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 operating profit is a key metric for the Group and ensures management is focused on delivering sustained profits. Alongside this, average daily net debt continues to be important as management focuses on achieving the optimal capital structure.

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 more than 25 years.

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 EIP, 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.

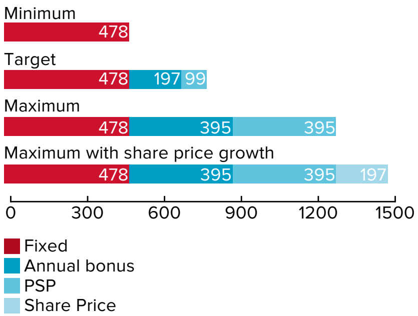
These discretions, which in certain circumstances can be operated in both an upward and a downward manner, are consistent with market practice and are deemed necessary for the proper and fair operation of the schemes in order to achieve their original purpose. It is the Committee's policy, however, that 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 charts below. The charts assume that an LTIP award is granted (although there will not be a grant in 2020, with the first one due in 2021.

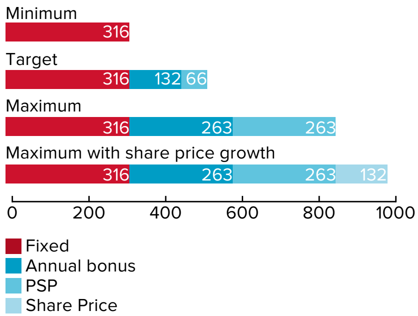
CEO

Salary from 1 April 2020



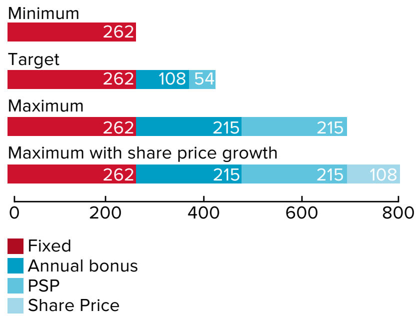
CFO

Salary from 1 April 2020



OTHER

Salary from 1 April 2020



Assumptions:

- Minimum performance includes only fixed pay (base salary for 2020, the value of 2019 benefits and a 15% of salary pension contribution).
- On-target performance includes fixed pay and assumes an annual bonus payout of 50% of maximum and 25% vesting of a 100% of salary grant of LTIP awards.
- Maximum performance includes fixed pay and assumes full bonus and 100% LTIP vesting.
- Maximum performance with share price growth is as per maximum but with a 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 LTIP award of 150% of salary (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 the Audit and Remuneration Committees and for the additional responsibilities of the Senior Independent Director.

SERVICE CONTRACTS AND PAYMENT FOR LOSS OF OFFICE

Executive Directors' service contracts are terminable by the Company and by the Director by giving no more than 12 months' notice.

If an Executive Director's employment is to be terminated, the Committee's policy in respect of the contract of employment, in the absence of a breach of the service agreement by the Executive Director, is to agree a termination payment based on the value of base salary and benefits that would have accrued to the Executive Director during the contractual notice period. The policy is that, as is considered appropriate at the time, the departing Executive Director may work, or be placed on garden leave, for all or part of their notice period, or receive a payment in lieu of notice in accordance with the service agreement.

The Committee will also seek to apply the principle of mitigation where possible so as to reduce any termination payment to a leaving Executive Director, having had regard to the circumstances.

In addition, the Committee may also make payments in relation to any statutory entitlements, to settle any claim against the Company (e.g. in relation to breach of statutory employment rights or wrongful dismissal) or make a modest provision in respect of legal costs or outplacement fees.

With regard to annual bonus for a departing Executive Director, if employment ends by reason of redundancy, retirement with the agreement of the Company, ill health or 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).

The rules of the EIP set out what happens to awards if a participant ceases to be an employee or Director of Mears before the end of the vesting period. Generally, any outstanding share awards will lapse on such cessation, except in certain circumstances.

