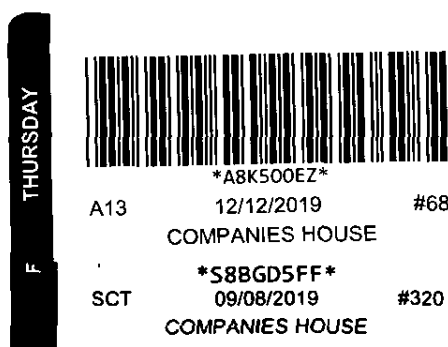


Parent of 02010534

Mitie Group plc
Annual Report and Accounts 2019



The
Exceptional,
Every Day

Welcome to Mitie Annual Report and Accounts 2019

We are the UK's leading facilities management and professional services company, providing a range of services to a large, diverse, blue-chip client base. Our expertise, care, technology and insight create amazing work environments, helping our customers be **exceptional, every day.**

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Exceptional, every day for our customers

Our customers range from banks and retailers, to hospitals, schools and government entities. We have an order book of **£4.1bn** and a pipeline of opportunities of **£10.2bn**.

⊕ Read more on PG 12

Exceptional, every day for our environment

In 2010, we committed to **reduce** our emissions intensity **by 35% by 2020**. We are proud to have achieved this target a year early. We did so by **rationalising** our estate, **restricting** business travel and **improving** fleet efficiency.

⊕ Read more on PG 32-33

Exceptional, every day for our employees

Our **52,500** employees go the extra mile for our colleagues and clients to deliver basics brilliantly. We are driven by our vision of '**The Exceptional, Every Day**' and our values. We are **One Mitie**.

⊕ Read more on PG 34-37

Financial highlights

Financial highlights (for the year ended 31 March 2019)

£2.2bn

Revenue¹
(FY 17/18: £2.0bn)

16.8p

Basic earnings before other items per share^{1,2}
(FY 17/18: 15.2p)

£140.7m

Net debt (at period end)³
(FY 17/18: £193.5m)

£4.1bn

Secured order book¹
(FY 17/18: £4.2bn)

£88.2m

Operating profit before other items^{1,2}
(FY 17/18: £83.2m)

4.0p

Dividends per share
(FY 17/18: 4.0p)

£302.0m

Net debt (daily average)
(FY 17/18: £286.1m)

£10.2bn

Pipeline of opportunities
(FY 17/18: N/A)

- Revenue up 9.4% to £2.2bn (FY 17/18: £2.0bn) with organic growth at 5.5% reflecting strong performance from top strategic accounts
- Operating profit before other items up 6.0% to £88.2m (FY 17/18: £83.2m)
- Operating profit up to £50.2m (FY 17/18: £1.1m)
- Final dividend recommendation of 2.67p, making the total full-year dividend of 4.0p per share (FY 17/18: 4.0p)
- Leverage multiple reduced to 1.33x net debt/ EBITDA (FY 17/18: 1.98x, covenant <3x) with period end net debt further improved to £140.7m (FY 17/18: £193.5m)
- Core businesses performing strongly
- Project Helix largely complete with exit run-rate savings of c.£45m; Project Forte (Phase II of Mitie's transformation) now launched with primary focus on Engineering Services
- Order book from continuing operations stable at £4.1bn with pipeline growing to £10.2bn on the back of inclusion onto the Crown Commercial Services Framework
- Net Promoter Score up 22 points to +12 (FY 17/18: -10)
- Employee engagement up 12 ppts to 45%
- Paying our suppliers faster (50 supplier payment days down from 58 days in FY 17/18)

Financial summary

£m unless otherwise specified	FY 18/19		FY 17/18	
	Before other items ¹	Total	Before other items ²	Total
Revenue ¹	2,221.4	2,221.4	2,030.6	2,030.6
Operating profit ¹	88.2	50.2	83.2	1.1
Operating profit margin ¹	4.0%	2.3%	4.1%	0.1%
Profit/(loss) before tax ¹	74.4	36.4	66.7	(15.4)
Profit/(loss) for the year	63.7	30.9	61.2	(26.0)
Basic earnings/(loss) per share	16.8p ¹	8.6p	15.2p ¹	(7.6)p
Full-year total dividend per share		4.0p		4.0p
	FY 18/19		FY 17/18	
Cash generated from/(used in) operations		47.5		(7.9)
Period end net debt ³		140.7		193.5
Order book ¹		4,147.3		4,186.0

Reconciliation of the Group's performance measures to its statutory results is provided in the Appendix – Alternative Performance Measures.

1. From continuing operations.
2. Other items are as described in Note 4 to the consolidated financial statements.
3. Note 26 to the consolidated financial statements for analysis of net debt.

Delivering the exceptional through a range of services

Revenue¹ FY 18/19

Engineering Services

Security

Professional Services

Cleaning & Environmental Services

Care & Custody

Catering

£905.7m

(FY 17/18: £886.3m)

£536.5m

(FY 17/18: £432.0m)

£131.4m

(FY 17/18: £131.2m)

£404.4m

(FY 17/18: £384.1m)

£107.3m

(FY 17/18: £59.9m)

£136.1m

(FY 17/18: £137.1m)

Exceptional, every day for our customers

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We are investing in Connected Workspace technology to enable us to offer added value to our customers, improve operational efficiency and reduce reliance on manual labour. Our open source platform allows us to integrate multiple systems and data sources, perform advanced data analytics and deliver solutions through easy-to-use customer interfaces.

Our nationwide flexible offering combined with the smart use of technology remains attractive. With a focus on key drivers – customer, people, cost and technology – we are helping to shape next generation facilities management.

[+](#) Read more on PG 13

5

Integrated facilities management contracts with Connected Workspace component won in FY 18/19

6m

daily data readings

At a glance

Group information

Our vision

The Exceptional, Every Day.

Our purpose

Our expertise, care, technology and insight create amazing work environments, helping our customers be exceptional, every day.

What we do

We are the UK's leading facilities management (FM) and professional services company employing 52,500 people. We manage and maintain some of the nation's most recognised landmarks and work with a wide range of blue-chip private and public sector clients. We have scale and nationwide reach as well as breadth and depth of facilities management services, which we deliver in a flexible, tailored proposition through self-delivery or strategic partnerships.

We work in partnership with our clients to grow customer lifetime value by offering technology-backed solutions where our Connected Workspace technology is a true differentiator. We are ambitious for the future of the FM industry, our customers and our employees.

We deliver the exceptional through a range of services

Engineering Services (ES)

Mitie Engineering Services delivers technical and building maintenance services and specialist services in heating, cooling, lighting, water treatment, and building controls. The division carries out project works, including roofing and painting works.

[+](#) Read more on PG 16-17

Security

The Security division comprises Security Management, Front of House, Document Management, and the employee vetting business, Procius.

[+](#) Read more on PG 17-18

Professional Services (PS)

Professional Services is Mitie's consultancy services division, which includes Connected Workspace solutions, International, Sustainability, Waste Management, Risk Management and Occupier Services.

[+](#) Read more on PG 18-19

Cleaning & Environmental Services (CES)

The Cleaning & Environmental Services division offers commercial and technical cleaning, as well as specialist services such as landscaping and healthcare services.

[+](#) Read more on PG 19

Customer type

FY 18/19
Revenue
from continuing
operations

£m	FY 18/19
● Government	700.3
● Non-government	1,521.1

FY 17/18
Revenue
from continuing
operations

£m	FY 17/18
● Government	620.4
● Non-government	1,410.2

Forward order book

FY 18/19
Total secured
revenue for
continuing
operations

£m	FY 18/19
● Less than 1 year	1,251.9
● More than 1 year	2,895.4

FY 17/18
Total secured
revenue for
continuing
operations

£m	FY 17/18
● Less than 1 year	1,121.6
● More than 1 year	3,064.4

Care & Custody

The Care & Custody division provides a range of services to vulnerable adults in secure environments, including managing immigration removal centres and detention and escorting services on behalf of the Home Office, as well as forensic medical examiner and custody support services for police forces across England and Wales.

⊕ Read more on PG 20

Catering

The Catering division comprises: Gather & Gather, our workplace catering brand; and Creativevents, our specialist indoor and outdoor event catering business.

⊕ Read more on PG 20-21

FY 18/19
Revenue
from continuing
operations
by division

£m	FY 18/19
● Engineering Services	905.7
● Security	536.5
● Professional Services	131.4
● CES	404.4
● Care & Custody	107.3
● Catering	136.1

FY 17/18
Revenue
from continuing
operations
by division

£m	FY 17/18
● Engineering Services	886.3
● Security	432.0
● Professional Services	131.2
● CES	384.1
● Care & Custody	59.9
● Catering	137.1

Shaping Mitie for the future

£2.2bn

Revenue from continuing
operations
(FY 17/18: £2.0bn)

£88.2m

Operating profit before other
items from continuing operations¹
(FY 17/18: £83.2m)

4.0p

Dividends per share
(FY 17/18: 4.0p)

¹ Reconciliation of operating profit before other items to the statutory accounts is provided in the Appendix – Alternative Performance Measures on pages 163 to 165.



We want to drive a change from today's mostly reactive approach to a preventive approach using data and technology.

Derek Mapp
Chairman

Dear Mitie shareholder,

I am pleased to report on the progress of Mitie's second year of transformation. It has been a year of delivery and change – operational, financial and cultural – in a competitive facilities management market with a challenging industry backdrop.

FM industry overview and changing customer demands

Last year I referenced the demise of Carillion, one of our major competitors. The outsourcing sector has remained in the spotlight with Interserve – another major competitor – going into pre-pack administration, following which Interserve's lenders acquired its operating subsidiaries. Despite the ongoing challenges for the industry, I still believe that the medium-term outlook for your company is positive. On the one hand, there is significant opportunity for increased outsourcing penetration of the facilities management industry. On the other hand, we expect consolidation in the market to continue over the next couple of years, as the industry addresses some of its fundamental strategic and financial challenges.

Outsourcing remains a low-margin industry. In this environment, technology and scale remain two of Mitie's most significant differentiators. Creating a technology-enabled business can fundamentally change the economics of the industry. We will continue to focus our technology programme on three key areas: transforming our internal technology infrastructure to build a more cost-efficient organisation; investing in service delivery technologies to improve the customer experience and cost-to-serve; and finally, creating new services and products which add significant new value for our customers.

As a consequence, we believe that the economics of facilities management is shifting from a low-margin, labour-based model to a more sustainable technology-driven approach. Customer priorities are beginning to evolve as a result of the challenges facing the industry, the impact of technology and new employee workplace expectations. While cost efficiency and the quality of service delivery remain front and centre for our customers, they are increasingly also focusing on employee wellbeing, sustainability and better use of their buildings. These softer benefits are becoming important in attracting and retaining

the best people and enabling them to be as productive as possible. At Mitie, we therefore continue to drive adoption of our Connected Workspace offering, which is focused on products and services that improve the performance of buildings, and the wellbeing of their occupants, for the benefit of our customers.

Strategy

Our strategy is based on four pillars – customer, people, cost and technology – and is designed to grow customer lifetime value through technology-based solutions. We are focusing on those business lines where we can secure market-leading positions to ensure long-term sustainable growth. Our vision is to deliver The Exceptional, Every Day. It is clear to me that by the end of year two in our transformation journey, we have made progress.

During FY 18/19 we simplified and strengthened the Mitie portfolio by selling our Pest Control and Social Housing businesses and acquiring a security business, Vision Security Group (VSG). The acquisition of VSG boosts our already strong position in the UK security market.

We have embedded technology into the heart of our offering. Examples include our Connected Workspace technology, our MiTec centre in Belfast, our global security operations centre (GSOC) in Northampton and our service operations centre (SOC) in Bracknell. We are showcasing our technology solutions in our Shard headquarters. We want to drive a change in the facilities management industry from today's mostly reactive approach to a preventive approach using data and technology to optimise the performance of a customer's estate and enhance the wellbeing of their people.

During the year, we continued to prioritise customer service, which is reflected in a very encouraging 22-point increase in Net Promoter Score (NPS) to +12 points. This is testament to all the hard work from the teams on the ground and at account management level. However, we will not be complacent about the result: we have more to do, so we will continue to listen to our customers and act on their feedback.

Our people are our most critical asset. Without their commitment and hard work, the Group would not have progressed as far in its transformation journey during the first two challenging years. We are committed to creating a 'Great Place to Work'. During the year, employee engagement improved to 45% from 33% last year – a remarkable achievement given the ongoing transformation and scale of change within the Group. Along with my fellow Board members, I personally participated in our 'back to the floor' initiative to meet more of our colleagues, listen to their experiences and celebrate exceptional performance.

We have continued to focus on rigorous cost control under our Project Helix programme. By the end of March 2019, we had reached our target exit run-rate savings – annualised reductions to the cost base – of c.£45m per annum, through various cost saving initiatives across HR, Procurement, Property, Finance, IT and Engineering Services. We now expect to launch a new cost saving initiative programme in FY 19/20.

Stakeholder engagement

The Board has reviewed governance in readiness for the UK Corporate Governance Code 2018, which applies to accounting periods beginning on or after 1 January 2019. Given the extent of change at Mitie over the last two years, we as a Board wish to engage proactively with our stakeholders. In FY 18/19, the Board established a format for regular engagement with shareholders and for supporting Mitie's workforce during transformation. Through regular updates from the Executive Leadership Team, the Board also remains abreast of developments with customers, suppliers, banks, noteholders and other stakeholders.

We will continue to develop dialogue between the Board and all stakeholders to ensure a mutual understanding of views on governance and to promote discussion of the Group's performance. Along with a number of Non-Executive Directors, I have directly engaged with institutional shareholders with a cumulative holding of 69% of Mitie's issued share capital. Discussion covered a range of governance matters including Mitie's culture and cultural transformation, as well as Board support for the executive team.

In line with the UK Corporate Governance Code 2018 and the Financial Reporting Council's guidance on board effectiveness, Mitie appointed Jennifer Duvalier as the Group's designated Non-Executive Director to oversee Board engagement with our workforce. Jennifer champions the voice of Mitie employees at Board discussions and participates directly in our employee engagement initiatives.

Board composition

The Nomination Committee regularly reviews Board composition and considers matters such as skills and diversity. During the year, the Board adopted an inclusion policy, setting objectives in terms of diversity and inclusion.

In July 2018, Larry Hirst retired from the Board and Roger Yates succeeded him as Senior Independent Director. Mark Reckitt also stood down from the Board, with Mary Reilly assuming the role of Chair of the Audit Committee.

Jack Boyer stood down from the Board with effect from 31 August 2018. Jennifer Duvalier succeeded him as Chair of the Remuneration Committee.

I would like to thank Larry, Mark and Jack for their service to Mitie.

Results and dividends

I am pleased to report that revenue growth from continuing operations during the year was strong at 9.4% to £2.2bn (FY 17/18: £2.0bn), boosted by the acquisition of the security firm VSG. Operating profit from continuing operations before other items also grew by 6.0% to £88.2m (FY 17/18: £83.2m) with Engineering Services, Security and Care & Custody all delivering good growth.

The Board has recommended a final dividend of 2.67p, taking total dividends for the year to 4.0p. We expect to hold the dividend flat at least until transformation is complete, when we will review the dividend policy.

Outlook

While change can be unsettling, it can also be rewarding, and these are exciting times for your Company. The strength of our strategy, management, scale, technology offering and, of course, the dedication of our people, really set us apart. We will continue to build upon the progress achieved over the first two years of transformation, strengthening our position as the UK's leading facilities management organisation.

On behalf of the Board, I would like to thank our many stakeholders, and all Mitie employees, including the VSG colleagues who joined us recently, for their dedication and commitment to the Company, and for going the extra mile. And finally, I would also like to thank you, our shareholders, for your continued support.

Derek Mapp

Chairman

Creating value for all our stakeholders

Our vision

The Exceptional, Every Day.

⊕ Read more on PG 11

Our purpose

Our expertise, care, technology and insight create amazing work environments, helping our customers be exceptional, every day.

⊕ Read more on PG 11

Our values

- We are One Mitie.
- We are built on integrity and trust.
- We go the extra mile.
- Our diversity makes us stronger.
- Our customers' business, is our business.

⊕ Read more on PG 35

1.

Diligence and design

What we do We start by engaging with a new or existing client to understand its needs or any changes to requirements. We design a bespoke solution using our expertise, knowledge and Connected Workspace technology.

2.

Mobilisation and running operations

We look to mobilise our contracts in the most efficient way. Once in operation, we are continually looking for opportunities to remove cost, expand our offering where it would be of benefit to customers and become a valued strategic partner.

The Mitie approach We have created a **One Mitie** approach in everything we do to deliver a seamless, unrivalled service.

Scale The scale of our operations allows us to self-deliver most services, including some specialist services. We also partner with third parties to deliver additional specialist services.

Delivered through our business We offer a breadth of services underpinned by broad expertise, a flexible bespoke approach and proprietary market-leading technology.

Engineering Services **Security**

Guided by our strategy Our four strategic pillars – customer, people, cost and technology – underpin our strategy of focusing on our larger businesses and strategic accounts where our technology offer is a true differentiator to ensure long-term sustainable growth, delivery of our vision of 'The Exceptional, Every Day' and creation of value for all our stakeholders.

Customer: putting customers at the heart of what we do Building market-leading positions in higher growth segments and increasing customer NPS.

3.

Insights to drive value

Using our proprietary technology, data analysis and open source data lake, as well as traditional methods, we collate information on customers' buildings and assets and the wellbeing of their employees. We convert data and feedback into actionable recommendations for our clients.

Recognising that every customer is different, our approach is tailored to customers' unique needs and is designed to deliver continual improvements throughout the life of the contract.

Nationwide reach

Our nationwide reach allows us to service large clients with presence all over the UK.

Expertise

We are a partner trusted for our expertise and for putting our customers at the heart of our business.

Technology

Our technology suite includes Connected Workplace, MiTec, service operations centre (SOC) and global security operations centre (GSOC).

Professional Services

Cleaning & Environmental Services

Care & Custody

Catering

People: our single most important resource

Creating a 'Great Place to Work' for our employees.

Cost: strong balance sheet and cost control

Strengthening our balancing sheet and maintaining cost discipline to remain competitive.

Technology: technology solutions and Connected Workspace

Embedding technology into the heart of our offering.

Creating value for all our stakeholders

Customers

We aim to move from being just another service provider to being a trusted partner for our customers, helping them create high-performance work environments by optimising utilisation of their buildings and improving the wellbeing and performance of their people.

+12

Net Promoter Score (an improvement of 22 points from -10 in FY 17/18)

Shareholders

We are a business in turnaround with strong management, an excellent customer base and a clear strategy. We are committed to strong financial management and the creation of shareholder value.

8.6p

Basic earnings per share (improved from loss of 7.6p in FY 17/18)

Employees

We are creating a great working environment and learning and development opportunities for our employees. We empower our people and recognise great work.

52,500

employees

Social value: communities, environment, people, innovation and regional business

Through the Mitie Foundation we provide opportunities for learning and employment: Ready2Work scheme; employer engagement days; Think Differently programme; and school, academy and college events.

151 Mitie colleagues

volunteered to assist in a range of educational and community events

Suppliers

We are committed to ensuring a responsible supply chain. We work with all suppliers to ensure adherence to our Code of Conduct, including Modern Slavery and Human Trafficking, Safety and Sustainability objectives, and our Mitie vetting standards.

We procured from

7,500

suppliers in FY 18/19

Market review

A world of opportunity

We are focused on improving our customers' experience and embedding technology-driven solutions in our offering.

Key market drivers

Facilities management industry



The UK has a large and established outsourced facilities management (FM) market. Overall it is forecast to grow at moderate levels (c.2%) as the market continues to move slowly from insourcing to outsourcing. Despite recent industry turbulence, we are not seeing any marked trends for insourcing. FM outsourcing penetration ranges from c.55% for catering to c.90% for cleaning. The relative share of contract types (single service c.55%, bundle/integrated FM c.45%) has remained relatively stable. Customers' primary focus continues to be on cost, efficiency and service quality, but with an increasing focus on technology and employee wellbeing. Turbulence in the sector has highlighted the need for a more informed approach to pricing and risk transfer. Scrutiny into public sector outsourcing has remained high.

How we are responding

We are the UK's largest FM company and we are transforming the industry by continuing to focus on delivering an outstanding service and customer experience, generating cost efficiency, creating an environment where our people can thrive and investing in technology. Our Connected Workspace technology differentiates us from our competition. We are generating data-driven insights and enabling decisions that improve efficiency and our cost-to-serve, as well as create new services and products for our customers.

Read more in the CEO's strategic review on pages 11 to 13
Read about principal risks and uncertainties on pages 38 to 46

UK economy



According to the Office for National Statistics (ONS), in 2018 UK GDP grew 1.4%, slower than 1.8% in 2017. ONS reported that the Consumer Prices Index (CPI) 12-month rate was 2.1% in December 2018. ONS revised down real GDP growth in 2019 from 1.6% to 1.2%, against the backdrop of considerable uncertainty over the next steps in the Brexit process. As Brexit uncertainty subsides, and productivity growth gradually improves, ONS expects GDP growth to pick up to 1.1% in 2020 and to 1.6% a year thereafter as the small margin of spare capacity is absorbed. The unemployment rate is expected to rise marginally to 4.1% in 2019 as output falls below potential.

Outsourcing is typically shielded from economic cycles, benefiting from an increased customer cost-cutting focus during economic slowdowns, and from contract expansion in economic upturns. Our national footprint, scale of operations and flexible proposition remain compelling, while our Connected Workspace technology serves as a clear differentiator.

We have assessed potential Brexit impacts under a range of scenarios. We expect the main impacts in wage and food price inflation and labour and parts shortages, all of which we are addressing through contingency planning and working closely with our supply chain.

Read about principal risks and uncertainties on pages 38 to 46

Customer expectations



Although cost, efficiency and service quality continue to be priorities for customers, employee wellbeing and technology are gaining further traction. Customers are increasingly looking to improve the working environment, employee satisfaction and wellbeing of their employees. Flexible workspace solutions, efficient use of their estate and operational insights supported by real-time data provide an opportunity for customers to improve the performance and wellbeing of their people and functioning of their buildings.

We are investing in Connected Workspace technology to reduce our cost-to-serve and create new products and services that add significant value for our customers. Our open source technology platform allows us to integrate multiple systems and data sources, perform advanced data analytics and deliver better services for our customers. We will continue reshaping our business to be the leader in next generation FM.

Read more in the CEO's strategic review on pages 11 to 13
Read about principal risks and uncertainties on pages 38 to 46

Legislation



UK employers must comply with legal and regulatory requirements in areas such as taxation, the National Minimum Wage (NMW) and the National Living Wage (NLW), the Apprenticeship Levy, workplace pensions and the Modern Slavery Act.

The majority of Mitie front-line employees are within the NLW category. The NLW for workers aged 25 and over increased by 4.9% from £7.83 to £8.21 from April 2019.

The Apprenticeship Levy is required from UK employers to fund new apprenticeships and is charged at a rate of 0.5% of an employer's payroll.

By law all employers must offer a workplace pension scheme to eligible employees.

The majority of our existing contracts already contain a change-of-law clause which allows us to pass on related cost increases, helping us to protect our margins. We are utilising the Apprenticeship Levy for front-line staff training and development. We are also moving beyond a 'labour-plus' model towards more value-added services and embedding more technology in our operations.

Pressure on margins is likely to continue as labour costs increase driven by legislation and CPI inflation.

We paid £4.7m into the Apprenticeship Levy scheme in FY 18/19 and utilised £1.2m.

Read about principal risks and uncertainties on pages 38 to 46

Strengthening the business, in a challenging market



*Our vision is to deliver
'The Exceptional, Every Day'
for our customers, people
and other stakeholders.*

Phil Bentley
Chief Executive Officer





Our vision

'The Exceptional, Every Day.' It's a combination of expertise, care and insights, backed by the latest technology and data, to create an offering that goes beyond traditional FM. To our people we promise a place to work where they can thrive and be the best every day. To our customers we promise to be a trusted partner, creating exceptional environments for clients and colleagues, as well as adding value. Everything we do is backed by our core values, which oversee how we behave as a responsible corporate citizen, and as individuals.

Our purpose

Achieving 'The Exceptional, Every Day' doesn't happen by chance. And we want our customers to be exceptional too. We start by doing the basics brilliantly, tailoring solutions that anticipate and meet our customers' needs. We are aware that technology is changing our world, and we are using it to change FM. Through Connected Workspace we provide data-driven solutions, embedding technology seamlessly into everything we do. The insights gained allow us to offer customers a new level of flexibility and control, helping them become exceptional at what they do best.

Our strategic pillars

-  **Customer:** build market-leading positions in higher growth segments and increase customer NPS
-  **People:** create a 'Great Place to Work' for our employees
-  **Cost:** strengthen our balance sheet and maintain cost discipline to remain competitive
-  **Technology:** embed technology into the heart of our offering

Dear Mitie shareholder,

I am pleased to report on our progress in my second full year as CEO of Mitie Group plc. Two years into our transformation journey we are already seeing the benefits of our strategy to focus on our larger businesses and strategic accounts where our technology offer is a true differentiator to ensure long-term sustainable growth, delivery of our vision of 'The Exceptional, Every Day' and creation of value for all our stakeholders through our four strategic pillars of customer, people, cost and technology.

Over FY 18/19 we sharpened the focus by continuing to invest in customer service and technology and by changes to our portfolio of businesses. This has enabled us to grow revenue and profits.

We see our larger businesses and strategic clients as offering the best opportunities for growth and margin expansion as we deepen our capabilities and relationships. These are also areas where we are best able to deploy technology.

Project Helix has provided solid foundations for Mitie's future growth, enabling investments in our people, customer and technology. With the foundations now built, we are now moving to Project Forte, which is focused primarily on driving simplicity and efficiency in Engineering Services. Together with our focus on strategic accounts and larger businesses, we should see improvement in the Group's profits. At the same time, we are making good progress in strengthening our balance sheet.

Chief Executive's strategic review continued

Business performance

It has been another challenging year with the FM sector remaining firmly in the spotlight. Despite this, we grew our revenues and top strategic accounts, reduced our period end net debt and qualified for Phases I and II of the Crown Commercial Services (CCS) FM Marketplace Framework thereby positioning ourselves to win more government work.

Revenue from continuing operations was 9.4% up on the previous year, at £2.2bn, with organic growth at 5.5%. Operating profit before other items from continuing operations increased to £88.2m from £83.2m in FY 17/18. Operating profit for FY 18/19 was up to £50.2m from £1.1m a year earlier and basic earnings per share were 8.6p, from a loss of 7.6p in FY 17/18. Basic earnings per share before other items from continuing operations were 16.8p (FY 17/18: 15.2p).

The fixed-term order book from continuing operations was broadly flat at £4.1bn, benefiting from VSG's order book and significant contract wins towards the end of the year. Following the successful reorganisation of our sales team and the introduction of strategic account managers, we have seen a steady flow of wins and retentions. The pipeline of £10.2bn includes significant opportunities on the CCS Framework.

Our balance sheet health remains a key focus. We are committed to further reducing customer invoice discounting, normalising creditor days, asking clients for fairer payment terms, streamlining our billing processes and delivering faster cash collection. Our efforts have seen a decline in average daily net debt in H2 18/19 to £286.5m from £317.4m in H1 18/19 as we resolved working capital impacts following the outsourcing of transactional processing to India in early FY 18/19. Overall, average daily net debt for FY 18/19 was £15.9m higher than prior year at £302.0m. Our medium-term objective is to continue to reduce the average daily net debt. The period end net debt was £140.7m versus £193.5m a year earlier as we make continuing improvements to the cash collection cycle; the net debt position also includes proceeds from two disposal transactions effected during FY 18/19. We are operating comfortably within debt covenants with period end net debt to EBITDA of 1.33x.

Focusing our business

In FY 18/19, we also focused our business by selling our Pest Control and Social Housing businesses and acquiring the Vision Security Group (VSG). The first two transactions simplified our operations; they also provided funds to strengthen the balance sheet and accelerate partial repayment of the deficit under the Group's defined benefit pension scheme. The VSG acquisition strengthens our position as one of the UK's largest providers of security services to businesses.



Customer focus

Listening to clients is essential as we focus on delivering services that our customers need. By taking on board feedback from last year's customer survey and continuing to invest in customer service, we have secured an impressive improvement in our NPS score, which increased from -10 to +12 in FY 18/19. A follow-up programme for account directors will ensure we improve our score further still, helping us to win and retain more business.

Mitie's success rests on growing our largest strategic accounts and deepening our relationship with them. It was pleasing to see that these accounts grew revenues by 8% in FY 18/19, which demonstrates that our biggest clients are trusting us with more of their business.

We have recently secured a place on several key government frameworks, giving us an opportunity to become a strategic partner for the UK government in outsourced FM, defence, security and custody.



A great place to work

Supporting our people to be the best they can be is one of our core objectives. We do more than just provide the tools required for the job; we are making Mitie a great place to work through various initiatives.

Our online People Hub, supported by SAP SuccessFactors, is a single point of access for anything HR-related. The recently launched Learning Hub offers a cloud-based pool of 2,500 instructor-led courses.

Mitie Exceptionals is a diverse employee consulting group which liaises with our Non-Executive Director, Jennifer Duvalier, on the interests of the wider workforce. In April 2018, we launched Upload, a people survey providing the opportunity to feedback on working with Mitie. We launched a 'You Said, We Did' campaign to address employees' feedback throughout the year. It was therefore very encouraging to see that the employee engagement score went up to 45% from 33% in the prior year.

In addition, we were the only FM company to be recognised by two prestigious awarding bodies. We were certified a 2019 Top Employer by the Top Employer Institute Certification Programme. And we came 17th on the Inclusive Top 50 UK Employers list for promoting diversity and inclusion.

Our strategy in action

Our strategy is to focus on our larger businesses and strategic accounts where our technology offer is a true differentiator to ensure long-term sustainable growth, delivery of our vision of 'The Exceptional, Every Day' and creation of value for all our stakeholders.



Customer: build market-leading positions in higher growth segments and increase customer NPS

Achievements

- NPS increased 22 points to +12
- Top strategic accounts grew revenues by 8%
- Mitie qualified as a supplier on Crown Commercial Services Framework for FM, defence and security services

KPIs: Organic revenue growth, operating profit margin before other items, order book, NPS

£10.2bn
pipeline of opportunities



People: create a 'Great Place to Work' for our employees

Achievements

- We launched People Hub and Learning Hub platforms
- Employee engagement increased to 45%
- Jennifer Duvalier oversees Board engagement with the workforce

KPIs: Staff turnover, employee engagement, all injury frequency rate

45%
employee engagement



Cost discipline

In June 2017 our cost programme, Project Helix, was launched to kickstart Mitie's transformation. Two years on, we have largely achieved our aims, exiting FY 18/19 with run-rate cost savings of c.£45m. We started by delaying and removing central management heads both at Group level and within the divisions. We standardised and centralised our IT, HR and Finance functions. For IT and Finance we also offshored the majority of back-office processes. In HR, we introduced SAP SuccessFactors to manage all people-related matters, as well as temporary and permanent hiring solutions.

The final elements of this project will continue throughout FY 19/20, with expected run-rate cost benefits – these are annual cost savings to the cost base following the finalisation of currently running programmes at the end of Project Helix – of c.£50m by March 2020.

The next phase of transformation is Project Forte, aimed at changing the processes and technology underpinning our largest division, Engineering Services.

Project Forte will include a full roll-out of the 'Click' dynamic scheduling and deployment system and implementing a new case management and billing application. It will result in improved engineer productivity and back-office efficiencies. Project Forte will also include further Group-wide organisational consolidation and additional cost reductions by automating manual and paper-based processes and migration of our accounting system to a Mitie-wide SAP solution.

It is a two-year programme with estimated gross run-rate cost benefits of c.£30m by March 2021 and associated one-off cost of change of c.£30m.



Technology at our core

Mitie's use of technology sets us apart from the competition and is at the core of customer satisfaction and retention success. Our clients need and expect high-performance facilities that not only provide the right work environment but operate efficiently and support their sustainability agenda. Our skilled resources, nationwide reach and experience of managing different types of facilities give us unparalleled capabilities to help clients achieve these objectives.

For example, our Connected Workspace solutions include a sophisticated service operations centre (SOC) that provides remote monitoring of buildings and facilities. SOC uses advanced algorithms to detect anomalies and trigger corrective actions prior to an asset failing. We are also able to reduce energy consumption for buildings, plant and equipment. We call this 'Monitoring as a Service' and it is the core of our predictive maintenance offering.

Other fast-growing technology applications include our MiTec centre, Fire & Security systems and our global security operations centre. Our approach isn't just transforming clients' organisations, it is transforming Mitie and consolidating our position as the UK's leader in FM.

Outlook

We expect to continue to grow revenue organically at 3%-4% in the medium term. For FY 19/20 we expect operating profit to grow at mid-single digits – with revenue growth and cost savings partially offset by the dilutive effect of the FY 18/19 contract renewals and continued reinvestment in our business. Project Forte and focus on strategic accounts and larger businesses should drive operating profit margin in the medium term to our target of 4.5%-5.5%.

Looking ahead

Mitie's transformation continues at pace. Our strength is supported by great customers and loyal staff. Through our use of technology and expertise, we are leading the field, transforming our operations and how we interact with our clients. Change has been challenging at times, but our progress and performance to date are encouraging. Revenue is growing. Project Helix has allowed us to lay solid foundations for the business and in addition to wins across the business, the CCS Framework presents a considerable opportunity. Mitie is in a strong position for future growth and we look forward to the year ahead.

Phil Bentley
Chief Executive Officer



Cost: strengthen our balance sheet and maintain cost discipline to remain competitive

Achievements

- Project Helix largely complete in HR, IT, Finance, Procurement and other (CES and property estate)
- FY 18/19 in-year benefits of c.£38m, with exit run-rate benefits of c.£45m

KPIs: operating profit margin before other items, net debt/EBITDA ratio and average daily net debt

£45m

gross FY 18/19 exit run-rate benefits



Technology: embed technology into the heart of our offering

Achievements

- Growing revenue stream in Security
- Technology solutions through MiTec, GSOC, Fire & Security systems in Security
- Connected Workspace embedded in five new large IFM contracts
- MI dashboards live in Healthcare clients (CES)

KPIs: Organic revenue growth, order book, NPS

12

new CW projects in FY 18/19

Focusing our business

Achievements

- Pest Control business¹ sold to leverage subcontractor expertise
- Social Housing business¹ sold to exit a low-growth low-margin sector
- VSG² acquired to boost our position in the security market
- Disposals simplify Mitie Group and strengthen the balance sheet

¹ Note 5 to the consolidated financial statements on discontinued operations and disposal of subsidiaries.

² Note 30 to the consolidated financial statements on acquisitions.

3

successful transactions





Key performance indicators

Monitoring our progress

Our KPIs are measures we use to assess the Group's progress against our strategy of focusing on our larger businesses and strategic accounts where our technology offer is a true differentiator to ensure long-term sustainable growth, delivery of our vision of 'The Exceptional, Every Day' and creation of value for all our stakeholders.

The health and safety of our people is the highest priority for us as a business. We are constantly striving to develop a zero-harm workplace. Coordinated by Mitie's Quality, Health, Safety and Environment (QHSE) team, our LiveSafe programme was launched in December 2018. This highlights the importance of workplace safety and was developed out of the need to constantly improve QHSE performance across the business. This year we are introducing a non-financial QHSE KPI to our reporting – all injury frequency rate.

Our strategic pillars

-  **Customer:** build market-leading positions in higher growth segments and increase customer NPS
-  **People:** create a 'Great Place to Work' for our employees
-  **Cost:** strengthen our balance sheet and maintain cost discipline to remain competitive
-  **Technology:** embed technology into the heart of our offering

Organic revenue growth (%)



Description

Revenue growth reflects the health of our order book, our ability to upsell and cross-sell, the pipeline of potential opportunities, our win and retention rates and our broader reputation in the sector. Organic revenue growth is growth on a comparable basis before any impact from acquisitions and excluding discontinued operations. Reconciliation of revenue excluding the impact from the VSG acquisition to the statutory accounts is provided in Appendix – Alternative Performance Measures on pages 163 to 165.

FY 18/19	£2,221m	5.5%
FY 18/19 (excluding VSG)	£2,142m	organic growth
FY 17/18	£2,031m	from previous year

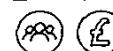
How we did it

Organic revenue grew by 5.5% despite a challenging market environment, due to new wins and focusing on adding more value and services to our top customers. We continue to invest in customer service and technology to drive customer retention and win rates. Revenue growth of 9.4% from continuing operations included the impact from the acquisition of VSG.

Outlook

Our plan is to achieve 3%-4% organic revenue growth in the medium term.

Operating profit margin before other items (%)



Description

The UK FM industry is a mature and highly competitive market. Profitability on contracts improves as we enhance the efficiency of our operations throughout the life of the contract. Reconciliation of operating profit before other items from continuing operations to statutory accounts is provided in Appendix – Alternative Performance Measures on pages 163 to 165.

FY 18/19	4.0%	10 bpts
FY 17/18	4.1%	decrease from
		previous year

How we did it

The operating profit margin before other items reduced slightly to 4.0% over the year as the dilutive impact from the acquisition of VSG was mitigated through continued strong performance within our larger contracts and realised cost savings from our transformation programme. We invested back into customer service, our technology capability and staff incentive schemes.

Outlook

For FY 19/20 we expect operating profit to grow at mid-single digits – with revenue growth and cost savings partially offset by the dilutive effect of the FY 18/19 contract renewals and continued reinvestment in our business. Project Forte and focus on strategic accounts and larger businesses should drive operating profit margin in the medium term to our target of 4.5%-5.5%.

Order book (£m)



Description

The reported order book includes only secured fixed-term contracted work and excludes variable work, such as catering point-of-sale. See Note 3 to the consolidated financial statements for analysis of the forward order book.

FY 18/19	£4,147m	1%
FY 17/18	£4,186m	decrease from
		previous year

How we did it

Our order book for continuing operations declined by 1%. Contract wins and the benefit from the acquisition of VSG offset the delivery of revenue under long-term contracts.

Outlook

In FY 18/19, we were successful in qualifying as a supplier on Phases 1 and 11 of the Crown Commercial Services Facilities Management Marketplace Framework. We will be focusing on this area as significant wins would materially improve our order position.

Net debt/EBITDA ratio (x)



Description

Period end net debt/EBITDA ratio or leverage ratio is one of the two debt covenants used to assess our financial position. For the leverage covenant the ratio of net debt to EBITDA should be no more than 3x. The other covenant ratio is interest cover (ratio of EBITDA to net finance costs to be no less than 4x).

FY 18/19	1.33x	0.65x
FY 17/18	1.98x	improvement from previous year

How we did it

Our period end net debt decreased by £52.8m to £140.7m as we benefited from net proceeds from disposals and focused on accelerating our order to cash cycle. We continue to operate comfortably within our debt covenants.

See Note 26 to the consolidated financial statements for analysis of net debt.

Outlook

We expect to continue to reduce our period end net debt/EBITDA ratio whilst also reducing off-balance sheet financing.

Average daily net debt (£m)



Description

Our balance sheet health is of paramount importance to the long-term sustainability of our business. Average daily net debt reflects working capital and bill-to-collect management.

FY 18/19	£302m	£16m
FY 17/18	£286m	deterioration from previous year

How we did it

Our average daily net debt increased compared to the prior year's level. The increase in H1 to £317.4m was due to temporary working capital issues related to outsourcing of transactional processing. This was reversed in H2 resulting in lower average daily net debt in the H2 period at £286.5m. Overall, average daily net debt for FY 18/19 was £15.9m higher than prior year at £302.0m.

Outlook

Proactive management will be an ongoing theme. Over the medium term, we aim to continue to reduce average daily net debt.

Staff turnover (%)



Description

We measure the number of employees leaving us voluntarily over a 12-month period against our overall headcount.

FY 18/19	19.7%	2.9 ppts
FY 17/18	16.8%	increase from previous year

How we did it

In FY 18/19, we launched People Hub, a one-stop-shop for everything related to the employee lifecycle, and Learning Hub, an online portal through which employees can access courses related to their career, as well as health and wellbeing. We have been embedding new behaviours following the roll-out of new values in FY 17/18.