If the Executive Director ceases to be an employee or Director as a result of death, injury, ill health, redundancy, retirement, the sale of the business or company that employs the individual or any other reason at the discretion of the Committee, then they will be treated as a 'good leaver' under the plan rules.

Under the EIP, a proportion of a good leaver's award will vest on cessation of employment by reference to the time elapsed from grant to cessation. The Committee has discretion to determine the period during which the good leaver may exercise their award after cessation.

On a change of control, all awards under the policy will vest immediately.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman, whose remuneration is determined by the Committee and recommended to the Board.

The table below sets out the key elements of the policy for the Chairman and Non-Executive Directors.

Objective and link to strategy	Operation	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 Chairman and the fees of the other Non-Executive Directors aim to be competitive with other listed companies which the Committee (in the case of the Chairman) and the Board (in respect of the Non-Executive Directors) consider to be of equivalent size and complexity. Non-Executive Directors receive a base fee and additional responsibility fees 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 Chairman receives a single fee and does not receive any additional fees for membership and/or chairmanship of Committees. Non-Executive Directors also receive reimbursement of reasonable expenses (and any tax thereon) incurred through undertaking their duties and/or Company business.	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. Current fee levels are set out in the Statement of implementation on page 103.	Non-Executive Director fees are not performance related. Non-Executive Directors do not receive any variable remuneration element.

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 consulted many of our largest shareholders regarding the changes we are proposing in relation to the approval of this 2020 Remuneration Policy.

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 Remuneration Policy for Directors was implemented during the financial year ended 31 December 2019 and how it will be implemented for the following 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[2]	Pension[3]	Annual incentives[4]	Total remuneration
D J Miles	2019	387	24	58	–	469
	2018	387	10	58	–	455
A C M Smith	2019	258	13	39	–	310
	2018	258	6	39	–	303
A Long	2019	211	13	32	–	256
	2018	211	11	32	–	254

1 Executive Director salaries were not increased for 2019 and, effective 1 April 2019, remained at £386,817 (D J Miles), £257,912 (A C M Smith) and £211,019 (A Long).

2 Benefits included a company-provided car or an allowance in lieu, life assurance and private medical insurance.

3 Executive Directors received a cash allowance in lieu of pension.

4 Full details of how the annual incentive awards made under the EIP have been calculated are set out in the section below.

ADDITIONAL DETAILS IN RESPECT OF SINGLE TOTAL FIGURE OF REMUNERATION TABLE (AUDITED)

The performance measures and targets for the annual incentives (the 'EIP') for the year ended 31 December 2019 are detailed below.

The EIP for 2019 was split into two parts – the deferred share award element (Part A) and the performance share award element (Part B) – each with a maximum of up to 100% of salary.

Part A (deferred share award) of the EIP for 2019 was dependent upon achievement of EPS growth of 3% (before the impact of IFRS 16). This threshold was not met and 0% of the awards will be made under this element of the EIP.

Part B (performance share award) for 2019 was dependent upon achievement of the following targets:

Description	Weighting	Calculation	Targets
Earnings per share (EPS)	40%	Growth in diluted EPS. Diluted EPS is stated before exceptional costs and amortisation of acquisition intangibles and is adjusted for a normalised tax charge from 1 January 2019 to 31 December 2019. Base figure of 27.70p (adjusted for continuing activities) to be used.	Threshold: 8% EPS growth leads to 20% maximum contribution. Maximum: 13% EPS growth leads to 100% maximum contribution. Straight-line contribution between 8% and 13%.
Return on capital employed (ROCE)	20%	Operating profit divided by capital employed. Operating profit is stated before acquisition intangible amortisation and exceptional costs. Capital employed is defined as total assets less current liabilities less all balances relating to bank borrowings and overdrafts classified within non-current liabilities at 31 December 2019.	Threshold: 15% ROCE leads to 20% maximum contribution. Maximum: 20% ROCE leads to 100% maximum contribution. Straight-line contribution between 15% and 20%.
EBITDA cash conversion	20%	Cash inflow from operating activities as a proportion of EBITDA measured at 31 December 2019.	Threshold: 80% cash conversion leads to 20% maximum contribution. Maximum: 100% cash conversion leads to 100% maximum contribution. Straight-line contribution between 80% and 100%.