Outlook

We will continue to utilise technology to support our people processes. In FY 18/19, we appointed a head of resourcing to create an industry-leading talent and resourcing function to attract, recruit, develop and retain the best people at all levels.

Employee engagement (%)



Description

The survey asks colleagues at Mitie how they feel about working with the organisation, and what improvements could be made. This is followed by the 'You Said, We Did' campaign to demonstrate actions undertaken in response to feedback.

FY 18/19	45%	12 ppts
FY 17/18	33%	increase from previous year

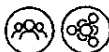
How we did it

28% of employees (excluding VSG colleagues) completed the Upload survey and the engagement score was 45%, up from 33% the year before.

Outlook

The annual survey is a vital tool in raising employee engagement, but it is not the only one. Senior management meet employees throughout the year at roadshow conferences across the UK and members of the Group Leadership Team go 'back to the floor' to engage with front-line colleagues.

Net Promoter Score (index)



Description

NPS is a measure for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.

FY 18/19	+12	22 points
FY 17/18	-10	increase from previous year

How we did it

In FY 18/19 we reached a wider and deeper section of our customer base, capturing 90%+ of our revenue, in a more extensive CRM programme. Our NPS improved as a result of continued investment in customer service and our One Mitie approach.

Outlook

This is a core focus for us and we will be enhancing our CRM programme, customer communications and engagement.

All injury frequency rate (per million manhours worked)



Description

Safety of our employees is of paramount importance. We have established systems and governance processes to measure our performance. Our injury rate is a key measure to monitor our progress towards zero harm and includes all injury severities from first aid to fatality.

FY 18/19	30.9	13.5%
FY 17/18	35.8	reduction from previous year

How we did it

Over the past year we have changed reporting system (Q3) and categorisation of incidents allowing for increased focus and analysis of accidents and incidents. Through the promotion of our LiveSafe programme and campaign promoting the proactive reporting of hazard observations and near misses we are seeing a shift from reactive to proactive safety performance.

Outlook

Continued efforts to further reduce injuries is at the forefront of the LiveSafe programme, striving towards a zero-harm workplace. Additionally we will continue to develop our Occupational Health strategy.

Our divisional performance

Engineering Services

£m	FY 18/19	FY 17/18	Change, %
Revenue	905.7	886.3	2.2
Operating profit before other items	58.7	54.1	8.5
Operating margin before other items, %	6.5	6.1	0.4 ppt
Order book	1,802.7	2,039.2	(11.6)

Performance highlights

- Good growth of operating profit before other items driven by a strong performance in the major accounts
- Encouraging improvements in engineer productivity
- Phase I of Engineering Services transformation under Project Helix completed
- Engineering Services transformation is moving into Project Forte

Operational performance

Engineering Services had another year of good operating profit growth driven by a strong performance in the major accounts. The business focused on reducing layers and increasing spans of control, whilst continuing to invest in customer service and technology to enhance the quality and efficiency of the service we provide. We have also listened to and acted upon customer feedback. We are clearly seeing the impact of our investment into service with our divisional NPS up 30 points year-on-year.

Another area of focus was the productivity of our engineers where we have seen encouraging improvements in utilisation with a 7% increase in productivity, a 3% (c.£3m) reduction in core subcontractor spend and a subsequent increase in profitability. This increased productivity has been partly driven by a 20% reduction in travel time which has in turn allowed us to reduce the backlog in jobs by 20% and therefore provide a better service to our customers. Additional year-on-year indirect cost reductions included a 12% (c.£2m) decrease in vehicle costs and a 4% (c.£0.1m) drop in staff travel expenses. We have created a data hub which allows benchmarking, best practice and standardisation to enable these improvements.

We also took steps to reduce complexity in our business. On the customer front we actively focused on revenue quality by serving our top clients better. We made a decision to no longer pursue smaller and less profitable opportunities and to proactively exit low-margin contracts. With regard to the supply chain, we reduced our supplier base by 25% by migrating to fewer strategic partners, enabling meaningful economies of scale. There is further opportunity in these areas.

Under Project Helix, we have now completed Phase I of the Engineering Services transformation. This included the roll-out of PDAs to our engineers and related training; the introduction of a dashboard enabling better performance management of all organisational levels including engineers; and launching our Click pilot (automated engineer scheduling and deployment tool). We also introduced incentive schemes for engineers to aim for first-time-fix and greater efficiencies.

The next phase of transformation for Engineering Services is grouped under Project Forte and will include changes to the culture, processes and technology underpinning the business. This will include the scheduling and deployment system roll-out and a new case management and billing application. The objective is to drive further improvements for our customers and our staff by using technology to improve productivity and service delivery.

The programme will also include Group-wide initiatives aimed at organisational consolidation and further cost reductions by automating manual and paper-based processes. Project Forte is expected to run for approximately two years with associated cost of implementation of c.£30m and estimated exit gross run-rate benefits of c.£30m by March 2021.

In FY 18/19 Mitie Property Management's roofing and painting businesses were integrated into Engineering Services following the sale of the Social Housing business in November 2018. Incorporating these two business units into the ES projects business broadened the overall offering under the projects umbrella and boosted cross-selling opportunities across Mitie. It also allowed the sales teams to share leads and be proactive in capturing opportunities with customers. Overall, this combination is starting to gain traction in the market and is helping to make Mitie known as a one-stop projects business.

From the start of FY 19/20 several business units of the current Professional Services division will be incorporated into an enlarged Engineering Services division. These include Connected Workspace, International Services, Occupier Services and Sustainability. The logic behind the move is that these services are closely aligned to our largest integrated accounts where engineering services are central to our offer. We will therefore be able to improve and broaden our customer product offering in a manner that more closely aligns with our customers' needs. To facilitate these changes we have strengthened the Engineering Services leadership team with senior appointments in mobile engineering, strategic accounts and critical infrastructure.

Engineering Services revenue comprises fixed contract work and variable work. During the year we broadened the capability of our commercial team by setting up a new dedicated sales team focused on winning more variable and project-based work with our existing and potential clients. The order book declined 11.6% to £1,802.7m in the year as the unwinding of existing contracts exceeded new wins and renewals underpinned by more disciplined bidding.

We extended a number of contracts, including a five-year contract worth £17m with Gatwick Airport and a two-year extension with Vodafone. We won new business as part of integrated FM contracts with a major UK retailer, a major infrastructure company, Connect Group and Yorkshire Building Society. We also won several single service contracts, including a contract with construction firm Willmott Dixon to provide mechanical and electrical services for Bournemouth University.

We also enhanced our focus on the government sector enabling us to qualify as a supplier of M&E services on the CCS Framework which offers UK-wide facilities management opportunities across numerous public sector entities.

Financial performance

Revenue from continuing operations in the Engineering Services division was up 2.2% to £905.7m (FY 17/18: £886.3m), with growth in top accounts and related project work offsetting the impact of contracts lost during the prior year and a slower year in terms of contract wins. The top 50 Engineering Services contracts continued to deliver good growth in both volumes and profitability on the back of project and variable work volumes with revenue growth of 8% and 70 basis points improvement in gross profit margin. Our projects business, which includes fire protection, painting and roofing, as well as project work within top accounts, grew its revenue by 4% and saw operating profit margin expansion of 80 basis points.

Operating profit for continuing operations before other items increased 8.5% to £58.7m (FY 17/18: £54.1m). This was due to a combination of strong performance in our largest accounts, exit from low-margin contracts and cost savings from the transformation programme, partly offset by the impact of contracts lost in the prior year and incremental investments into improving service levels.

Outlook

As we deepen our relationships with our largest customers we are increasingly seeing the demand for a broader service offering which includes the use of predictive maintenance technology, improved facilities performance management information and more energy efficiency from assets and buildings. By combining several existing Mitie businesses from the Professional Services division into one enlarged Engineering Services division, we will be able to meet these demands better. The market for Engineering Services remains fragmented but is still showing modest growth. We are optimistic about our future performance as we broaden our offering, particularly focusing on technology, and as we embark on a transformation of the business through Project Forte that will improve the customer experience whilst reducing our cost-to-serve.

Security

£m	FY 18/19	FY 17/18	Change, %
Revenue	536.5	432.0	24.2
Operating profit before other items	30.7	27.5	11.6
Operating margin before other items, %	5.7	6.4	(0.7) ppt
Order book	971.5	640.8	51.6

Performance highlights

- Strong year with a good performance across all business units together with a positive contribution from the acquisition of VSG
- Significant progress made in integrating VSG following its acquisition in October 2018
- Technology solutions playing a greater role in contributing to the overall profit growth

Operational performance

Security enjoyed another strong year with a good performance across all its major business units, together with a positive contribution from the acquisition of VSG in October 2018. The largest part of our security business is manned guarding where we saw good growth across all regions as we continue to develop our presence in the retail, logistics and critical security environment sectors.

The VSG acquisition strengthened the position of Mitie's Security business as one of the leading providers of integrated and risk-based security services in the UK. The combination offers opportunities to accelerate the growth of Mitie's premium systems and technology-enabled and intelligence-led security solutions.

Significant progress has already been made in integrating VSG, aligning both operations and technology capabilities. We have consolidated operations into our new global security operations centre (GSOC), a single hub, located in Northampton. It will serve as a centre for intelligence and security industry experts with cutting-edge software tools to capture, translate, geolocate and alert to any major global incidents. This will become a hub for development of our intelligence cell and house our interactive customer control centre where we undertake live CCTV monitoring. In addition, we are employing innovative and unique methods of collating actual incidents and crime reports overlaid with national crime statistics to dynamically risk-rate individual locations to drive the efficient deployment of security resources for our customer sites.

Our industry-leading 24/7 communications and technology centre MiTec will be retained as our primary alarm receiving centre (ARC) responsible for delivering a wide range of remote services including CCTV, intruder, fire, access control and lone worker monitoring and dedicated client helpdesks. We are also creating a secondary ARC location at our Northampton GSOC to provide MiTec with added resilience. We will continue to focus on the growth of our Fire & Security Systems business as one of the leading providers of life safety solutions and innovative security systems in the UK. Through the integration of VSG's systems team, we have expanded our geographical footprint, increased our technical expertise levels and strengthened our operational model which is enabling us to deliver larger-scale projects and contracts for clients.

Mitie is a significant Front of House service provider through our Signature business. There are opportunities for growth, especially in major city conurbations and in particular the premium and London-centric corporate market.

Operating review continued

Mitie's employee vetting business, Procius, continues to hold a strong position in the aviation industry whilst we are also seeing traction within commercial sectors. The focus here is on developing further technology-led solutions to automate, facilitate and speed up vetting processes.

In Document Management we continue to grow our customer base, attracting high-end law firms and corporate clients by offering technology-enabled document management and document processing outsourcing among other services. Through recent wins, we are expanding to include the delivery of our services to clients' regional offices.

The divisional NPS score improved by 15 points as we expand and enhance our offer and embed more technology solutions in our services. The secured order book before the impact from the VSG acquisition was up by 19%, with the unwinding of contracts more than offset by significant contract wins and successful retenders. We won a three-year contract with a multinational retail group and extended a contract with Springfields for a further three years. We also had a strong year for retaining clients, including two contract extensions for travel clients, Strathclyde Partnership for Transport (a further five years) and Eurostar (for two years). We successfully extended a contract with Belfast City Airport and won a high-profile contract from the CCS Framework. The total secured order book benefited from the acquisition of VSG and grew overall by 51.6% to £971.5m.

Financial performance

The Security division delivered a strong financial performance, with good organic growth together with a positive contribution from the VSG acquisition. Organic revenue grew by 5.8%, and overall revenue, including VSG, grew 24.2% to £536.5m (FY 17/18: £432.0m). Manned guarding, technology solutions including vetting services, and Document Management all delivered good growth following new sales wins and higher volumes of project and variable work. Front of House performance was impacted by loss of key contracts in the prior year.

Operating profit before other items increased 11.6% to £30.7m (FY 17/18: £27.5m) driven by contract wins and operational efficiency initiatives as well as a positive contribution from VSG's performance.

VSG enjoyed a very encouraging start under Mitie's ownership. After taking over a business which was trading at close to break-even, we are seeing a faster improvement in margins than originally planned at the initial integration stage. VSG's gross margin increased from 5% pre-takeover to 8% over its first trading period under Mitie's ownership.

Technology solutions are increasingly contributing to the overall revenue growth of the division and now account for 13% (FY 17/18: 12%) of the revenue (excluding VSG), driven by growth in Fire & Security systems, MiTec and vetting. MiTec is benefiting from the Detention & Escorting Services contract, won by the Care & Custody division in December 2017, while vetting is moving into the corporate space on top of its strong position in aviation.

The division finished the year with good momentum following successful contract wins towards the end of FY 18/19.

Outlook

The overall security market remains fragmented and manned guarding remains competitive and highly commoditised. In this context, Mitie's ability to provide a broader range of services gives a competitive advantage when bidding for and winning business. Retention is then enhanced through application of technology. We will continue to derive benefits from the VSG acquisition where the performance of major contracts will continue to benefit from ongoing price renegotiations, reducing revenue leakage, walking away from substandard arrangements and re-aligning the cost base.

Professional Services

£m	FY 18/19	FY 17/18	Change, %
Revenue	131.4	131.2	0.2
Operating profit before other items	5.6	5.6	0.0
Operating margin before other items, %	4.3	4.3	0.0 ppt
Order book	86.9	144.9	(40.0)

Performance highlights

- Divisional revenue performance was impacted by the exit from two loss-making international contracts and renewed focus on internal projects to support Mitie key accounts
- The Waste Management business retained two significant contracts and won the first phase of a significant contract with NHS Improvement
- Sustainability delivered a stable performance for the year
- The International business focused on re-balancing its portfolio towards higher-margin work

Operational performance

Whilst the Professional Services division showed a flat trading performance year-on-year, it recorded a high-profile win with NHS Improvement for Waste Management and it repositioned several of the other operating units to focus on driving overall Mitie performance by supporting key accounts. The benefits of these activities fall outside the division.

The Waste Management business retained two significant contracts during the year with a pharmaceuticals company and the UK branch of a global consumer goods company, both for a further two years. Contract wins during FY 18/19 included Bidfood, a commercial real estate services company and the first phase of a significant contract with NHS Improvement, won from the CCS Framework, which was mobilised in October 2018.

The Sustainability business, including Energy, had a slow start to the year but gained momentum on the back of project work. The Water business was fully integrated during the year into the Sustainability business, which now encompasses all key utilities, enabling it to build a broader proposition for our customers.

The International business focused on re-balancing its portfolio towards higher-margin work and, as a consequence, we proactively exited two loss-making international contracts. At the same time, Mitie secured a facilities management and property services contract with Ahlsell – a hardware retailer – to manage and maintain all its stores in Norway. The order book declined 40% as contract wins and renewals only partly offset the delivery of contracts.

Financial performance

Professional Services, excluding the International business, delivered revenue growth in FY 18/19. However, the overall divisional performance was impacted by the reduction in revenue as we exited loss-making contracts in the International business. Overall revenue for the division was flat at £131.4m (FY 17/18: £131.2m). Waste grew strongly by 14%, including the new NHS Improvement contract. Sustainability delivered a stable performance for the year.

At the operating profit level, we benefited from exiting the loss-making international contracts, good cost discipline across the division and re-balancing our activities to target higher-margin work. Profitability was partly held back by a renewed focus on projects to support key Mitie strategic accounts and investments into Connected Workspace. Operating profit before other items was £5.6m (FY 17/18: £5.6m).

Outlook

Our Connected Workspace solutions are increasingly being focused on monitoring the critical environments of our largest clients, where we provide maintenance and engineering solutions. Given the close link between the client solutions required within our Engineering business, and several elements of the Professional Services division, we are embedding Connected Workspace, Occupier Services, International and Sustainability under Engineering Services from April 2019. We see this as an opportunity to enhance and improve our core engineering offering by using technology to monitor critical assets, thereby allowing us to deliver a proactive service. We also see the opportunity to improve the quality of information that customers receive to manage their facilities and their assets.

As part of these changes, Waste Management is moving to Cleaning & Environmental Services, and Risk Advisory Services is transferring into the Security division.

Cleaning & Environmental Services

£m	FY 18/19	FY 17/18	Change, %
Revenue	404.4	384.1	5.3
Operating profit before other items	17.5	19.6	(10.7)
Operating margin before other items, %	4.3	5.1	(0.8) ppt
Order book	663.1	656.3	1.0

Performance highlights

- The division delivered good revenue growth in a highly-competitive market environment; however, profits were negatively impacted by the dilutive effect of contracts won in prior years
- On 30 September 2018, we sold the Mitie Pest Control business unit to Rentokil Initial plc and entered into a preferred supplier partnership covering a range of services

Operational performance

On 30 September 2018, we sold the Mitie Pest Control business unit to Rentokil Initial plc and entered into a preferred supplier partnership covering a range of services. These services will be provided as part of an integrated facilities management offering to Mitie's wide range of customers. The transaction enables us to continue to provide specialist services to our clients whilst focusing on our core competencies.

Cleaning & Environmental Services (CES) delivered good revenue growth from continuing operations in a highly-competitive market environment, where outsourcing remains a compelling option for clients. Margins still remain low. However, the division was negatively impacted by historical contracts with low margin. Offsetting this were cost savings arising from various delayering exercises to remove managerial roles.

In addition to our core Cleaning business, there are two significant stand-alone business units within the CES division. Our Landscapes business is a specialist service where we enjoy a balanced mix of fixed and pay-as-you-go work throughout the year. This ensures a broadly stable performance with further upside during harsh winters. Mitie Healthcare provides a multi-service offering looking after a broad portfolio of NHS clients and has recently introduced a range of technology features to its offer, including dynamic performance dashboards, electronic meal ordering and the trialling of an intelligent automated portering system.

The division was successful in retaining a number of large clients as well as winning new clients partly as a consequence of a much improved NPS score, up 26 points year-on-year. The CES order book for continuing operations was up 1% to £663.1m. We extended our services with Epsom & St Helier University Hospital NHS Trust for cleaning and with Whitbread for landscaping. We also won a five-year landscaping contract with NHS/South Western Ambulance. Towards the end of FY 18/19, the division was successful in securing an extension to its 10-year partnership with St George's University Hospitals NHS Foundation Trust until 2030, which is worth £150m and covers a range of services including cleaning, patient catering and facilities helpdesk services; the extension will also include waste management duties at one of the sites. At the same time, we have also taken steps to reduce the margin drag of new contracts by introducing tighter bidding discipline. As a consequence, growth in the near term will be slower.

Financial performance

CES revenues for continuing operations grew by 5.3% to £404.4m (FY 17/18: £384.1m) driven by the impact of prior year contract wins. However, operating profit for continuing operations before other items was down 10.7% to £17.5m (FY 17/18: £19.6m) due to unfavourable contract mix versus last year, only partly offset by savings from Project Helix. Within the division, Healthcare grew strongly on the back of the prior year wins, however, first-year mobilisation factors impacted profitability; this has now been addressed. Landscapes delivered a strong performance despite a particularly mild winter, with operating profit protected by a well-balanced portfolio of work, which hedges pay-as-you-go with fixed-price contracts.

Outlook

Over the next couple of years we expect steady growth in our Healthcare and Landscapes businesses. Cleaning is not expected to grow as we work on improving margins through disciplined bidding and re-balancing of the contract base.

Operating review continued

Care & Custody

£m	FY 18/19	FY 17/18	Change, %
Revenue	107.3	59.9	79.1
Operating profit before other items	3.9	1.9	105.3
Operating margin before other items, %	3.6	3.2	0.4 ppt
Order book	596.6	670.1	(11.0)

Performance highlights

- Excellent year following the successful mobilisation and commencement of operations for the Detention & Escorting Services (D&E) Home Office contract and a strong delivery from existing contracts
- The division continues to expand its offering as it diversifies into adjacent areas to complement its core capabilities

Operational performance

The Care & Custody division had an excellent year, having almost doubled in size on the back of the successful mobilisation and commencement of operations for the sizeable D&E contract won in December 2017. In addition, the division benefited from strong delivery of existing contracts with police forces, custody support and Forensic Medical Examiner (FME) services. The D&E contract, the largest ever contract for the division, reinforces our role as the largest supplier of immigration detention services to the UK Government.

It is also allowing us to expand and gain expertise in areas adjacent to the core immigration detention and movement services. During the year, we won an electronic tagging of offenders contract in Northern Ireland. This opportunity is an entry point into electronic monitoring within the criminal justice system in other parts of the UK, where we are able to leverage Mitie Security's MiTec facility. Other wins included the Nottinghamshire FME services contract.

The order book declined 11% to £596.6m as the unwinding of long-term contracts was only partially offset by contract wins and renewals.

Following an announcement in November 2018 the Home Office unexpectedly closed Campsfield IRC, which was managed by Mitie. The contract expired in early 2019.

Financial performance

Care & Custody's revenues grew by 79.1% to £107.3m (FY 17/18: £59.9m) following the win and successful mobilisation of the D&E contract and good growth from existing contracts. Operating profit before other items increased by 105.3% to £3.9m (FY 17/18: £1.9m) driven by performance of the D&E contract and other contracts won in the prior year and includes the expensing of a net £3.3m of mobilisation costs for the D&E contract. Amounts related to these mobilisation activities were paid by the customer and will be released from deferred income over the term of the contract.

Outlook

As the division grows its core competencies and expands into adjacent services, the pipeline has expanded to include large opportunities such as the latest cycle of Prisoner Escort and Court Services contracts (PECS4). These are long-term cyclical opportunities with lengthy bidding lead times. Our clients are UK Government departments which are increasingly evaluating bids against surety of delivery, sustainability and quality of outcomes, all of which play well to Care & Custody's proposition. In a competitive market place, Care & Custody is well positioned to win contracts because we are growing in scale, enjoy a solid reputation with our public sector commissioners and clients, and continue to expand our offering as we diversify into adjacent areas (such as custodial movements) to complement our core capabilities.

Catering

£m	FY 18/19	FY 17/18	Change, %
Revenue	136.1	137.1	(0.7)
Operating profit before other items	5.2	5.6	(7.1)
Operating margin before other items, %	3.8	4.1	(0.3) ppt
Order book	26.5	34.7	(23.6)

Performance highlights

- The division delivered broadly flat performance at the revenue level and a decline at the operating profit level
- Growth in Gather & Gather was offset by weaker results in external events and venues through Creativevents
- Gather & Gather's differentiated wellbeing and sustainability-focused offer continues to gain traction in the market

Operational performance

Our Gather & Gather brand is a niche player in the catering sector with a well-articulated and differentiated offer which continues to gain traction. During FY 18/19, we saw further increases in the adoption of our wellbeing-led food concepts and consumer technology solutions. We also launched The Gathered Table – a unique collaboration between culinary, technology and sustainability experts to help fuel the continued development of Gather & Gather's innovative offer. The Gathered Table delivers pop-ups, menu content, training and client appearances to amplify Gather & Gather's influence on the health, productivity and engagement of the customers we serve every day.

During the year, Gather & Gather also qualified onto the London University Purchasing Consortium (LUPC), the largest higher education purchasing consortium in the UK. As a consequence, we won a significant £10m 3+2-year contract with Edinburgh College – our first on the framework and our first in the further and higher education sector. This provides an opportunity to transform the catering experience for students and staff by bringing a contemporary approach to food, service and consumer technology.

Gather & Gather also secured other significant new wins in the year, including Dropbox. We were also successful in securing the opportunity to roll out a new café concept across some of Primark's UK and Ireland retail estate. The division also won work for Yorkshire Building Society and a major UK retailer as part of new or expanded integrated FM contracts.

The secured order book for the division declined 23.6% to £26.5m. The secured order book only includes fixed contract work, while c.96% of the divisional revenue in FY 18/19 came from point-of-sale contracts and variable work.

Financial performance

In FY 18/19, the Catering division delivered broadly flat revenue at £136.1m (FY 17/18: £137.1m) with improved momentum in H2 largely offsetting the contraction in H1. The core Gather & Gather workplace offering grew revenue and operating profit whilst the overall divisional performance was held back by weaker results in external events and venues through Creativevents. Against an inflationary backdrop, gross profit was stable as we partially mitigated food price inflation, reduced the use of consumables and disposables – reducing the overall cost to the business and improving our environmental footprint – and improved labour management discipline. Overall, operating profit before other items declined by 7.1% to £5.2m (FY 17/18: £5.6m) due to weaker performance in Creativevents.

Outlook

Whilst the catering sector remains under pressure from food price and labour inflation, the market offers opportunity for a well-respected brand such as Gather & Gather. Clients increasingly seek to enhance their catering facilities as key contributors to their talent attraction and retention strategies, by improving the customer experience, improving wellbeing and increasing sustainability. Gather & Gather has continued to demonstrate its ability to anticipate and satisfy these demands as the industry changes.

In this context, we expect a good year from Catering in FY 19/20 on the back of the annualisation of significant recent wins with 90% of revenue already secured. The Gather & Gather brand continues to offer a distinctive quality alternative to the large corporate caterers who dominate the mass market.

Corporate overheads

Corporate overheads represent the costs of running the Group function and include costs for the commercial, financial, marketing, legal and HR teams. Corporate overheads have increased as we continue to invest in the foundations to deliver: 'The Exceptional, Every Day'; leadership in the Connected Workspace; and accelerated growth. We also reinstated certain staff incentive schemes in FY 18/19 after suspending them for two years during the early stages of the Mitie turnaround. The main investments were into our commercial capability, upweighting our marketing, and strengthening our technology underpin. Corporate overheads increased by 7.4% to £33.4m (FY 17/18: £31.1m).

Public sector

Given the significant opportunities available in the public sector, we have recently set up a new public sector centre of excellence. This team will be responsible for assisting in any public sector work across Mitie as well as owning the overall relationship with the UK Government. During the year, we qualified as a supplier on Phase I of the Crown Commercial Service (CCS) FM Marketplace Framework, which will allow departments, as well as Phase II, which will allow us to bid for defence facilities management as well as for security services and technical security contracts. Qualification as a supplier on the CCS Framework has added large opportunities to our pipeline. We have established a new public sector sales team who will coordinate bids from across the divisions into these key public sector accounts.

Discontinued operations

Below are the results of discontinued operations up to the date of disposal.

Pest Control

£m	FY 18/19	FY 17/18	Change, %
Revenue	11.9	22.3	nm
Operating profit before other items	2.4	2.6	nm
Operating margin before other items, %	20.2	11.7	8.5 ppt

On 30 September 2018, Mitie completed the sale of the entire issued share capital of Mitie Pest Control Limited to Rentokil Initial plc.

Mitie separately entered into a preferred supplier partnership with Rentokil Initial plc, covering a range of services (including pest services) to be provided as part of integrated facilities management offerings to Mitie's wide range of customers.

Pest Control reported revenues of £11.9m (FY 17/18: £22.3m) and its operating profit before other items was £2.4m (FY 17/18: £2.6m). Pest Control was previously part of the Cleaning & Environmental Services division.

Social Housing

£m	FY 18/19	FY 17/18	Change, %
Revenue	89.1	150.8	nm
Operating profit before other items	1.6	3.8	nm
Operating margin before other items, %	1.8	2.5	(0.7) ppt

In November 2018, the Group sold the Social Housing business to Mears Group plc. The Social Housing business was previously part of the Property Management division, together with the roofing and painting business units, which have been integrated into the Engineering Services division.

The consideration comprised an initial payment of £22.5m, which was paid in cash at completion. No fair value was recognised on the further contingent consideration of up to £12.5m, payable in cash after two years post completion which is subject to the achievement of certain performance milestones. The Group has retained liabilities for a number of legacy contracts in the Social Housing business.

In FY 18/19 the Social Housing business reported revenues of £89.1m (FY 17/18: £150.8m) and operating profit before other items of £1.6m (FY 17/18: £3.8m).

Finance review

Whilst we have accomplished a great deal during this second year of our transformation, there remains more to do as we continue our journey towards a One Mitie way of delivering our products and services. Following the centralisation of our core support functions last year, the majority of the transactional activity for IT and Finance is now being undertaken offshore by global process experts and we have introduced new systems across the business, including recruitment platforms for temporary and permanent staff.

Our revenues and profits are growing, both at a headline level, and also on an organic basis excluding the impact of M&A. We have started to focus our business through the acquisition of VSG by our Security division and the sale of our Pest Control and Social Housing businesses.

We have again made progress in reducing our leverage and strengthening our balance sheet with further reductions in off-balance sheet finance, improved supplier payment performance and proceeds from our disposals programme. Going forward, we expect to continue to reduce leverage.

Following the transfer of our finance transactional processing to Genpact (a business process outsourcing provider, operating out of Kolkata, India) in April 2018 we have now initiated a broader finance modernisation programme. The initial Genpact move entailed a lift-and-shift approach which caused issues in the first few months due to the multiplicity of processes used across Mitie. These issues have now been largely resolved and we have turned our attention to ongoing improvement in the function through our finance modernisation programme. This is focused on finance process simplification and standardisation, cleansing our master data and upgrading finance systems and tools across the business with a view to paying our suppliers quicker, reducing our processing costs through automation and further accelerating our order-to-cash cycle.



We are continuing to simplify our business and de-lever our balance sheet.

Paul Woolf
Chief Financial Officer

Reported financial performance

Reported revenue and reported operating profit from continuing operations are set out below:

£m	FY 18/19	FY 17/18	Change, %
Revenue	2,221.4	2,030.6	9.4
Operating profit before other items	88.2	83.2	6.0
Other items	(38.0)	(82.1)	nm
Operating profit	50.2	1.1	nm

Reported revenue from continuing operations was £2,221.4m compared with £2,030.6m in FY17/18. The Group reported an operating profit before other items from continuing operations of £88.2m (FY 17/18: £83.2m).

Reported balance sheet

£m	FY 18/19	FY 17/18	Change, £m
Goodwill and intangible assets	344.5	347.9	(3.4)
Property, plant and equipment	29.0	33.6	(4.6)
Working capital balances	(216.9)	(198.2)	(18.7)
Net debt	(140.7)	(193.5)	52.8
Retirement benefit liabilities	(63.8)	(56.8)	(7.0)
Deferred tax	35.8	35.9	(0.1)
Other net (liabilities)/assets	(0.3)	7.1	(7.4)
Total net liabilities	(12.4)	(24.0)	11.6

The Group is reporting net liabilities at 31 March 2019 of £12.4m (FY 17/18: £24.0m), with an improvement in net debt, offset by a larger negative working capital balance and an increase in retirement benefit liabilities.

New accounting standards

The Group adopted IFRS 15, 'Revenue from Contracts with Customers' in FY 17/18, as previously described in the Annual Report and Accounts 2018.

IFRS 9

IFRS 9 'Financial instruments' became effective for the Group starting 1 April 2018 and replaced the requirements of IAS 39 'Financial instruments: recognition and measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new Expected Credit Loss (ECL) model for the impairment of financial assets, revisions to the hedge accounting model, and amendments to disclosures. The Group elected, from 1 April 2018, to continue to apply the hedge accounting guidance in IAS 39.

With respect to loss allowances for trade receivables, IFRS 9 replaced the 'incurred loss' model in IAS 39 with an ECL model. The Group, from 1 April 2018, measures loss allowances for trade receivables and accrued income at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience and forward-looking information. The Group has determined that the transition to IFRS 9 resulted in an additional loss allowance for trade receivables and accrued income as at 1 April 2018 of £2.5m and gave rise to a tax credit of £0.4m. The additional loss allowance has been applied as an adjustment to opening retained earnings at 1 April 2018 and therefore, the prior year comparative information is not restated.

Future accounting standards – IFRS 16

IFRS 16 'Leases' became effective for the Group from 1 April 2019 and replaces the requirement of IAS 17 'Leases'. An asset representing the Group's right as a lessee to use a leased item, and a liability for future lease payments, will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but substantively different to the accounting for operating leases (under which no lease asset or lease liability was recognised, and rentals payable were charged to the consolidated income statement on a straight-line basis).

As a result of adopting the new rules, for the year ending 31 March 2020, the Group expects net profit before tax to increase by between £nil and £3m. Operating profit is expected to increase by between £24m and £29m as the operating lease rentals payable which were previously included in operating profit are excluded, with this increase being offset by additional depreciation of between £22m and £24m as the right-of-use assets are depreciated. In addition, operating cash flows are expected to increase by between £24m and £29m as repayment of the lease liabilities is reclassified as cash used in financing activities and net debt will increase by between £81m and £86m.

Alternative Performance Measures (APM)

The Group presents its key financial analysis as the results of continuing operations before other items as the Directors believe this is most useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. Accordingly, the Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs (including the write-off and amortisation of acquisition related intangible assets) as 'other items'. Read more on pages 163 to 165.

Divisional breakdown of financial performance

Revenue, £m	FY 18/19	FY 17/18	Change, %
Engineering Services	905.7	886.3	2.2
Security	536.5	432.0	24.2
Professional Services	131.4	131.2	0.2
Cleaning & Environmental Services	404.4	384.1	5.3
Care & Custody	107.3	59.9	79.1
Catering	136.1	137.1	(0.7)
Total	2,221.4	2,030.6	9.4

The Group's revenue increased in the year, from £2,030.6m to £2,221.4m. This was principally due to a significant contract win in Care & Custody, the acquisition of VSG in Security and good underlying growth in our Engineering Services strategic accounts and in Security and Cleaning. Organic revenue growth was 5.5%.

Operating profit before other items, £m	FY 18/19	FY 17/18	Change, %
Engineering Services	58.7	54.1	8.5
Security	30.7	27.5	11.6
Professional Services	5.6	5.6	0.0
Cleaning & Environmental Services	17.5	19.6	(10.7)
Care & Custody	3.9	1.9	105.3
Catering	5.2	5.6	(7.1)
Corporate centre	(33.4)	(31.1)	7.4
Total	88.2	83.2	6.0

Operating profit before other items increased by 6.0% in the year from £83.2m to £88.2m, reflecting good growth in strategic accounts and projects in Engineering, the significant contract win in Care & Custody, strong underlying growth in Security in addition to the impact of the acquisition of VSG, partly offset by ongoing investment in customer service and the reinstatement of staff incentives.

Other items

£m	FY 18/19	FY 17/18
Restructure costs	(15.1)	(47.0)
Acquisition and disposal related costs	(8.7)	(8.4)
Gain on bargain purchase of VSG	8.8	–
Pension scheme Section 75 debt	(20.0)	–
Impairment of goodwill	–	(22.7)
Other	(3.0)	(4.0)
Total other items before tax	(38.0)	(82.1)
Tax credit on other items	7.4	10.0
Other items after tax	(30.6)	(72.1)

Disappointingly, other items before tax remain high at a charge of £38.0m, albeit significantly lower than last year (FY 17/18: £82.1m). The main components are restructure costs and a provision for the Section 75 debt on the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). The tax credit on these other items was £7.4m (FY 17/18: £10.0m).

Tax contribution

The Group manages both direct and indirect taxes to ensure that it pays the appropriate amount of tax in each country whilst respecting the applicable tax legislation, where appropriate utilising any legislative reliefs available. The strategy is reviewed regularly and is endorsed by the Board.

Finance review continued

Mitie is a significant contributor of revenues to the UK Exchequer, paying £529.3m in the year ended 31 March 2019 (FY 17/18: £481.2m). This comprised £534.3m (FY 17/18: £492.8m) of indirect taxes including business rates, VAT and payroll taxes paid and collected less a £4.7m (FY 17/18: £11.6m) refund of UK corporation tax. The tax refund was due to the utilisation of losses resulting from the accounting adjustments in earlier years' accounts. As Mitie's business is primarily based in the UK, the effective tax rate should track the UK statutory tax rate.

There was a tax charge of £6.4m (FY 17/18: £1.1m) on the profit before tax of £36.4m (FY 17/18: loss before tax £15.4m).

Discontinued operations

During the year, Mitie sold its Social Housing business to Mears Group plc, with the sale completing on 30 November 2018. As a result, the business is classified as a discontinued operation as at 31 March 2019. This business formed part of the Property Management division. Following this sale, the roofing and painting businesses of the former Property Management division were integrated into the projects business of Engineering Services.

In addition, Mitie disposed of its Pest Control business (previously included in the Cleaning & Environmental Services division) to Rentokil Initial plc, with the sale completing on 30 September 2018. This is also consequently classified as a discontinued operation as at 31 March 2019.

Discontinued operations contributed a profit after tax before other items of £3.1m (FY 17/18: £5.6m). Other items before tax were a charge of £6.0m (FY 17/18: £15.8m) and included a gain on disposal of Pest Control of £27.6m, a loss on disposal of the Social Housing business of £11.7m and a £20.5m charge for various remediation and rectification liabilities associated with the Social Housing business. The tax credit on other items was £3.8m (FY 17/18: £0.7m).

Dividends

The full-year dividend is 4.0p per share (FY 17/18: 4.0p per share), comprising an interim dividend of 1.33p per share and a final dividend recommended by the Board of 2.67p per share.

Goodwill and intangible assets

Goodwill and intangible assets of £344.5m (FY 17/18: £347.9m) were held on the balance sheet at 31 March 2019. The small reduction can be explained by a reduction in goodwill due to disposals of the Social Housing and Pest Control businesses during the year, largely offset by an increase in intangible assets from the recognition of a customer relationships intangible asset on the acquisition of VSG and additional internally generated intangible assets from software development to enhance customer experience.

Cash flow

The Group continued to strengthen its balance sheet during the year, assisted by two business disposals. Utilisation of non-recourse invoice discounting was reduced slightly during the year, while supplier payment performance was improved.

Overall operating cash inflow, before movements in working capital was £39.5m (FY 17/18: £67.2m). This includes defined benefit pension contributions of £11.6m (FY 17/18: £4.7m). Cash generated from operations during the year was £47.5m (FY 17/18: £7.9m used in operations) including a working capital inflow of £8.0m (FY 17/18: outflow of £75.1m). The working capital movement is explained in more detail below.

After paying interest of £12.4m (FY 17/18: £13.5m) and receiving corporation tax refunds of £4.7m (FY 17/18: £11.6m), net cash inflow from operating activities was £39.8m (FY 17/18: outflow of £9.8m). Capital expenditure reduced by £1.5m compared to the prior year to £23.3m (FY 17/18: £24.8m), while the business generated £43.5m from the proceeds of disposals net of acquisitions. Dividends of £14.4m were paid in the year (FY 17/18: £4.8m).

Overall this resulted in a reduction of the Group's net debt of £52.8m (FY 17/18: £46.3m increase) to £140.7m (FY 17/18: £193.5m).

Working capital

Working capital movements resulted in an inflow for the year of £8.0m. The complex process of outsourcing transactional processing activities in April 2018 caused trade and other receivable balances to increase, resulting in a working capital outflow of £34.0m in the first half. The situation has now been addressed. Working capital reduced by £42.0m in the second half of the year.

Whilst the Group has been focused on improving its working capital cycle it has also considered its responsibilities to the supply chain by being fair in respect of payment performance. Supplier payment terms were reduced by eight days over the full year, with the improvement taking place skewed to the second half. This was partially achieved by unilaterally reducing payment terms for a number of our suppliers meaning that they have now reduced their need for supply chain finance. Consequently, the use of the supply chain finance facility reduced by £25.1m. The working capital outflow associated with this reduction in payment terms was offset by an increase in provisions of £25.5m. These provisions predominantly relate to the now disposed Social Housing business. Along with other M&A related working capital balances, they are expected to result in a cash outflow of c. £40m over the next two years.

The Group also marginally reduced its utilisation of non-recourse customer invoice discounting by £3.1m to £73.2m (FY 17/18: £76.3m). The invoice discounting facilities are non-recourse and are therefore netted off against trade and other receivables within the balance sheet.

Net debt

Net debt is the aggregation of the Group's borrowings net of cash in hand. The Group's net debt reduced by £52.8m to £140.7m as at 31 March 2019 (FY 17/18: £193.5m). After a poor start to the year following the outsourcing of finance transactional processing, Q4 showed positive progress on our journey to reduce the volatility of working capital. Average daily net debt in Q4 was £31m lower than the same period last year with average daily borrowings of £278m (Q4 17/18: £309m). This improved position was largely achieved through a combination of business disposal proceeds and improved customer cash collection performance, at the same time as paying our suppliers more quickly. The net debt position benefited from disposal proceeds, net of acquisitions and acquisition and disposal related costs, of £40.9m.