Description	Weighting	Calculation	Targets
Customer satisfaction	10%	The measure is the percentage of customers who rate our service as 'excellent'. This output is generated from around 80,000 customer surveys carried out during 2019.	A level of customer service 'excellent' rating of 90% must be achieved in order to deliver a maximum contribution.
Health and safety	10%	The measure is accident frequency rate (AFR). It is calculated as the number of reportable incidents divided by the number of hours worked, multiplied by 100,000.	An AFR below 0.25 must be achieved in order to deliver a maximum contribution.

The actual performance achievement for Part B of the EIP is summarised below:

Performance measures	Actual	% of target satisfied
EPS growth	1%	0%
ROCE	19.4%	18%
EBITDA to cash conversion	116%	20%
Customer service – 'excellent' rating	94%	10%
AFR	0.23	10%
Total		58%

The Remuneration Committee and Executive team have agreed that no award will be made under the EIP in respect of the 2019 financial year.

NON-EXECUTIVE DIRECTORS

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

Chairman and Non-Executive Director (£'000)	Year	Salary/fees	Taxable benefits	Pension	Annual incentives	Total remuneration
R Holt[1]	2019	–	–	–	–	–
	2018	220	–	–	–	220
G Davies	2019	74	–	–	–	74
	2018	70	–	–	–	70
J Unwin	2019	63	–	–	–	63
	2018	70	–	–	–	70
R Irwin	2019	84	–	–	–	84
	2018	70	–	–	–	70
J Burt	2019	70	–	–	–	70
	2018	70	–	–	–	70
E Corrado[2]	2019	55	–	–	–	55
	2018	55	–	–	–	55
A Hillerby[3]	2019	28	5	–	–	33
	2018	29	2	–	–	31
K Murphy[4]	2019	159	–	–	–	159
	2018	–	–	–	–	–
P F Dicks[5]	2019	–	–	–	–	–
	2018	35	–	–	–	35
J Clarke[6]	2019	27				27
	2018	–				–
C Loughlin[7]	2019	16				16
	2018	–				–

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

1 R Holt retired and stepped down from the Board on 2 January 2019.
2 E Corrado stepped down from the Board on 31 December 2019. A payment in lieu of notice of £14,000 has been paid in addition to the figures reported above.
3 A Hillerby stepped down from the Board on 12 February 2020.
4 K Murphy was appointed to the Board as Chairman of the Company on 2 January 2019.
5 P F Dicks stepped down from the Board on 7 June 2018.
6 J Clarke was appointed to the Board on 2 July 2019.
7 C Loughlin was appointed to the Board on 17 September 2019.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED)

Directors' share interests as at 31 December 2019 are set out below:

	Share interests		
Director	Number of beneficially owned shares	Vested but unexercised options	Total interests held at year end
D J Miles	175,020	164,729	339,749
A C M Smith	130,000	69,333	199,333
A Long	36,230	56,727	92,957
K Murphy	–	–	–
G Davies	2,500	–	2,500
J Unwin	–	–	–
J Burt	–	–	–
R Irwin	–	–	–
E Corrado	–	–	–
A Hillerby	–	–	–
J Clarke	–	–	–
C Loughlin	–	–	–

There were no changes to the holdings set out above from the period 31 December 2019 to date of sign off.

The Executive Directors each have a shareholding requirement of 400% of salary. As at 31 December 2019, D J Miles, A C M Smith and A Long had met 33.3%, 37.1% and 12.6% of their requirement respectively (based on a share price of £2.94).

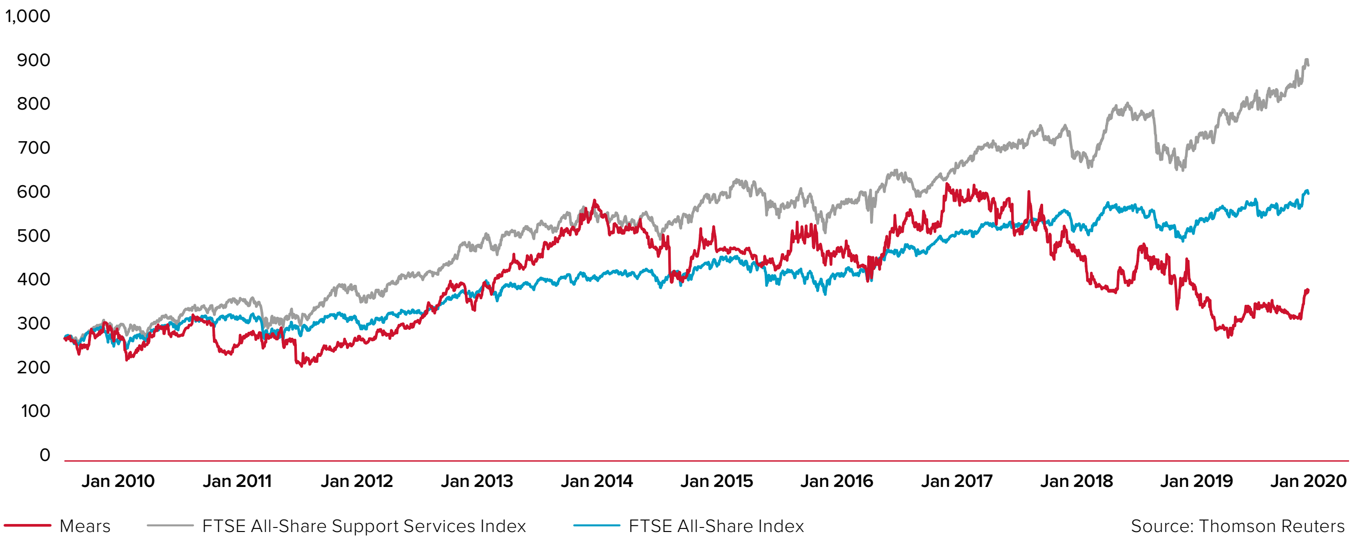
SHAREHOLDER DILUTION

In accordance with the Investment Association's guidelines, the Company can issue a maximum of 10% of its issued share capital in a rolling ten-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 ten years. The Company is a constituent of both indices and these peer groups are considered to provide relevant comparisons.

Total shareholder return



Source: Thomson Reuters

The table below shows the Chief Executive Officer's remuneration package over the past ten 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 accrual rate (as % maximum opportunity)
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%
2012	D J Miles	409	–	–
2011	D J Miles	384	–	–
2010	D J Miles	270	–	–
	R Holt	600	–	–
2009	R Holt	1,095	100%	–

PERCENTAGE CHANGE IN CHIEF EXECUTIVE OFFICER'S REMUNERATION (UNAUDITED)

The table below compares the percentage change in the salary of the Chief Executive Officer with that of the wider employee population.

	Remuneration		
	Salary entitlement	Benefits	Bonus/ incentives
Chief Executive Officer	–	–	–
Office salaries	4.2%	–	–

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
2019	B	4.16%	4.30%	6.09%

The 25th, 50th and 75th percentile ranked individuals have been identified the gender pay gap survey data for 2019, 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 and 75th percentile employees were determined was 5 April 2019. The CEO pay figure is the total remuneration figure as set out in the single figure table on page 99 and equivalent figures (on a full-time equivalent basis) have been calculated for the relevant 25th, 50th and 75th percentile employees. The calculated hourly pay for each employee paid in the pay period containing 5 April 2019 was used to determine the 25th, 50th and 75th individuals. 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, median and 75th percentile employees are £19,494, £20,145 and £28,554 respectively. The salary element for each of these figures are £19,141, £19,747 and £27,953 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	**Disbursements from profit in financial year 2019 £'000**	Disbursements from profit in previous financial year 2018 £'000	% change
Total Directors' pay	**1,629**	1,628	0
Profit distributed by way of dividend	**13,811**	12,539	10%
Underlying profit before tax	**37,341**	36,722	2%

The profit distributed by way of dividend relates to dividends paid during the year. Following the uncertainty surrounding COVID-19, the Board agreed to defer any decision over the final dividend for 2019, which was originally expected to be paid in July 2020.