Liquidity and covenants

As at 31 March 2019, the Group had £466.5m of committed funding arrangements (FY 17/18: £466.5m). The £275m multi-currency Revolving Credit Facility (RCF) matures in July 2021. The £191.5m of US Private Placement notes are spread over three maturities: December 2019 £40.0m; December 2022 £121.5m; and December 2024 £30.0m.

Mitie's two key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 3 times) and interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4 times). As at 31 March 2019, we were operating comfortably within these ratios at 1.33x for leverage and 8.8x for interest cover.

The principal financial covenant ratios (leverage and interest cover) for our committed funding arrangements are tested every six months. Following an amendment agreed on 29 March 2019, all future covenant calculations will be on an IFRS 15 basis. The covenants continue to exclude the future impact of IFRS 16.

As is usual for corporate facilities, the definition of key metrics in Mitie's finance agreements is somewhat different to its reported numbers and this is outlined in the table below. This table shows that Mitie remains comfortably within its covenant requirements. In this instance, the prior year comparatives are not provided, as while Mitie had adopted IFRS 15 in FY 17/18, its covenant reporting at that time remained on a pre-IFRS 15 basis, making comparison unhelpful.

£m	FY 18/19
Operating profit before other items	
– continuing operations	88.2
– discontinued operations	4.0
Total	92.2
Add: depreciation & amortisation	20.8
Headline EBITDA	113.0
Deduct: covenant adjustments	(7.1)
Consolidated EBITDA	(a) 105.9
Full-year effect of acquisitions & disposals	(2.3)
Adjusted consolidated EBITDA	(b) 103.6
Net finance costs	13.8
Less: covenant adjustments	(1.7)
Consolidated net finance costs	(c) 12.1
Interest cover (ratio of (a) to (c) must exceed 4.0x)	8.8x
Net debt	140.7
Impact of hedge accounting & upfront fees	(3.0)
Consolidated total net borrowings	(d) 137.7
Leverage (ratio of (d) to (b) must not exceed 3.0x)	1.33x

Mitie's intention is to consistently maintain adequate headroom within its committed facilities. In addition to its committed funding, the Group utilises ancillary facilities, including invoice discounting of £73.2m (FY 17/18: £76.3m). The Group's trade creditors include amounts due to UK suppliers which make use of supply chain finance arranged by Mitie of £20.0m (FY 17/18: £45.1m).

Retirement benefit schemes

The net defined benefit pension liability at 31 March 2019 for the Mitie Group scheme was £61.4m (FY 17/18: £54.8m). The increase in the deficit is principally due to a 20bps decrease in the discount rate driven by reductions in corporate bond rates since 31 March 2018. The latest valuation of the Mitie Group scheme as at 31 March 2017, indicated an actuarial deficit of £74.0m (31 March 2014: £6.0m), largely due to a fall in discount rates since 2014. The Group has agreed a deficit recovery plan with the Trustee for further payments totalling £64.8m in instalments until 31 March 2025.

The Group also makes contributions to customers' defined benefit pension schemes under Admitted Body arrangements as well as to other arrangements in respect of certain employees who have transferred to the Group under TUPE. As at 31 March 2019, Mitie's net defined pension liability in respect of these schemes, which it is committed to funding, amounted to £2.4m (FY 17/18: £2.0m).

In addition, the Group also participates in four industry multi-employer defined benefit pension schemes, including the Plumbing Scheme. These schemes are accounted for as defined contribution schemes, either because the assets and liabilities cannot be apportioned among employers or the amounts involved are not significant. Contributions to these schemes for FY 19/20 are expected to be approximately £0.1m. The Group is exposed to Section 75 employer debts in respect of two of these schemes. These liabilities crystallise when the Group ceases to have any active employees in the schemes. In the last few months, the Group received a Section 75 demand in respect of the Plumbing Scheme for £20.0m. This has been provided for in full.

Paul Woolf
Chief Financial Officer

Stakeholder engagement

Building constructive relationships

Building constructive relationships with our key stakeholders is critical to our business. We are focused on long-term success and creating sustainable value in the broadest sense.

Links to policies

Business areas considered to have the highest risk of bribery and corruption are public procurement, gifts and hospitality, overseas operations and oversight of subcontractors. The risk is managed by several policies and training courses which are available to employees through the process repository (BMS) and our new HR online Learning Hub.

The policies include:

- One code (code of conduct);
- Ethical business practice policy;
- Business expenses & entertaining procedure;
- Modern slavery;
- Whistleblowing process; and
- Anti-bribery and anti-corruption e-learning module.

Key stakeholders

Customers

Mitie works with private and public sector (the UK Government) clients. Through understanding our customers' needs we can offer value-added, innovative and cost effective solutions and build enduring relationships.



Shareholders, banks, noteholders and media

We proactively engage with shareholders, banks, noteholders and journalists on an ongoing basis.



Employees

Mitie currently employs 52,500 employees. Our success is underpinned by the way we lead and engage with our people.



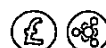
Communities and environment

Our employees touch the lives of others every day.



Suppliers

We work closely with our suppliers to ensure a responsible supply chain.



Our strategic pillars



Customer: build market-leading positions in higher growth segments and increase customer NPS



People: create a 'Great Place to Work' for our employees



Cost: strengthen our balance sheet and maintain cost discipline to remain competitive



Technology: embed technology into the heart of our offering

How we engage	Key areas of interest	Our response and KPIs
<ul style="list-style-type: none"> Ongoing management of customer relationships by senior leadership; Government is a regulator and often a customer for Mitie, so engagement ensures Mitie can help in shaping new policies, regulations and standards; NPS programme; Customer experience programmes; Participation in industry forums and events; Customer communications; Website and social media platforms; and Meetings and briefings. 	<ul style="list-style-type: none"> Customer satisfaction; Financial position; Reputation and brand; Performance and efficiency; Quality and value for money; Technology, research and innovation; Sustainability performance; Governance and transparency; Vision and values; Social values; and People and culture. 	<ul style="list-style-type: none"> 8% revenue growth from top accounts in FY 18/19; Customer retention improved to 64%; 250 customers surveyed in the NPS survey; NPS improved 22 points to +12; and Feedback from unsuccessful contract bids is analysed to improve our win rates.
<ul style="list-style-type: none"> Annual Report and Accounts; Annual General Meeting; Investor and News & Insights sections of the corporate website Mitie.com; Results presentations and post-results roadshows; Stock exchange announcements and press releases; Website and social media platforms; and Regular and ad hoc enquiries, calls, meetings and interviews. 	<ul style="list-style-type: none"> Financial performance; Transformation and Project Helix; Governance and transparency; Sustainability performance; People and culture; Contracts, new products, technology, innovation; and Reputational impact. 	<ul style="list-style-type: none"> Bi-annual roadshows; Corporate governance and Environment, Social and Governance (ESG)-focused meetings with institutional investors; CEO and divisional Managing Directors regularly give interviews to a number of publications; Operating profit improved from £1.1m in FY 17/18 to £50.2m in FY 18/19; and Total dividend of 4.0p for FY 18/19.
<ul style="list-style-type: none"> HR core standards set the framework for employee engagement; Onboarding and induction training and Learning Hub; Annual employee engagement survey; 'You Said, We Did' campaign; MiNet, internal communications and social media platforms; Townhall meetings and annual roadshow by senior management; 'Grill Phil' channel to engage directly with the CEO; 'Back to the floor' sessions for Group Leadership Team; Recognition and reward programmes; and Annual individual performance reviews. 	<ul style="list-style-type: none"> Health, safety and environment performance; Reputation; Employee development; Talent pipeline and retention; Career opportunities; Diversity and inclusion; and Remuneration and reward. 	<ul style="list-style-type: none"> All injury frequency rate decreased 13.5%; Employee engagement increased to 45% from 33% in FY 17/18; Supporting women in STEM roles; Mitie Exceptionals is a group of volunteers across the Group who act as ambassadors for our values and behaviours; and Jennifer Duvalier, Non-Executive Director, has been designated to oversee Board engagement with the workforce.
<ul style="list-style-type: none"> Employee volunteering; The Mitie Foundation; Mitie.com and social media platforms; Local community events; and Electric fleet vision. 	<ul style="list-style-type: none"> Future talent pipeline; Local operational impact; and Health, safety and environment performance. 	<ul style="list-style-type: none"> Ready2Work; Employer engagement days; Think Differently programme; School, academy and college events; Reduction in fuel and energy consumption; Reduction in carbon emissions; and Focus on key social value areas where we can make a real contribution.
<ul style="list-style-type: none"> Supplier conferences and workshops; Global supplier portal and notices to suppliers; Mitie.com; Annual Report and Accounts; and The Mitie Foundation. 	<ul style="list-style-type: none"> Responsible procurement; Trust and ethics; Prompt payment code; and Operational improvement. 	<ul style="list-style-type: none"> Mitie encourages suppliers to work collaboratively to ensure continual improvement in operations and to deliver mutual benefit; The trade creditor payment days decreased from 58 days in FY 17/18 to 50 days in FY 18/19; and We reduced the use of the supply chain finance facility by £25m compared to FY 17/18.

Non-financial information statement

Non-financial information statement

In accordance with Sections 414CA and 414CB of the Companies Act 2006, which outline requirements for non-financial reporting, the table below is intended to provide our stakeholders with the content they need to understand our development, performance, position and the impact of our activities with regards to specified non-financial matters.

We continually look for ways to make Mitie a responsible business and we actively engage with our stakeholders to improve our impact. In FY 18/19, we commissioned a comprehensive summary of our social value activity and how Mitie aligns with all 17 of the United Nations Sustainable Development Goals. We also became the first major UK FM provider to launch an electric vehicle fleet. We introduced a range of initiatives to further benefit our employees and made commitments in areas where we can contribute real benefit to improve social value and environmental impact within the communities we work in.

We use a variety of tools to track and measure our performance against strategic objectives. Our business model encompasses the non-financial value created for our stakeholders from our resources, human capital, expertise and relationships. Through our business model we deliver value for our employees, suppliers, communities, shareholders and customers.

Reporting requirement	Relevant policies ¹	Annual Report page reference
Environmental matters	Sustainability policy Procurement policy	Stakeholder engagement pages 26 to 27 Social value pages 29 to 33
Employees	One code: our code of conduct People policy Inclusion policy Health and safety policy Ethical business practice policy Sustainability policy Quality policy	Chief Executive's strategic review pages 11 to 13 Stakeholder engagement pages 26 to 27 Our people pages 34 to 37 Social value pages 29 to 33
Social matters	Sustainability policy	Chief Executive's strategic review pages 11 to 13 Social value pages 29 to 33 Stakeholder engagement pages 26 to 27
Human rights	One code: our code of conduct Ethical business practice policy	Social value pages 29 to 33
Anti-bribery and anti-corruption	One code: our code of conduct Ethical business practice policy E-learning module available for employees through the process repository (BMS) and Learning Hub	Social value pages 29 to 33 Our people pages 34 to 37 Stakeholder engagement pages 26 to 27
Business model		Business model pages 08 to 09
Non-financial KPIs		KPIs pages 14 to 15
Principal risks		Principal risks and uncertainties pages 38 to 46 Viability statement pages 47 to 48 Audit Committee report pages 62 to 67 The Board pages 59 to 60

¹ Policies, statements and codes are available at www.mitie.com

Delivering social value

People, products and services are integral to the delivery of long-term sustainable solutions both within Mitie and for our customers.

We have been reflecting on our sustainability performance over the past decade, as well as looking forward to further reducing our environmental impact and enhancing social value activity in the decade to come.

Key to this is our Sustainability Working Group and internal governance structure, which was realigned to better drive our strategy and represent our diverse business in FY 16/17. The Sustainability Working Group is headed by Jo Davis, Group HR Director and executive sponsor for Sustainability. Two years on, the group now includes a cross-functional cohort of subject matter experts, who specialise in a wide range of areas, including environmental impact, supply chain and people management.

In FY 19/20 the remit for the Sustainability Working Group will be broadened to encompass the Group's social value agenda. The Sustainability Working Group will report directly to the Board to ensure that Mitie's social value and sustainability commitments for 2030 have the appropriate resource and focus.

Social value in action

As a responsible corporate citizen caring for both people and planet, we commissioned a comprehensive summary of our social value activity and how Mitie aligns with all 17 of the United Nations (UN) Sustainable Development Goals (SDGs).

In FY 19/20 we will set our 2030 targets and focus on some key themes where we feel Mitie can contribute real benefit to improve social value and environmental impact within the communities it works in.

Senior members of the Executive Leadership Team have individual responsibility in five significant areas:

1. Promoting skills and employment;
2. Supporting the growth of responsible regional businesses;
3. Creating healthier, safer and more resilient communities;
4. Protecting and improving our environment; and
5. Promoting social innovation.

By FY 19/20, we pledge to...

Increase apprenticeships by over

100%

Reduce our emissions intensity by

35%

(from FY 09/10 base)

Increase the number of women entering STEM roles by

20%

People through our Ready2Work programme

450

Mitie's spend under our supplier management framework to be

20%

Electric vehicles within our small vans and car fleet should be at least

20%

Become a Living Wage Foundation Recognised Service Provider

Remove all consumer single use plastic from our Gather & Gather business

Launch 'Mitie Girls Can', a female-only technical apprenticeship programme to assist with encouraging more women into STEM roles

1. Promoting skills and employment

How we align to SDGs:

Aligning to our strategic pillars:



Apprenticeships

We paid £4.7m into the Apprenticeship Levy scheme in FY 18/19 and currently have 660 apprentices working across our portfolio of contracts. They are engaged on a range of technical apprenticeships in engineering and catering, as well as professional apprenticeships in IT, HR and management development. All Mitie apprentices benefit from permanent employment contracts and are fully embedded in business activities to maximise learning.

Learning Hub

Our Cloud-based Learning Hub is an online portal through which employees can access online development material relevant to their role, mandatory training, induction, a wealth of self-selected development material, as well as health and wellbeing modules. It means that all our people have access to quality education at a time and place that suits them.

Springboard

Gather & Gather Managing Director, Allister Richards, sits on the board of Springboard UK, a subsidiary of the Springboard Charity, which seeks to relieve poverty and unemployment by developing the potential of disadvantaged young people. At our Springboard Takeover Days we give cookery demonstrations and talks about the benefits of working in the hospitality industry, we also mentor those showing particular promise.

70%

of candidates receive a job offer following Ready2Work programme

Mitie Foundation

The Mitie Foundation has worked on a number of initiatives during FY 18/19, designed to create work experience opportunities to those with barriers to employment.

The Ready2Work programme consists of a pre-placement week, followed by seven weeks' work experience. The programme provides valuable work experience to the long-term unemployed. On average, over 70% of candidates receive a job offer at the end. In the past year our six Ready2Work programmes helped around 60 long-term unemployed people into work.

We also supported 12 employer engagement days; these workshops benefited around 360 disadvantaged people with low self-confidence, a disability, refugee status, a criminal record or mental health issues. As a rule, these events are attended on average by 16 employers and 30 candidates, who face a Dragon's Den/Apprentice-style challenge.

Our 'Think Differently' programme was developed to support candidates with learning disabilities/neurodiversity and those who have experienced mental illness. In FY 18/19 we held six disability awareness workshops which resulted in 24 candidates being offered four weeks' work placements with Mitie, our clients or suppliers.

2. Supporting the growth of responsible regional businesses

How we align to SDGs:

Aligning to our strategic pillars:



Resource efficiency

We understand our business impacts the planet and its finite resources. Improving our efficiency is therefore essential to creating a more sustainable business.

Our transformation strategy was designed to improve efficiency, with an associated reduction in resources, through better technology and innovation, and smarter processes. In FY 18/19 we achieved large paper savings as we digitised records. The saving continues to increase due to our investment in IT.

The move to regional office hubs and improving our people's ability to work remotely also support waste reduction. Our use of Skype for Business and Microsoft Teams has helped improve processes and reduce business travel and associated emissions.

58.1%

reduction in total waste generation since FY 09/10 (Mitie estate)

Reducing supply chain impact

It is vital to understand our supply chain impact in order to ensure a responsible supply chain. In FY 18/19 we undertook a resource use assessment by supplier category and spend. We will continue to work to ensure all suppliers adhere to our Code of Conduct, including our Modern Slavery and Human Trafficking statement. We also vet all suppliers to ensure that our Safety and Sustainability objectives and our vetting standards are met.

120 suppliers were invited to take part in our social auditing exercise in FY 18/19. The programme included collaborating with other organisations, training some of our preferred suppliers, and writing a joint case study with the Home Office to demonstrate best practice.

We will continue to work with preferred suppliers to measure impacts and understand our Scope 3 (indirect) carbon emissions.

Some achievements on our sustainability journey...

- We completed a Consumer Single Use Plastic (CSUP) plan and will continue to work to eliminate our plastic footprint.
- Gather & Gather was one of the first major contract caterers in the UK to announce the removal of plastic straws. In May 2018, we signed up to #thelaststraw campaign and banned single-use plastic straws in all 276 outlets. We have eliminated plastic water bottles at our Shard offices and continue to run 'keep cup' promotions, as well as providing ceramic cups and plates and metal cutlery.
- Where applicable, our Government contracts support the 25-year environment plan target of eliminating all CSUP on their estate by 2020. Care & Custody completed a CSUP elimination plan and has stopped procurement of plastic products which could be easily eliminated or substituted with non-plastic materials.
- We achieved Gold Medal recognition from Ecovadis, putting our organisation in the top 5% of those evaluated.
- Gather & Gather has retained the maximum three-star award from the Sustainable Restaurant Association in recognition of achievements in Society, Environment and Sourcing.

3. Creating healthier, safer and more resilient communities

How we align to SDGs:

Aligning to our strategic pillars:



Wellbeing

Mitie's people are our strength, which is why wellbeing is a vital component of our employee value proposition. In FY 18/19, we launched a new wellbeing working group to utilise the expertise of our in-house wellbeing and occupational health specialists.

As part of the annual Mental Health Awareness Week, in May 2018 we focused on stress in the workplace and how best to deal with it. We have also conducted awareness initiatives on workplace mindfulness and psychological wellbeing, nutrition and physical activity. Thirteen mental health first aid workshops were also held across the UK. As part of our learning and development transformation, we are in the process of launching e-learning packages on wellbeing and career development to ensure our people are equipped with the knowledge and tools to support their future ambitions.

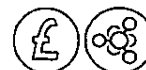
Through Gather & Gather, we support Public Health England's nutrition initiatives, including childhood obesity and calorie, sugar and salt reduction programmes. We also back Government recommendations that free sugars should make up no more than 5% of energy intake each day, and limiting daily salt intake to no more than 6g. We strive to assist guests in achieving these healthy targets through recipe reformulation, product sourcing and menu development.

Gather & Gather also runs the Live Well scheme, designed to help our customers' employees and our colleagues make informed food choices to support wellbeing. Using specialised Saffron software, detailed nutritional labels can be produced for each recipe. Live Well-branded leaflets, cards and posters on topics such as portion control, snacking and eating five-a-day ensure people are updated with relevant nutrition information.

4. Protecting and improving our environment

How we align to SDGs:

Aligning to our strategic pillars:



Reducing carbon emissions

In 2010, we committed to reducing our carbon intensity by 35% by 2020. We are proud to have achieved this target a year early. We did so by rationalising our estate, reducing business travel and building occupancy supported by remote working technology, and improving fleet efficiency.

We continue to procure 100% renewable energy and are working towards the implementation of ISO 50001 Energy Management System. In FY 18/19 the Carbon Trust scored Mitie 81% for carbon management, the highest mark within the UK FM sector.

Mitie also completed a climate change risk assessment based on guidance from Task Force on Climate-related Financial Disclosures (TCFD). We are working to establish future carbon reduction plans and objectives. This includes setting a science-based target for carbon reduction and working with key supply partners on innovations and reduction technology.

52%

reduction in energy consumption across Mitie estate since FY 09/10

37%

reduction in emissions intensity since FY 09/10

Managing fleet impact

13.9%

reduction in fuel
consumption since
FY 09/10

35%

reduction in fuel
consumption intensity
since FY 09/10

Mitie's vehicle operations account for over 90% of our total carbon emissions. Through our fleet committee's low carbon fleet strategy we have reduced our total emissions footprint year-on-year.

Low carbon solutions

In FY 18/19, we signed up to the Clean Van Commitment and were accredited as a Go Ultra Low company. Following successful trials of hydrogen and electric vehicles, we committed to 20% of our small vans and cars being fully electric by 2020.

Sometimes an EV is not the best commercial or operational decision, in which case we will source the most efficient diesel vehicle. Through our great supplier relationships we are kept informed of market progress, meaning we can take advantage of new technology when it becomes available. An example of this is the new model of the Vauxhall Vivaro, which brings 15% CO₂ and fuel savings over the previous model. Over a seven-year period, the Vivaro's efficiency has improved by 26%, creating significant environmental and financial savings.

Restricting vehicle selection

Mitie vehicles typically operate on a rolling four-year contract hire agreement from our strategic fleet partner, Lex Autolease. By outsourcing fleet management, Mitie aims to take advantage of the most efficient technology when it becomes available. All of our non-commercial vehicles are restricted by a self-imposed vehicles emissions cap of 130g/km CO₂. In 2018, our commercial vehicle models were on average 10.5% more efficient in terms of carbon emissions compared to 2014, and the phasing out process continues to yield carbon and fuel savings. Our Vauxhall Astra estate models generate 10% less emissions, and by changing Vauxhall Vivaro vans from 2.0L to 1.6L engines, plus Adblue, stop/start technology to cut idling, we have restricted carbon emissions by 11% and NOx emissions by 72% on average, ensuring compliance with EURO6 emission standards and significantly reducing fuel costs.

Telematics

All our commercial vehicles are fitted with telematics. Non-conformance to our driver expectations, such as speeding, idling or substandard driving, is escalated accordingly. During 2019 we will continue to work on better telematic information and data for faster real-time reporting.

Permit to Drive

We launched Permit to Drive in August 2018 as part of our commitment to road safety, driver wellbeing and environmental protection. Our annual e-learning awareness training and assessment scheme has seen 3,505 drivers complete Permit to Drive so far. We believe our driver awareness campaign and fleet risk reduction plan will bring down the number of road traffic incidents and improve fuel efficiency. The combined impact of our measures, including technology, has seen a 13% reduction in vehicle accidents from the previous year.

Mitie electric vehicle project

In the face of rising fuel costs, stricter emissions targets and a need to address climate change, fleet electrification marks a dramatic step towards reducing the financial and environmental cost of doing business. In December 2018, Mitie became the first major UK FM provider to launch an electric vehicle (EV) fleet. By 2020, 20% (717) of our compact vans and cars will be fully electric.

With a total fleet of 5,107 vehicles, Mitie's diesel cars, vans and trucks are a familiar sight on UK roads. Due to significant developments in battery technology and driving range, electric vehicles represent an exciting and viable alternative to traditional cars and vans.

Mitie has ordered vehicles with a long range and fast charging capabilities. The Volkswagen e-Golf, Hyundai Kona, Renault Zoe and Kia e-Niro will join the Mitie fleet in coming months, alongside fully electric vans like the Nissan eNV200.

Charging infrastructure

Mitie is investing in appropriate charging infrastructure to ensure operational success of our electric vehicles. We are partnering with a renowned charging supplier to install over 800 charging points across the Mitie estate and at employee homes. We will also build on relationships with clients who have EVs in their fleet to offer Mitie colleagues the opportunity to use their charging sites. We look forward to supporting current and future customers who share our passion for innovative and sustainable mobility.

Key benefits

Electric vehicles produce no CO₂ when they are being driven. This is good for the planet and good for the pocket – electric vehicles attract a fraction of the company car tax of their fossil fuel counterparts. Electric vehicles are also less expensive to run due to significantly reduced fuel costs, which means we can keep operational costs to a minimum.

Training and telematics

Mitie has developed a suite of training courses for drivers of its electric vehicles to ensure that they are used safely and with maximum efficiency. By partnering with the manufacturer, we can guarantee training is relevant to the vehicle model at hand.

Tapping into clean water

Gather & Gather's supplier is LifeWater, a British brand that partners with the charity Drop4Drop to fund clean water projects around the globe. So far 14 pumps and wells have been built in needy communities across India and Africa thanks to LifeWater purchases at Gather & Gather. The most recent was in the village of Bejiman, Mzimba District, Malawi. Water sources funded through Gather & Gather currently benefit over 18,000 people and all feature a plaque bearing our catering arm's distinctive logo.

5. Promoting social innovation

How we align to SDGs:

Aligning to our strategic pillars:



Supporting women

The Mitie Foundation has supported the build of a mini-retail park inside HMP Foston Hall, a women's prison in Derbyshire. Mitie employees have worked in partnership with female prisoners, teaching the skills of landscaping, groundworks, building, electrical, solar panels, rainwater harvesting and work ethics. When the park is complete, female prisoners will be trained to run their own micro-retail business, supporting them with new skills and experience to build upon on release.

Partnership with Well Grounded

Gather & Gather has been working with social enterprise Well Grounded to help a broad spectrum of young Londoners into work as baristas. In FY 17/18, this included a cohort of nine trainees, who attended a full-time, four-week course at Well Grounded's East London academy. Upon training completion, they completed four weeks' work experience with Gather & Gather and successfully took up positions as baristas post graduation.

Mitie continues to work with Well Grounded to assist those who have struggled to find employment. The second cohort of 10 Well Grounded baristas began training in FY 18/19.

Volunteering days

In FY 18/19, 151 Mitie colleagues volunteered to assist in a range of education and community events.

We coordinated 41 careers and World of Work days held in schools and colleges. Mitie colleagues volunteer to assist, providing positive business role models and giving students the skills and knowledge to raise their aspirations and broaden their career horizons. In addition to this, Mitie Landscapes teams supported the annual Marine Conservation Society Great British Beach Clean, volunteering to remove litter and plastic from the UK shoreline; and working with Keep Britain Tidy. Mitie volunteers attended Saturday morning litter picks to remove rubbish from the countryside.

Our people

Our promise to our people

Mitie's people are our strength. As a major UK employer with 52,500 colleagues, we take our responsibility towards our people seriously. Improving our Employee Value Proposition has been a key focus in FY 18/19 as we look to consolidate our position as one of the UK's most dynamic, forward-thinking and sustainable FM companies.

We have been busy developing a range of initiatives to make Mitie a 'Great Place to Work' and an employer of choice.

Upload survey

Listening to our people is as important as listening to our customers. We launched the Upload survey in April 2018 to ask our people how they feel about working at Mitie, and what improvements could be made. This was followed by the 'You Said, We Did' campaign to demonstrate actions undertaken in response to feedback. There were five key priority areas for improvement:

- Reward and recognition;
- Enabling infrastructure;
- Senior leadership;
- Employee brand; and
- Autonomy and empowerment.

Our 2018 Upload survey proved a vital tool in benchmarking employee engagement. We relaunched the survey in March 2019 to measure progress. Following our improvements and our 'You Said, We Did' campaign, we have seen employee engagement rise by 12%. In addition to overall engagement increasing, we have seen perceptions of leadership improve by +17% and employee brand improve by +12%.

Although we have made significant progress, the results show that there are still areas where we can improve. The results will be followed by another 'You Said, We Did' campaign in 2019. We plan to continue to measure engagement annually.

28%

Upload
response rate

45%

Engagement
score

+12%

Improvement in
engagement score

'You Said, We Did' campaign

Listening to our people led to the introduction of the following initiatives in 2018:

Mitie Stars

The Mitie Stars scheme is our way to reward and recognise those who have gone above and beyond for our customers and colleagues. By engaging and thanking our people, we are helping to make Mitie a great place to work. Our colleagues up and down the country proudly display their badges on their lanyards.

Feel Good Fridays

Feel Good Fridays is a new recognition scheme that gives Mitie people the opportunity to thank and recognise colleagues for delivering 'the exceptional, every day'. Nominations are made via MiNet and thank yous are published online each Friday.

Long-service awards

We launched the long-service award scheme to celebrate and mark one, five, 10, 20, 30, 40 and 50 year service milestones with Mitie.

Enhanced maternity policy

In October 2018, we introduced an enhanced maternity package for all eligible salaried employees, with an additional 'return to work bonus' to encourage mothers back after maternity leave. It demonstrates our commitment to gender equality, our efforts to raise the number of women in the workforce and our intention to become an employer of choice for women in FM. The package is detailed below.

- 10 weeks' pay at full pay inclusive of Statutory Maternity Pay (SMP) – increasing from the previous allowance of statutory payments only (six weeks at 90% of average earnings);
- A further 29 weeks at the applicable SMP rate; and
- A 'return to work bonus' equivalent to two weeks' full pay.

We are also introducing enhanced adoption pay arrangements for those taking adoption leave. An adjustment to paternity provision is due to be reviewed.

IT improvements

We have invested £1.5m in new laptops for our people, replaced a significant number of mobile phones, and rolled out a company-wide upgrade to Windows 10. This has enhanced our cyber security as well as increased connectivity and collaboration.

The Mitie Roadshow

Mitie's Executive Leadership Team held nine Roadshows across five locations in the UK, engaging over 2,000 managers to update on our transformation journey and listen to our people's views.

Back to the floor

To increase visibility of our senior leadership team, we have refreshed the popular 'back to the floor' initiative. This is an opportunity for members of the Group Leadership Team (GLT) to get to grips with what our front-line people experience every day. Each GLT member is required to complete two back to the floor visits each year. Besides assisting with the work, they provide our colleagues with support, listening events, and recognise and celebrate teams delivering 'The Exceptional, Every Day'.

These initiatives represent a huge step forward as we seek to engage, reward, recognise and retain our people.

Vision and values

Embedding our values into our DNA is enabling a successful cultural transformation.

During 2018, we articulated a new set of behaviours that bring our values to life with help from our Mitie Exceptionals, a group of values champions from every corner of our business. They were nominated because they 'live' our new vision so we asked them to help us articulate how you deliver our new vision of The Exceptional, Every Day, every day.

These behaviours now form the basis of all our people policies and processes, from recruitment and onboarding, through to performance reviews. The Upload survey 2019 shows that 69% of our respondents have a good understanding of our values.

- We are One Mitie
- We are built on integrity and trust
- We go the extra mile
- Our diversity makes us stronger
- Our customer's business, is our business

Gender pay gap report

Mitie Group is required to publish data on two legal entities, Mitie Limited and Mitie Property Services (UK) Limited, compared to the 15 legal entities reported in 2017.

As at 5 April 2018, Mitie Group had a mean average gender pay gap of 13.8%, which was lower than the 16.0% gap reported as at 5 April 2017. The mean bonus gap was 47.3%, which was considerably lower than the 71.0% reported in 2017.

We have made a number of significant changes to reduce the gap, which include introducing a new people system to enable better gender and job level reporting, enhancing our maternity pay offering and setting the strategic objective to increase the number of women entering science, technology, engineering and mathematics (STEM) roles. While our gap has improved, we still have work to do in FY 19/20.

↓2.2%

pay gap

↓23.7%

bonus gap

Since June 2017, we have welcomed four women to our Board of Directors (women: 4; men: 4). Women account for 11% of our Executive Leadership Team (woman: 1; men: 8) and 24% of our Group Leadership Team (women: 18; men: 57) as at 31 March 2019. Across Mitie Group female employees account for c.32% of our workforce (women: 16,800; men: 35,700).

Living Wage Foundation

We want our people to feel valued and engaged and recognise that wages play an important part in this. Our goal is to become a Recognised Service Provider with the Living Wage Foundation by 2020, and we are already paying employees working in Mitie offices the real Living Wage.

Diversity and inclusion

At Mitie, we are very proud of our rich and diverse culture and backgrounds – it creates ideas and insights. We believe everyone should have opportunities to progress, whether that is through working with amazing customers or individual learning and development.

This year, we were immensely proud to be recognised as 17th on the Inclusive Top 50 UK Employers list.

Our employee networks help support our agenda by allowing members to discuss issues affecting them with key decision makers, assist in formulating new and reviewing existing policies and procedures, provide a safe space for members to raise their concerns in a confidential environment, and provide an opportunity for members to update each other on local and national policy and developments. Each network is sponsored by a member of the Executive Leadership Team who is a role model for diversity and inclusion and champions the agenda across the Group.

Our people continued

Diversity networks

Mitie's employee diversity networks are designed to support and champion the following minority groups:

Enable network, disability awareness and support – sponsored by Simon Venn, Chief Government & Strategy Officer.

Engender network, gender equality – sponsored by Carlo Alloni, Managing Director, Engineering Services.

Generations network, age awareness – sponsored by Peter Dickinson, General Counsel & Company Secretary.

Kaleidoscope network, ethnic minorities, particularly BAME (Black, Asian and Minority Ethnic) – sponsored by Matthew Thompson, Managing Director, Cleaning & Environmental Services.

Proud To Be network, LGBTQ awareness – sponsored by Allister Richards, Managing Director, Gather & Gather.

A new start for our new starters

First impressions last, and in FY 18/19 we overhauled the onboarding process. The purpose is not only to provide an exciting introduction to their new role at Mitie, but to highlight the opportunities open to colleagues in the UK's leading FM organisation. For the first time, we have a 'One Mitie' approach to induction, providing clear and easily accessible information on our company structure, what we do, our values, leadership, benefits, tools and systems. All new starters are required to complete a series of learning modules via our e-learning platform, the Learning Hub.

Temporary resourcing

Every year, Mitie engages with a significant number of suppliers to find people required on a temporary basis. The opportunity to reduce cost and complexity was clear, and to this end in October 2018 we launched a temporary resourcing team in collaboration with our recruitment partner, Retinue. Working together, both teams manage the recruitment of temporary staff across Mitie. The benefits are clear and numerous:

- Simple and fast process via a new technology platform – it takes 52 seconds to raise a job, 64 seconds to book a fully-compliant candidate and 18 seconds to approve a timesheet;
- Mobile app to use on-the-go, providing quick access to manage requests and approve timesheets;
- Ensures all suppliers are compliant with right to work and pre-employment screening checks, providing a clear audit trail for each worker;
- Consolidated invoicing reduces the time spent on administration, taking us from 37,000 invoices to one per week per business unit; and
- Reduced costs and consistency of terms.

Permanent resourcing

The next step in our HR transformation is our permanent resourcing solution, the Talent Hub, launched in early 2019. We are creating an industry-leading talent and resourcing function to attract, recruit, develop and retain the best people at all levels.

We will use the best technology in the market to mine new talent and fill opportunities quickly. Our new Talent Hub platform also allows us to grow our employer brand and raise awareness of internal career paths.

Apprenticeships

As a major UK employer, Mitie provides a wealth of apprenticeships taking an 'apprentice first' approach to training. We paid £4.7m into the Apprenticeship Levy scheme in FY 18/19.

660 apprentices are working across our portfolio of contracts. Our apprenticeship strategy continues to evolve, and we are partnering with a number of specialist providers to ensure we deliver learning that meets the needs of the individual as well as the business. We have ambitious plans to increase apprenticeships by over 100% by 2020. We recognise the Government's target of 2.3% apprentices across the workforce: a target we are set to exceed.

Learning Hub

At the core of our Learning and Development transformation is our Learning Hub, an online portal through which employees can access online development material relevant to their role, mandatory material, our induction, a wealth of self-selected development material, as well as health and wellbeing modules. The Learning Hub is Cloud-based and can be accessed on any device connected to the internet, allowing colleagues to access courses and content at a time and place that suits them. In the five months since launch in October 2018, Mitie colleagues completed 40,000 Learning Hub courses. There are 2,500 instructor-led courses as well as 900 Learning Hub activities available, which range from informative documents and infographics to eight-hour seminars.

40,000
Learning Hub
courses completed

2,500
instructor-led
courses

900
Learning Hub
activities available

Sales Academy

January 2019 marked the beginning of an exciting new era for Mitie's Sales community: the launch of the Mitie Sales Academy. The first cohort of 12 colleagues began a year-long apprenticeship that culminates in Level Four sales certification from the Association of Professional Sales (APS). Apprenticeship Levy funding has enabled us to create our first professional Academy which creates an Academy blueprint for other professional apprenticeship programmes to be launched in 2019.

LiveSafe

We are constantly striving to develop a zero-harm workplace. Coordinated by Mitie's Quality, Health, Safety and Environment (QHSE) team, our LiveSafe programme launched in December 2018 in order to constantly improve Quality and HSE performance across the business.

LiveSafe is underpinned by a set of principles and rules that will help us keep ourselves, our colleagues and those affected by our operations safe.

Extensive supporting material is available on the designated LiveSafe intranet page, and a series of workshops has been rolled out across the country.

People Hub

Launched in October 2018, the People Hub is a one-stop-shop for all things related to the employee lifecycle. It provides colleagues with 24/7 access to their personal employee profiles, allowing them to manage everything from viewing payslips, to requesting and approving leave requests. The People Hub is paperless and all new employees are onboarded electronically with DocuSign. For the first time at Mitie, our organisational hierarchies are visible.

24/7

People Hub provides colleagues with 24/7 access to their personal profile



Our promise to our people is to create a place where they can thrive and be their best every day.

Jo Davis,
Group HR Director

Awards

Mitie's far-reaching efforts to improve our employee value proposition have not gone unnoticed and we were the only FM provider to be recognised by two prestigious awarding bodies:

- 17th place on the Inclusive Top 50 UK Employers list, the definitive round-up of UK organisations promoting diversity and inclusion across disability, gender, age, LGBT and race.
- Certified a 2019 Top Employer by the Top Employer Institute Certification Programme. The award is made to employers who lead the way in forward-thinking, people-first HR practices.

Employee involvement in Company performance

Mitie encourages the involvement of employees in the Company's performance through the annual bonus scheme and various share schemes. During the year, invitations to join the Company's Save As You Earn share option plan were distributed to all eligible employees. Employees can also participate in a Share Incentive Plan.

Engaging with our people

As part of our ongoing commitment to improving employee engagement, we have implemented a new employee communication channel strategy which includes additional channels promoting direct engagement between managers and their teams and encouraging regular employee feedback. These include the monthly Mitie Download, our team briefing document for managers, and weekly Recap news email. These are supported by digital engagement channels including Yammer.

Our aim is to ensure our employees are fully aware of and feel supported through our transformation journey. We provide regular updates on financial and economic factors affecting our company's performance, and the important role each employee plays in Mitie's future success. Our specific focus is on our front-line workforce, and we will be implementing several new digital channels as we continue to improve how we engage with our people.

Effective risk management

Our risk management approach

Our approach to risk management is regularly reviewed by the Board and Executive Leadership Team and continues to evolve in line with our business structure and risk profile. We recognise that to have an effective risk management framework, we need to develop appropriate risk management culture, controls and supporting processes. Our 'One Mitie' Vision and Values and Enterprise Risk Management policy have an important role to play in this regard. Further information can be found in the Board report on pages 56 to 61.

Risk management structure

Our risk management structure is designed to ensure a consistent approach to the identification, assessment, monitoring and management of risks across the business. This is set out in more detail below and in the Board report on pages 59 and 60.

Areas of focus

Our focus during the year has been on standardising and simplifying processes, procedures and associated IT systems in the Group, including:

- Simplification of the organisational structure;
- Clarity of reporting lines for central functions;
- IT, financial and operational systems improvements across the business;
- Improvements to cyber security controls across all systems and infrastructure;
- Deployment of an improved incident recording, monitoring and reporting system;
- Deployment of a new HR resourcing system across the Group;
- Launch of online training and development hub;
- Simplified approach and consistent process to both temporary and permanent recruitment;
- Outsourcing of back-office finance transactional processes to Genpact; and
- Outsourcing of application maintenance IT processes to Wipro.