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
A Long	August 2009	Twelve months
Chairman/Non-Executive		
K Murphy	January 2019	Six months
G Davies	October 2015	Six months
J Unwin	January 2016	Six months
J Burt	February 2017	Six months
R Irwin	February 2017	Six months
E Corrado*	September 2017	Six months
A Hillerby*	June 2018	Three months
J Clarke	July 2019	Six months
C Loughlin	September 2019	Six months

* E Corrado resigned on 31 December 2019 and A Hillerby resigned on 12 February 2020.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

Executive Directors

Salary

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

Executive Director	2020 £	2019 £	% change
D J Miles	392,619	386,817	1.5%
A C M Smith	261,781	257,912	1.5%
A Long	214,184	211,019	1.5%

The salary increase for 2020 is effective 1 April 2020 and matches the general workforce inflationary increase of 2% applied on 1 January 2020.

PENSION

Details of pension contributions for the year ended 31 December 2019 are set out below:

Executive Director	Pension
D J Miles	15%
A C M Smith	15%
A Long	15%

ANNUAL BONUS

Subject to shareholder approval of the revised policy at the 2020 AGM, the EIP will be replaced by two separate incentive arrangements – an annual bonus scheme and an LTIP.

The new annual bonus scheme will operate from the 2020 financial year with any payments, subject to the achievement of performance targets, to be made in 2021 after the end of the first performance year. Any payments due will be delivered in a mix of cash (67%) payable immediately and deferred share awards (33%) which will vest after three years from grant. The maximum bonus potential will be 100% of salary and will be dependent upon the following performance measures:

- Adjusted Group operating profit (40%)
- Net debt (30%)
- Strategic objectives relating to customer satisfaction, employee net promoter score and monetary social value generated (30%)

These strategic objectives reflect the Group's commitment to serving our clients and customers and will be built around the Group's strategy for customer success and supported by our independently chaired Customer Scrutiny Board; the further development of our Social Value offer to add value in the Communities we serve and secure high levels of positive employee engagement through net promote scores and validated 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.

It is not possible to disclose the targets that apply to the above measures in this report due to commercial sensitivity. However, full details of the targets and any associated bonus payouts will be set out in next year's annual report.

LTIP

The first LTIP award will be made in 2021 and not 2020. The delayed grant is transitionary and ensures that two long-term incentive grants (i.e. under the current EIP and the proposed LTIP) are not made in the same financial year. Given this delay the Committee will consider the choice of LTIP measures nearer the time of grant.

NON-EXECUTIVE DIRECTORS

The following table sets out the fee rates for the Non-Executive Directors:

	2019	2018	% change
Chairman fee	**160,000**	220,000	-27%
Base fee	**50,000**	50,000	0%
Committee Chairman fee	**15,000**	15,000	0%
Committee membership fee	**5,000**	5,000	0%

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.

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.

COMPOSITION OF THE REMUNERATION COMMITTEE

The members of the Committee during the course of the year were Roy Irwin, Julia Unwin, Kieran Murphy, Chris Loughlin and Amanda Hillerby.

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 relation to general remuneration matters and the review of the remuneration policy. Fees paid to FIT in relation to advice to the Committee in 2019 were £0.04m (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 operate under the Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice they received from FIT is objective and independent.

ANNUAL OVERVIEW

The Committee has continued to work to build investor confidence with regard to its Executive Remuneration Policies and remains committed to the following actions:

- Improving the level of openness and transparency in remuneration reporting through a detailed Annual Remuneration Report.
- Operating a structured incentive arrangement with clear financial performance targets for each year.
- Undertaking a regular review of the remuneration policies for Executive Directors and other Senior Executives within the Group to ensure that they remain appropriate to retain and motivate such individuals.
- Considering pay policies within the Group as a whole when determining Executive Directors' remuneration packages.
- Encouraging Executive Directors and Senior Executives to build up a meaningful shareholding in the Company to more closely align the interests of shareholders and Executives.
- Being kept fully aware and informed on developments and best practice in the field of remuneration and corporate governance from external advisers, institutional shareholders and their representative bodies.