Our risk management framework

Top down Strategic risk management

- Review external environment
- Robust assessment of principal risks
- Set risk appetite and parameters
- Determine strategic action points



- Identify principal risks
- Direct delivery of strategic actions in line with risk appetite
- Monitor key risk indicators



- Execute strategic actions
- Report on key risk indicators

Board/Audit Committee

Bottom up Operational risk management

- Assess effectiveness of risk management system
- Report on principal risks and uncertainties

Executive Leadership Team

- Consider completeness of identified risks and adequacy of mitigating actions
- Consider aggregation of risk exposure across the business



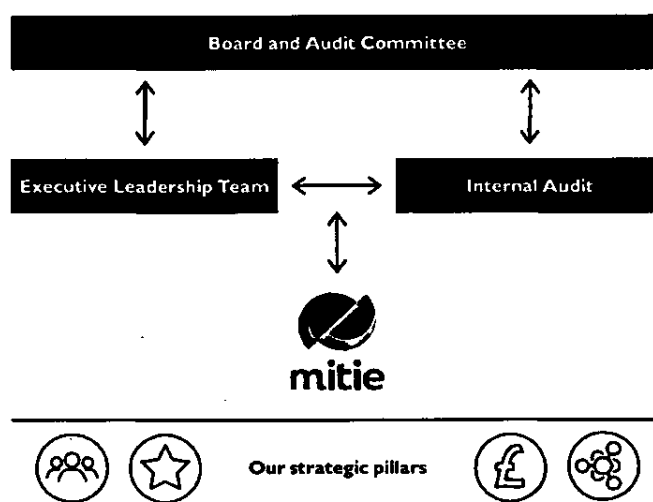
Divisions

- Report current and emerging risks
- Identify, evaluate and mitigate operational risks recorded in risk register

New and emerging risks

We continuously monitor our internal and external environment to ensure that any new or emerging risk is identified in a timely manner and responded to appropriately. As a result of the Principal Risks assessment, new risks relating to structural complexity, market share and incident at client site have been identified.

Risk management structure



Responsibility

Board

The Board has overall responsibility for the approach to risk management and internal control, including the annual assessment of the effectiveness of the internal control and risk management framework.

Executive Leadership Team

Ownership and responsibility for operating risk management and controls are delegated to the Executive Leadership Team.

Internal Audit

Internal Audit is responsible for providing assurance to the Audit Committee that the risk management, governance and internal controls processes are adequate and operating effectively.

Process

- Vision and Values statement and Code of Conduct approved by the Board and communicated to employees – setting tone at the top.
- Review of the Group's strategy by the Board and the setting of risk appetite for the Company.
- The Board through the Audit Committee reviews the effectiveness of the internal control and risk management framework on a yearly basis.
- The Board set the frequency and scope of its discussion on strategy, business model and risk.
- The Board reviews principal risks on a yearly basis.
- The Audit Committee, which comprises independent Non-Executive Directors, reviews internal audit reports on a regular basis

Mitie's focus is to operate a 'three lines of defence' model for effective risk management and monitoring:

First line of defence

- Core set of business policies available on the Company's intranet – setting out management's expectations.
- Maintenance of risk registers at business unit and function level. Risk registers are also maintained for major contracts.

Second line of defence

- Enterprise Risk Management policy is in place and available to employees.
- Enterprise Risk function is in place.
- QHSE compliance function operates to ensure adherence with the Company's QHSE policies.
- Formation of audit and risk committees operating at business unit levels.

Third line of defence

Internal Audit acts as a third line of defence.

- The Head of Internal audit reports functionally to the Chair of the Audit Committee.
- The Internal Audit function targets its work at areas of the business where risk management and internal controls are suspected of requiring improvement. In addition, the Internal Audit plan is linked with the Principal Risks to ensure adequate coverage of the risk areas.
- The in-house Internal Audit team uses Grant Thornton to support its work, where appropriate.

Principal risks and uncertainties continued

Risk	Impacts
① Political Political and economic uncertainty in the UK may adversely affect our customers' approach to outsourcing decisions and our ability to plan and invest. The lack of clarity of the timing and impact of Brexit adds further uncertainty.	▲
② Structural complexity Mitie has historically operated using complex manual processes and an organisational model with a high and misaligned cost base, rather than leveraging its technology. If we do not address these issues we will be unable to execute client contracts efficiently, resulting in sub-optimal customer experiences and erosion of sustained profitable growth.	New risk
③ Cyber Failure of critical infrastructure, including through a cyber-attack, could affect client delivery operations and cause critical delays in internal processes.	▼
④ Funding Inability to maintain access to and renew suitable sources of funding due to a perceived risk in both our business and the sector as a whole, may impact our ability to maintain profitable business performance.	◀ ▶
⑤ Legal Failure to comply with applicable laws and regulations may lead to fines, prosecution and damage to our reputation.	◀ ▶
⑥ Market share A loss of market share through competitors improving their offering and price, and potentially targeting some of our key contracts, or from new entrants deploying new business models, could have a significant impact on our revenue and profit.	New risk

Risk	Impacts
⑦ Health, safety and environment Failure to maintain appropriately high standards in health, safety and environmental management may result in harm to employees, client staff or members of the public, and consequential fines and reputational damage.	◀ ▶
⑧ Incident at client site A high-profile incident or accident occurring at an FM client site, or a location operated by our Care & Custody business, as a result of negligent staff actions, inconsistent vetting or ineffective training and communications for staff, could have a significant impact on our reputation and current and future contracts.	New risk
⑨ Data management Ineffective processes and controls to manage our data and customers' data may result in a major data breach leading to fines, remediation costs and reputational damage.	◀ ▶
⑩ Employees Inability to recruit, retain and reward suitably talented employees, as well as failure to implement appropriate development plans, simple consistent processes across the business and a One Mitie approach, could negatively impact our operational and financial performance.	▼
⑪ Market sentiment Negative sentiment towards the outsourcing sector could lead to fewer opportunities, including reduced IFM volumes, and challenges to our business model and profit growth.	▲
⑫ Contract losses If we do not ensure that we produce bids for contracts which are competitive, financially viable and have a balanced approach to risk, and/or fail to deliver on our contract obligations, we may damage our client relationships, which may lead to cancellation of contracts resulting in financial losses.	◀ ▶

Our strategic pillars









	Customer: build market-leading positions in higher growth segments and increase customer NPS
	People: create a 'Great Place to Work' for our employees
	Cost: strengthen our balance sheet and maintain cost discipline to remain competitive
	Technology: embed technology into the heart of our offering

Change in year





▼	Decreased
◀ ▶	Stayed the same
▲	Increased
ⓧ	Viability statement

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>1 Political</p> <p>Political and economic uncertainty in the UK may adversely affect our customers' approach to outsourcing decisions and our ability to plan and invest. The lack of clarity of the timing and impact of Brexit adds further uncertainty.</p> <p>Impacts on: </p> <p>Change in year: ▲</p> <p>As the vast majority of Mitie's client base is within the UK, we are particularly exposed to uncertainties in the UK's political and economic landscape. A major aspect of this uncertainty continues to be the ongoing negotiations for the UK to leave the European Union (Brexit). This may result in changes to the regulatory framework, as well as restrictions in the supply of labour and materials.</p> <p>Political and economic factors also influence the decisions taken by both public and private sector clients on which activities should be outsourced and the amount of discretionary spend available for outsourcing activities. This may result in fewer opportunities for Mitie and have a consequential negative impact on our financial performance.</p> <p>It is important that we are able to offer competitive, innovative and high-quality solutions to clients, and demonstrate the value we bring to them. We also need to ensure that we carefully monitor and identify the most appropriate opportunities in both the public and private sectors.</p>	<ul style="list-style-type: none"> • Maintain blend of public and private sector clients • Appointment to the Crown Commercial Services Framework • Appointment of Chief Government & Strategy Officer and team • Regular reviews of sales opportunities by all business sales leaders • Dedicated account managers to focus on integrated strategic accounts • Focus on high-margin opportunities with growth potential • Drive for greater customer retention through improvements in the value we deliver • Development of new and innovative service offerings 	<ul style="list-style-type: none"> • Ensure the focus on strategic accounts generates growth opportunities • Maintain dialogue with key public and private sector clients to demonstrate the value we offer • Leverage the most appropriate opportunities through the Crown Commercial Services Framework to increase public sector contracts
<p>2 Structural complexity</p> <p>Mitie has historically operated using complex manual processes and an organisational model with a high and misaligned cost base, rather than leveraging its technology. If we do not address these issues we will be unable to execute client contracts efficiently, resulting in sub-optimal customer experiences and erosion of sustained profitable growth.</p> <p>Impacts on: </p> <p>Change in year: ▲</p> <p>New risk</p> <p>Mitie's business and organisational model has evolved with a large number of unnecessary complexities, including multiple and inconsistent processes, isolated IT systems, and unclear organisational and reporting structures. These complexities have required a disproportionately high cost base in order to maintain them.</p> <p>The business transformation project (Project Helix), and a number of other improvement initiatives over the past two years, have made substantial progress, but further work is required to simplify and standardise these underlying processes and to ensure that we are able to deliver acceptable margins and growth from our business.</p> <p>We are continuing to address internal costs by leveraging the opportunities from outsourcing back-office functions, including in Finance and IT. In addition, we are investing in IT systems improvements across the business, notably in Engineering Services, HR and Finance. We will also continue to simplify end-to-end processes and the structure of the organisation.</p> <p>Mitie is now embracing technology to deliver a digital experience to both internal and external users. If we fail to do this we could be unable to deliver profitable growth, our opportunities to invest in new technology and offerings could be limited and our bids could be uncompetitive.</p>	<ul style="list-style-type: none"> • Successful delivery of Project Helix and other improvement and simplification initiatives • IT, financial and operational systems improvements across the business • Outsourcing of back-office functions in IT and Finance • Simplification of the business structure into divisions • Clarification of accountabilities and responsibilities, particularly for strategic accounts • Focus on sourcing and procurement processes to simplify supplier base and leverage cost opportunities • Use of digital technologies for customers and employees 	<ul style="list-style-type: none"> • Successfully complete improvement projects for IT systems in Engineering Services • A comprehensive review of end-to-end processes across the business to improve efficiency and control, remove unnecessary tasks and reduce costs. A Digital Transformation Officer has already been appointed who is responsible for this initiative • Legal entity rationalisation • Finance modernisation programme • Commence a further transformational review to simplify the business





Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>3 Cyber</p> <p>Failure of critical infrastructure, including through a cyber-attack, could affect client delivery operations and cause critical delays in internal processes.</p> <p>Impacts on:    </p> <p>Change in year: ▼</p> <p>The reliability and effectiveness of our technology is vitally important to ensure that we can meet our contract obligations, deliver improvements in operational processes, generate meaningful management information and help deliver value for our clients. In many cases clients rely upon us to look after their critical data and infrastructure.</p> <p>We are continuing to invest in technology to simplify our business, as well as improving resilience and security to protect against systems failure or a cyber-attack. During the year we have commenced an upgrade programme to ensure we meet the Government's Cyber Essentials Plus requirements. This has involved a substantial programme to upgrade and replace computers within the organisation. We have also delivered a number of system improvements in the year including People Hub, a standardised and integrated HR solution.</p> <p>We have also outsourced our routine IT operations to a partner which will help improve efficiency and effectiveness and build in greater resilience to failures. This also allows us to focus on higher value technology developments for clients. We will continue to invest in systems and technology to replace the legacy estate, automate processes and ensure the smooth and efficient operation of our business. It is also important to have effective business continuity and disaster recovery plans, and this is another key focus.</p>	<ul style="list-style-type: none"> • Clear strategy to invest in technology improvements, both in internal systems and client offering • Outsourcing of routine IT operations to partner organisation to improve resilience and controls • Upgrades to legacy systems to reduce complexity and improve management information • Rationalisation of ERP systems and infrastructure • Leveraging new technologies such as AI and big data • Maintenance and testing of effective disaster recovery plans • Improvements to cyber security controls across all systems and infrastructure • Dedicated IS PMO to ensure all projects with an IS element are managed effectively and risks are minimised 	<ul style="list-style-type: none"> • Upgrade to the Engineering Services operational and financial systems to improve security and efficiency • Look for opportunities to leverage the outsource partner's development capabilities
<p>4 Funding</p> <p>Inability to maintain access to and renew suitable sources of funding due to a perceived risk in both our business and the sector as a whole, may impact our ability to maintain profitable business performance.</p> <p>Impacts on:    </p> <p>Change in year: ◀ ▶</p> <p>In order to be able to meet our financial commitments, we need to have access to a number of affordable sources of finance. Our core debt facilities include a revolving credit facility and private placement loan notes. We need to have sufficient liquidity to be able to pay suppliers and staff, whilst also investing in the business and ensuring that we have enough options for profitable growth.</p> <p>In the past few years there has been significant concern about the financial strength and viability of companies operating in our sector. This has continued during the year with a number of high-profile incidents occurring relating to our competitors. Any actual or perceived weaknesses in our financial position could restrict our access to finance or attract high interest rates.</p> <p>We have been focused on maintaining strong financial discipline in the management of our working capital and investment decisions and on minimising our levels of debt. This has included working with our back-office process outsource partner to improve processes and efficiency.</p>	<ul style="list-style-type: none"> • Regular forecasting of cash flow and net debt • Thorough focus on working capital cycles with a clear set of KPIs • Maintenance of strong banking, debt and equity relationships • Strong focus on and monitoring of cash collection • Regular reviews of payment terms with customers and supply chain 	<ul style="list-style-type: none"> • Continue to work with a range of financial institutions to ensure we can access affordable finance sources • Focus on working capital processes to reduce cycle times and average net debt • Improve accrued income and billing processes

Our strategic pillars

-  Customer: build market-leading positions in higher growth segments and increase customer NPS
-  People: create a 'Great Place to Work' for our employees
-  Cost: strengthen our balance sheet and maintain cost discipline to remain competitive
-  Technology: embed technology into the heart of our offering

Change in year

-  Decreased
-  Stayed the same
-  Increased
-  Viability statement

Principal risks and uncertainties

5 Legal

Failure to comply with applicable laws and regulations may lead to fines, prosecution and damage to our reputation.

Impacts on:



Change in year:



Our business is subject to a wide range of laws and regulations. Given the nature of our business, these include, amongst others, health & safety, employment, anti-bribery and corruption and statutory wage requirements.

Failure to comply with applicable laws and regulations could result in prosecution and/or significant fines, and, from a reputational perspective, could damage our relationships with clients and our ability to win work. We may also face debarment from public sector contracts.

We continue to ensure that we have effective governance and oversight of our compliance with applicable laws and regulations and continuously assess the impact of changes in relevant legislation. It is also important that we provide appropriate communications and training for our people to ensure that they are aware of their obligations, and that regular monitoring of compliance is undertaken.

Controls and mitigating actions

- Regular monitoring of legal and regulatory changes by Group Functions including Company Secretariat, Legal and Quality, Health, Safety and Environment (QHSE)
- Code of Conduct communicated to all employees
- Group-wide policies updated for changes to laws and regulations and maintained in the online Business Management System (BMS)
- Regular and thorough external regulatory audits
- Training and awareness material communicated to employees and monitoring of completion performed
- Externally hosted whistleblowing service available

Future plans

- Introduction of further mandatory training courses to relevant employees via our Learning Hub
- Ongoing review of BMS to update policies and procedures

6 Market share

A loss of market share through competitors improving their offering and price, and potentially targeting some of our key contracts, or from new entrants deploying new business models, could have a significant impact on our revenue and profit.

Impacts on:



Change in year:

New risk

In the recent past, many companies in our sector have experienced financial and operational difficulties, and as a result there has been a strong focus on strategy, costs, investments and business structure. For those organisations that have successfully addressed their issues there may be opportunities to increase market share through more competitive or innovative offerings, which may impact our ability to retain current clients and win future business.











Additionally, there is also the possibility of a new entrant disrupting the market by deploying a new low-cost business model for FM, potentially through a technology platform, which would challenge the structure and approach of the existing organisations, including Mitie. This could also potentially significantly erode our market share and decrease new opportunities.

It is important that we continue to prioritise the transformation of our business, particularly through improving processes and simplifying business structure, focusing on minimising costs and developing innovative solutions for clients, such as the Connected Workspace. In this way, we will be able to deliver genuine value for current and future clients.





- Continued focus on simplifying business processes and structure
- Investment in new and innovative technologies – including Connected Workspace
- Focus on client relationships and Net Promoter Score
- Regular reviews of sales opportunities arising
- Replacing and upgrading operational and financial systems
- Standard processes and tools for sales and CRM teams

- Deployment of strategic account managers for key contracts
- Complete Project Forte launched to improve IT systems in Engineering Services

Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>7 Health, safety and environment</p> <p>Failure to maintain appropriately high standards in health, safety and environmental management may result in harm to employees, client staff or members of the public, and consequential fines and reputational damage.</p> <p>Impacts on:  </p> <p>Change in year:  </p> <p>As a company we are committed to maintaining the highest levels of health, safety and environmental (HSE) standards. The services we deliver could potentially present an increased risk of a health and safety incident involving our employees, client staff or even members of the public. Our activities also carry a risk of damage to the environment. It is essential that we manage these risks in a highly diligent and effective manner.</p> <p>At all levels in the organisation, safety is our number one priority and we ensure that all risks are properly assessed and managed, our employees are trained, our expectations of how they perform their work are clearly explained, and adherence to health and safety standards is regularly monitored. If we do not manage these risks appropriately, it could lead to harm to individuals and damage to the environment, and consequently prosecution, fines and significant damage to our reputation.</p>	<ul style="list-style-type: none"> • A comprehensive QHSE strategy has been developed • Major cultural HSE programme, LiveSafe, launched in the year, with clear rules and training for staff • Regular training and communication delivered throughout the company, in accordance with LiveSafe principles • Certified H&S management systems to OHSAS 18001 and environmental system to ISO14001 • Deployment of an improved incident recording, monitoring and reporting system • Regular HSE reviews conducted at divisional and Group level • Clear and standardised KPIs introduced to monitor progress and improvements • Targeted QHSE procedural audit programme introduced 	<ul style="list-style-type: none"> • Build on the principles of LiveSafe and ensure regular communication and engagement with staff • Transition from OHSAS health and safety management system to ISO45001
<p>8 Incident at client site</p> <p>A high-profile incident or accident occurring at an FM client site, or a location operated by our Care & Custody business, as a result of negligent staff actions, inconsistent vetting or ineffective training and communications for staff, could have a significant impact on our reputation and current and future contracts.</p> <p>Impacts on:    </p> <p>Change in year:  </p> <p>New risk</p> <p>We deliver services to clients at a number of important and high-profile sites across the country. These include locations with substantial historical and cultural significance and high level of scrutiny by governmental bodies, media organisations and the general public. If a major incident occurred at one of these sites, whether through the negligent or deliberate act of Mitie employees, it could attract a large amount of publicity and have a highly negative impact on our reputation. It would also be likely to limit our chances of winning future contracts and potentially retaining current clients.</p> <p>In order to make sure we manage this risk, it is important that we have appropriate policies and processes in place, which clearly set out the expectations of our employees. We also need to communicate these effectively and deliver regular and relevant training to employees. In addition, it is important that we ensure our employees have been appropriately vetted to determine who is eligible to work on particular contracts and sites, so that we are able to meet the specific requirements of our clients.</p> <p>It is also necessary to have effective business continuity plans in place for our operations, so that we can continue to deliver a high-quality service to clients in the event of a disruptive incident. Should an incident occur, a comprehensive and tested crisis response plan is essential to ensure that we would be able to minimise the impact on our employees and clients, the public and the environment.</p>	<ul style="list-style-type: none"> • Custodial operations working within Standard Operations Procedures (SOP), bespoke to each site for Care & Custody business • Contingency plans are regularly tested and compliance to SOPs regularly audited for Care & Custody sites • Health and safety strategy – LiveSafe programme launched this year as part of the strategy • Certified H&S management systems to OHSAS 18001 and environmental system to ISO14001 • Comprehensive training plans on safety, security and risks • Regular updates to employees on new safety and operational requirements • Internal and external compliance audits • Effective vetting programme tailored to the individual risks of each client and site • Tested business continuity and crisis response plans • Standardised and comprehensive investigation process 	<ul style="list-style-type: none"> • Review and further testing of business continuity and crisis response plans • Transition from OHSAS health and safety management system to ISO45001

Our strategic pillars

-  Customer: build market-leading positions in higher growth segments and increase customer NPS
-  People: create a 'Great Place to Work' for our employees
-  Cost: strengthen our balance sheet and maintain cost discipline to remain competitive
-  Technology: embed technology into the heart of our offering

Change in year

- ▼ Decreased
- ◀ ▶ Stayed the same
- ▲ Increased
- Viability statement

Principal risks and uncertainties

9 Data management

Ineffective processes and controls to manage our data and customers' data may result in a major data breach leading to fines, remediation costs and reputational damage.

Impacts on:



Change in year:



One of the most important assets we have is the data we hold, which includes information concerning our business operations, employees, clients, suppliers and others. This information is vital to enable us to run our business efficiently and profitably. We need to maintain adequate controls to mitigate risks associated with loss or theft of data which would damage our reputation with clients and potentially expose us to significant fines from regulators.

In order to ensure confidential and sensitive data is processed, transmitted and stored securely, we have implemented formal technical and procedural controls. These controls are deployed across our IT systems and are subject to regular review and testing. Effective information security procedures help to prevent or minimise the impact of any breaches of security.

We have an ongoing programme of work to ensure we are compliant with the requirements of the General Data Protection Regulation (GDPR).

Controls and mitigating actions

- Centralised information security team in place
- Information Security Management System (ISMS) in place and certified to ISO/IEC 27001:2013 for key information assets
- IT security controls in place to proactively test, monitor, identify and respond to cyber threats
- Information security requirements established on all new projects, including outsourcing of routine operations
- Cyber essential accreditation
- Cyber insurance policy

Future plans

- Regular reviews of information management to ensure compliance with GDPR
- Expansion of dedicated data privacy team
- Ensure seamless transition to IT outsource partner with data standards maintained
- Working towards achieving cyber essential plus accreditation

10 Employees

Inability to recruit, retain and reward suitably talented employees, as well as failure to implement appropriate development plans, simple consistent processes across the business and a One Mitie approach, could negatively impact our operational and financial performance.

Impacts on:



Change in year:



It is important for the success of our business that we continue to recruit, develop, motivate and retain talented individuals. If we are unable to do so there would be an adverse impact on the profitable and successful delivery of our contracts, and we would be limited in our ability to win future opportunities and grow the business.

We need to have the right level of experience and expertise available and be able to develop a culture of high standards of achievement, compliance to the Mitie values and good governance and control. In order to achieve this, we also need to provide development opportunities for our employees to enable them to reach their full potential.











In addition, it is important that we maintain a stability and consistency in our senior leadership team to provide high-quality direction for the business and deliver our strategy.

An important element of the culture is ensuring that we have a One Mitie way of operating and collaborate effectively across the business. This will give greater consistency in processes and controls and allow for seamless movement of staff across the Group.

- Deployment of new HR resourcing system across the Group
- Launch of online training and development hub, People Hub
- Simplified approach and consistent process to both temporary and permanent recruitment
- Regular communications from leadership team – including ELT country-wide roadshow
- Specific plans developed to address results of employee survey
- Competitive remuneration, terms and conditions
- Training and development programmes for senior leadership
- Regular employee offers
- Developed talent identification, management and development plans
- Succession plans are in place for critical roles, especially for the senior leadership team
- Clear performance management framework

- Further enhance online HR and training systems
- Launch of new induction programme, mandatory for new starters
- Salary benchmarking
- New competency framework to be developed

Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>11 Market sentiment</p> <p>Negative sentiment towards the outsourcing sector could lead to fewer opportunities, including reduced IFM volumes, and challenges to our business model and profit growth.</p> <p>Impacts on:     </p> <p>Change in year: ▲</p> <p>In the past two years, the activities and results of a number of companies operating in our sector have generated significant negative publicity, which potentially affects Mitie's reputation and raises concerns with current and future clients. This has included the liquidation of Carillion and the administration of Interserve. The viability of outsourced facilities management companies to deliver operational performance to sufficiently high standards, whilst also managing costs appropriately, has been the subject of much scrutiny.</p> <p>In particular, the opportunities for integrated facilities management contracts may decrease in both the public and private sector, as organisations look to spread the risk of these services amongst a greater number of providers.</p> <p>In order to address these concerns, it is important that we are able to consistently deliver a high-quality and valued service on our existing contracts and demonstrate this to potential new clients. We need to ensure that we develop and maintain a business model and offering which can successfully deliver profitable growth and exploit new opportunities as they arise, whilst adapting to the needs of the market.</p>	<ul style="list-style-type: none"> • Inclusion and maintenance on Crown Commercial Service Framework • Dedicated management of strategic accounts • Regular financial performance reviews • Focus on improving Net Promoter Score • Strong relationships with financial institutions • Process and IT systems improvement programmes • Long-term contract portfolio and spread of client base 	<ul style="list-style-type: none"> • Further improvement and transformation opportunities to be explored
<p>12 Contract losses</p> <p>If we do not ensure that we produce bids for contracts which are competitive, financially viable and have a balanced approach to risk, and/or fail to deliver on our contract obligations, we may damage our client relationships, which may lead to cancellation of contracts resulting in financial losses.</p> <p>Impacts on:     </p> <p>Change in year: ◀ ▶</p> <p>In order to deliver consistent and profitable growth, it is important that we continue to bid for and secure contracts at acceptable margins. It is also essential that we successfully mobilise and deliver our contracts. In order to achieve this, we must monitor and control costs, deliver on the contract obligations and meet client expectations.</p> <p>We need to develop competitive bids, which provide a fair balance of risk and reward that is properly reflected within the contract terms and conditions. Our offering needs to be compelling and innovative and provide a balance between cost and margin pressure, which is a key feature of the sector in which we operate. It is also important to make sure we have the skills and resources available to execute on our contracts successfully.</p> <p>Once we have mobilised the contracts, we need to monitor a relevant set of Key Performance Indicators (KPIs) to ensure that we are delivering on the obligations to which we have agreed and communicating with clients to understand if they are satisfied with our performance. It is also important to assess and agree any variations to the contract services and terms and amend the KPIs accordingly.</p> <p>If we are unable to deliver the services as agreed in our contracts, it could negatively impact our customer relationships and reputation and lead to legal disputes and termination of contracts. This could then lead to potentially failing to retain existing clients and secure new contracts, with a detrimental effect on our financial performance.</p>	<ul style="list-style-type: none"> • Bid Committee approval for complex bids • Detailed contracting guidelines developed and rolled out • Clear delegated authorities register • New Sales and CRM teams in place • Use of specialist mobilisation teams for complex contracts • Strategic account management • Risk registers in place for large-scale contracts • KPI/SLA formal reviews with customers • Improved CRM capabilities with active relationship management • Focus on Net Promoter Score • Launch of Sales Academy to train sales teams • Appointment of Chief Government & Strategy Officer to coordinate all interfaces with the Cabinet Office 	<ul style="list-style-type: none"> • Post sales review of loss-making contracts to ensure we identify and apply lessons learned for our future bids

Viability statement

The Group's strategic report (pages 1 to 48) contains information on the Group's strategy (pages 11 to 13), business model (pages 8 and 9) and market review (page 10), as well as principal risks and uncertainties (pages 38 to 46). The key factors affecting the Group's prospects are:

- Mitie is the leading UK FM business with 4% of the market;
- The outsourcing market is relatively insensitive to economic cycles;
- The Group has a diverse portfolio of blue-chip and public sector clients, the largest of which constitutes <10% of revenue;
- We have a clear vision for our technology centric growth strategy; and
- We are making good progress in our transformation programme.

The Directors believe that a three-year period is appropriate for their viability assessment as it is supported by the Group's strategic, budgeting and business planning cycles and is relevant to the duration of existing contracts with customers which is around three years on average. It therefore represents a timeframe over which the Directors believe they can reasonably forecast the Group's performance.

In making this statement, the Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This includes the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on pages 59 to 61, are considered.

In undertaking its viability assessment, as a base case, the Board has used the agreed budget for FY 19/20, which includes analysis of the forecast performance of the Group's existing contract base, expectation for future growth including sales targets and expected win rates, and overhead cost base. Based on this budget, further projections for viability purposes have been made using prudent assumptions for:

- Modest revenue and margin growth beyond FY19/20;
- No major changes in working capital;
- Invoice discounting continuing to decrease over time;
- Future dividends in line with current policy;
- Settlement of existing provisions according to best estimates together with funding costs for ongoing transformation activities;
- No changes to group structure; and
- No additional capital beyond current committed debt facilities.

The resulting financial model assesses the ability of the Group to remain within the financial covenants and liquidity headroom of the existing committed debt facilities. During the forecast period, £40m of the US Private Placement notes mature and the model assumes these are not refinanced. The £275m revolving credit facility also matures in the forecast period and the Directors consider it reasonable to assume this will be refinanced on materially similar terms. The Group also utilised £73m of invoice discounting at 31 March 2019, which the Group is not dependent upon for liquidity, covenant compliance or viability purposes in the base case scenario.

Viability statement continued

A range of scenarios that encompass the principal risks were applied to the base case and are set out in the table below. The analysis also considered a reverse stress-test scenario to illustrate the working capital outflow required to cause a breach of leverage covenant, in combination with the reduced revenue scenario.

Scenario	Principal risks
1 Loss of major contract – lost revenue and operating profit in all future periods	1, 2, 3, 12
2 Major client insolvency – lost revenue, operating profit and cash flow, plus one-off costs equivalent to three months' revenue	1
3 Major working capital outflow – £100m	4
4 10% revenue reduction	1, 2, 3, 5, 6, 7, 9, 11, 12
5 Margin erosion	1, 2, 7, 8, 10, 12
6 Reverse stress test – revenue loss and working capital outflow in combination to covenant breach	N/A

In each of scenarios 1-5, the Group would be able to continue operating within debt covenants and liquidity headroom, and maintain dividends in line with current policy. Scenario 6 required such an extreme set of factors in unison that it is considered to be a very remote likelihood and therefore does not represent a realistic threat to the viability of the Group.

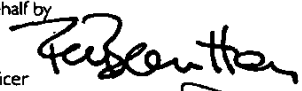
The Directors considered mitigating factors that could be employed to counter the negative effects of the crystallisation of each of these risks. The main actions included the short-term scaling down of capital expenditure, asset disposals, reductions in cash distributions or raising equity.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period considered.

The strategic report on pages 1 to 48 of Mitie Group plc, company registration number SC019230 was approved by the Board of Directors and authorised for issue on 5 June 2019.

It was signed on its behalf by

Phil Bentley
Chief Executive Officer



Paul Woolf
Chief Financial Officer



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Exceptional, every day for our environment

In FY 18/19 Mitie signed the Clean Van Commitment which builds on our promise to ensure 20% of our small van and car fleet is electric within the next two years. We also ordered 400 electric vehicles to support the fight against climate change and air pollution. Mitie, which has a fleet of 3,500 compact vans and cars, will run more than 700 electric vehicles by the end of 2020.

Mitie has also been accredited as a Go Ultra Low company, under a scheme jointly run by Government and vehicle manufacturers, which has 160 signatories. Mitie joins other companies that have committed to increase the number of electric vehicles in their fleets.

[+](#) Read more on PG 31-32

52%

reduction in energy
consumption across
Mitie estate
since FY 09/10

37%

reduction in
emissions intensity
since FY 09/10

Board of Directors

An experienced Board of Directors

Derek Mapp Non-Executive Chairman

Board Committees
Chairman of the Nomination Committee

Date of appointment to the Board
9 May 2017

Other current appointments
Derek is Chair of Informa plc and private companies: Imagesound Limited and Salmon Developments Limited. Derek also has several other private business interests.

Past roles
Derek was Chair of Huntsworth plc from December 2014 to March 2019. He was also previously Chief Executive Officer of Torn Cobleigh plc and Chair of Leapfrog Day Nurseries Limited, East Midlands Development Agency, Sport England and British Amateur Boxing Association Limited.

Skills and experience

- Experienced chairman and entrepreneur;
- Extensive career in ownership, managerial, operational and commercial roles in service industries;
- Wealth of commercial and governance experience within various sectors; and
- Promotes robust debate and an open and engaged culture.

Phil Bentley Chief Executive Officer

Board Committees
None

Date of appointment to the Board
1 November 2016

Other current appointments
None

Past roles
Phil was Group Chief Executive Officer of Cable & Wireless Communications plc from January 2014 until its sale to Liberty Global plc in May 2016. Prior to this he was a member of the board of Centrica plc from 2000 to 2013 whilst also Managing Director of British Gas from 2007 to 2013, Managing Director, Europe from 2004 to 2007 and Group Finance Director from 2000 to 2004. Phil's prior non-executive directorships include IMI plc from 2012 to 2014 and Kingfisher plc from 2002 to 2010.

Skills and experience

- Executive and non-executive experience with FTSE 100 companies for over 18 years;
- Significant strategic and commercial experience at both national and global level;
- Extensive executive and leadership experience from across industry;
- Extensive financial, audit and risk management systems experience; and
- Accountant by profession, with a master's degree from Oxford University and an MBA from INSEAD, Fontainebleau.

Paul Woolf Chief Financial Officer

Board Committees
None

Date of appointment to the Board
13 November 2017

Other current appointments
None

Past roles
Paul was Chief Executive Officer of Virgin Active Health Clubs from September 2013 to March 2017 and Chief Financial Officer from January 2013 to September 2013. Prior to that he was Chief Financial Officer of Jack Wills, Group Chief Financial Officer of Birds Eye Iglo Group and Chief Financial Officer of the Automobile Association.

Skills and experience

- A highly-regarded leader with experience across a broad range of industry sectors;
- A proven track record in operational, financial and strategic oversight and execution;
- Extensive turnaround experience; and
- Qualified as a chartered accountant, with a degree from Oxford University in Philosophy, Politics and Economics.

Nivedita Krishnamurthy Bhagat

Independent
Non-Executive Director

Board Committees

Member of the Audit Committee
Member of the Nomination Committee

Date of appointment to the Board
1 June 2017

Other current appointments

Nivedita is Chief Executive, Infrastructure Services & Cloud Services UK, Europe at Capgemini SA, a French publicly listed multinational corporation. She is also a member of its UK management board.

Past roles

Nivedita was Head of Enterprise Solutions, EMEA and Head of London Development Centre at Infosys Technologies Ltd from 1998 to 2010. Prior to this she was a consultant in the corporate finance division at KPMG India.

Skills and experience

- Significant international management experience having worked across the UK, Europe, US and India;
- Vast experience in advising clients on technology solutions with a view to enabling them to increase shareholder value;
- Several years of IT consulting and IT outsourcing experience managing large complex contracts;
- Strong sales orientation having sold global technology and digital solutions to global clients;
- Deep P/L management with focus on top and bottom line; and
- Qualified as a chartered accountant, with a degree in Economics.

Jennifer Duvalier

Independent
Non-Executive Director

Board Committees

Chair of the Remuneration Committee
Member of the Nomination Committee

Date of appointment to the Board
26 July 2017

Other current appointments

Jennifer is Non-Executive Director and Chair of the Remuneration Committee of Guardian Media Group plc, and Non-Executive Director of NCC Group plc. She is also Director of The Cranemere Group Limited and a member of the Council of the Royal College of Art, where she is also Chair of the Remuneration Committee.

Past roles

Jennifer was Executive Vice President, People, for ARM Holdings plc, a global technology business, from September 2013 to March 2017. She was also an executive committee member with responsibility for people and internal communications activity. Prior to this, Jennifer was Group People and Culture Director at UBM plc from 2007 to 2013 and Group HR Director at Emap plc from 2003 to 2007.

Skills and experience

- Leadership development, talent acquisition and management and succession planning;
- Mentoring and coaching;
- People strategy, organisation development and change management;
- Employee engagement and internal communications;
- Corporate social responsibility and partnerships;
- Executive remuneration and performance management;
- Executive team and Board effectiveness; and
- MA (Hons) from the University of Oxford in English and French.

Philippa Couttie

Independent
Non-Executive Director

Board Committees

Member of the Audit Committee
Member of the Nomination Committee

Date of appointment to the Board
15 November 2017

Other current appointments

Philippa is a member of the House of Lords and party whip.

Past roles

Philippa led Westminster City Council from 2012 to 2017. She joined the Council in 2006 and has previously served as Cabinet Member for Finance, Cabinet Member for Housing and Deputy Cabinet Member for Children's Services. Philippa was also a member of the Polling and Digital Media Select Committee from 2017 to 2018.

Prior to progressing her career in public service, Philippa was a director at Citigroup following its takeover of Schroders, where she headed up its principal finance business. She was also previously Chief Executive of Cornerstone Communications.

Philippa has served as a non-executive director on several boards since 2006, including Royal Parks and the London Local Enterprise Partnership. She was also previously Chair of the West End Partnership and Council Member of Imperial College, where she was also Chair of the Audit Committee.

Skills and experience

- Extensive experience in both public and private sector at the most senior level;
- Ennobled and joined the House of Lords in 2016; and
- A degree from the University of St Andrews in Psychology.

Board of Directors continued

An experienced Board of Directors continued

Mary Reilly Independent Non-Executive Director

Board Committees

Chair of the Audit Committee
Member of the Remuneration Committee
Member of the Nomination Committee

Date of appointment to the Board
1 September 2017

Other current appointments

Mary is Non-Executive Director and Chair of the Audit Committee of Essentra plc, an international supplier of specialist plastic, fibre, foam and packaging products. She is also Non-Executive Director and Chair of the Audit Committee of Travelzoo. Her current trusteeships include the Invictus Games Foundation and PDSA.

Past roles

Mary was Non-Executive Director and Chair of the Audit Committee of Ferrexpo plc, an iron ore mining company, from 2015 to 2019. She was also Non-Executive Director and Chair of the Audit & Risk Committee of the UK Department of Transport and of Crown Agents Limited, an international development company, from 2013 to 2017. Prior to this Mary was Non-Executive Director of Cape plc, a global industrial services company, from 2016 to 2017. She has served as a non-executive director on several other boards since 2000.

Mary was a partner in Deloitte LLP (and predecessor firms) for over 25 years. Mary was an Audit Partner in the UK specialising in manufacturing, luxury retail and business services. She also headed a unit offering outsourcing capability.

Skills and experience

- Accounting, finance and international management experience; and
- Chartered accountant, with a degree from University College London in History.

Roger Yates Senior Independent Director

Board Committees

Member of the Audit Committee
Member of the Remuneration Committee
Member of the Nomination Committee

Date of appointment to the Board
1 March 2018

Other current appointments

Roger is Non-Executive Director of Jupiter Fund Management plc and Senior Independent Director of St James's Place plc, where he is also Chair of the Remuneration Committee.

Past roles

Roger started his career in asset management at GT Management in 1981 and held positions of increasing seniority at Morgan Grenfell, LGT and Invesco. He served as Chief Executive of Henderson Group plc from 1999 to 2008 and as Chief Executive of Unicredit's asset management arm, Pioneer Investments.

Roger's non-executive roles have included F&C Investments, IG Group plc, Electra Private Equity plc and JPMorgan Elect plc.

Skills and experience

- Substantial board experience;
- Strong business track record; and
- Extensive knowledge of the finance and investment community.

Peter Dickinson General Counsel & Company Secretary

Board Committees

None

Date of appointment
6 March 2017

Other current appointments
None

Past roles

Peter was a partner at global law firm Mayer Brown International LLP (and its predecessor firm) from 1995 to 2017. During his time at Mayer Brown, Peter was also Co-Head of the Global Technology Transactions practice from 2015 to 2017, Co-Head of the Global Corporate practice (with specific responsibility for strategy) from 2008 to 2015, and Head of Corporate practice in London from 2005 to 2015.

Skills and experience

- Substantial experience in corporate advisory, mergers and acquisitions, joint ventures and other significant commercial transactions including large scale multi-jurisdictional outsourcing projects; and
- Qualified solicitor, with a degree from Southampton University in Law.

Chairman's introduction to Corporate Governance

The Board is continually seeking to adapt and respond to meet its responsibilities to shareholders and wider stakeholders for the Group's activities and its long-term success.

The Board is kept up to date on all matters of key governance by way of comprehensive reports prepared by the Company Secretary for each Board meeting. Between meetings, the Company Secretary and wider team are available if required, and the Board has access to an electronic board portal which is kept up to date with the latest governance-related information and guidance.

Statement of compliance with the Code

For the year ended 31 March 2019, we are reporting against the April 2016 edition of the UK Corporate Governance Code (the Code) and I can confirm on behalf of the Board that the Company has complied throughout the year with all the principles and the relevant provisions. The Code can be found on the Financial Reporting Council's website at www.frc.org.uk.

Details of how we have applied the principles and complied with the provisions of the Code are explained throughout the Annual Report and Accounts. In the following sections, we explain how the Code is implemented via Mitie's governance framework.

The Financial Reporting Council published an updated Code in July 2018, which applies to the Company from 1 April 2019. As a Board, we have spent time reviewing the Company's governance processes in preparation for reporting under the updated Code and we are confident we will be able to confirm full compliance for FY 19/20.

Stakeholder engagement

The Board acknowledges the importance of forming and retaining sound relationships with all stakeholder groups. Effective engagement enables the Board to ensure stakeholder interests are considered when making strategic decisions.

Accordingly, the Board has reviewed and discussed the Group's key stakeholders along with the engagement mechanisms in place to ensure they support effective, two-way communication. This information has been collated into a stakeholder engagement 'map' which will be considered regularly by the Board to ensure it remains fit for purpose. The map will also be used to support the Board's reporting requirements under Section 172 of the Companies Act 2006. More details on stakeholder engagement can be found on pages 26 and 27.



As a Board, we are committed to delivering and maintaining the highest levels of governance.

Derek Mapp
Chairman

To further enhance our extensive employee engagement activities, Jennifer Duvalier has been appointed as the Group's designated Non-Executive Director to oversee Board engagement with our workforce. Jennifer is committed to understanding the views of our workforce and will ensure those views are incorporated into the Board's decision making processes.

Board composition

In July 2018, Larry Hirst retired from the Board with Roger Yates succeeding Larry as Senior Independent Director. Mark Reckitt also stood down from the Board in July 2018, with Mary Reilly assuming the role of Chair of the Audit Committee.

As announced in August 2018, Jack Boyer stood down from the Board with effect from 31 August 2018. Jennifer Duvalier succeeded Jack as Chair of the Remuneration Committee.

Diversity and inclusion

During the year, the Board adopted a Board Inclusion Policy which sets objectives for the Board in terms of diversity and inclusion. See page 69 for further information.

Board effectiveness

The performance of the Board, its Committees and its individual Directors is an essential component of the Company's success. During 2019, I led an internal Board evaluation, which involved one-to-one meetings with each of the Directors facilitated by a questionnaire completed by each Director in advance. As Senior Independent Director, Roger Yates led the review of my performance as Chairman.

Regulatory update

On 26 June 2018, the Company was advised by the Financial Conduct Authority (the FCA) that the investigation into the Company in connection with the timeliness of a profit warning announced by the Company on 19 September 2016 and the manner and preparation and content of the Company's financial information, position and results for the period ending 31 March 2016, which was initiated on 25 August 2017, had been discontinued.

In conclusion

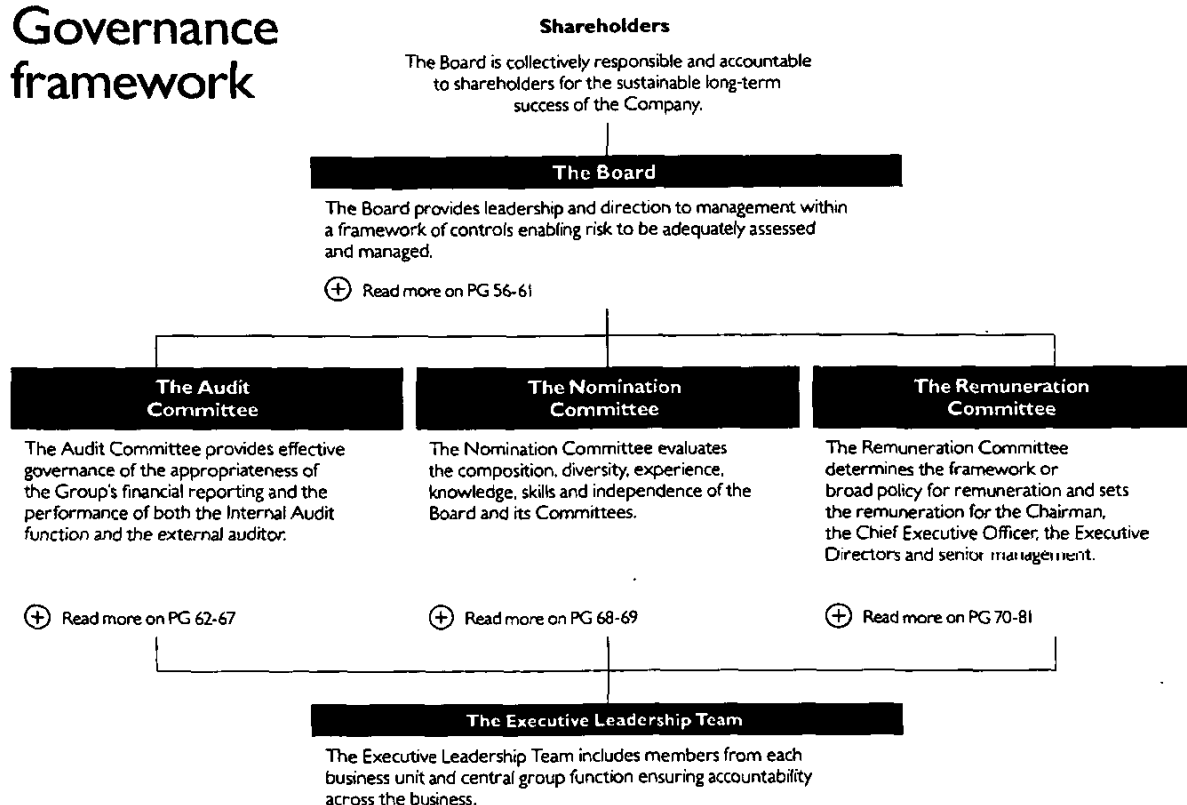
The Board remains dedicated to achieving the highest levels of corporate governance to underpin the delivery of shareholder value in the years ahead.

Derek Mapp
Chairman

Governance at a glance

Overview of our governance

Governance framework



Our range of services

Engineering
Services

Security

Professional
Services

Cleaning &
Environmental
Services

Catering

Care &
Custody

Board activities

Members of the Board attended a number of stakeholder related events during the year.

Items discussed at Board meetings during the year are included on pages 56 and 57.

April 2018	May	June	July	August	
	Monthly Cabinet Office attendance in the capacity of strategic supplier to Government	Investor roadshow (UK & US)	Annual General Meeting (offsite)		

Gender diversity	Roles	Director age range
<ul style="list-style-type: none"> Female 4 Male 4 	<ul style="list-style-type: none"> Chairman 1 Executive Directors 2 Non-Executive Directors 5 	<ul style="list-style-type: none"> 41-50 years 2 51-60 years 3 61-70 years 3

Table of meetings

Position	Name	Board	Nomination Committee*	Audit Committee	Remuneration Committee
Chairman	Derek Mapp	7/7	2/2	–	–
Board members (Executives)	Phil Bentley	7/7	2/2	–	–
	Paul Woolf	7/7	2/2	–	–
Board members (Non-Executives)	Nivedita Krishnamurthy Bhagat	7/7	2/2	6/7	–
	Jack Boyer ¹	2/2	0/0	–	3/3
	Philippa Couttie ²	7/7	2/2	6/6	–
	Jennifer Duvalier	7/7	2/2	–	5/5
	Larry Hirst ³	2/2	0/0	–	3/3
	Mark Reckitt ⁴	2/2	0/0	4/4	–
	Mary Reilly ⁵	7/7	2/2	7/7	2/2
	Roger Yates ⁶	7/7	2/2	3/3	2/2

1. Jack Boyer resigned on 31 August 2018.

2. Philippa Couttie joined the Audit Committee on 22 May 2018.

3. Larry Hirst retired on 31 July 2018.

4. Mark Reckitt resigned on 31 July 2018.

5. Mary Reilly joined the Remuneration Committee on 31 August 2018.

6. Roger Yates joined the Audit Committee and Remuneration Committee on 31 July 2018.

* Phil Bentley and Paul Woolf stood down from the Nomination Committee on 31 March 2019.

September	October	November	December	January 2019	February	March
The Gathered Table – Launch event	Employee roadshow (five locations across the UK attended by over 2,000 employees)	Investor roadshow (UK)	Investor roadshow (US)	Finance leadership team forum (The Shard)	Supplier conference (The Shard)	Major shareholder dinner (offsite) Client dinner (The Shard)

The Board

Board report

Chairman	Derek Mapp
Executive Directors	Phil Bentley Paul Woolf
Non-Executive Directors	Nivedita Krishnamurthy Bhagat Jack Boyer Philippa Couttie Jennifer Duvalier Larry Hirst Mark Reckitt Mary Reilly Roger Yates

until 31 August 2018

until 31 July 2018

until 31 July 2018

⊕ Full biographical details can be found on PG 50-52.

Purpose of the Board

The Board is responsible and accountable to shareholders for the sustainable long-term success of the Company. The Board leads and directs management within a framework of controls enabling risk to be adequately assessed and managed.

The Board reviews and agrees the strategy for the Group on an annual basis and reviews aspects of strategy at Board meetings during the year. When setting Group strategy, the Board considers a wide range of matters including, but not limited to:

- Finance;
- Shareholder returns;
- Corporate structure;
- Market trends;
- Competitive environment;
- Private/public sector approach;
- International aspects of the business and opportunities; and
- People and talent.

Board Committees

The Board has four formal Committees:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee; and
- Disclosure Committee (ad-hoc).

Details of the purpose and activities of each Committee are set out on pages 62 to 81.

The Board also has an informal Bid Committee comprised of the Chief Executive Officer, Chief Financial Officer, General Counsel & Company Secretary, Chief Government & Strategy Officer and members of the sales team. The Bid Committee meets weekly to consider any material bids being submitted.

Board activities

The Board held seven scheduled meetings during the year. Individual Director attendance at each meeting and a timeline setting out stakeholder related events attended by members of the Board can be found on pages 54 and 55. Other Board activities during the year include those set out below. In undertaking their duties, the Directors act in a way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders as a whole, having regard also to other stakeholders.

Activities

Strategy	
Offsite strategy day	All Directors attended the Board's offsite strategy day in September. On the day, the Board discussed the Group's strategic methodology and recommendations, target operating model and execution risks.
Chief Executive Officer's update	At every Board meeting the Chief Executive Officer presented to the Board on topics such as: <ul style="list-style-type: none"> • Financial highlights; • Business development; • Sector considerations; • Customers; • Sales; and • Divisional updates.
Corporate transactions	The Board debated and approved the: <ul style="list-style-type: none"> • Acquisition of Vision Security Group Limited; • Sale of Mitie's Social Housing business; and • Sale of Mitie Pest Control Limited.
Finance	
Chief Financial Officer's update	At every Board meeting the Chief Financial Officer presented a paper to the Board covering topics such as: <ul style="list-style-type: none"> • Financial performance of the Group; • Finance structuring review; and • Finance modernisation.
Budget	The Board reviewed and approved the Group's annual budget.
Results and dividends	The Board reviewed and approved the half-yearly financial report and Annual Report and Accounts, and associated dividends.

Governance and risk

Share dealing procedures	An external review of Mitie's Market Abuse Regime compliance policy was undertaken during the year. The Board subsequently adopted updated documentation.
Company secretarial and legal updates	At every Board meeting the General Counsel & Company Secretary presented a paper covering topics such as: <ul style="list-style-type: none"> • Whistleblowing; • Material litigation; • Modern Slavery Act Statement; • GDPR; • July 2018 UK Corporate Governance Code; • Companies Act 2006 Section 172 considerations; and • Other governance and regulatory highlights.
People and culture	
Employee engagement	The Board received and discussed the results of the annual employee engagement survey. Upload, and agreed actions to be taken. Actions included the creation of the 'You Said, We Did' campaign which was launched during the year.
Culture	The Board received regular updates on: <ul style="list-style-type: none"> • The roll-out of Mitie's vision and values; • Mitie Exceptionals, an employee champions network to embed new company behaviours; and • LiveSafe, the safety culture development programme aligned to Mitie's vision and values, launched in December 2018.
Stakeholders and society	
Stakeholder engagement 'map'	The Board discussed the results of a formal review which was undertaken during the year to identify: <ul style="list-style-type: none"> • Key stakeholders; • Their 'owners' within the business; • Reasons for engagement; • Engagement mechanisms; and • Important issues for each stakeholder.
Investor relations, corporate affairs and internal communications	At every Board meeting a report from the Head of Investor Relations was presented covering topics such as: <ul style="list-style-type: none"> • Share price performance; • Shareholder engagement; • Share register analysis; • Sector news; • Investor feedback; • Media coverage; and • Internal communications.
Net Promoter Score	The results of a Net Promoter Score survey were presented to the Board in March 2019 along with an action plan to embed more of the right behaviours going forward. The survey involved 250 clients being asked how likely they were to recommend Mitie to a friend or colleague. Mitie's Net Promoter Score improved 22 points from the prior year.

Director induction process and training

On joining the Board, all Directors receive a personally tailored induction which includes:

- Meetings with Executive Directors, the General Counsel & Company Secretary, and other members of senior management;
- An overview of the Group's governance policies, corporate structure and business functions;
- Details of risks and operating issues facing the Group;
- Visits to divisional offices and key client sites; and
- A briefing on key contracts.

Mitie is committed to the continual professional development of its Directors. In 2018, all Directors attended an externally facilitated training session on director duties, stakeholder engagement and the July 2018 UK Corporate Governance Code.

All Directors have access to Mitie's Board Handbook which includes:

- Board and Committee terms of reference;
- The Company's Articles of Association;
- Guidance on directors' statutory duties;
- An overview of the Group's directors' and officers' liability insurance arrangements;
- Delegated authorities register;
- Share dealing procedures;
- Corporate governance and regulatory guidelines; and
- Key corporate documents and policies.

The Board Handbook is subject to regular review and was last updated in early 2019.

Briefing notes on changes in the regulatory and governance environment are circulated to Directors on an ad hoc basis.

Online training is also available to all Directors on topics such as the Bribery Act, GDPR, Criminal Finance Act 2017 and anti-slavery.

Visits to different business sites and offices are arranged for Directors to facilitate a deeper understanding of the business.

Re-election of Directors

In accordance with the Code and the Company's Articles of Association, all Directors are subject to election or re-election by shareholders. At the 2018 AGM each Director in post at the time (except for Larry Hirst and Mark Reckitt) stood for election or re-election and was appointed or re-appointed by shareholders. Larry Hirst and Mark Reckitt departed the Board following the 2018 AGM. All Directors will stand for re-election at the 2019 AGM.

Terms of appointment for Non-Executive Directors and service contracts for Executive Directors are available for inspection at the Company's registered office and head office, and will be available at the 2019 AGM.

The Board continued

Responsibilities of the Board

Mitie maintains a formal schedule of matters reserved for the Board which can be viewed at www.mitie.com/investors/corporate-governance. The schedule was last reviewed and updated in March 2019 following the introduction of the July 2018 UK Corporate Governance Code. The schedule details key matters and responsibilities that are to be dealt with exclusively by the Board.

These include to:

- Approve the Group's long-term objectives and commercial strategy;
- Establish the Group's purpose and values and be satisfied that these, its strategy and culture are aligned;
- Review performance in light of the Group's strategy, objectives, business plans and budgets;
- Approve the half-yearly financial report and the Annual Report and Accounts;
- Review the effectiveness of the Group's risk and control processes;
- Approve all material acquisitions, material disposals, material contractual and other operational matters;
- Ensure adequate succession planning for the Board and senior management;
- Undertake a formal and rigorous review annually of its own performance and that of its Committees and individual Directors; and
- Make arrangements for dialogue with shareholders, canvassing shareholder opinion and engagement with shareholders in relation to any shareholder resolution which is opposed by more than 20% of the votes cast.

Division of responsibilities

Directors have certain responsibilities in line with their role, including those set out below.

The Board continues to support separation of the roles of the Chairman and Chief Executive Officer. A more detailed document setting out their responsibilities is available at www.mitie.com/investors/corporate-governance.

Chairman

- Chair the Board, Nomination Committee and shareholder general meetings;
- Ensure effectiveness of the Board in all aspects of its role, including the regularity and frequency of meetings;
- Set Board agendas, taking into account the issues and concerns of all Board members;
- Ensure appropriate delegation of authority from the Board to executive management;
- Manage the Board to ensure sufficient time is allocated to promote healthy discussion and open debate, supported by the right level and quality of information to assist the Board in reaching its decisions;
- Facilitate the effective contribution of Non-Executive Directors and encourage active engagement by all members of the Board;
- Ensure constructive relations between the Executive Directors and Non-Executive Directors;
- Hold meetings with the Non-Executive Directors without the Executive Directors present;
- Ensure that new Directors participate in a full, formal and tailored induction programme;
- Ensure that the performance of the Board, its Committees and individual Directors is evaluated at least once a year and act on the results of such evaluation;
- Maintain sufficient contact with major shareholders to understand their issues and concerns; and
- Ensure that the views of shareholders are communicated to the Board.

Senior Independent Director

- Act as a sounding board for the Chairman;
- Serve as an intermediary to other Directors when necessary;
- Conduct the Chairman's annual performance evaluation and lead the appointment process for any new Chairman;
- Act as chairman of the Board in the absence of the Chairman; and
- Be available as an alternative point of contact for shareholders if they have concerns which have not been resolved through the normal channels, or for which such contact is inappropriate in the circumstances.

Non-Executive Directors

- Exercise independent skill and judgement;
- Constructively challenge proposals based on relevant individual experience, knowledge and skills;
- Contribute to the formulation and development of strategy;
- Monitor corporate reporting to ensure integrity of financial information;
- Oversee the Group's principal risks and assurance in place relating to those risks, including internal audit programmes;
- Play a key role in determining the remuneration policy for the Chairman, Executive Directors, General Counsel & Company Secretary and members of senior management; and
- Hold a primary role in Board succession planning.

Chief Executive Officer

- All aspects of the operation and management of the Group within the authorities delegated by the Board;
- Develop Group objectives and strategy, having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- Successful achievement of objectives and execution of strategy following presentation to, and approval by, the Board;
- Recommend to the Board an annual budget and long-term business plan and ensure their achievement following Board approval;
- Optimise the use and adequacy of the Group's resources;
- Recommend to the Board acquisitions and disposals, and ensure their execution following Board approval;
- Manage the Group's risk profile, including the health and safety performance of the business; and
- Make recommendations to the Remuneration Committee on remuneration policy, executive remuneration and terms of employment of the senior executive team.

Chief Financial Officer

- Lead, direct and oversee all aspects of the finance and accounting functions of the Group;
- Evaluate, approve and advise on the financial and commercial impact of material contracts and transactions (including mergers and acquisitions), technology investments, long-range planning assumptions, investment return metrics, risks and opportunities and the impact of changes in accounting standards;
- Oversee and direct the Group's Risk, Insurance, Pensions and Internal Audit functions;
- Manage relationships with the external auditor and key financial institutions and advisors;
- Ensure effective internal controls are in place and compliance with appropriate accounting regulations for financial, regulatory and tax reporting; and
- Provide an underpin to all aspects of the Group's governance framework, the application of its delegated authorities and its investment activities.

Board effectiveness

In accordance with the Code, the Board carries out annual performance evaluations. These are externally led every three years and internally led in other years. In FY 18/19, the Board evaluation was internally led by the Chairman for the Non-Executive Directors and Executive Directors, and facilitated by the Senior Independent Director for the Chairman. The Board's evaluation of its own performance provides an opportunity to enhance its effectiveness and identify any areas for improvement. The Board evaluation process followed in FY 18/19 is set out below.

Identify areas of focus



Circulate questionnaire



One-to-one meetings



Anonymise meeting notes



Produce findings and actions



Board discussion

The Chairman discussed the outcomes of the evaluation with the Board at its meeting in June 2019. Details will be set out in the next annual report.

Board accountability and assurance

Risk management approach

During the year, the Board has continued to oversee the improvements being implemented by the management team to reflect the more structured approach to governance, risk management and internal control first adopted following the FY 16/17 comprehensive review of the Group's balance sheet. These have included simplification of the organisational structure, clarity of reporting lines for the central functions, notably HR, Legal and Finance, cessation of the 'Mitie Model' arrangements, outsourcing of the back-office finance transactional processes to Genpact, the outsourcing of application maintenance IT processes to Wipro and continued standardisation and simplification of processes and procedures in the Group. In FY 17/18, a Group-wide delegated authority register (DAR) was deployed which clarifies the accountabilities and authority to take decisions on specific matters within defined financial limits, at levels from the Board to divisional leadership. This helps to disseminate the Board's risk appetite. At the same time, authority registers were also implemented in each division, which follow the same principles as the DAR. This structure should ensure a consistent approach to acceptance and management of risk across the business.

The whistleblowing line, provided by an external party, was launched in FY 17/18, with all reports being reviewed and investigated. This also enhances the identification of risks. Improvements in IT systems have continued to bring the business onto consistent platforms, with improving management information and visibility of common risks and effectiveness of controls. The Internal Audit function has targeted its work at areas of the business where risk management and internal controls are suspected of requiring improvement, which has helped to improve the risk and control frameworks.

In addition, a new Bid Committee has been established, the key members of which comprise the Chief Executive Officer, Chief Financial Officer, General Counsel & Company Secretary and Chief Government & Strategy Officer. The role of the Committee is to consider all bids the aggregate value of which exceeds £3m p.a., to determine whether such bids meet the Group's financial, commercial and legal objectives.

The Group's approach to risk is set out in more detail below. The approach to risk management is regularly reviewed by the Board and Executive Leadership Team and continues to evolve in line with the business structure and risk profile. The Board understands that effective risk management and a sound system of internal control are essential to the achievement of the Group's strategy and supporting objectives. The Audit Committee has continued to focus on its review of the risk management framework to increase its understanding of the nature of the risks faced by the Group and how they are addressed.

Risk culture

It is recognised that the risk management culture within the business is equally as important as an effective risk management framework. In support of this, the 'One Mitie' Vision and Values have an important role to play. As well as helping to achieve common ways of working and clarity of approach for customers and employees, they also help set out, together with the code of conduct (One Code), the framework upon which Mitie's risk culture is built. Emphasis is placed on the importance of embedding risk management into all key decisions, such that opportunities to grow the Group are effectively balanced with effective risk management decision making. This means that opportunities may continue to be exploited, provided risks have been properly identified and the right controls established or, in some cases, potential opportunities are declined if they sit outside the Group's risk appetite.

The Board continued

One Code sets out the expected behaviours for all employees and supply chain partners and establishes zero tolerance in specific areas as part of an established ethical business framework. The Group continues to review and reaffirm its code of conduct with employees and supply chain partners to ensure awareness of the vision, values and expected behaviours is maintained.

Risk management processes

The Group's risk management framework provides a flexible and adaptable approach to the identification of risk across all areas of the business, to meet the demands of the dynamic and fast evolving environment in which the Group continues to operate. Ultimate responsibility for risk management lies with the Board, delegated to the Chief Executive Officer, who further delegates it to the Executive Leadership Team, with accountability and responsibility assigned to specific risk owners. The Group risk profile is reviewed by the Chief Executive Officer, Chief Financial Officer and General Counsel & Company Secretary in advance of formal review and approval by the Board. This information is captured in risk registers at business and functional level, as well as for large contracts, which are subsequently consolidated into strategic, operational, financial and regulatory risk categories within the overall Group risk register maintained by the Group Risk function.

Risk identification and assessment

When considering the risks that pose a threat to the achievement of the Group's strategy, the Board takes both internal and external perspectives into account to ensure a thorough identification process occurs. The internal view takes into account factors such as the changing and developing business profile, operational processes, technology and people, while the external view includes the economic environment, political factors and sector and geographical risks. A top-down and bottom-up approach ensures the systematic identification of significant risks to the business. Once identified, risks are assessed using standard impact and likelihood ratings to quantify the risk to the achievement of business objectives. The Group employs risk management software to help deliver its enterprise risk management agenda as well as enhancing risk reporting and oversight. Risk registers are formally reviewed twice a year and approved by business unit Managing Directors.

Risk assessments are based on a '5 x 5' scale ranging from minimal to catastrophic, with any risks falling into the Group's upper limits having mandatory mitigation plans with the expectation that these risks are managed down to acceptable levels.

Risk mitigation

Each identified risk has a defined control owner who is responsible for developing and implementing a risk mitigation plan. As part of the risk review process, each control is required to be reviewed and formally assessed for its effectiveness in mitigating risk. In order to strengthen the oversight of risk management and internal control, audit and risk governance meetings occur at a business unit level.

The terms of reference for the operation of these meetings are aligned with the Audit Committee's objectives. The agenda requires business units to review their top-level risks and the progress of associated mitigation plans as well as assess any changes to the external environment and their consequent impact on business units' risk profile. In addition, reports from the Internal Audit function and other internal or external assurance providers are discussed, with the objectives to share best practice and identify common or emerging risk themes.

Assessment of the effectiveness of the control environment is undertaken at both business and Group level, with the Audit Committee formally reviewing performance throughout the year and advising on the effectiveness of the risk management system in place.

Risk monitoring and review

Principal risks to the business and associated mitigation plans are presented to the Audit Committee and are monitored on an ongoing basis.

The risk management framework is designed to manage, rather than eliminate, the risk of failing to achieve the objectives and strategies of the Group and can therefore only provide reasonable, and not absolute, assurance against material risk and loss. The Board, through the Audit Committee, considers the nature and extent of significant risks in setting the Group's strategy. Details of the principal risks of the Group are set out on pages 38 to 46. It should be noted that other risks are identified as part of the risk management process, but these do not have a material impact on the Group's overall ability to achieve business objectives. These risks are managed via the existing risk management process.

The Audit Committee confirms that this risk management process has been in place throughout the reporting year and remains in place up to the date of approval of the Annual Report and Accounts. However, as described, the process is continuing to evolve and will be subject to review and improvement.

Whistleblowing

Since September 2017, Mitie has operated an independent whistleblowing service to enable employees, suppliers and third parties to report any concerns or wrongdoing anonymously without any fear of retaliation. The service, which is managed by an independent service provider, can be accessed via a freephone number, a free online app or through the service provider's website.

Details of the service are made available to employees via Mitie's Code of Conduct and are displayed on Mitie's intranet and workplace posters. Details of the service are also communicated to suppliers via Mitie's sourcing portal and to other third parties via www.mitie.com.

The service and related internal procedures are structured to ensure that all reports are reviewed and investigated independently from the area of the business to which they relate, thereby minimising the risk of conflicts arising.

All reports are copied to the Group Legal function, which is intended to ensure transparency and enable any trends across different divisions and functions to be identified and addressed. An update on whistleblowing activity is provided to the Executive Leadership Team as appropriate and to the Board at each Board meeting.

Internal controls

The Board is responsible for maintaining an effective internal control framework. Mitie's system of internal control consists of financial, operational and compliance controls.

The system covers both entity level and monitoring and oversight controls, comprising business leadership review and direction, and detailed process controls and control activities, which are embedded in business processes. During FY 18/19, a comprehensive exercise was commenced to review, improve and document internal controls across the Group.

Mitie's policies and procedures are documented in the Business Management System (BMS) and are available to management and employees through an intranet portal. Divisional and functional leadership teams ensure that controls are operating within the processes and procedures, and that risks are being appropriately managed.

The Audit Committee conducts a review of the effectiveness of the system of internal control annually. This review is supported by a report from the Head of Internal Audit and includes a control assessment exercise undertaken by Internal Audit in conjunction with the business leadership teams. The review focuses on the key internal controls which manage the risks faced by the business. The Committee also considers the results of the work completed by Internal Audit, which are reported to it in regular updates. There has continued to be a significant number of internal control weaknesses reported to the Audit Committee in reports produced by the Internal Audit team. This is because the internal audit work plan is targeted at areas known, or suspected to have, weak or ineffective internal controls. Remedial action plans developed by management to address any control weaknesses found are monitored by the Audit Committee to ensure timely closure of the actions. Further detail on this can be found in the Audit Committee Report on page 66.

Internal Audit

The Internal Audit function's authority and responsibilities are defined in its charter, which is reviewed regularly by the Audit Committee. The Internal Audit function operates independently and reports directly to the Audit Committee (administratively to the Chief Financial Officer). This reporting line offers independence from audited activities and allows the Internal Audit function to achieve objectivity.

The work of the Internal Audit function helps to provide assurance over the effectiveness of the Group's governance, risk and control frameworks. The Chair of the Audit Committee oversees the appointment and removal of the Head of Internal Audit and assesses the function's performance against internal audit objectives. The annual internal audit plan is approved by the Audit Committee. All amendments to the approved annual internal audit plan are communicated to the Audit Committee through periodic update reports. The results of each internal audit are documented in an audit report for internal distribution and action.

The Chair of the Audit Committee and the Company's external auditor, BDO LLP, have access to all internal audit reports issued during the year. The Audit Committee also receives a quarterly report on internal audits completed in the period, and reports from BDO LLP arising from its audit work. These provide an independent perspective on the Group's internal financial control systems.

Report from the Audit Committee Chair

Audit Committee members

Mark Reckitt was the Chairman of the Audit Committee from July 2015 until July 2018. Mary Reilly succeeded Mark as Chair of the Audit Committee on 31 July 2018, having been a member of the Committee since 1 September 2017. Mary has a wealth of experience as a non-executive director and chairing audit and risk committees. She has extensive relevant and recent accounting, finance and management experience. Mary's full biography can be found on page 52.

At the date of this report the Audit Committee comprises independent Non-Executive Directors who are all considered appropriately experienced to fulfil their duties.

Chair	Mary Reilly Mark Reckitt	from 31 July 2018 until 31 July 2018
Committee members	Nivedita Krishnamurthy Bhagat Philippa Couttie Roger Yates	from 22 May 2018 from 31 July 2018

Frequency of Audit Committee meetings

During the year ended 31 March 2019, the Audit Committee met seven times. For the Directors' attendance, see table on page 55. Invitations to attend meetings are normally extended to the Group's external auditor, the Chairman, the Senior Independent Director, the Chief Executive Officer, the Chief Financial Officer, the Director of Group Finance, the Group Financial Controller, and the Head of Internal Audit.

The Audit Committee also meets with the external auditor and the Head of Internal Audit without the Executive Directors present.



The current financial year has seen further improvement in the internal control and financial reporting environment.

Mary Reilly

Chair of the Audit Committee

As Chair of the Audit Committee I am pleased to present my first report to shareholders. I was appointed Chair of the Audit Committee in July 2018, having been a member of the Committee since September 2017. I would like to thank my predecessor, Mark Reckitt, for his leadership of the Committee and work with the Group during what had been a difficult period with a number of complex and challenging matters being presented for the Committee's consideration.

It is gratifying to report that continued further improvements have been made by the Group to strengthen the internal control environment, improve the accuracy of financial reporting, and ensure consistency of application of accounting policy across the Group, including:

- An appropriate risk management and internal control culture is being successfully embedded in each division through divisional audit committees which are attended by the division's Managing Director and Finance Director, the Head of Internal Audit, the Group Financial Controller, and other representatives or specialists as required. Going forward each division will present its key risks and mitigations along with the status of any follow-up actions to the Audit Committee for review at least once each financial year and more frequently should circumstances require;
- The strengthening of the Group finance function is now largely complete; this has become a function which is capable of setting and monitoring financial and accounting policy as well as supporting the commercial and financial objectives of each division and the Group as a whole; and
- The size of the Internal Audit team has been increased through external recruitment bringing new external perspectives alongside additional capacity. A comprehensive risk focused programme of work has been successfully delivered in FY 18/19, and a similar detailed plan for FY 19/20 has been developed by the Head of Internal Audit in consultation with management and the Audit Committee.
- The outsourcing of the finance back office to Genpact was completed during 2018; a second phase of work is now underway to rationalise, simplify and standardise processes across the Group to promote efficiency and improved financial control. A key enabler of this phase will be to move the Engineering Services division from a legacy finance system onto the Group's SAP platform as well as more general improvements to accounting and control processes.

Having joined the Board in September 2017, I saw the scope and impact of many of the issues identified during FY 16/17. It is encouraging to see the substantial progress that has been made since then and in particular to note that in the main the matters presented for consideration by the Audit Committee, while often still complex and judgemental, are more in the nature of those which would typically arise in a group of this scale and with this mix of businesses and contracts.

In addition to fulfilling its normal programme of activities this year the areas of focus for the Audit Committee have been:

- Ensuring the continued development of the Internal Audit function by supporting recruitment and challenging the audit plan to ensure maximum impact through alignment of audits with the risks faced by each division and the Group more generally;
- Assessing the judgements made by management in respect of the acquisition and disposals made by the Group. In particular the Audit Committee has assessed management's approach to and assumptions made in respect of the valuation of intangible assets associated with Vision Security Group as well as the associated gain on purchase, the gains and losses on disposals included in the income statement in respect of the disposal of Mitie Pest Control Limited and the Social Housing business, and the provisions made for legacy liabilities retained by the Group as part of the disposal of the Social Housing business;
- Evaluating the approach taken by management to support the going concern and viability statements set out on pages 86, 87 and 47 respectively;
- Considering whether the Annual Report and Accounts provide sufficient information to understand the financial position and prospects of the Group; and
- Following the successful early adoption of IFRS 15 'Revenue from contracts with customers', considering the process followed by management to assess the impact of IFRS 9 'Financial Instruments' and to embed the accounting requirements of this standard and IFRS 15 into the Group's monthly accounting processes.

⊕ Further detail regarding the Audit Committee and its work can be found on PG 64-67.

In conclusion, the Audit Committee can provide positive assurance to the Board, that the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable, and provides shareholders with sufficient and appropriate information to enable an assessment of the Group's position and performance, business model and strategy.

As Chair of the Audit Committee, I will be available at the 2019 AGM to answer any questions about the work of the Audit Committee.

Mary Reilly

Chair of the Audit Committee



Audit Committee report continued

Key purpose of the Audit Committee

The Audit Committee provides effective governance of the appropriateness of the Group's financial reporting and the performance of both the Internal Audit function and the external auditor. The Audit Committee also supports the Board in meeting its responsibilities in respect of overseeing the Group's internal control systems, business risk management, and related compliance activities.

- ⊕ The Audit Committee's Terms of Reference are available at www.mitie.com/investors/corporate-governance.

The role of the Audit Committee in relation to financial reporting

The primary role of the Audit Committee in relation to financial reporting is to review with both management and the external auditor the appropriateness of the half-yearly financial report and Annual Report and Accounts, concentrating on, amongst other matters:

- The consistency of, and any changes to, significant accounting policies and practices both on a year-on-year basis and across the Group;
- The clarity and completeness of disclosures and the context in which statements are made;
- The methods used to account for significant or unusual transactions where different approaches are possible; and
- Whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

To aid the review, the Audit Committee considers reports from the Chief Financial Officer and also reports from the external auditor on the outcomes of the half-year review and year-end audit.

Significant issues considered by the Audit Committee during the year

The Audit Committee gives attention to matters it considers to be important by virtue of their size, complexity, level of judgement required, or potential impact on the financial statements and wider business model, and matters pertaining to governance. Identification of the issues deemed to be significant takes place following open, frank and challenging discussion between the Audit Committee members, with input from the Chief Financial Officer, the external auditor, the Head of Internal Audit, the Group Financial Controller, and other relevant Mitie employees.

The Audit Committee considered the significant matters set out below during the course of the financial year. In all cases, papers were presented to the Audit Committee by management, setting out the relevant facts, material accounting estimates, and the judgements associated with each item. The external auditor provided a paper setting out its views on each area of judgement.

The Audit Committee discussed the papers with management and sought the views of the external auditor on each matter. For each area of judgement, the Audit Committee concurred with the treatment adopted and any relevant disclosure presented in the Annual Report and Accounts.

Revenue recognition

The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 April 2017. While this standard has in general reduced the level of judgement required in respect of revenue and profit recognition, the Audit Committee has considered papers prepared by management setting out the ongoing activity to embed this standard into monthly reporting and contract performance measurement processes as well as the approach taken to judgemental areas such as contract modifications, mobilisation costs, pre-contract costs, and the recognition of revenue as performance obligations are achieved.

Provisioning for legacy contractual liabilities

Under the terms of the disposal of the Social Housing business the Group retained liability for certain contractual issues for completed contracts. Management has made judgements to arrive at the provisions recorded in the financial statements. The Audit Committee has considered papers prepared by management setting out the basis for these judgements.

Fair value of assets and liabilities acquired

During November 2018 the Group concluded the acquisition of Vision Security Group Limited and its subsidiary companies. As required by IFRS 3 'Business Combinations', the Group has carried out work to assess the fair value of the consideration paid, and the assets and liabilities acquired. Such an assessment includes the evaluation of intangible assets which were not previously recognised by the acquired entities.

The Audit Committee has considered papers prepared by management detailing the process, assumptions, and methodology applied to assess the fair value of those intangible assets, the value of the consideration and the resulting income statement credit of £8.8m representing a gain on bargain purchase.

The Audit Committee concurs with the assessment made by management in respect of these matters.

Assessment of the outcome of completion settlements

During the year the Group has completed the disposal of Mitie Pest Control Limited and the Social Housing business and the acquisition of Vision Security Group Limited. All these transactions include a completion accounts process for the final determination of the consideration due.

These processes are ongoing and so the Audit Committee has considered papers prepared by management detailing the current status of each negotiation and management's assessment of the likely outcome.

Adoption of IFRS 9 and the potential impact of IFRS 16

The Group adopted IFRS 9 'Financial instruments' from 1 April 2018 and will be required to adopt IFRS 16 'Leases' for the year ending 31 March 2020.

The Audit Committee has considered papers prepared by management in respect of the impact of the adoption of IFRS 9, the potential impact of IFRS 16, and the disclosures made in Note 1 to the consolidated financial statements.

The Audit Committee is satisfied that the disclosures made within the financial statements in respect of:

- IFRS 9 are sufficient to gain a proper understanding of the impact on the Group of the changes in the measurement and disclosure of financial instruments brought about by the adoption of this standard; and
- IFRS 16 are sufficient to gain a proper understanding of the substantial change in the presentation of the Group's income statement and balance sheet which will arise when this standard is adopted for the year ending 31 March 2020.

Valuation of goodwill

The Group has made a number of acquisitions in previous periods and carries goodwill as an intangible asset on its balance sheet in respect of the businesses acquired (see Note 12) to the consolidated financial statements.

The Group considers the carrying value of all goodwill on at least an annual basis, or when an indicator of impairment has occurred. The valuation and impairment review of goodwill is assessed for each individual cash-generating unit (CGU) and considers the balance sheet value of the goodwill compared to the net present value of the post-tax cash flows that are expected to be generated by that CGU. The approach involves an estimation of the future cash flows expected to be derived from each CGU and the selection of appropriate discount rates, which are then applied to the cash flows to calculate a net present value.

The assumptions underpinning the review of the carrying value of goodwill were considered by the Audit Committee. The cash flow forecasts used in the review were derived from the most recent CGU budgets which have been reviewed and approved by the Board and the long-term business plans of the Group.

The Audit Committee has considered papers prepared by management detailing the assumptions and methodology applied to assess the carrying value of goodwill. The Audit Committee concurs with the assessment made by management in respect of this matter.

Other material accounting judgements

Management has continued to operate the structured process, first introduced in September 2017, for the identification of material accounting judgements made in arriving at the results. The judgements with a significant actual or potential impact upon Group results are presented to the Audit Committee for consideration.

The Audit Committee has considered papers prepared by management in respect of the following matters:

- The recoverability of trade receivables and accrued income;
- Disclosure of contingent liabilities related to the Group's participation in multi-employer pension schemes;
- Disclosures in respect of other contingent liabilities;
- Provisioning for commercial settlements, disputes and other contractual liabilities;
- Provisions related to the indemnity provided as part of the disposal of the Healthcare business during FY 16/17; and
- The need for provisions in respect of potentially onerous contracts.

The Audit Committee has reviewed the information provided by management as well as the views expressed by the external auditor. The Audit Committee concurs with the judgements made by management in respect of the accounting for and disclosure of these matters.

Use of Alternative Performance Measures (APMs)

The Company's performance measures continue to include some measures which are not defined or specified under IFRS.

The Audit Committee has considered presentation of these additional measures in the context of the guidance issued by the FRC in relation to the use of APMs, challenge from the external auditor, and the requirement that such measures provide meaningful insight for shareholders into the results and financial position of the Group.

The Audit Committee concurs with the judgements made by management in respect of the presentation of the APMs. Furthermore, the Audit Committee concludes that clear and meaningful descriptions have been provided for the APMs used, that the relationship between these measures and the IFRS measures is clearly explained, that the IFRS measures are afforded equal prominence to the APMs, and that the APMs support understanding of the financial statements.

A reconciliation of the APMs to the IFRS measures is provided in the Appendix – Alternative Performance Measures on pages 163 to 165.