Notwithstanding the above, the Committee recognises that the success of the Group is dependent on the efforts of key individuals and that they should be fairly rewarded for their efforts and contributions in making Mears the success it is.

STATEMENT OF VOTING AT GENERAL MEETING

The table below shows the voting outcome in respect of the Annual Remuneration Report at the 2019 AGM.

Item	Votes for	%	Votes against	%	Votes withheld
To approve the Annual Report on Remuneration	64,336,525	67	31,382,947	33	1,098,814

The significant vote against the Annual Report on Remuneration at the 2019 AGM was primarily as a result of the dissatisfaction with the performance of the Company – at that time – of a small number of significant shareholders. The Remuneration Committee has consulted extensively with our major shareholders, as well as the leading proxy voting agencies, during the course of 2019 and early 2020 in order to understand how we may, from a remuneration perspective, be able to optimise our arrangements going forward. This consultation process has been constructive and the feedback we received has been crucial in informing our approach to designing the revised Policy for which we will be seeking approval at the 2020 AGM.

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2019.

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, Review of Operations 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

The final dividend in respect of 2018 of 8.85p per share was paid in July 2019. An interim dividend in respect of 2019 of 3.65p per share was paid to shareholders in October 2019. Following the uncertainty surrounding COVID-19, the Board believes that it is not appropriate to declare a final dividend in respect of the 2019 year. It remains the Board's intention to continue to adopt a progressive dividend policy once it is confident that activity and working practices have returned to normal and that it would be prudent to do so.

CORPORATE GOVERNANCE

Details of the Group's corporate governance are set out on pages 74 to 79.

KEY PERFORMANCE INDICATORS (KPIS)

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 32 to 35.

DIRECTORS

The present membership of the Board is set out with the biographical detail on pages 72 and 73.

In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the AGM in May 2020. 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 2019 are detailed within the Remuneration Report on page 101.

The process governing the appointment and replacement of Directors is detailed within the Report of the Nomination Committee on pages 80 and 81.

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 2019 Annual General Meeting (AGM) held in May 2019 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 £368,301 plus an additional one third of issued share capital of £368,301 that can only be used for a rights issue or similar fundraising;
- the Directors to issue shares for cash on a non-preemptive basis. This authority was limited to 5% of the issued share capital of £55,245 and is required to facilitate technical matters such as dealing with fractional entitlements or possibly a small placing; and
- the convening of general meetings (other than an AGM) on 14 days' notice. This results from a European Union directive that became effective on 3 August 2010 and will override Section 307 of the Companies Act 2006 where the requirement to give 21 days' notice for certain meetings has been amended.

Further details of these authorisations are available in the notes to the 2019 Notice of AGM. Shareholders are also referred to the 2020 Notice of AGM, which contains similar provisions in respect of the Company's equity share capital as detailed below.

AGM

The date of the AGM has not been confirmed. 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 39 and 40. Details of financial risk management and exposure to price risk, credit risk and liquidity risk are given in note 27 to the financial statements.

CONTRACTS OF SIGNIFICANCE

The Group is party to significant contracts within each segment of its business. 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.

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 55 days (2018: 55 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 29 to the 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 21 February 2020 the Company has been notified of, or is aware of, the shareholders holding 1.5% or more of the issued share capital of the Company, as detailed in the table below.