Review of the Group's going concern and viability statements

The Audit Committee has considered the evidence that supports the Directors' conclusion that the Group has adequate financial resources to continue in operation for the foreseeable future and can therefore prepare its financial statements on a going concern basis.

The Audit Committee considered papers detailing management's assessment of the prospects and performance of the Group including:

- The future business plans of the Group;
- The potential impact of acquisition or disposal activity and possible changes to the composition of the Group;
- The projected future cash flows of the Group;
- The availability of core and ancillary financing facilities and compliance with the related covenants;
- The projected drawn positions and headroom available on the core committed financing facilities; and
- Those matters reviewed in connection with the Viability Statement.

The Audit Committee also reviewed and considered the disclosures related to going concern and viability in the Annual Report and Accounts and considered them to be appropriate.

Details of the conclusions arrived at by the Directors in relation to preparing the financial statements on a going concern basis can be found in the Directors' report: other disclosures on pages 86 to 87, as can the details of the conclusions arrived at by the Directors in assessing the viability of the Group.

The more detailed assessment of the Group's long-term viability is set out in the Viability Statement on page 47.

Audit Committee report continued

Internal audit development and review of findings

During FY 17/18, the Audit Committee requested that Internal Audit expand its scope of work to include greater coverage of the commercial risks and issues faced by the Group and the associated mitigating processes and controls. Additionally, a focus on the effectiveness and consistency of controls contained within Group-wide processes was agreed. Following this request the size of the Internal Audit team was increased. The Group continued to make use of Grant Thornton to support the delivery of the Internal Audit plan, utilising specialist resource to assist in certain areas, notably IT audits.

The Internal Audit programme during FY 18/19 has included:

- A review of the programme by the IS and Legal functions to ensure that the Company is compliant with the new data privacy (GDPR) regulations, and how this has been embedded into the ongoing activities and business units;
- A comprehensive audit of the processes and procedures to bring new employees into the Company, including the relevant security and vetting assessments and induction processes;
- An audit of the effectiveness of the controls and risk management processes in the mobilisation of the new Detention & Escorting Services Home Office contract within the Care & Custody division; and
- A review of the projects business within the Engineering Services division, which has undergone significant change during the year, having absorbed the roofing and painting businesses from the former Property Management division.

The Head of Internal Audit reviews the content and focus of the Internal Audit plan throughout the year to ensure it reflects the risk profile of the business, resulting in a number of amendments to the plan originally presented to the Audit Committee in March 2018. This has, in part, been due to the sale of the Social Housing and Pest Control businesses and acquisition of VSG, as well as the significant amount of process and organisational transformation affecting both the risk and control processes. All of the changes to the Internal Audit plan were communicated to and approved by the Audit Committee.

The Audit Committee reviewed the updates provided by the Head of Internal Audit at meetings throughout the year, which included developments in the internal control environment, highlighting improvements and areas requiring greater focus. During the year, there continued to be a number of audits rated as unsatisfactory or requiring improvement, which is reflective of the targeting of internal audit activity to processes and areas where internal controls are suspected to require improvement.

The Audit Committee also monitored the status of the actions undertaken by management to address the findings from internal audit reports. Whilst the number of actions completed after the original planned closure dates has not increased, there is still more work to be done to ensure that sufficient time and resource is assigned to completing actions. The Audit Committee continues to monitor the closure of actions closely and challenge management to ensure they are addressed on a timely basis.

Tax strategy

The Chief Financial Officer presented a paper to the Audit Committee detailing the Group's tax strategy and associated governance, planning and attitude to risk. The Audit Committee considered this paper and was satisfied with the approach being taken by the Group.

External audit

Each year the Audit Committee reviews the performance of the external auditor in respect of audit related services and non-audit services and is committed to ensuring the independence, effectiveness and objectivity of the external auditor.

External auditor effectiveness

The Audit Committee monitored the conduct and effectiveness of the external auditor through its assessment of:

- The experience, expertise and perceptiveness of the auditor;
- The planning and execution of the agreed audit plan and quality of audit reports; and
- The conduct of the auditor including the Audit Committee's experience of interaction with the auditor.

In addition to receiving written reports from the auditor and from management, the Audit Committee also conducted private meetings with the external auditor and separately with management. These meetings provide the opportunity for open discussion and feedback on the audit process, the responsiveness of management, and the effectiveness of both internal and external audit teams.

Non-audit services provided by the external auditor

The Audit Committee has approved a non-audit services policy that ensures the external auditor remains independent and objective throughout the provision of its independent audit services and when formulating its audit opinion. In order to retain the flexibility of utilising the external auditor to provide non-audit services, the following criteria must also be met.

These are such that the external auditor does not:

- Audit its own work;
- Make management decisions for the Group;
- Create a conflict of interest; or
- Find itself in the role of advocate for the Group.

The non-audit services policy identifies the various types of non-audit services which might be required and determines the analysis to be undertaken along with the level of authority required before the external auditor can be considered for such work. Further, the policy is consistent with the Financial Reporting Council's ethical standards policy.

When considering the appointment of the external auditor for non-audit services, the following factors are taken into account:

- The quality of work provided by the external auditor;
- Representations provided by the external auditor regarding independence and objectivity, along with internal controls implemented when providing non-audit services;
- The level of the external auditor's understanding of the Group;
- The nature of the work being performed; and
- The commercial and practical circumstances of particular types of work required.

A summary of the fees paid to the external auditor is given in Note 6 to the financial statements. The only other service provided to the Group for the year ended 31 March 2019 was the review of the interim financial statements. The Audit Committee considered reports from both management and the external auditor, none of which raised concerns about auditor independence. The Audit Committee confirms that the requirements of the non-audit services policy have been met throughout the year.

Appointment and reappointment of the external auditor

The Group undertook a competitive external audit tendering process in 2017 and BDO LLP was selected as the Group's auditor with effect from 19 September 2017, replacing Deloitte LLP.

Scott McNaughton is the lead partner on the audit for the year ended 31 March 2019 and was the lead partner in the previous year.

The Audit Committee considers annually the need to tender the audit for audit quality or independence reasons. There are no contractual obligations in place that restrict the Group's choice of statutory auditor.

The Audit Committee confirms that the Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Assurance

In accordance with Internal Control: Guidance for Directors and section C.2.3 of the Code, the Board performs a formal annual assessment of the operation and effectiveness of the system of internal control, covering all material controls including financial, operational and compliance controls, and updates this assessment prior to the signing of the Annual Report and Accounts.

These activities are monitored at executive level to ensure that control changes are implemented appropriately and that they are effective. The Head of Internal Audit oversees the application of control environment improvements and attends Audit Committee meetings to provide regular updates on the effectiveness of the Group's internal controls and the results of the internal audit process.

Features of the internal control and risk management systems that ensure accuracy and reliability of financial reporting include:

- A culture of good governance, integrity, competence, fairness and responsibility;
- Group policies and procedures to support the business by providing an operational internal control framework; and
- Clearly defined responsibilities, delegated in accordance with the Group's delegated authorities and authorisation registers.

Accountability for internal control and risk management systems is devolved into each division and any control weaknesses within divisions are investigated and resolved. Management and the Committee seek to ensure that their cause is understood, and mitigating actions are taken to limit the potential for recurrence. In view of the work of the Internal Audit function, management and the external auditor, it is considered unlikely that a weakness within a particular division would have a significant impact on the Group.

Review of whistleblowing processes

Part of the Audit Committee's role is to ensure that appropriate procedures are in place in relation to whistleblowing and to review on an annual basis the Group's whistleblowing policy. The Group has continued to operate its 'Speak up' service via an independent third-party provider. Reporting of matters raised through this service is to the Board of Directors.

Nomination Committee report

Report from the Nomination Committee Chairman

Nomination Committee members

At the date of this report the Nomination Committee comprises:

Chairman	Derek Mapp	
Committee members	Phil Bentley	until 31 March 2019
	Paul Woolf	until 31 March 2019
	Nivedita Krishnamurthy Bhagat	
	Jack Boyer	until 31 August 2018
	Philippa Courtie	
	Jennifer Duvalier	
	Larry Hirst	until 31 July 2018
	Mark Reckitt	until 31 July 2018
	Mary Reilly	
	Roger Yates	

Frequency of Nomination Committee meetings

During the year ended 31 March 2019, the Nomination Committee met twice. For the Directors' attendance, see table on page 55.

In accordance with the UK Corporate Governance Code (the Code), membership of the Committee comprises a majority of independent Non-Executive Directors, all of whom are considered to be appropriately experienced to fulfil their duties. Phil Bentley and Paul Woolf stood down from the Committee on 31 March 2019.

Key purpose of the Nomination Committee

The Nomination Committee evaluates the composition, diversity, experience, knowledge, skills and independence of the Board and its Committees. This allows appropriate balance to be maintained and ensures the continued effectiveness of the Board.

The Committee considers the length of service of the Board as a whole so that the membership of the Board is regularly refreshed, taking into account the challenges and opportunities facing the Group, and the skills, expertise and diversity required for the future.

Key responsibilities of the Nomination Committee

The key responsibilities of the Nomination Committee include:

- To identify and nominate candidates to fill board vacancies as and when they arise;
- To ensure plans are in place for an orderly succession to Board and senior management positions and oversee the development of a diverse pipeline for succession;
- To keep under review the number of external directorships held by each Non-Executive Director;
- To review the results of the Board performance evaluation process that relate to the composition of the Board; and
- To keep the Board Inclusion Policy under review to ensure its effectiveness and alignment with best practice.

⊕ The Nomination Committee's Terms of Reference are available at www.mitie.com/investors/corporate-governance.

Key activities during the year

Composition

As indicated in last year's report, Mark Reckitt and Larry Hirst stood down from the Board on 31 July 2018. As announced in August 2018, Jack Boyer stood down from the Board with effect from 31 August 2018.

As it does annually, and in light of the above changes, the Nomination Committee reviewed the composition and leadership of the Board and each of its Committees. The Nomination Committee is satisfied that the Board's composition and diversity has been appropriate throughout the year, having regard in particular to the integrity, skills, knowledge and experience of its Directors and the size and nature of the business. A skills matrix can be found on page 69.

In accordance with the Code, all Directors will stand for re-election at the 2019 AGM.

Succession planning and talent development

The Board recognises the importance of planning for the future and the succession planning process. During the year, the Nomination Committee considered the ongoing succession planning and refreshing of the Board.

The Committee also reviewed the work undertaken within the business during the year to identify, develop, engage and nurture talent across the Group and in particular at the level immediately below the Executive Leadership Team, the Group Leadership Team.

During the year, a full talent review was conducted, and work continues to identify personalised development plans for those recognised as having the highest potential. The Committee also considered the work underway to increase the performance and capability of the Group's senior leaders. Firm foundations are now established within Mitie to build a more visible talent and succession process.

Director time commitments

During the year, the Committee reviewed the time commitments for each Non-Executive Director to ensure there are no concerns regarding overcommitment. The review considered the number and scope of appointments, as well as the size and type of company in which roles are held, the views of major shareholders and current published guidelines and recommendations.

The Committee noted the significant vote against the re-election of Mary Reilly at the 2018 AGM and the Company's update statement published on 31 January 2019 which can be found at www.mitie.com/investors/corporate-governance.

The majority of the votes received against Mary's re-election were attributable to one of the Company's major shareholders whose policy is not to support non-executives with more than two other equivalent positions with other companies or organisations. Non-executive directors holding a position of chair of an audit committee are also not expected to hold more than one other position.

Members of the Board have met with the major shareholder and have sought to provide reassurance that Mary has sufficient time to dedicate to her duties. Director time commitments also formed part of the discussion held with major shareholders at a shareholder dinner held in March 2019.

The Board remains confident that all Board members have sufficient time to dedicate to their duties.

Board diversity and inclusion

Mitie has a Group-wide Equality, Diversity and Inclusion Policy that clearly states its commitment to the inclusion and diversity of all employees at all levels.

As an extension to the Group-wide policy, during the year the Board adopted a Board Inclusion Policy, which recognises the importance of Board membership reflecting diversity in its broadest sense and sets objectives for diversity at Board level.

The Board, through the Nomination Committee, is committed to:

- Ensuring its membership reflects a combination of demographics, skills, experience, race, age, gender, educational and professional backgrounds which provides a range of perspectives, insights and challenges needed to support good decision making and reflects the diverse workforce at Mitie;
- With regard to gender diversity, the Board maintains a balance so that, as a minimum, 30% of the Directors are women provided that this remains consistent with the skills and diversity requirements when seeking a new appointment to the Board; and
- Supporting and monitoring activities to increase the percentage of senior management roles held by women and other under-represented groups across Mitie.

The Committee is pleased to report that as at 31 March 2019, 50% of the Board is female. It is the Board's intention that female representation on the Board will be maintained at a level higher than that recommended by the Hampton-Alexander review, although it is recognised that there may be periods of time when the balance falls below during the search and recruitment process.

Across the Group female employees account for c.32% of the workforce. 11% of the Executive Leadership Team, and 24% of the Group Leadership Team are female.

During the year, Phil Bentley set a strategic objective to increase the number of women in science, technology, engineering and mathematics (STEM) roles across the Group. To support this objective, the Group has joined the WISE campaign which enables and energises people in business to increase the participation, contribution and success of women in STEM. The partnership will help us to generate and share fresh insight and knowledge about the causes of and solutions to gender imbalance in STEM – from classroom to boardroom. It also cements our commitment to making Mitie a great place to work, demonstrating our value of 'our diversity makes us stronger'.

Further details of the Group's commitment to diversity and the diversity of Mitie's people can be found in the sustainability section of our website at www.mitie.com.

Derek Mapp
Chairman of the Nomination Committee



Disclosure Committee

Overview and purpose

The Disclosure Committee assists and informs the decisions of the Board concerning the identification of inside information and makes recommendations about how and when the Company should disclose that information in accordance with the Company's disclosure policy.

The Chairman of the Disclosure Committee is the Chief Executive Officer and the other members of the Committee are the Chairman of the Board, the Chief Financial Officer, the General Counsel & Company Secretary and the Group Legal Director.

The Committee met once during the year to approve the announcement relating to the sale of Mitie Pest Control Limited.

Skill	Derek Mapp	Phil Bentley	Paul Woolf	Nivedita K Bhagat	Philippa Couttie	Jennifer Duvalier	Mary Reilly	Roger Yates
Leadership and business operations	✓	✓	✓	✓	✓	✓	✓	✓
Strategy development	✓	✓	✓	✓	✓			✓
Corporate governance	✓	✓	✓	✓	✓	✓	✓	✓
Audit/risk management and assurance		✓	✓		✓		✓	✓
Remuneration/HR						✓		✓
Commercial	✓	✓	✓	✓	✓	✓		✓
Technology/digital				✓		✓		
Finance		✓	✓	✓	✓		✓	✓
Investment community					✓			✓
Public sector experience					✓		✓	

Statement from the Remuneration Committee Chair

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2019. I was pleased to be appointed as Chair of the Remuneration Committee from 31 August 2018. My thanks go to Jack Boyer, who served as Chair of the Committee from October 2014, for his support when I took over the role.

The report is split into three main parts:

- **Executive remuneration at a glance.** This sets out a summary of our approach, including how we intend to operate under our policy and remuneration outcomes during the year;
- **The Annual Report on Remuneration.** This provides more detail on the above, as well as setting out other remuneration-related disclosures;
- **Summary of our policy.** Our existing policy was approved by 99.7% of shareholders at the 2018 AGM and I would like to thank shareholders for their continued support. No changes are proposed to our policy this year and a summary of the policy has been included on pages 71 to 73. The full Policy approved at the 2018 AGM is available on our website (www.mitie.com/investors/corporate-governance) and in the Annual Report and Accounts 2018.

The Remuneration Committee has addressed a number of issues during the year. I have described below the approach the Committee has taken, together with the context in which key decisions were made.



We are committed to providing remuneration that is both fair and reflective of Company performance.

Jennifer Duvalier

Chair of the Remuneration Committee

Remuneration decisions and outcomes

Salary

With regard to fixed pay, it has been agreed that salaries for the Executive Directors will not be increased for FY 19/20 and so will remain £900,000 for Phil Bentley (since appointment in November 2016) and £430,000 for Paul Woolf (since appointment in November 2017).

FY 18/19 bonus

The Committee assessed outcomes over the period with respect to operating profit, organic revenue, Net Promoter Score (NPS), employee engagement and individual performance and determined that bonuses of 79.4% and 78.4% of the maximum were appropriate for Phil Bentley and Paul Woolf respectively. Achievement against these measures is described in more detail in the Annual Report on Remuneration. Furthermore, the Committee challenged itself to ensure that these bonus outcomes were appropriate in the round and was comfortable that these bonus levels are commensurate with strong organisational and individual performance.

2016 LTIP awards

Following his appointment, Phil Bentley received a Long Term Incentive Plan (LTIP) award in November 2016. This award vests subject to the extent to which the annual bonus targets that apply for FY 17/18, FY 18/19 and FY 19/20 are met and a bonus paid. In the event Phil earns a bonus in one of these years, 25% of the award vests, with 67% vesting if a bonus is earned in two of the years and full vesting if a bonus is earned in all three years. In any event, no vesting will actually occur until 2020. The bonus targets that applied for FY 17/18 and FY 18/19 are deemed to have been met and therefore a bonus in two of the three years has been achieved to date.

Incentives approach for FY 19/20

For FY 19/20, incentive opportunities will remain the same for Phil Bentley and Paul Woolf. For bonus, this will be 160% and 120% of salary respectively. For LTIP, this will be 200% and 150% of salary respectively. For the FY 19/20 bonus, we will have the same split of financial and strategic targets. The mix of measures will be as follows: 35% organic revenue growth; 35% operating profit; 10% on receivables; 10% on individual objectives; and 10% on other strategic targets. For the LTIP, we will continue to use 50% adjusted EPS and 50% cash conversion targets.

The Remuneration Committee

The members of the Remuneration Committee are all Non-Executive Directors. During the year ended 31 March 2019, the Committee met five times. For the Directors' attendance, see table on page 55.

The Committee has responsibility for determining the remuneration of Mitie's Executive Directors and the Chairman, taking into account the need to ensure Executive Directors are properly incentivised to perform in the interests of the Company and its shareholders. The Committee is also responsible for setting the remuneration for other senior executives, including at least, the Executive Leadership Team.

⊕ The Committee's terms of reference are available at www.mitie.com/investors/corporate-governance.

The Committee regularly consults with the Chief Executive Officer and the Group HR Director on various matters relating to the appropriateness of rewards for the Executive Directors.

However, the Chief Executive Officer and other Executive Directors are not present when matters relating directly to their own remuneration are discussed. This is also the case for other executives attending Committee meetings.

The Company Secretary attended the meetings as Secretary to the Committee. The Chief Executive Officer and Group HR Director attended the meetings by invitation only.

Corporate governance developments

The Committee noted with interest corporate governance developments during the year. In particular, the updated July 2018 UK Corporate Governance Code introduced a number of requirements which apply to the Company from 1 April 2019. We are very mindful of these developments and will report to shareholders in our 2020 Annual Report on Remuneration on our approach and policies (e.g. pension provision and post-cessation shareholding requirements).

Conclusion

We will be seeking approval for the Directors' remuneration report (advisory vote) at the 2019 AGM. I welcome your views and feedback on the report.

Jennifer Duvalier

Chair of the Remuneration Committee
jennifer.duvalier@mitie.com



Key features of our remuneration policy



Our philosophy – The Committee believes in an approach to executive pay which is commensurate with value creation for shareholders

The table below highlights the key features of our policy and our approach which aligns the Executive Directors' remuneration arrangements with the shareholder experience. The full policy can be found on our website at www.mitie.com.

- | | | | |
|---|---|---|---|
| ① Track record in taking a responsible and appropriate approach to pay (e.g. exercise of negative discretion) | ② Shareholding guideline of 200% of salary in conjunction with enhanced malus and clawback provisions | ③ Bonus deferral – 50% of the bonus deferred into shares for at least two years | ④ LTIP holding period of two years after vesting – five-year time horizon |
|---|---|---|---|

Executive remuneration at a glance

Key principles of the policy

Mitie's remuneration policy is based on a number of principles:

- ① Reward should be aligned with the shareholder experience

The performance-related incentive arrangements are designed to align the interests of Executive Directors with those of shareholders and to promote the Group's long-term success.

- ② The majority of the package should be performance-related

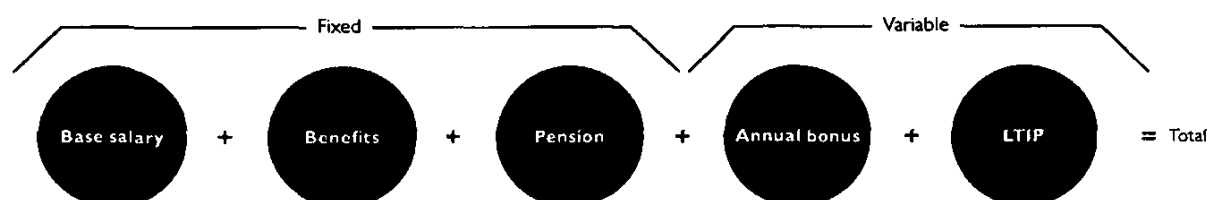
The majority of reward opportunity for Executive Directors is provided through performance-related incentives linked to the Group's strategic goals and taking account of the Group's attitude to risk; reward under these incentives is linked to both individual and Group performance.

- ③ The policy should be comprehensive and simple

The overall remuneration policy is designed to be comprehensive without becoming overcomplicated and to encourage Executive Directors to concentrate on profitable growth.

Summary of remuneration policy

Executive Directors' remuneration is made up of the following elements:



Executive incentives and link to strategy

The following table sets out how the intended measures across the incentive plans for FY 19/20 support the Group's strategy and KPIs:

	Sustained and renewed profit growth	Quality client base	Strong cash-generative business	Individual objectives	Other strategic targets
Annual bonus	✓ 35% operating profit	✓ 35% organic revenue growth	✓ 10% reduction in receivables	✓ 10% individual objectives	✓ 10% other strategic targets
LTIP	✓ 50% adjusted EPS		✓ 50% cash conversion		

All employee incentive arrangements

The Company also operates SAYE share option and Share Incentive Plan arrangements, allowing employees to participate in share ownership and to share in corporate success over the medium term.

Summary of how we intend to operate our policy for FY 19/20

This table summarises the approach for remuneration arrangements for Executive Directors (Phil Bentley as CEO and Paul Woolf as CFO) for FY 18/19 under the policy approved by shareholders at the 2018 AGM, alongside how we intend to apply our policy in FY 19/20.

At a glance	FY 18/19	FY 19/20
Base salary	CEO: £900,000 CFO: £430,000	CEO: £900,000 CFO: £430,000
Maximum bonus opportunity	CEO: 160% of salary CFO: 120% of salary	CEO: 160% of salary CFO: 120% of salary
Bonus deferral	50% of bonus deferred into shares which vest after at least two years	50% of bonus deferred into shares which vest after at least two years
Bonus performance measures – mix	70% financial, 30% strategic	70% financial, 30% strategic
Bonus performance measures – metrics	Financial: organic revenue growth, operating profit Strategic: Net Promoter Score (NPS), employee engagement, individual Mix: 35% organic revenue growth, 35% operating profit, and 10% each on customer NPS, employee engagement and individual strategic objectives	Financial: organic revenue growth, operating profit Strategic: reduction in receivables, individual, other strategic Mix: 35% organic revenue growth, 35% operating profit, 10% reduction in receivables and 10% each on individual objectives and other strategic targets
Maximum LTIP opportunity	CEO: 200% of salary CFO: 150% of salary	CEO: 200% of salary CFO: 150% of salary
LTIP performance measures	50% adjusted EPS and 50% cash conversion	50% adjusted EPS and 50% cash conversion
LTIP holding period of two years after vest	Shares released after at least five years (vesting after three years plus two-year holding period)	Shares released after at least five years (vesting after three years plus two-year holding period)
Share ownership requirements	200% of salary	200% of salary
Malus and clawback provisions	As per policy approved by shareholders at 2018 AGM	As per policy approved by shareholders at 2018 AGM

Directors' remuneration report continued

Executive remuneration at a glance continued

Summary of remuneration outcomes for the year ended 31 March 2019

The following provides a summary of incentive outcomes and the single total figure of remuneration for Executive Directors. Full details can be found later in our Annual Report on Remuneration.

Annual bonus in respect of FY 18/19

The Committee assessed outcomes over the period with respect to operating profit, organic revenue, Net Promoter Score (NPS), employee engagement and individual performance and determined that bonuses of 79.4% and 78.4% of the maximum were appropriate for Phil Bentley and Paul Woolf respectively. Achievement against these measures is described in more detail in the Annual Report on Remuneration. Furthermore, the Committee challenged itself to ensure that these bonus outcomes were appropriate in the round and was comfortable that these bonus levels are commensurate with strong organisational and individual performance. Please see table on page 76 for further detail.

2016 LTIP awards

Following his appointment, Phil Bentley received an LTIP award in November 2016. This award vests subject to the extent to which the annual bonus targets that apply for FY 17/18, FY 18/19 and FY 19/20 are met and a bonus paid. In the event Phil earns a bonus in one of these years, 25% of the award vests, with 67% vesting if a bonus is earned in two of the years and full vesting if a bonus is earned in all three years. In any event, no vesting will actually occur until 2020. Paul Woolf does not hold any 2016 LTIP awards. The bonus targets that applied for FY 17/18 and FY 18/19 are deemed to have been met and therefore a bonus in two of the three years has been achieved to date.

Single figure for FY 18/19

The table below reports a single figure of total remuneration for each of the Executive Directors for the financial year ended 31 March 2019 and their comparative figures for the financial year ended 31 March 2018.

Phil Bentley

£	2019
● Salary	900,000
● Benefits	25,406
● Pension	180,000
● Bonus	1,143,542
Total	2,248,948

£	2018
● Salary	900,000
● Benefits	22,549
● Pension	180,000
● Bonus	-
Total	1,102,549

Paul Woolf

£	2019
● Salary	430,000
● Benefits	1,716
● Pension	43,000
● Bonus	404,609
Total	879,325

£	2018
● Salary	166,136
● Benefits	686
● Pension	16,614
● Bonus	-
Total	183,436

Note: Paul Woolf joined the Company and Board as Chief Financial Officer on 13 November 2017 and the information above for 2018 comprises his earnings from that date to 31 March 2018. Both Phil Bentley and Paul Woolf waived their FY 17/18 bonus and there were no LTIP pay-outs for them in 2018 and 2019.

Further information on the above is provided in the Annual Report on Remuneration.

Annual Report on Remuneration

Executive Director remuneration (subject to audit)

The table below reports a single figure of total remuneration for each of the Executive Directors for the financial year ended 31 March 2019 and their comparative figures for the financial year ended 31 March 2018.

	Year	Salary	Benefits	Pension	Annual bonus	LTIP	Total
Phil Bentley	2019	£900,000	£25,406	£180,000	£1,143,542	–	£2,248,948
	2018	£900,000	£22,549	£180,000	–	–	£1,102,549
Paul Woolf	2019	£430,000	£1,716	£43,000	£404,609	–	£879,325
	2018	£166,136	£686	£16,614	–	–	£183,436
Total	2019						£3,128,273
	2018						£1,533,216

Notes:

Paul Woolf joined the Board as Chief Financial Officer on 13 November 2017. The information in the table for 2018 above confirms his earnings as an Executive Director from that date. The difference in the totals for 2018 is attributable to earnings for former Executive Director, Sandip Mahajan, between 1 April 2017 and his resignation from the Board on 13 November 2017.

Benefits relate to the cost to the Group of private medical cover, car allowance and financial/tax planning advice.

The pension benefit disclosed above comprises cash allowances in lieu of pension contributions for Phil Bentley of 20% of salary and for Paul Woolf at 10% of salary.

Bonus payable in respect of the financial year includes any deferred element at face value at the date of award. Further information about how the level of the award for the year ended 31 March 2019 was determined is provided on pages 76 and 77.

For any new Executive Director appointments, the Remuneration Committee will consider the alignment of pension arrangements with the wider workforce.

Non-Executive Director remuneration (subject to audit)

The fees for the Non-Executive Directors for the financial year ended 31 March 2019 and their comparative figures for the financial year ended 31 March 2018 are set out below:

	2019 £'000	2018 £'000
Derek Mapp ¹	225	201
Nivedita Krishnamurthy Bhagat	52	43
Jack Boyer ²	25	60
Philippa Couttie	52	20
Jennifer Duvalier ³	57	35
Larry Hirst ⁴	20	59
Mark Reckitt ⁵	20	60
Mary Reilly ⁶	57	30
Roger Yates ⁷	59	5
Total¹	567	575

Notes:

• All amounts were paid in cash and no other benefits were received in the year. The difference in the total for 2018 is attributable to fees for former Non-Executive Director, Roger Matthews, between 1 April 2017 and his stepping down from the Board on 26 July 2017.

1. Derek Mapp joined the Board on 9 May 2017 as Chairman-elect and took over as Chairman and Chairman of the Nomination Committee at the AGM on 26 July 2017.

2. Jack Boyer resigned from the Board on 31 August 2018.

3. Jennifer Duvalier assumed the role of Chair of the Remuneration Committee upon Jack Boyer's resignation.

4. Larry Hirst retired from the Board on 31 July 2018.

5. Mark Reckitt resigned from the Board on 31 July 2018.

6. Mary Reilly assumed the role of Chair of the Audit Committee upon Mark Reckitt's resignation.

7. Roger Yates assumed the role of Senior Independent Director upon Larry Hirst's retirement.

Directors' remuneration report continued

Annual Report on Remuneration continued

Base salary and benefits

Commencing 1 November 2016, and to be first reviewed in April 2020, the annual base salary for Phil Bentley is £900,000.

Commencing 13 November 2017, and reviewed in April 2018, the annual base salary for Paul Woolf was £430,000. The review of Paul Woolf's base salary in April 2019 resulted in no change in base salary.

Benefits are as described in the notes to the Executive Director remuneration table on page 75. No changes in benefits are planned for the year ending 31 March 2020.

A review of Non-Executive Director fees was undertaken by the Board in March 2019 which resulted in no change to fees.

	2019 ¹ £'000	2018 £'000
Chairman fees ²	225	225
Non-Executive Director core fees ³	52	52
Additional fees:		
Senior Independent Director	7	7
Chair of a Committee	8	8

Notes:

- The core fees of £52,000 per annum paid to each Non-Executive Director (including the Chairman) will total £312,000 for the year ending 31 March 2020. Total fees including additional duties are expected to amount to £508,000 for the year ending 31 March 2020 (£567,000 actual for the year ended 31 March 2019).
- The Chairman's fee is inclusive of the Non-Executive Director core fee and no additional fees are paid to the Chairman where he is chairman or a member of other Committees.
- For Non-Executive Directors, individual fees comprise the core fee and additional supplemental fees for the Senior Independent Director and for chairing Committees to reflect the greater responsibility and time commitment required.

Annual Bonus Plan

Annual Bonus Plan awards were made in respect of the year ended 31 March 2019. Phil Bentley was eligible for a maximum bonus opportunity of 160% of base salary and Paul Woolf was eligible for a maximum bonus opportunity of 120% of base salary.

The awards were structured by reference to performance against a blend of financial (70% of the bonus opportunity) and strategic targets (the remaining 30%). At the threshold level of performance for financial targets, 25% of the maximum bonus opportunity is due, 50% of the maximum bonus opportunity is due at the target level and 100% at the maximum level. Between these points the out-turn is determined on a linear sliding scale basis.

As the financial performance ranges excluded the impact of IFRS 15 and acquisitions and disposals during the year, the performance ranges have been adjusted for these impacts and the out-turn has been assessed by comparing the reported FY 18/19 results after the impact of IFRS 15, acquisitions and disposals with the adjusted performance ranges:

Performance measure	Weighting	Adjusted performance range	Out-turn
Operating profit ¹	35% of the award	£79.5m threshold £83.7m target £87.9m maximum	The out-turn was £88.2m resulting in an outcome of 100% of the maximum for this element, being 35% of the maximum bonus opportunity.
Revenue ²	35% of the award	£2.15bn threshold £2.26bn target £2.37bn maximum	The out-turn was £2.22bn resulting in an outcome of 41.2% of the maximum for this element, being 14.4% of the maximum bonus opportunity.
Customer Net Promoter Score	10% of the award	+ 1pts threshold + 3pts target + 5pts maximum	The out-turn was +22pts resulting in an outcome of 100% of the maximum for this element, being 10% of the maximum bonus opportunity.
Employee engagement	10% of the award	+ 1ppts threshold + 3ppts target + 5ppts maximum	The out-turn was +12ppts resulting in an outcome of 100% of the maximum for this element, being 10% of the maximum bonus opportunity.
Individual strategic objectives	10% of the award	n/a	The Committee considered performance against the strategic objectives set out below and determined that the out-turn was 100% and 90% of the maximum for the CEO and CFO respectively, being 10% and 9% of the maximum bonus opportunity.

Notes:

- Operating profit before other items from continuing operations.
- Revenue from continuing operations.

The individual strategic objectives set for the CEO and CFO were as follows:

CEO

Strategic objectives

Strategy	Drive business development agenda, with a focus on exiting non-core businesses and adding technology capability; Strengthen balance sheet to reduce average net debt; and Head external messaging for Connected Workspace demonstrating its value to clients.
Customers	Champion the embedding of unitary account management; and Retention of top accounts.
People	Ensure leadership team stability and upgrade talent; and Increase women recruited into Science, Technology, Engineering and Maths (STEM) roles.
Shareholder relations	Maintain core shareholder support.

CFO

Strategic objectives

Costs	Increase cash from the 'order to cash' working capital cycle and reduce finance costs from the organisation as part of Finance transformation.
People	Upgrade finance talent measured by an increase in the number of GLT/high-potential employees.
Customer/Technology	Implement standard chart of accounts and unitary account management for Mitie's top 50 integrated accounts.

The bonus structure and assessment was as follows:

	Financial performance				Non-financial performance				Total bonus payable		
	% of salary payable at threshold	% of salary payable at target	% of salary payable at maximum	% of salary payable	% of salary payable at threshold	% of salary payable at target	% of salary payable at maximum	% of salary payable	Total bonus £'000	Cash £'000	Deferred shares £'000
Phil Bentley	28%	56%	112%	79%	0%	24%	48%	48%	1,143,542	571,771	571,771
Paul Woolf	21%	42%	84%	59%	0%	18%	36%	35%	404,609	202,305	202,304

The Annual Bonus Plan will be operated on similar terms for the year ending 31 March 2020. Phil Bentley's maximum bonus opportunity for FY 19/20 will remain at 160% of base salary and Paul Woolf's at 120% of base salary. Awards will be payable by reference to performance against a blend of financial (70% of the bonus opportunity) and strategic targets (the remaining 30%). However, if none of the financial targets have been achieved, no bonus will be payable by reference only to the strategic targets. 50% of any bonus entitlement will be deferred. The targets are at present commercially sensitive and so are not disclosed in this report. However, as above, details of the targets will be disclosed in next year's report.

LTIP awards granted in 2018 (subject to audit)

On 2 August 2018, the following conditional LTIP awards were granted to the Executive Directors:

	Award	Type	Number of shares ¹	Face value (£'000)	% of salary	Performance conditions	Performance period	% vesting at threshold
Phil Bentley	Performance LTIP Aug 18	Nil-cost options	1,180,327	1,800	200%	Performance conditions are set out in the table below	Three financial years ending 31 March 2021	25%
Paul Woolf	Performance LTIP Aug 18	Nil-cost options	422,950	645	150%			

Notes:

1. Number of shares was calculated based on the average closing share price for up to five business days preceding the date of grant giving a share price of 152.50p.

LTIP awards granted in 2018 were simplified to two performance measures, adjusted EPS and cash conversion. These awards will vest in 2021 conditional on performance against the following measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2021)
Earnings Per Share (EPS) growth	50% of the award	5% – 12% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 5% pa. If EPS growth is equal to 5% pa, 25% of the award will vest. If Mitie achieves EPS growth of 8.5% pa, 70% of the award will vest. If EPS growth of 12% pa or more is achieved, all the awards will vest. Between 5% and 8.5% and 8.5% and 12%, the proportion of awards vesting will be determined on a linear sliding scale basis.
Cash conversion	50% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75% pa cash conversion, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80% pa cash conversion. Full vesting for this portion will occur if 85% pa cash conversion is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

To reflect the impact of any changes in or adoption of new IFRS accounting standards, the Committee will consider adjusting financial targets appropriately for subsisting LTIP awards, ensuring that they are not materially easier or harder to satisfy than the original targets. Any amended targets determined by the Committee will be disclosed to shareholders in the next Directors' Remuneration Report.

Directors' remuneration report continued

Annual Report on Remuneration continued

The grant of 2019 LTIP awards to the Executive Directors will be made in due course. The performance conditions that apply to the awards follow the same construct as in 2018 with two measures: (i) EPS; and (ii) cash conversion, each accounting for 50% of the award with the following performance conditions:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2021)
Earnings Per Share (EPS) growth	50% of the award	5% – 10% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 5% pa. If EPS growth is equal to 5% pa, 25% of the award will vest. If Mitie achieves EPS growth of 7.5% pa, 70% of the award will vest. If EPS growth of 10% pa or more is achieved, all the awards will vest. Between 5% and 7.5% and 7.5% and 10%, the proportion of awards vesting will be determined on a linear sliding scale basis.
Cash conversion	50% of the award	80% – 90% pa	Zero vesting if cash conversion is less than 80% pa. At 80% pa cash conversion, 25% of the award will vest. 70% of the award will vest if Mitie achieves 85% pa cash conversion. Full vesting for this portion will occur if 90% pa cash conversion is achieved. Between 80% and 85% and 85% and 90%, the proportion of awards vesting will be determined on a linear sliding scale basis.

Details of July 2016 LTIP awards vesting in July 2019

The Committee assessed the outcome of the July 2016 LTIP awards (based on FY 18/19 results before the impact of IFRS 15) granted under the plan against a basket of performance measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2019)
Earnings Per Share (EPS) growth	25% of the award	3% – 8% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 3% pa. If performance is equal to 3% pa, 25% of the award will vest. If Mitie achieves EPS growth of 8% pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.
Relative Total Shareholder Return (TSR)	20% of the award	Outperformance against the Business Support Services subsector of the FTSE 350 Support Services index	Zero vesting if Mitie's TSR growth is less than the median of the index. If Mitie's TSR growth is equal to the median of the index, 25% of the award will vest and if it exceeds the index median TSR by 10% pa or more, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis. An underpin condition for underlying financial performance also applies.
Strategic objectives	25% of the award		Zero vesting if the strategic objectives are not met. Straight line vesting between zero and maximum based on Remuneration Committee assessment of performance against objectives.
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At cash conversion of 75% pa, 25% of the award will vest. 70% of the award will vest if Mitie achieves cash conversion of 80% pa. Full vesting for this portion will occur if cash conversion of 85% pa is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

Following a review of actual performance, under a formulaic outcome, there would have been no vesting under the EPS, TSR and strategic elements, and some vesting under the cash conversion element. However, the Committee exercised negative discretion and determined that these awards granted to senior management should lapse in their entirety. No current Executive Director has July 2016 LTIP awards.

Details of November 2016 LTIP award vesting in 2020

Following his appointment, Phil Bentley received an LTIP award in November 2016. This award vests subject to the extent to which the annual bonus targets that apply for FY 17/18, FY 18/19 and FY 19/20 are met and a bonus paid. In the event Phil earns a bonus in one of these years, 25% of the award vests, with 67% vesting if a bonus is earned in two of the years and full vesting if a bonus is earned in all three years. In any event, no vesting will actually occur until 2020. The bonus targets that applied for FY 17/18 and FY 18/19 are deemed to have been met and therefore a bonus in two of the three years has been achieved to date.

Loss of office payments (subject to audit)

As set out in the Annual Report and Accounts 2018, Sandip Mahajan ceased to be a Director of Mitie Group plc and took up the role of Chief Financial Transformation Officer on 13 November 2017. Full details of Sandip's departure terms were disclosed in the 2018 Annual Report and Accounts and a summary made available on the Company's website in the relevant Section 430(2B) Companies Act 2006 statement.

Sandip left the employment of the Company on 12 November 2018 as indicated.

Payments to past Directors (subject to audit)

There have been no payments to past Directors during FY 18/19 that relate to their period of employment as a Director.

Change in CEO pay for the year compared to UK salaried employees

The table below sets out the change in remuneration of the Chief Executive Officer and Mitie's UK salaried non-contract population, which is considered the most appropriate group for comparison purposes.

%	Salary	Benefits	Bonus
Chief Executive Officer	0.0%	4.25%	nm ³
Average pay based on Mitie's UK salaried non-contract employees ¹	7.83%	17.87% ²	194.26%

Notes:

1. Reflects the change in average annual pay for salaried non-contract UK employees employed throughout the two financial years ended 31 March 2019. Salaried non-contract employees are those who are employed directly by Mitie Group and whose roles are not dedicated to the provision of client services.
2. Includes car/car allowance, private medical benefit and private fuel.
3. Phil Bentley voluntarily waived the bonus payable in FY 17/18.

Relative spend on pay

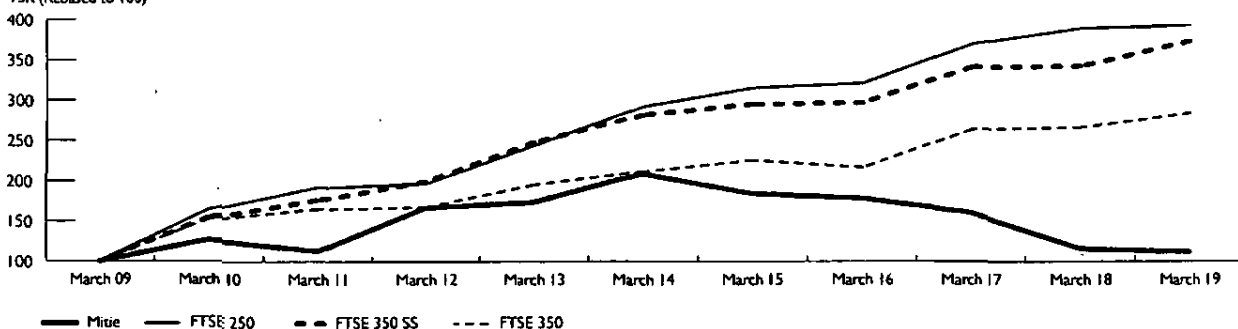
The table below shows the total cost of remuneration in the Group, compared with dividends distributed.

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m	Change
Aggregate employee remuneration	1,244	1,119	11.2%
Equity dividends	14	5	180.0%

Assessing pay and performance

The table below provides a summary of the Chief Executive Officer's single figure remuneration over the past ten years, as well as the pay-out and vesting levels of variable pay plans in relation to the maximum opportunity. The chart below shows the historical TSR performance over the same period. These indices (FTSE 250, FTSE 350 Support Services and FTSE 350) have been chosen as they are widely recognised and Mitie has been a member of these indices during the period:

TSR (Rebased to 100)



	2010	2011	2012	2013	2014	2015	2016	2017 Ruby McGregor- Smith ¹	2017 Phil Bentley ¹	2018	2019
Single figure remuneration	£1,703,031	£2,324,443	£2,431,773	£2,105,131	£1,447,266	£1,525,824	£2,448,161	£530,628	£479,073	£1,102,549	£2,248,948
Annual bonus element (actual as a % of max)	100%	100%	100%	85%	90%	50%	73%	0%	waived	waived	79%
LTIP element (actual vesting as a % of max)	100%	100%	87.2%	57.2%	0%	25%	69.5%	0%	n/a	n/a	n/a

Note:

1. Ruby McGregor-Smith stepped down as Chief Executive Officer on 12 December 2016. Phil Bentley joined the Board on 1 November 2016 and assumed the position of Chief Executive Officer on 12 December 2016. The figures above include Phil Bentley's remuneration from 1 November 2016.

Directors' remuneration report continued

Annual Report on Remuneration continued

Share ownership (subject to audit)

	Number of shares owned as at 31 March 2019 ¹	Value of target holding	Target shareholding	Percentage of salary held as at 31 March 2019	Percentage of target achieved as at 31 March 2019	Compliance with share ownership guidelines
Phil Bentley ²	1,999,749	£1,800,000	926,328	432%	216%	Achieved
Paul Woolf ³	48,967	£860,000	552,841	18%	9%	Not achieved but compliant

Notes:

- Includes shares owned by connected persons.
- Value of target holding is 200% of base salary for Phil Bentley, in accordance with Phil Bentley's service contract, he acquired shares worth 400% of salary on 21 November 2016. His target shareholding is the value of his target holding divided by the share price of 194.3p on 21 November 2016.
- In accordance with the Company's share ownership policy, Paul Woolf is required to build and maintain, through the retention of vested share options, a shareholding of 200% of base salary. His target shareholding is calculated using the average closing share price of 155.6p for the five business days prior to the start of the financial year ended 31 March 2019.

Directors' outstanding share interests (subject to audit)

The following tables provide the outstanding share interests for the Executive Directors:

Directors' interests granted under the LTIP

	Year of grant	Options outstanding as at 31 March 2018	Granted in year ³	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2019 ¹	Exercise price	Earliest normal exercise date ²
Phil Bentley	Nov 2016 ¹	879,077	—	—	—	879,077	Nil-cost	May 2020
	Jul 2017 ²	669,393	—	—	—	669,393	Nil-cost	Jul 2020
	Aug 2018	—	1,180,327	—	—	1,180,327	Nil-cost	Aug 2021
Paul Woolf	Nov 2017 ²	143,269	—	—	—	143,269	Nil-cost	Nov 2020
	Aug 2018	—	422,950	—	—	422,950	Nil-cost	Aug 2021

Notes:

- The performance criteria applicable to the November 2016 award run are linked to the achievement of a bonus payment in the three financial years ending 31 March 2020. If Phil earns a bonus in one of these years 25% of the award vests, 67% vests if a bonus is earned in two of the years and 100% vests if a bonus is earned in all three years. The bonus targets that applied for FY17/18 and FY18/19 are deemed to have been met and therefore a bonus in two of the three years has been achieved to date.
- The performance criteria applicable to the 2017 awards were disclosed in the previous Directors' Remuneration Report.
- The performance criteria applicable to the 2018 awards are provided on page 77.
- The market price of the Company's shares as at 31 March 2019 was 149.2p. The highest and lowest prices during the year were 196.8p and 105.8p respectively.
- Awards are subject to an additional two-year holding period.

Directors' share ownership

	Number of ordinary shares beneficially owned as at 31 March 2019 (or date of cessation if earlier)	Number of ordinary shares beneficially owned as at 31 March 2018 (or date of appointment if later)
Executive Directors		
Phil Bentley	1,999,749	1,852,656
Paul Woolf	48,967	48,967
Non-Executive Directors		
Derek Mapp	140,000	140,000
Nivedita Krishnamurthy Bhagat	0	0
Jack Boyer ¹	5,000	5,000
Philippa Couttie	0	0
Jennifer Duvalier	18,469	18,469
Larry Hirst ²	25,000	25,000
Mark Reckitt ³	4,000	4,000
Mary Reilly	11,708	0
Roger Yates	50,000	0

Notes:

- Jack Boyer resigned from the Board on 31 August 2018.
- Larry Hirst retired from the Board on 31 July 2018.
- Mark Reckitt resigned from the Board on 31 July 2018.

Share dilution

The Company manages dilution rates within the standard guidelines of 10% of issued ordinary share capital in respect of all employee schemes and 5% in respect of discretionary schemes. In calculating compliance with these guidelines the Company allocates available headroom on a ten-year flat-line basis, making adjustments for projected lapse rates and projected increases in issued share capital.

LTIP and deferred bonus awards are satisfied through the market purchase of shares held by the Mitie Group plc Employee Benefit Trust. The potential dilution of the Company's issued share capital is set out below in respect of all awards granted in the last ten years under the Company's equity-based incentive schemes which are being satisfied through the allotment of new shares or treasury shares.

Share dilution at 31 March 2019

	Dilution
All share plans (maximum 10%)	5.7%
Discretionary share plans (maximum 5%)	2.3%

Shareholder voting

Mitie remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Executive Directors' remuneration, the Group seeks to understand the reasons for any such vote, and will detail here any actions in response to it.

A resolution to approve the Directors' remuneration policy as set out in the Annual Report and Accounts 2018 was passed at the Company's 2018 AGM. At the Company's 2018 AGM, a resolution was passed to approve the 2018 Directors' remuneration report (excluding the summary of the Directors' remuneration policy). The results of the votes on these resolutions were as follows:

Number of votes	Votes in favour	Votes against	Withheld ¹
2018 Directors' remuneration policy – 2018 AGM	276.8m 99.7%	0.8m 0.3%	0.1m –
2018 Directors' remuneration report – 2018 AGM	245.8m 88.8%	31.0m 11.2%	0.9m –

Note:

1. Votes withheld are not counted in the calculation of the proportion of votes for or against a resolution.

Remuneration Committee and its advisors

The Remuneration Committee seeks and considers advice from independent remuneration advisors where appropriate.

In September 2017, following a retender process and the resignation of Deloitte LLP as Mitie's auditor, the Committee appointed Deloitte LLP as independent remuneration advisors. The advisors attended Committee meetings and provided advice and analysis of executive remuneration. During their tenure, the advisors provide no other services to the Company (save in relation to services connected to executive remuneration and share plans) and also comply with the Code of Conduct for Remuneration Consultants. The advisors' total cost of advice to the Committee for the year was £57,950 (such fees being charged in accordance with their standard terms of business).

The Committee specifically considered the position of the advisors and was satisfied that the advice the Committee received from them was objective and independent, given that they provided no other services to the Company.

Directors' report: other disclosures

Directors' report

The Directors present their Annual Report, together with the audited financial statements of the Company and the Group, for the year ended 31 March 2019.

The Directors' report required under the Companies Act 2006 comprises the corporate governance statement on pages 53 to 69, with both the Directors' remuneration report on pages 70 to 81 and Strategic report on pages 1 to 48 incorporated by reference. The corporate governance statement on pages 53 to 69 fulfils the requirement under Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (DTR) 7.2.1.

For the purposes of DTR 4.1.8R, the management report for the year ended 31 March 2019 comprises the Strategic report and this Directors' report.

Listing Rule (LR) 9.8.4

The information required to be disclosed by LR 9.8.4 can be found in the following locations:

	Page reference
Details of any long-term incentive schemes	Directors' remuneration report on pages 70 to 81 and Note 31 to the consolidated financial statements
Shareholder waiver of dividends and future dividends	Directors' report: other disclosures on page 86

No shareholder is considered a controlling shareholder as defined in the Financial Conduct Authority Handbook.

The remaining disclosures required by LR 9.8.4 are not applicable to the Company.

Principal Group activities

The Company is the holding company of the Group and its principal activity is to provide management services to the Group. The Group's activities are focused on the provision of strategic outsourcing services, further details of which can be found on pages 4 and 5 of the Strategic report.

The Company does not have any branches registered overseas, but the Company's subsidiaries have registrations/branches across the United Kingdom, Republic of Ireland, Guernsey, Jersey, Belgium, Finland, France, Germany, Ghana, Kenya, the Netherlands, Nigeria, Norway, Poland, Singapore, Spain, Sweden, Switzerland and the United Arab Emirates. Details of the Company's subsidiaries are set out in Note 35 to the consolidated financial statements.

Given the nature of its activities, no material research and development work is carried out by the Group.

The Board's view on the likely future development of the Group is set out in the Strategic report on pages 1 to 48.

Board of Directors

The names of all persons who served as Directors of the Company at any time during the year are set out on page 56.

Full biographical details, including Committee membership and external appointments, are set out on pages 50 to 52.

The Board considered the independence of all Non-Executive Directors during the year and determined that, as at 31 March 2019, all Non-Executive Directors continued to be independent in mind and judgement, and free from any material relationship that could interfere with their ability to discharge their duties effectively.

Director appointments

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association (the Articles), the Code, the Companies Act 2006 and other related legislation.

Directors' conflicts of interest

In accordance with the Articles, the Board has a policy on the declaration and management of Directors' conflicts of interests. Any potential situation or transactional conflict must be reported as soon as possible to the Chairman, Chief Executive Officer and General Counsel & Company Secretary. Where a potential conflict is authorised under statutory powers and powers granted under the Articles, such conflict is kept under ongoing review.

Executive Directors are permitted to accept appointments outside the Group provided that permission is sought from the Chairman and Chief Executive Officer and that the additional responsibilities do not interfere with the Director's ability to discharge his/her duties effectively. Executive Directors are entitled to retain fees earned from any external appointments. Neither Phil Bentley nor Paul Woolf held any external positions during FY 18/19. External positions held by the Chairman and Non-Executive Directors are detailed in their biographies on pages 50 to 52.

Indemnification of Directors and insurance

The Directors and the Company Secretary benefit from an indemnity provision under the Articles. In addition, all Directors and the General Counsel & Company Secretary have been granted a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006, which has been in force throughout the year and remains in force as at the date of this report.

Certain subsidiary directors have also been granted a qualifying third-party indemnity provision which has been in force throughout the year and remains in force as at the date of this report.

The Group maintains directors' and officers' liability insurance which provides appropriate cover for any legal action brought against the Group's directors and/or officers.

Articles of Association

The Articles were adopted at the 2017 AGM. Any future amendment to the Articles must be made in accordance with their provisions, the Companies Act 2006 and related legislation. The Articles are available at www.mitie.com/investors/corporate-governance.

Share capital

The Group is financed through equity share capital and debt instruments. Details of the Company's share capital are given in Note 28 to the consolidated financial statements. Details of the Group's debt instruments are set out in Note 22 to the consolidated financial statements.

The Company has a single class of shares divided into ordinary shares of 2.5 pence each (Ordinary Shares). The Ordinary Shares are entitled to one vote each per share at general meetings and have no right to any fixed income.

In accordance with the Articles, 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 to shareholders for approval at an AGM. A final dividend may be declared by the shareholders at an AGM by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board.

Powers of the Company to issue or buy back its own shares

The Company did not allot any Ordinary Shares during the year, undertake any market purchases of its own shares or distribute any shares from treasury. Exercisable awards under the Mitie Group plc 2011 Save As You Earn Scheme and Mitie Group plc 2001 and 2011 Executive Share Option Schemes were underwater during the year, and no awards were exercised. The total number of Ordinary Shares held by the Company in treasury as at 31 March 2019 remained unchanged at 7,748,108 (representing 2.1% of the issued share capital of the Company).

At the 2018 AGM, shareholders authorised:

- The Directors to allot Ordinary Shares up to an aggregate nominal amount of £914,842.64, representing 10% of the issued share capital (excluding treasury shares) as at 12 June 2018;
- The dis-application of pre-emption rights over allotted shares up to an aggregate nominal value equal to £457,421.32, equating to 5% of Mitie's issued share capital (excluding treasury shares) and 4.90% of the issued share capital including treasury shares, each as at 12 June 2018;
- The dis-application of pre-emption rights over allotted shares up to an aggregate nominal value of £457,421.32, equating to 5% of Mitie's issued share capital (excluding treasury shares) and 4.90% of the issued share capital including treasury shares, each as at 12 June 2018, in connection with the financing (or refinancing, if the authority is to be used within six months of the original transaction) of an acquisition or specified capital investment; and
- The Company to make market purchases of its own shares up to a total of 36,593,706 Ordinary Shares (representing 10% of the issued share capital as at 12 June 2018 (excluding treasury shares)).

These authorities will expire on the earlier of 30 September 2019 or the conclusion of the 2019 AGM. A renewal of these authorities will be put to shareholders at the 2019 AGM. Further details can be found in the notes to the relevant meeting notice which can be found on Mitie's website.

Restrictions on the transfer of shares

The Company is not aware of any agreements between holders of its securities which may result in restrictions on the transfer of securities or voting rights. No person has any special rights of control over the Company's share capital.

There are no specific restrictions on the size of any shareholding or on the transfer of shares, which are both governed by the provisions of the Articles.

Certain Ordinary Shares previously issued in consideration for the acquisition by the Company of shares held by minority shareholders in subsidiaries of the Group under the Mitie Model have contractual restrictions placed upon them. These restrictions prevent recipients from selling those Ordinary Shares and/or attach clawback provisions, which typically apply for a maximum period of two years from allotment.

Under Mitie's Rules on Share Dealing, persons with access to certain confidential company information or inside information are required to follow a clearance to deal procedure and may be restricted from dealing in the Company's shares. Persons subject to these requirements are notified individually and appropriately informed of the rules.

Significant interests in the Company's share capital

As at 31 March 2019 the Company had been notified of significant holdings of voting rights in its Ordinary Shares under the Disclosure Guidance and Transparency Rules as set out below.

	Number of Ordinary Shares	% of share capital at the date of notification
Silchester International Investors LLP	62,210,238	17.00%
Aggregate of Standard Life Aberdeen plc	53,532,509	14.63%
FMR LLC	19,717,936	5.38%
Harris Associates LP	18,393,003	5.12%
Brandes Investment Partners LP	18,117,242	5.05%
Heronbridge	18,366,728	5.00%

Changes that occurred between the end of the period under review and 5 June 2019, the latest practicable date prior to the date of this report, are set out below.

	Number of Ordinary Shares	% of share capital at the date of notification
Aggregate of Standard Life Aberdeen plc	56,214,197	15.36%

Directors' interests in the Company's share capital are set out in the Directors' remuneration report on page 80.

Directors' report: other disclosures continued

Dialogue with shareholders

The Board is committed to ongoing and proactive dialogue with shareholders. A full programme of formal and informal events, institutional investor meetings and presentations is held throughout the year. This programme of shareholder engagement aims to ensure that the performance, strategies and objectives of the Group are clearly communicated to the investment community and provide a forum for institutional shareholders to address any corporate governance issues. The programme is led by the Executive Directors with support from the Investor Relations team. The Chairman is responsible for ensuring that the Board is made aware of any issues and concerns of major shareholders.

The Company acknowledges that there was a significant minority vote against one resolution at the 2018 AGM which related to the election of Mary Reilly as a Non-Executive Director. 76.26% of votes cast were in favour of this resolution. The majority of the votes received against were attributable to one of the Company's major shareholders whose policy is not to support non-executives with more than two other equivalent positions with other companies or organisations. Non-executive directors holding a position of chair of an audit committee are also not expected to hold more than one other position. Mary Reilly currently holds external appointments as set out in her biography on page 52. Members of the Board met with the major shareholder and have sought to provide reassurance that Mary has sufficient time to dedicate to her duties. The Board, through the Nomination Committee, regularly reviews and considers the time commitments for each Director to ensure there are no concerns regarding overcommitment. The Board remains confident that Mary has sufficient time to dedicate to her duties.

The Board is regularly kept informed of any investor feedback, stockbroker updates and detailed analyst reports. The Head of Investor Relations also updates the Board at every Board meeting as set out under Board activities on page 57.

The Chairman and Senior Independent Director are available to meet with shareholders upon request. All Directors were present at the 2018 AGM and will attend the 2019 AGM.

Mitie has a specific area dedicated to investor relations on its website (www.mitie.com) where the items below are made available to shareholders:

- Latest Group information;
- Financial reports;
- Corporate governance and sustainability matters;
- Half-year and full-year results presentations;
- Major shareholder information; and
- All regulatory announcements.

Annual General Meeting

Shareholders are invited to attend Mitie's 2019 AGM, which will be held on 30 July 2019 at 11.30 am at Linklaters LLP, One Silk Street, London EC2Y 8HQ.

Employee involvement

Details of how Mitie encourages employee involvement can be found in the Strategic report on pages 34 to 37.

Diversity and inclusion

The Board is responsible for driving the diversity agenda throughout the Group. During the year the Board adopted the Board Inclusion Policy as an extension to its existing Group-wide Inclusion Policy. The Board Inclusion Policy includes a commitment to maintaining a minimum of 30% female representation on the Board as recommended by the Hampton-Alexander review, provided that this remains consistent with the skills and diversity requirements when seeking a new appointment to the Board. Female representation on the Board increased from 36% at the start of the year to 50% as at 31 March 2019.

The Group's approach to business is underpinned by a belief that all individuals should be treated fairly and have access to equal opportunities. To attract, recruit, develop and retain the very best people at all levels, Mitie is committed to respecting and embracing talent and working to support a culture that is inclusive and reflective of Mitie's visions and values. Objectives of Mitie's Group-wide Inclusion Policy include that:

- No job applicant or employee will receive less favourable treatment on the grounds of sex, race, age, ethnic origin, marital status, pregnancy and maternity, civil partnership status, any gender re-assignment, religion or belief, sexual orientation, disability or part-time/fixed-term work;
- Inclusion, equality and diversity will be promoted within the workplace; and
- An environment will be created where anyone believing they have been subjected to discrimination, victimisation, bullying or harassment in the workplace, is entitled and feels safe to raise such concerns.

In implementing the policy, Mitie:

- Ensures that all policies, processes, procedures and practices underpin delivery of the Inclusion Policy;
- Cascades lessons learned and shares best practice throughout the business; and
- Identifies key issues and recommends any changes.

During FY 18/19 five diversity networks were established. The networks host a variety of face-to-face and virtual events and contribute to online platforms designed to interact and share ideas.

Diversity networks

Enable	Raises awareness of disability-related topics across the business, while offering support and guidance to colleagues and line managers
Engender	Works to engender equality for men and women at Mitie
Generations	Supports Mitie's age-diverse workforce
Kaleidoscope	Ensures an inclusive working environment for people of all ethnicities, and above all, encouraging Mitie's BAME (Black, Asian and Minority Ethnic) talent across the business to succeed
Proud To Be	Is all about educating, informing and inspiring Mitie employees to be themselves by promoting an inclusive culture in the workplace, particularly around LGBTQ

In connection with the Group's wider diversity initiatives and Inclusion Policy, Mitie is committed to:

- Giving full and fair consideration to applications for employment by disabled persons, having regard to their particular aptitudes and abilities;
- Continuing the employment of, and arranging appropriate training for, employees who have become disabled during their employment; and
- The training of, career development and promotion of disabled employees.

In recognition of Mitie's diversity-related initiatives, Mitie was named 17th in the Excellence in Diversity Awards Inclusive Top 50 UK Employers in November 2018.

Culture

The 'Mitie Way' of doing business and 'One Mitie' unitary approach of working with clients continues to be advanced. The Mitie Way has many elements to it including purpose, vision, culture, values and branding, and covers all aspects of the business, from 'who we are' to 'what we do' and 'how we do it'.

Greenhouse gas emissions

Mitie is committed to reducing its carbon emissions and environmental impact and has been actively recording and managing greenhouse gas emissions (GHG) since 2010, when an ambitious target to reduce Scope 1 and Scope 2 carbon footprint intensity by 35% was set.

The Group continues to report total GHG emissions annually using the financial control approach. The methodology used aligns with Defra's Environmental reporting guidelines and uses the Government's GHG reporting conversion factors to quantify emissions.

For the year ended 31 March 2019, Mitie had reduced its emissions intensity by 37.4% against its FY 09/10 baseline and 4.1% against FY 17/18.

Absolute emissions have also decreased by 19.5% against the FY 09/10 baseline and 3.8% against FY 17/18.

Absolute emissions

Emissions	FY 09/10 (baseline)	FY 17/18	FY 18/19	Change against baseline %	Change against FY 17/18 %
Total Scope 1 (tCO₂e)*	41,343	35,974	35,230	-14.8%	-2.1%
Emissions from fuel combustion across fleet	40,277	35,272	34,688	-13.9%	-1.7%
Emissions from gas combustion at occupied buildings (excluding landlord sites)	1,066	702	542	-49.2%	-22.8%
Total Scope 2 (tCO₂e)	3,490	1,524	857	-75.4%	-43.8%
Emissions from the purchase of electricity across occupied buildings (excluding landlord sites)	3,490	1,524	857	-75.4%	-43.8%
Total Scope 1 & 2 (tCO₂e)	44,833	37,498	36,087	-19.5%	-3.8%

Intensity

Emissions ratio	FY 09/10 (baseline)	FY 17/18	FY 18/19	Change against baseline %	Change against FY 17/18 %
tCO₂e/£m revenue (Scope 1 & 2)	26.07	17.02	16.32	-37.4%	-4.1%

* Refrigerant data has been excluded due to difficulties obtaining accurate data on landlord managed sites; however, this data is not considered material.

Mitie's efforts to reduce its carbon emissions focus on reducing the impact of its fleet, which contributes 96% of its total Scope 1 and Scope 2 footprint. Mitie has pledged to run at least 20% of its company small van and car fleet using electric vehicles by 2020. A fleet transformation project is underway to standardise current vehicles with newer, more efficient vehicles. Part of this project has been to ensure that all commercial vehicles are installed with telematics to improve driver behaviour.

Further information on these calculations can be found in the GHG methodology statement available on our website www.mitie.com.

Environmental data

Further details on the Group's environmental performance can be found in the table below:

	2009/10 (baseline)	2017/18	2018/19	Change against baseline %	Change against previous year %
Energy					
Electricity consumed across occupied buildings (kWh)	9,091,141	5,540,091	3,417,254	-62.4%	-38.3%
Gas consumed across occupied buildings (kWh)	7,980,537	4,949,461	3,261,106	-59.1%	-34.1%
Fuel used by fleet for business travel (kWh)	184,088,382	154,681,158	148,488,776	-19.3%	-4.0%
Total organisational energy consumption (kWh)	201,160,060	165,170,710	155,167,136	-22.9%	-6.1%
Water					
Water consumed across occupied buildings (m ³)	29,306	40,012	28,106	-4.1%	-29.8%
Waste					
Total waste to landfill (tonnes)	989	336	231	-76.6%	-31.2%
Total waste recycled (tonnes)	447	541	371	-17.0%	-31.4%
Total waste generated across occupied buildings (tonnes)	1,436	877	602	-58.1%	-31.4%
Recycling rate	31%	62%	62%	+31 ppts	-

Directors' report: other disclosures continued

Political donations

Mitie has a long-standing policy of not making any political donations. However, it is possible that certain routine activities (including charitable donations) undertaken by Mitie might unintentionally fall within the wide definition of payments constituting political donations and expenditure as set out in the Companies Act 2006. At the 2018 AGM shareholders granted the Company and its subsidiaries authority to make political donations up to a total aggregate cap of £50,000 until the 2019 AGM. A renewal of this authority will be put to shareholders at the 2019 AGM.

Significant agreements – change of control

There are a number of agreements with provisions that take effect, alter or terminate upon a change of control of the Company, such as bank facility agreements and other financial arrangements and employee share scheme rules. None of these are considered to be significant in terms of their likely impact on the normal course of business of the Group. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs solely because of a change of control.

Financial results

A detailed commentary on the operational and financial results of the Group for the year is contained within the Strategic report, including the Finance review on pages 22 to 25.

The Group's profit before tax from continuing operations for the financial year was £36.4m (2018: £15.4m loss).

Dividends

An interim dividend of 1.33p per Ordinary Share (2018: 1.33p) with a total value of £4.8m (2018: £4.8m) was paid to shareholders on 12 February 2019.

The Directors recommend a final dividend of 2.67p per Ordinary Share (2018: 2.67p) with a total value of £9.6m (2018: £9.6m) based upon the number of shares in issue as at 5 June 2019. Subject to approval at the 2019 AGM, the final dividend will be paid on 9 August 2019 to shareholders on the register as at close of business on 28 June 2019.

The final dividend of 2.67p per share recommended by the Directors for the year ended 31 March 2018 was replaced by an interim dividend of 2.67p declared by the Directors on 31 July 2018 as the Notice of 2018 AGM omitted a resolution seeking shareholder approval of the final dividend.

The total dividend per Ordinary Share for the year ended 31 March 2019 will be 4.0p (2018: 4.0p).

As at 31 March 2019, the Company had distributable reserves of £64.6m (2018: £117.5m).

Mitie operates a Dividend Re-Investment Plan (DRIP) which allows shareholders to use their cash dividend to purchase additional Ordinary Shares. Further detail on the operation of the DRIP and how to apply can be found on page 166 and are available from Mitie's Registrar, Link Asset Services.

The trustees of the Company's Employee Benefit Trust waived dividends payable during the year and have agreed to waive future dividends.

In accordance with Section 726 of the Companies Act 2006, no dividends are paid on shares held in treasury.

Financial instruments

The Group's financial instruments include bank borrowing facilities, finance leases, overdrafts, US private placement loan notes and derivatives which are used to manage interest, currency and other risks when necessary or material.

The principal objective of these instruments is to raise funds for general corporate purposes and to manage financial risk. Further details of these instruments are given in Note 23 to the consolidated financial statements.

Statement of the Directors in respect of the Annual Report and Accounts

In accordance with the Code, the Directors confirm that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. When arriving at this position the Board was assisted by various processes including the following:

- The Annual Report and Accounts is drafted by senior management with overall coordination by the General Counsel & Company Secretary to ensure consistency across the relevant sections;
- A review is undertaken to assess whether the Annual Report and Accounts is fair, balanced and understandable using a set of pre-defined indicators (such as consistency with internally reported information, investor communications and relative performance in the industry);
- Comprehensive reviews of drafts of the Annual Report and Accounts are undertaken by the Executive Directors and other senior management;
- An advanced draft is reviewed by the General Counsel & Company Secretary and external advisors; and
- The final draft is reviewed by the Audit Committee prior to consideration by the Board.

Details of the basis on which the Company generates and preserves value over the longer term and the strategy for delivering the Company's objectives are set out in the Strategic report.

Going concern

The Directors acknowledge the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014. The Directors have considered principal risks and uncertainties affecting the Group which are described on pages 38 to 46.

The Directors have considered the Group's financial position which incorporates the Parent Company with reference to latest forecasts and the actual performance for the period. The Group benefits from a well-diversified portfolio of service offerings and has a broad, diverse customer base.

The Group currently operates well within the financial covenants associated with its committed funding lines. These include £191.5m of US Private Placement debt maturing in December 2019, December 2022 and December 2024. The Group also benefits from a committed multi-currency revolving credit facility of £275.0m, which will mature in July 2021. Together with the US Private Placements, this gives the Group total committed funding of £466.5m, of which £221.9m was undrawn at 31 March 2019.

The Group's US Private Placement and bank debt contain certain financial covenants. The primary ratios are net debt to EBITDA and EBITDA to net finance costs. These covenants are tested on a rolling 12-month basis as at the March and September reporting dates. At 31 March 2019, both covenant tests were passed. The Group is forecasting to remain within its banking covenants over the next twelve months and has stress-tested these calculations for reasonable possible adverse variances in trading and cash performance.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. Accordingly, the Group and Parent Company continues to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Viability statement

This statement is detailed in full on pages 47 and 48.

In accordance with the Code, the Directors have assessed the viability of the Group over a three-year period to 31 March 2022 taking into account the Group's current position and the potential impact of the principal risks set out in the Strategic report. Based on this assessment the Directors have a reasonable expectation that the Group is and will continue to be viable.

Disclosure of information to the auditor

Each Director in office as at the date of this Directors' report confirms that:

- So far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- He/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This statement is given, and should be interpreted in accordance with, Section 418 of the Companies Act 2006.

By order of the Board

Peter Dickinson

General Counsel & Company Secretary
5 June 2019



Directors' report: statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the Annual Report, the remuneration report and the financial statements

The Directors are responsible for preparing the Annual 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 the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that these give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for the period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- For the Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business;
- Prepare a Directors' report, a Strategic report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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 are responsible for ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4.1

The Directors confirm that to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- The management report includes a fair review of the development and performance of the business and the financial position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Phil Bentley
Chief Executive Officer
5 June 2019

Paul Woolf
Chief Financial Officer
5 June 2019



Exceptional, every day for our employees

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Mitie's people are our most critical asset. As a major UK employer with 52,500 colleagues, we take our responsibility towards our people seriously.

Improving our employment offer to our colleagues has been a key focus of the past year as we look to consolidate our position as one of the UK's most dynamic, forward-thinking and sustainable facilities management companies. In FY 18/19 we launched People Hub – a single source for all people-related matters – and Learning Hub to further our colleagues' careers.

⊕ Read more on PG 34-37

No 17
top 50 UK
employers

5
core values that
drive our business

Independent auditor's report

Independent auditor's report to the members of Mitie Group plc

Opinion

We have audited the financial statements of Mitie Group plc (the Parent Company) and its subsidiaries (the Group) for the year ended 31 March 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Generally Accepted Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 38 to 46 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 47 in the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 88 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 47 and 48 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

A summary of our key audit matters and the assessment against prior year is as follows:

Risk	Risk consistent with prior year
Appropriateness of revenue recognition	Yes – incorporates compliance with IFRS 15 in current year
Contractual matters and provisions	Yes – with specific contractual matters being considered in each year
Recoverability of trade receivables and accrued income	Yes
Acquisition of Vision Security Group	New risk following current year acquisition

The prior year key audit matters also included the transition to IFRS 15, presentation of other items in the consolidated financial statements and impairment of goodwill in the Property Management division.

Whilst compliance with IFRS 15 remains a risk in respect of revenue recognition, following adoption in the prior year the key audit matter in respect of transition is no longer applicable. In addition, the Social Housing business within the Property Management division has been disposed of in the year and therefore impairment of goodwill relating to the division is no longer considered to be a key audit matter.

With the exception of a £20.0m provision being required in respect of a Section 75 pension liability (see Notes 4 and 32), the quantum of amounts recorded as other items and the level of judgement reduced, this is therefore no longer considered to be a key audit matter.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of revenue recognition

Key Audit Matter

Following the adoption of IFRS 15 in the prior year, the level of judgement applied by management in respect of revenue and profit recognition has significantly reduced.

There remains however an assessment of new and modified contracts to ensure compliance with IFRS 15 as well as the cut-off risk in respect of recognition of accrued income. Unbilled accrued income at the year-end totalled £132.6m (see Note 15).

The accounting policies and critical judgements applied are disclosed in Notes 1 and 2.

Judgements include:

- Interpretation of contract terms;
- Assessment of revenue recognised in respect of projects with an over time revenue recognition requirement;
- Mobilisation and pre-contract costs capable of being capitalised; and
- Assessment of revenue recognition based on performance obligations being achieved.

How we addressed the Key Audit Matter in the Audit

We completed the following audit procedures:

- Reviewed the basis of revenue recognised against the requirements of IFRS 15 and challenged and where necessary corroborated to underlying audit evidence the key judgements made by management;
- Tested a sample of new and modified contracts in the year to confirm revenue recognition in accordance with IFRS 15;
- Obtained a sample of contracts to confirm that fixed revenue had been appropriately recognised including recalculating the expected revenue for the year;
- Tested a sample of contract related assets to supporting documentation to ensure revenue had been recognised in line with IFRS 15;
- For specific divisional revenue streams we tested the operating effectiveness of controls including the testing of IT controls over key operating systems; and
- Tested a sample of accrued income balances to supporting documentation, which included procedures such as: assessing proof of works; confirming customer acceptance; reviewing customer correspondence; and ensuring cut-off had been appropriately applied.

Recoverability of trade receivables and accrued income

Key Audit Matter

Material amounts of the billed and unbilled work remain outstanding for more than three months as resolution of open issues remains ongoing on various contracts.

The aged nature of these balances increases the risk of recoverability, particularly where there is disagreement or dispute.

Trade receivables and accrued income are disclosed in Note 15 to the financial statements. Credit risk associated with trade receivables is disclosed in Note 23 to the financial statements.

In addition, in the current year, the Group has adopted IFRS 9 'Financial Instruments', which includes the requirements to determine the provision for expected credit losses. This has resulted in a pre-tax adjustment to opening reserves and receivables of £2.5m.

There is significant management judgement involved in assessing the recoverability of these balances, taking into consideration the Group's contractual rights, available evidence of work performed, as well as the status of ongoing commercial negotiations.

This judgement is compounded by system limitations within the Engineering division which require a manual ageing of unbilled accrued income balances, increasing the risk of error.

How we addressed the Key Audit Matter in the Audit

For a sample of these balances we have challenged the validity of the recorded debtors and accrued income as well as the completeness of provisions and expected credit losses by a number methods including:

- Where possible, confirming aged balances to post year-end cash receipts;
- Examining client approval of works orders or contractual commitments;
- Reviewing evidence of work performed and status of negotiations;
- Testing the accuracy of ageing of trade receivable and accrued income (including the manual ageing requirement in the Engineering division);
- Reviewing in-house legal counsel reports for any material disputes;
- Scrutinising the methodology and assumptions used in calculating the expected credit loss provision; and
- Analytical procedures to consider consistency in the provisioning methodology to the prior year.

Independent auditor's report continued

Contractual matters and provisions

Key Audit Matter

Under the terms for the disposal of the Social Housing business the Group retained specific contractual liabilities and provided certain indemnities to the buyers relating to closed contracts.

Whilst certain liabilities have now been settled in full there remain contractual matters that require significant judgement in estimating the quantum of provisions required.

There is a risk that the provisions included as contract specific costs and disposal indemnities in Note 19 and also disclosed within other items in Note 4 are not complete.

How we addressed the Key Audit Matter in the Audit

We examined the Social Housing disposal documentation and held discussions with in-house legal counsel to confirm the contractual liabilities retained and indemnities given.

We have read internal and external documentation to evaluate the provisions recorded to ensure they are materially complete and correctly calculated.

For all matters we have reviewed the disclosures included in the financial statements to ensure that they are complete and also fair, balanced and understandable.

Acquisition of Vision Security Group

Key Audit Matter

During the year, the Group acquired Vision Security Group Limited for net consideration of £8.2m.

There are several judgemental areas in the accounting for the acquisition including:

- Fair value of consideration, specifically related to an adjustment of £5.28m being recorded prior to reaching a final agreement of the completion accounts with the sellers;
- Fair value of the opening acquisition balance sheet assets and liabilities;
- Adoption of IFRS 9 and 15 into the opening acquisition balance sheet; and
- Valuation and the useful economic life of the separately identifiable customer relationship intangible asset.

In determining the completion accounts adjustments and arriving at their best estimate, management have obtained third-party accounting and legal support.

The transaction resulted in a gain in bargain purchase of £8.8m which has been recorded as a credit within the income statement.

The Group's accounting policy for business combinations is disclosed in Note 1, the judgements made in Note 2 and further detail concerning the transaction within Note 30.

How we addressed the Key Audit Matter in the Audit

Our audit procedures included:

- With the support of our internal specialists we assessed the fair value of consideration, specifically in respect of the completion accounts adjustments made by management. This included reviewing management papers and judgements, the sale and purchase agreements, correspondence with the vendors and third-party reports obtained by management to support their assessment;
- Substantively audited acquisition net book values of assets and liabilities and resulting fair value adjustments including the adoption of IFRS 9 and 15; and
- With the support of our internal valuation specialists we challenged the key inputs, assumptions and methodology used by management in determining the fair values of intangible assets acquired.

In light of the assessed gain on bargain purchase we challenged management on its recognition.

We have also reviewed the relevant disclosure in the financial statements to assess compliance with the requirements of IFRS 3 and also the disclosure in Note 2 of the significant estimates and judgements made.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements to be £3.8m and for the Parent Company to be £2.9m. Performance materiality, based on our assessment of past misstatements and the control environment was calculated based on 70% of our materiality.

The materiality we applied in respect of the Group financial statements equates to 5% of continuing profit before other items and tax. Parent Company materiality was set at 1% of net assets, and capped at 75% of Group materiality.

We consider the use of 5% of continuing profit before other items to be the most appropriate performance measure for the basis as it removes the impact of certain one-off or exceptional items impacting the underlying profit of the Group and is also a key measure for stakeholders. Other items are detailed in Note 4 to the Group financial statements.

We set component materiality between £0.9m and £2.6m based on the overall size and respective risk of each component.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £190,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group operates through a number of legal entities, which form reporting components – the reporting components are consistent with the segmental analysis as disclosed in Note 3 to the financial statements with the exception of Vision Security Group which is treated as a separate component for audit purposes but forms part of the Security division within the segmental analysis. All components were subject to full scope audits with the exception of certain overseas entities which were disaggregated from the division and were subject to desktop review procedures. All audits and desktop review procedures were completed by BDO LLP.

The audit procedures were carried out over 95% of Group revenue, profit before other items and total assets.