Fund manager	City	Shares (m)	% IC
PrimeStone Capital	London	14.40	13.0%
Shareholder Value Management	Frankfurt	11.66	10.5%
Artemis Investment Management	London/Edinburgh	10.28	9.3%
Majedie Asset Management	London	9.08	8.2%
Fidelity Management & Research	Boston	7.41	6.7%
Heronbridge Investment Management	Bath	7.14	6.5%
Columbia Threadneedle Investments	London	6.37	5.8%
Legal & General Investment Management	London	5.05	4.6%
Dimensional Fund Advisors	London	4.86	4.4%
M&G Investments	London	3.91	3.5%
Montanaro Asset Management	London	2.50	2.3%
Slater Investments	London	2.36	2.1%
Wells Fargo Securities	Charlotte	1.79	1.6%
Close Asset Management	London	1.70	1.5%
BlackRock Investment Management	London	1.58	1.4%

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 below. Scope 1 emissions, which are generated from owned or controlled sources such as vehicles, have reduced while Scope 2 emissions, which are from the generation of purchased energy, have increased. This is as a result of the change in mix between traditional maintenance work, which naturally requires significant vehicle usage and management of properties, which consume electricity. There has also been an overall reduction as a result of more efficient working practices across the Group.

These figures have been generated from independently provided reports of carbon emissions or energy usage from a variety of sources and, where necessary, energy usage has been converted into carbon emissions using the 2018 dataset provided by the Department for Environment, Food & Rural Affairs.

Scope	Units	2019	2018
Scope 1	Tonnes CO_2e	**19,728**	17,437
Scope 2	Tonnes CO_2e	**2,714**	2,008

Scope 1 and 2	2019	2018
Intensity tonnes CO_2e/£m revenue	**22.82**	22.36

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.

AUDITOR

Grant Thornton UK LLP offers itself for reappointment as auditor in accordance with Section 489 of the Companies Act 2006.

GOING CONCERN

The financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities for twelve months from the date of signing these financial statements. At 31 December 2019, the Group had £170m of unsecured committed facilities. At the balance sheet date, the Group reported net debt of £51.0m. However the Directors consider the average daily net debt to be more reflective of the debt requirements of the business, and this was £114.4m for 2019 but, of more relevance, £126.1m in the last quarter of 2019, following the mobilisation of the Group's AASC contract.

However, the uncertainty as to the future impact on the Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis. As detailed within the Viability Statement, the Board has completed an assessment as to the impact to the Group in the event of a significant deterioration in revenues and productivity. This most severe downside scenario included a number of assumptions with regards to revenue reduction, non-productive labour costs and changes in working capital, all of which are detailed in the viability statement. This scenario is currently considered unlikely, however it is difficult to predict the overall outcome and impact of COVID-19 at this stage. The Board believes that in this most severe downside scenario, there is a risk that the Group's funding requirement could exceed its existing committed debt facilities and breach one or more banking covenant, and the Board have therefore concluded that in this scenario there is a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The Board also completed an assessment of what it considered the most likely impact of COVID-19, which incorporated a number of mitigating actions, together with the benefit of reliefs made available from Central Government including furloughing of employees and a deferral of the settlement of VAT liabilities. This most likely impact shows the Group's existing available funding is sufficient to sustain the business and settle obligations as and when they fall due.

Given that it remains challenging to measure the impact with any degree of precision given the extent of the uncertainty, and the fact that whilst the most likely scenario shows increased headroom when compared to the most severe downside scenario, the risk of a potential covenant breach remains a risk, the Directors have concluded that the uncertainty over the impact of the COVID-19 pandemic described above, including possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Further adverse changes arising from COVID-19 would increase the challenge of complying with financial covenants and remaining within banking facilities.

Nevertheless, having assessed the combination of these various options and the impact of a potential liquidity shortfall in the event of an extended period of impact as a result of the COVID-19 pandemic, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

By order of the Board

B WESTRAN
COMPANY SECRETARY
ben.westran@mearsgroup.co.uk
22 May 2020

Statement of Directors' responsibilities

In respect of the Directors' Report and financial statements

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'. 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and Remuneration Report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

To the best of our 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 Company 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 Company 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 Company's performance, business model and strategy.

On behalf of the Board

A C M SMITH
FINANCE DIRECTOR
andrew.smith@mearsgroup.co.uk
22 May 2020