The Group audit team set component materiality levels as detailed above with work on all components being performed by the Group auditors under the direction and supervision of the Group engagement partner. With the exception of the non-significant components, the Group engagement partner visited all component locations and attended various telephone conference meetings through the planning, fieldwork and completion stages of the audit.

We also gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules and tax legislation.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries with management and enquiries of in-house legal counsel. There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 86 – the statement by the Directors that they consider the annual report and financial statements taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 62 to 67 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 53 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent auditor's report continued

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 88, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

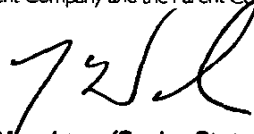
Following the recommendation of the Audit Committee, we were appointed by the Audit Committee on 19 September 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 March 2018 and 31 March 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Scott McNaughton (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London
5 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement

For the year ended 31 March 2019

		2019			2018 ^{1,2}		
	Notes	Before other items £m	Other items ³ £m	Total £m	Before other items £m	Other items ³ £m	Total £m
Continuing operations							
Revenue	3	2,221.4	–	2,221.4	2,030.6	–	2,030.6
Cost of sales		(1,923.9)	–	(1,923.9)	(1,762.8)	–	(1,762.8)
Gross profit		297.5	–	297.5	267.8	–	267.8
Administrative expenses		(209.3)	(38.0)	(247.3)	(184.6)	(82.1)	(266.7)
Operating profit/(loss)	3.6	88.2	(38.0)	50.2	83.2	(82.1)	1.1
Finance income		0.2	–	0.2	0.1	–	0.1
Finance costs	8	(14.0)	–	(14.0)	(16.6)	–	(16.6)
Net finance costs		(13.8)	–	(13.8)	(16.5)	–	(16.5)
Profit/(loss) before tax	3	74.4	(38.0)	36.4	66.7	(82.1)	(15.4)
Tax	9	(13.8)	7.4	(6.4)	(11.1)	10.0	(1.1)
Profit/(loss) from continuing operations after tax		60.6	(30.6)	30.0	55.6	(72.1)	(16.5)
Discontinued operations							
Profit/(loss) from discontinued operations	5	3.1	(2.2)	0.9	5.6	(15.1)	(9.5)
Profit/(loss) for the year		63.7	(32.8)	30.9	61.2	(87.2)	(26.0)
Attributable to:							
Equity holders of the parent		63.7	(32.8)	30.9	60.1	(87.2)	(27.1)
Non-controlling interests		–	–	–	1.1	–	1.1
		63.7	(32.8)	30.9	61.2	(87.2)	(26.0)
Earnings/(loss) per share (EPS) attributable to equity holders of the parent							
From continuing operations:							
Basic	11	16.8p		8.3p	15.2p		(4.9)p
Diluted	11	16.7p		8.3p	15.1p		(4.9)p
From continuing and discontinued operations:							
Basic	11	17.7p		8.6p	16.8p		(7.6)p
Diluted	11	17.5p		8.5p	16.7p		(7.6)p

Notes

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Re-presented to classify the Pest Control and Social Housing businesses as discontinued operations. See Note 1.
3. Other items are as described in Note 4.

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	Notes	2019 £m	2018 ¹ £m
Profit/(loss) for the year		30.9	(26.0)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of net defined benefit pension liability	32	(13.9)	19.7
Income tax credit/(charge) relating to items not reclassified	9	2.4	(3.4)
		(11.5)	16.3
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(0.3)	0.1
Gains on hedge of a net investment taken to equity		0.1	0.4
Net gains on cash flow hedges arising during the year	27	2.2	0.1
Income tax (charge)/credit relating to items that may be reclassified	9	(0.3)	0.1
		1.7	0.7
Other comprehensive (expense)/income for the financial year		(9.8)	17.0
Total comprehensive income/(expense) for the financial year		21.1	(9.0)
Attributable to:			
Equity holders of the parent		21.1	(10.1)
Non-controlling interests		–	1.1

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

Consolidated balance sheet

As at 31 March 2019

	Notes	2019 £m	2018 ¹ £m
Non-current assets			
Goodwill	12	293.8	309.6
Other intangible assets	13	50.7	38.3
Property, plant and equipment	14	29.0	33.6
Interest in joint ventures and associates		–	0.8
Derivative financial instruments	23	16.4	6.1
Contract assets	16	4.5	1.8
Deferred tax assets	20	38.7	36.7
Total non-current assets		433.1	426.9
Current assets			
Inventories		5.6	6.9
Trade and other receivables	15	435.2	386.0
Contract assets	16	1.6	0.4
Current tax assets			6.3
Cash and cash equivalents		108.4	59.8
Total current assets		550.8	459.4
Total assets		983.9	886.3
Current liabilities			
Trade and other payables	17	(533.9)	(496.8)
Deferred income	18	(54.9)	(46.2)
Current tax liabilities		(0.3)	–
Financing liabilities	22	(40.7)	(0.8)
Provisions	19	(50.6)	(25.2)
Total current liabilities		(680.4)	(569.0)
Net current liabilities		(129.6)	(109.6)
Non-current liabilities			
Deferred income	18	(18.4)	(18.8)
Financing liabilities	22	(224.8)	(258.6)
Provisions	19	(6.0)	(6.3)
Retirement benefit liabilities	32	(63.8)	(56.8)
Deferred tax liabilities	20	(2.9)	(0.8)
Total non-current liabilities		(315.9)	(341.3)
Total liabilities		(996.3)	(910.3)
Net liabilities		(12.4)	(24.0)

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

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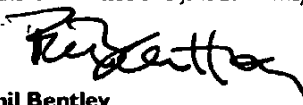
Consolidated balance sheet continued
As at 31 March 2019

	Notes	2019 £m	2018 ¹ £m
Equity			
Share capital	28	9.3	9.3
Share premium account	29	130.6	130.6
Merger reserve	29	104.2	104.2
Own shares reserve	29	(38.1)	(43.4)
Other reserves	29	10.3	11.3
Hedging and translation reserve	29	(5.6)	(7.3)
Retained losses		(223.1)	(228.7)
Equity attributable to equity holders of the parent		(12.4)	(24.0)

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

The consolidated financial statements of Mitie Group plc, company registration number SC019230 were approved by the Board of Directors and authorised for issue on 5 June 2019. They were signed on its behalf by:


Phil Bentley
 Chief Executive Officer


Paul Woolf
 Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves ¹ £m	Hedging and translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Adjusted balance at 1 April 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(212.4)	(20.7)	2.3	(18.4)
Loss for the year	–	–	–	–	–	–	(27.1)	(27.1)	1.1	(26.0)
Other comprehensive income	–	–	–	–	–	0.7	16.3	17.0	–	17.0
Total comprehensive expense	–	–	–	–	–	0.7	(10.8)	(10.1)	1.1	(9.0)
Dividends paid	–	–	–	–	–	–	(4.8)	(4.8)	–	(4.8)
Share-based payments	–	–	–	6.9	1.0	–	0.3	8.2	–	8.2
Acquisitions and other movements in non-controlling interests	0.1	–	12.4	(8.1)	–	–	(1.0)	3.4	(3.4)	–
At 31 March 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(228.7)	(24.0)	–	(24.0)
At 1 April 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(228.7)	(24.0)	–	(24.0)
Impact of change in accounting policy ²	–	–	–	–	–	–	(2.1)	(2.1)	–	(2.1)
Adjusted balance at 1 April 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(230.8)	(26.1)	–	(26.1)
Profit for the year	–	–	–	–	–	–	30.9	30.9	–	30.9
Other comprehensive (expense)/income	–	–	–	–	–	1.7	(11.5)	(9.8)	–	(9.8)
Total comprehensive income	–	–	–	–	–	1.7	19.4	21.1	–	21.1
Dividends paid	–	–	–	–	–	–	(14.4)	(14.4)	–	(14.4)
Share-based payments	–	–	–	5.3	(1.0)	–	0.9	5.4	–	5.4
Other movements	–	–	–	–	–	–	1.8	1.8	–	1.8
At 31 March 2019	9.3	130.6	104.2	(38.1)	10.3	(5.6)	(223.1)	(12.4)	–	(12.4)

Notes

1. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve. See Note 29.

2. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impacts as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

Consolidated statement of cash flows

For the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Continuing operations – operating profit before other items ¹		88.2	83.2
Continuing operations – other items ¹	4	(38.0)	(82.1)
Discontinued operations – operating loss after other items ¹		(2.0)	(9.4)
Adjustments for:			
Share-based payments expense	31	5.0	4.6
Defined benefit pension costs	32	1.8	3.1
Past service costs and curtailments	32	1.6	1.9
Defined benefit pension contributions	32	(11.6)	(4.7)
Depreciation of property, plant and equipment	14	11.6	12.8
Amortisation of intangible assets	13	9.0	13.5
Amortisation of contract assets	16	0.8	0.1
Share of profit of joint ventures and associates	5	(0.5)	(0.8)
Impairment of goodwill	12	–	34.6
Impairment of intangible assets	13	1.1	10.4
Gain on bargain purchase	30	(8.8)	–
Gain on disposal of property, plant and equipment		(0.8)	(0.1)
(Gain)/loss on disposal of subsidiaries	5	(17.9)	0.2
Other		–	(0.1)
Operating cash flows before movements in working capital		39.5	67.2
Decrease/(increase) in inventories		0.4	(0.1)
Increase in receivables		(51.7)	(43.2)
Increase in contract assets		(4.7)	(2.3)
Increase/(decrease) in deferred income		5.1	(12.8)
Increase/(decrease) in payables		33.4	(21.2)
Increase in provisions		25.5	4.5
Cash generated from/(used in) operations	27	47.5	(7.9)
Income taxes received		4.7	11.6
Interest paid		(12.4)	(13.5)
Net cash generated from/(used in) operating activities		39.8	(9.8)
Investing activities			
Acquisition of subsidiaries, net of cash acquired ²	30	(9.3)	–
Disposal of subsidiaries, net of cash disposed ²	5	52.8	(9.7)
Dividends received from joint ventures and associates		–	0.6
Interest received		0.2	0.2
Purchase of property, plant and equipment	14	(12.1)	(15.8)
Purchase of other intangible assets	13	(11.2)	(9.0)
Disposal of property, plant and equipment		4.7	1.6
Net cash generated from/(used in) investing activities		25.1	(32.1)

Notes

1. Re-presented to classify the Pest Control and Social Housing businesses as discontinued operations. See Note 1.

2. Disposal of subsidiaries, net of cash disposed of £52.8m for the year ended 31 March 2019 is stated net of £5.3m of transaction costs (see Note 5). The net cash inflow from acquisition and disposal of subsidiaries was £40.9m (2018: £9.7m outflow) including costs of £2.6m related to the VSG acquisition (see Note 4).

Consolidated statement of cash flows continued

For the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Financing activities			
Increase/(repayments) of obligations under finance leases	27	0.2	(1.5)
Private placement notes repaid and associated hedges settled		–	(60.2)
(Repayments of)/proceeds from bank loans	27	(2.1)	38.3
Proceeds from re-issue of treasury shares	29	–	3.4
Purchase of non-controlling interests	30	–	(3.0)
Equity dividends paid	10	(14.4)	(4.8)
Net cash used in financing activities		(16.3)	(27.8)
Net increase/(decrease) in cash and cash equivalents		48.6	(69.7)
Net cash and cash equivalents at beginning of the year		59.8	129.1
Effect of foreign exchange rate changes		–	0.4
Net cash and cash equivalents at end of the year	21	108.4	59.8
The above statement of consolidated cash flows includes cash flows from both continuing and discontinued operations. Further details of the cash flows relating to discontinued operations are shown in Note 5.			
Reconciliation of net cash flow to movements in net debt	Notes	2019 £m	2018 £m
Cash drivers			
Net increase/(decrease) in cash and cash equivalents		48.6	(69.7)
Decrease/(increase) in bank loans	27	2.1	(38.3)
Private placement notes repaid and associated hedges settled		–	60.2
(Increase)/repayments of obligations under finance leases	27	(0.2)	1.5
Non-cash drivers			
Non-cash movement in bank loans	27	(0.2)	(0.7)
Non-cash movement in private placement notes and associated hedges	27	2.2	0.3
Effect of foreign exchange rate changes	27	0.3	0.4
Decrease/(increase) in net debt during the year		52.8	(46.3)
Opening net debt		(193.5)	(147.2)
Closing net debt	26	(140.7)	(193.5)

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Notes to the consolidated financial statements

For the year ended 31 March 2019

I. Basis of preparation and significant accounting policies

(a) Basis of preparation

The Group's financial statements for the year ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore the Group's financial statements comply with Article 4 of the EU IAS Regulation.

The Group's financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be measured at fair value.

Going concern

The Directors acknowledge the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014. The Directors have considered principal risks and uncertainties affecting the Group which are described on pages 38 to 46.

The Group currently operates well within the financial covenants associated with its committed funding lines. These include £191.5m (being the repayment amount based on the original dollar exchange rates when issued) of US Private Placement debt maturing in December 2019, December 2022 and December 2024 and a committed multi-currency revolving credit facility of £275.0m which will expire in July 2021. These facilities give the Group total committed funding of £466.5m, of which £221.9m was undrawn at 31 March 2019.

The key ratios in these financial covenants are net debt to covenant EBITDA and covenant EBITDA to net finance costs. These covenants are tested on a rolling 12-month basis as at the September and March reporting dates. At 31 March 2019, both covenant tests were passed. The Group is forecasting to remain within its banking covenants over the next twelve months and has stress-tested these calculations for reasonable possible adverse variances in trading and cash performance.

Supported by the liquidity provided by committed banking facilities, notwithstanding the Group is in a net current liability position, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

Discontinued operations

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) which previously formed a separate major line of business of the Group as part of the Cleaning & Environmental Services division. As a result of the disposal, the results of the Pest Control business have been classified as discontinued operations and comparative information has been restated.

On 19 November 2018, the Group entered into an agreement to sell Mitie Property Management Limited and MPS Housing Limited, together the Social Housing business, which previously formed a separate major line of business of the Group as part of the Property Management division. As a result of the disposal, which was completed on 30 November 2018, the results of the Social Housing business have been classified as discontinued operations and comparative information has been restated. The remaining roofing and painting activities of the former Property Management division have been integrated into the Engineering Services division.

Accounting standards that are newly effective in the current year

With the exception of the adoption of IFRS 9 which is discussed below, none of the new standards and amendments that are effective for the first time this year have had a material effect on the Group.

IFRS 9 'Financial instruments' became effective for the Group starting 1 April 2018 and replaces the requirements of IAS 39 'Financial instruments: recognition and measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new Expected Credit Loss (ECL) model for the impairment of financial assets, revisions to the hedge accounting model, and amendments to disclosures. The Group elected, from 1 April 2018, to continue to apply the hedge accounting guidance in IAS 39 'Financial instruments: recognition and measurement'.

With respect to loss allowances for trade receivables, IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The Group, from 1 April 2018, measures loss allowances for trade receivables and accrued income at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience and forward-looking information. The Group has determined that the transition to IFRS 9 resulted in an additional loss allowance for trade receivables and accrued income as at 1 April 2018 of £2.5m and gave rise to a tax credit of £0.4m. The additional loss allowance has been applied as an adjustment to opening retained earnings at 1 April 2018 and therefore, the prior year comparative information is not restated.

Other than as stated above, the accounting policies and methods of calculation adopted in the preparation of these Group consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March 2018, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board and as adopted by the EU.

Accounting standards that are not yet mandatory and have not been applied by the Group

With the exception of IFRS 16 which is discussed below, none of the new standards and amendments that are not yet effective are expected to have a material effect on the Group.

IFRS 16 'Leases' became effective for the Group from 1 April 2019 and replaces the requirements of IAS 17 'Leases'. An asset representing the Group's right as a lessee to use a leased item, and a liability for future lease payments, will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but substantively different to the accounting for operating leases (under which no lease asset or lease liability was recognised and rentals payable were charged to the consolidated income statement on a straight-line basis).

During the year, management set up a project team to review the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16. At 31 March 2019, the Group has non-cancellable operating lease commitments of £72.0m (see Note 25). Of these commitments, £1.4m relates to short-term leases and £0.1m to low-value leases which will be recognised on a straight-line basis as an expense in the consolidated income statement. For the remaining lease commitments, the Group expects to recognise, at 1 April 2019, right-of-use assets in the range of £82.0m to £87.0m, and lease liabilities in the range of £81.0m to £86.0m (after adjustments for prepayments and accrued lease payments recognised as at 31 March 2019). Overall net assets will be in the range of £4.0m lower to £6.0m higher and net current liabilities will be higher by between £21.0m and £26.0m due to the presentation of a portion of lease liabilities as a current liability.

As a result of adopting the new rules, for the year ending 31 March 2020, the Group expects net profit before tax to increase by between £nil and £3.0m. Operating profit is expected to increase by between £24.0m and £29.0m as the operating lease rentals payable which were previously included in operating profit are excluded, with this increase being offset by additional depreciation of between £22.0m and £24.0m as the right-of-use assets are depreciated. In addition, operating cash flows are expected to increase by between £24.0m and £29.0m as repayment of the lease liabilities is reclassified as cash used in financing activities.

The Group's activities as a lessor are not material and therefore, there is no significant impact from these activities on the consolidated financial statements as a result of adopting IFRS 16. However, certain additional disclosure may be required in the notes to the consolidated financial statements.

(b) Significant accounting policies

The significant accounting policies adopted in the preparation of the Group's IFRS financial information are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Mitie Group plc and all its subsidiaries. The Parent Company has applied FRS 101 'Reduced disclosure framework' in the preparation of its individual financial statements. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results, assets and liabilities of joint ventures and associates are accounted for under the equity method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those used by the Group.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

In the financial statements, the Group has elected to provide some further disclosures and performance measures, reported as 'before other items', in order to present its financial results in a way that demonstrates the performance of continuing operations.

Other items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. The Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs including the write-off and amortisation of acquisition related intangible assets, the results of and costs associated with disposals, and other exceptional items and their related tax effect as other items. Should these items be reversed, disclosure of this would also be as other items.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the period and the extent to which results are influenced by material unusual and/or non-recurring items. Further detail of other items is set out in Note 4.

In addition, following the guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authorities (ESMA), the Group has included an APM appendix to the financial statements on pages 163 to 165.

Revenue recognition policy

The Group operates contracts with a varying degree of complexity across its service lines, so a range of methods is used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1. Basis of preparation and significant accounting policies continued

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts

Step 1 – Identify the contract(s) with a customer

For all contracts with customers, the Group determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements (MSAs) not meeting the definition of contracts under IFRS 15 unless they specify the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Group frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the actual duration of the contract. As the term of the contract impacts the period over which amortisation of contract assets and revenue from performance obligations may be recognised, the Group applies judgement to assess the impact that such clauses have in determining the relevant contract term. In forming this judgement, management considers certain influencing factors including the amount of discount provided, the presence of significant termination penalties in the contract, and the relationship, experience and performance of contract delivery with the customer and/or the wider industry, in understanding the likelihood of extension or termination of the contract.

Contract modifications

The Group's contracts are frequently amended for changes to customer requirements such as change orders and variations. A contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, the Group estimates the change to the total transaction price.

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 – Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Group to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Group's integrated facilities management contracts, the Group applies judgement to consider whether those promised goods or services are:

- i. distinct and accounted for as separate performance obligations;
- ii. combined with other promised goods or services until a bundle is identified that is distinct; or
- iii. part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Group treats the series as a single performance obligation.

Step 3 – Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which the Group expects to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration, up or down, resulting from e.g. discounts, rebates, service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Step 4 – Allocate the transaction price to the performance obligations in the contract

The Group allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement.

Step 5 – Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Group applies the relevant output or input revenue recognition method for measuring progress that depicts the Group's performance in transferring control of the goods or services to the customer.

Certain long-term contracts use output methods based upon surveys of performance completed, appraisals of results achieved, or milestones reached which allow the Group to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services under the contract.

Under the input method, measured progress and revenue are recognised in direct proportion to costs incurred where the transfer of control is most closely aligned to the Group's efforts in delivering the service.

Where deemed appropriate, the Group will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance obligations completed to date.

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the goods or services passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Long-term complex contracts

The Group has a number of long-term complex contracts which are predominantly integrated facilities management arrangements. Typically, these contracts involve the provision of multiple service lines, with a single management team providing an integrated service. Such contracts tend to be transformational in nature where the business works with the customer to identify and implement cost saving initiatives across the life of the contract.

The Group considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time. The series constitutes services provided in distinct time increments (e.g. monthly or quarterly) and therefore the Group treats the series of such services as one performance obligation.

The Group also delivers major project-based services under long-term complex contracts that include performance obligations under which revenue is recognised over time as value from the service is transferred to the customer. This may be where the Group has a legally enforceable right to remuneration for the work completed to date, and therefore revenue will be recognised in line with the associated transfer of control.

Repeat service-based contracts (single and bundled contracts)

The Group operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same (e.g. the provision of cleaning, security, catering, waste, and landscaping services). They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Group therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Group delivers a range of other short-term service based performance obligations and professional services work across certain reporting segments for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

Other revenue

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Contract costs

The Group incurs pre-contract expenses (e.g. legal costs) when it is expected to enter into a new contract. The incremental costs to obtain a contract with a customer are recognised within contract assets if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Contract fulfilment costs

Costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures, and mechanisms in place to enable the delivery of full services under the contract target operating model, are defined as contract fulfilment costs. Only costs which meet all three of the criteria below are included within contract assets on the balance sheet:

- i. the costs directly relate to the contract (e.g. direct labour, materials, subcontractors);
- ii. the Group is building an asset that will subsequently be used to deliver contract outcomes; and
- iii. the costs are expected to be recoverable i.e. the contract is expected to be profitable after amortising the capitalised costs.

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment are not capitalised as contract fulfilment assets but are treated in accordance with the other standard.

Amortisation and impairment of contract assets

The Group amortises contract assets (pre-contract costs and contract fulfilment costs) on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. The expense is recognised in the income statement in the period.

A capitalised pre-contract cost or contract fulfilment cost is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use.

The Group is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price which includes estimates around variable consideration. An impairment is recognised immediately where such losses are forecast.

Accrued income and deferred income

The Group's customer contracts include a diverse range of payment schedules which are often agreed at the inception of long-term contracts under which it receives payments throughout the term of the arrangement. Payments for goods and services transferred at a point in time may be at the delivery date, in arrears or part payment in advance.

Where revenue recognised at the period end date is more than amounts invoiced, the Group records accrued income for the difference. Where revenue recognised at the period end date is less than amounts invoiced, the Group recognises deferred income for the difference.

Certain arrangements with customers include a contractual obligation to make redundancies for which the Group is reimbursed for the costs incurred. Revenue is not recognised on these transactions. Instead, the Group expenses all redundancy costs in the period they are incurred and any reimbursement credit is matched against the associated cost included in the income statement up to the value of the redundancy cost incurred. Any cash payments received from the customer in excess of the associated cost of redundancy are deferred over the contract term and unwound in line with the other services being delivered.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1. Basis of preparation and significant accounting policies continued

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial periods to subsequent periods in order for revenue to be recognised on a consistent basis.

Providing the option for a customer to obtain extension periods or other services at a significant discount may lead to a separate performance obligation where a material right exists. Where this is the case, the Group allocates part of the transaction price from the original contract to deferred income which is then amortised over the discounted extension period or recognised immediately when the extension right expires.

Foreign currency

The financial statements of each of the Group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is recognised directly in equity.

On consolidation, the assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the Group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed. The acquiree identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Negative goodwill representing a gain from a bargain purchase, is recognised directly in the income statement.

Where applicable, the consideration for an acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information, obtained within one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in the income statement, in accordance with IFRS 9. Changes in the fair value of contingent consideration classified as equity are not recognised.

Any business combinations prior to 1 April 2010 were accounted for using the standards in place prior to the adoption of IFRS 3 (revised 2008) which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. It is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement for the period and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Other intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives.

Software and development expenditure is capitalised as an intangible asset if the asset created can be identified, if it is probable that the asset created will generate future economic benefits and if the development cost of the asset can be measured reliably. Software and development expenditure includes internally generated intangible assets and is amortised over its useful life once it has been brought into use.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for impairment annually, or more frequently when there is an indication that they may be impaired. Amortisation expense is charged to administrative expenses in the income statement on a straight-line basis over its useful life.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

Freehold buildings and long leasehold property	50 years
Leasehold improvements	period of the lease
Plant and vehicles	3–10 years

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1. Basis of preparation and significant accounting policies continued

Joint ventures and associates

The Group has an interest in joint ventures which are entities in which the Group has joint control. The Group also has an interest in associates which are entities in which the Group has significant influence.

The Group accounts for its interest in joint ventures and associates using the equity method. Under the equity method the Group's share of the post-tax result of joint ventures and associates is reported as a single line item in the consolidated income statement.

The Group's interest in joint ventures and associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs represent materials, direct labour and overheads incurred in bringing the inventories to their present condition and location.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets comprise trade and other receivables and cash and cash equivalents. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. All of the Group's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Group's revenue streams are therefore initially measured at their transaction price (as defined in IFRS 15) and are subsequently remeasured at amortised cost. Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The assessment of impairment of trade receivables and accrued income from 1 April 2018 is in accordance with IFRS 9. The Group recognises a loss allowance for expected credit losses (ECL) on all receivable balances from customers subsequently measured at amortised cost, using the 'simplified approach' permitted under IFRS 9. In the prior year under IAS 39, appropriate allowances for estimated irrecoverable amounts were recognised including where there was objective evidence that the asset was impaired.

The Group uses a non-recourse customer invoice discounting facility (CID facility) under which certain trade receivable balances are sold to the Group's relationship banks. The arrangement with the banks is such that the customers remit cash directly to the Group and the Group transfers the collected amounts to the banks. The trade receivables are sold without recourse to the Group, and therefore the trade receivable balance is derecognised.

Financial liabilities comprise trade payables, financing liabilities, bank and other borrowings, deferred consideration and contingent consideration. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of contingent consideration which is measured at fair value through profit or loss. Bank and other borrowings are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

Included within the Group's trade creditors balance are amounts relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements to allow supplier early payment by the bank. Amounts are settled by the Group in accordance with each supplier's normal payment terms and payments continue to be classified within cash generated by operations. The Group does not receive any additional guarantees and does not pay any interest in relation to these amounts.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, including cross-currency interest rate swaps and forward foreign exchange contracts, to manage the Group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The Group may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

Cash flow hedges

Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Hedges of net investments in foreign operations

Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the Group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to the income statement in the same way as exchange differences relating to the foreign operation as described above.

Leasing

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Any lease incentives are amortised on a straight-line basis over the non-cancellable period for which the Group has contracted to lease the asset, together with any further terms for which the Group has the option to continue to lease the asset if, at the inception of the lease, it is judged to be reasonably certain that the Group will exercise the option.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

1. Basis of preparation and significant accounting policies continued

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers, except where this is impracticable and contract revenue is used as a proxy for activity. The provision is calculated as the lower of the termination costs payable for an early exit and the expected net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

Share-based payments

The Group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model, Monte Carlo model or the share price at grant date, and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Restricted shares are issued as part of the consideration for acquisitions made by the Company attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares. The fair value of the restricted shares is the share price at the date the acquisition agreement was signed.

The credits in respect of the amounts charged are included within the share-based payment reserve in equity until such time as the vesting periods or share restrictions expire.

The own shares reserve in equity includes the shares owned by the Employee Trust, treasury shares and restricted shares issued as part of the consideration for acquisitions. When shares are transferred to employees upon exercise of options and awards or when restricted shares held by employees are released from their restrictions, the own shares reserve is reduced by the relevant cost or value.

Retirement benefit costs

The Group operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

In addition, the Group operates and participates in a number of defined benefit schemes. In respect of the schemes in which the Group makes contributions under Admitted Body status to clients' defined benefit schemes in respect of certain employees who transferred to the Group under TUPE, the Group accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses on obligations, the return on scheme assets (excluding interest) and the effect of the asset ceiling (if applicable) are recognised in full in the period in which they occur. They are recognised in the statement of comprehensive income.

Defined benefit pension costs (including curtailments) are recognised in the income statement, in either administrative expenses or other items, whilst the net interest cost is recognised in finance costs.

The retirement benefit liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The Group participates in four multi-employer defined benefit pension schemes. For three of these schemes the Group's share of the assets and liabilities is minimal. The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. The Group has recently received a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme (refer to Note 19 and Note 32). One Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme, however no apportionment of the assets and liabilities attributable to this company is available and consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

For schemes where sufficient information is not available to use defined benefit accounting no liability is recognised on the balance sheet, however, the obligations are disclosed as contingent liabilities in Note 33.

2. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

The judgements and estimates which have the most significant effect on the reported result for the year ended 31 March 2019 and upon the carrying value of assets and liabilities of the Group as at 31 March 2019 are described below.

Revenue recognition

The Group's revenue recognition policies, which are set out under Revenue recognition in Note 1, are central to how the Group measures the work it has performed in each financial year.

For certain contracts, key judgements were made concerning contract extensions and amendments which, for example, directly impact the timing of revenue recognition in addition to the phasing of upfront payments to, or from customers which are deferred to the balance sheet and unwound over the expected contract term. The Group has deferred pre-contract costs of £2.2m to the balance sheet within contract assets following its assessment of contract modifications during the year (refer to Note 16). Management considers this to be an area of judgement due to the determination of whether a modification represents a separate contract based on its assessment of the stand-alone selling price, rather than a termination of the existing contract and establishment of a new contract for which the revised contract price would be recognised from the date of modification.

Profit before other items

'Other items' are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item should be classified within other items requires judgement as to whether an item is or is not part of the underlying performance of the Group.

Other items after tax of £32.8m (2018: £87.2m) were charged to the income statement for the year ended 31 March 2019. An analysis of the amounts included in other items is detailed in Note 4.

Recoverability of aged debtors and accrued income

The Group has material amounts of billed and unbilled work outstanding at year end as outlined in Note 23. Where balances become subject to dispute, the risk of recoverability increases. As a consequence, there is significant management judgement involved in assessing whether these balances have been earned and in assessing the recoverability of these balances which involves consideration of the Group's contractual rights and work performed as well as the status of ongoing commercial negotiations. The judgement as to whether an amount has become irrecoverable is an assessment made by the Directors in the determination of the total expected credit loss recognised by the Group under IFRS 9. The Group has recognised a total loss allowance of £19.2m (2018: £17.3m) in respect of both aged and disputed trade and other receivable balances at 31 March 2019.

Key sources of estimation uncertainty

Revenue recognition, contract assets and contract liabilities

Due to the size and complexity of the Group's contracts, management is required to form a number of key judgements and estimates in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise (refer to Note 1). This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts. The Directors do not consider that any reasonably foreseeable change in this source of estimation would have a material impact on the Group's financial statements.

Provisions and contingent assets and liabilities

The Company and various of its subsidiaries are, from time to time, party to legal proceedings and claims that are in the ordinary course of business. Judgements are required in order to assess whether these legal proceedings and claims are probable and the liability can be reasonably estimated, resulting in a provision or, alternatively, whether the items meet the definition of contingent liabilities.

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2019 of £56.6m (2018: £31.5m). Further details are included in Note 19.

The Directors are working to ensure that, through a combination of insurance claims and recourse to suppliers a proportion of the £16.1m costs (refer to Note 4) incurred in respect of rectification works for the Social Housing property maintenance contracts, including the £12.1m recorded in provisions (refer to Note 19), are recovered. The amount and timing of any recoveries is yet to be determined.

Measurement of defined benefit pension obligations

The net pension liability at 31 March 2019 was £63.8m (2018: £56.8m).

The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, and future contribution rates. See Note 32 for further details and a sensitivity analysis for the key assumptions.

The Group also participates in four multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). A provision of £20.0m has been made for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme. The Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which has been disclosed as a contingent liability due to the inherent uncertainty regarding the amount of any liability.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

2. Critical accounting judgements and key sources of estimation uncertainty continued

Gain on bargain purchase

The Group has recognised an £8.8m gain on the purchase of Vision Security Group Limited. The value of this gain is subject to the assessment of the fair value of the acquired assets and liabilities and the finalisation of the consideration to be paid through agreement of the completion accounts with the seller of the business. See Note 30 for further details.

The fair value of the acquired assets includes £14.9m representing the value of intangible assets associated with customer relationships acquired. This valuation is based upon forecast cash flows which are subject to significant management judgement and estimation.

Allocation of goodwill to discontinued operations

The Directors have made a judgement to determine the allocation of goodwill to the discontinued operations to arrive at the gain/loss on disposal. This allocation was carried out with reference to the forecast performance of those activities compared to the forecast performance of the cash-generating units the activities were previously part of.

Gain/(loss) on disposal of discontinued operations

The Group has recognised a gain of £26.7m on the disposal of Mitie Pest Control Limited and a loss of £11.7m on the disposal of the Social Housing business, refer to Note 5.

The value of these gains and losses is subject to finalisation of the consideration to be paid through agreement of the completion accounts with the purchasers of these businesses. The Directors have made a judgement as to the likely outcome of each completion accounts settlement.

Deferred tax assets

The Group has recognised deferred tax assets of £38.7m (2018: £36.7m), refer to Note 20. The Directors have assessed recovery of these assets with reference to the Group's medium-term forecasts. Recovery of these assets is subject to the Group generating taxable profits in future years.

Impairment of goodwill

In assessing the key sources of estimation uncertainty, the Directors no longer consider impairment of goodwill as a key source of estimation. The Directors do not consider that any reasonably foreseeable change in this source of estimation would have a material impact on the Group's financial statements.

3. Business segment information

The Group manages its business on a service division basis. At 31 March 2019, the Group has six strategic divisions which are its reportable segments and the information, as reported, is consistent with information presented to the Board. Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the Board, which is the Group's chief operating decision maker.

The information presented for the year ended 31 March 2018 has been restated to reflect the changes in management reporting, implemented in the year ended 31 March 2019, of certain business unit activities transferring between Engineering Services, Professional Services and Corporate centre, the integration into Engineering Services of the roofing and painting activities which previously formed part of Property Management, and the classification of Pest Control and Social Housing as discontinued operations.

	2019			2018 ¹		
	Revenue £m	Operating profit/(loss) before other items ² £m	Operating margin before other items ² %	Revenue £m	Operating profit/(loss) before other items ² £m	Operating margin before other items ² %
Engineering Services	905.7	58.7	6.5	886.3	54.1	6.1
Security	536.5	30.7	5.7	432.0	27.5	6.4
Professional Services	131.4	5.6	4.3	131.2	5.6	4.3
Cleaning & Environmental Services	404.4	17.5	4.3	384.1	19.6	5.1
Care & Custody	107.3	3.9	3.6	59.9	1.9	3.2
Catering	136.1	5.2	3.8	137.1	5.6	4.1
Corporate centre	–	(33.4)	–	–	(31.1)	–
Total from continuing operations	2,221.4	88.2	4.0	2,030.6	83.2	4.1
Pest Control	11.9	2.4	20.2	22.3	2.6	11.7
Social Housing	89.1	1.6	1.8	150.8	3.8	2.5
Total from discontinued operations	101.0	4.0	4.0	173.1	6.4	3.7
Total	2,322.4	92.2	4.0	2,203.7	89.6	4.1

Notes

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.
3. No single customer accounted for more than 10% of external revenue in 2019 or 2018.

A reconciliation of segment operating profit/(loss) before other items to total profit/(loss) before tax is provided below:

	2019 £m	2018 ¹ £m
Operating profit before other items	88.2	83.2
Other items ²	(38.0)	(82.1)
Net finance costs	(13.8)	(16.5)
Total from continuing operations	36.4	(15.4)
Operating profit before other items	4.0	6.4
Other items ²	(6.0)	(15.8)
Net finance income	0.1	0.1
Total from discontinued operations	(1.9)	(9.3)
Profit/(loss) before tax	34.5	(24.7)

Notes

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.

IFRS 8 requires that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

Notes to the consolidated financial statements continued
For the year ended 31 March 2019

3. Business segment information continued

Geographical segments

	2019			2018 ¹		
	Revenue £m	Operating profit/(loss) before other items ² £m	Operating margin before other items ² %	Revenue £m	Operating profit/(loss) before other items ² £m	Operating margin before other items ² %
United Kingdom	2,122.2	85.6	4.0	1,920.6	82.9	4.3
Other countries	99.2	2.6	2.6	1,100	0.3	0.3
Continuing operations	2,221.4	88.2	4.0	2,030.6	83.2	4.1
United Kingdom	101.0	4.0	4.0	173.1	6.4	3.7
Other countries	-	-	-	-	-	-
Discontinued operations	101.0	4.0	4.0	173.1	6.4	3.7
Total	2,322.4	92.2	4.0	2,203.7	89.6	4.1

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

2. Other items are as described in Note 4.

Supplementary information

	2019				2018			
	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items ¹ £m	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items ¹ £m
Engineering Services	0.9	0.5	-	6.2	1.2	2.5	-	3.7
Security	1.5	0.2	-	1.6	1.8	0.9	-	0.4
Professional Services	0.2	0.1	0.2	0.8	0.3	0.7	-	0.6
Cleaning & Environmental Services	4.1	1.0	-	2.0	4.0	0.3	-	1.1
Care & Custody	0.4	-	0.6	0.1	0.3	-	0.1	0.1
Catering	1.0	0.1	-	0.1	1.5	0.2	-	-
Corporate centre	3.2	7.0	-	27.2	3.2	8.6	-	76.2
Continuing operations	11.3	8.9	0.8	38.0	12.3	13.2	0.1	82.1
Healthcare	-	-	-	(2.0)	-	-	-	-
Pest Control	0.1	-	-	(27.6)	0.2	0.1	-	-
Social Housing	0.2	0.1	-	35.6	0.3	0.2	-	15.8
Discontinued operations	0.3	0.1	-	6.0	0.5	0.3	-	15.8
Total	11.6	9.0	0.8	44.0	12.8	13.5	0.1	97.9

Note:

1. Other items are as described in Note 4.

Disaggregated revenue

The Group disaggregates revenue from contracts with customers by sector (government and non-government) and by contract duration (contracts with a duration from inception of less than two years, and contracts with a duration from inception of more than two years). The Group believes this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors. The following table includes a reconciliation of disaggregated revenue with the Group's reportable segments.

	2019					
	Sector ¹			Contract duration for timing of revenue recognition		
	Government £m	Non- government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Engineering Services	368.3	537.4	905.7	122.4	783.3	905.7
Security	88.3	448.2	536.5	80.1	456.4	536.5
Professional Services	21.5	109.9	131.4	5.4	126.0	131.4
Cleaning & Environmental Services	109.2	295.2	404.4	–	404.4	404.4
Care & Custody	107.3	–	107.3	–	107.3	107.3
Catering	5.7	130.4	136.1	17.4	118.7	136.1
Continuing operations	700.3	1,521.1	2,221.4	225.3	1,996.1	2,221.4
Pest Control	–	11.9	11.9	–	11.9	11.9
Social Housing	89.1	–	89.1	54.1	35.0	89.1
Discontinued operations	89.1	11.9	101.0	54.1	46.9	101.0
Total	789.4	1,533.0	2,322.4	279.4	2,043.0	2,322.4

Note:

1. Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a construction company for the building of a public hospital, then the contract would be classified as government.

	2018					
	Sector ¹			Contract duration for timing of revenue recognition		
	Government £m	Non- government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Engineering Services	368.4	517.9	886.3	137.4	748.9	886.3
Security	83.9	348.1	432.0	55.7	376.3	432.0
Professional Services	13.8	117.4	131.2	8.9	122.3	131.2
Cleaning & Environmental Services	89.8	294.3	384.1	–	384.1	384.1
Care & Custody	59.9	–	59.9	–	59.9	59.9
Catering	4.6	132.5	137.1	1.6	135.5	137.1
Continuing operations	620.4	1,410.2	2,030.6	203.6	1,827.0	2,030.6
Pest Control	–	22.3	22.3	–	22.3	22.3
Social Housing	150.8	–	150.8	91.6	59.2	150.8
Discontinued operations	150.8	22.3	173.1	91.6	81.5	173.1
Total	771.2	1,432.5	2,203.7	295.2	1,908.5	2,203.7

Note:

1. Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a construction company for the building of a public hospital, then the contract would be classified as government.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

3. Business segment information continued

Transaction price allocated to the remaining performance obligations

The table below shows the forward order book for each segment at the reporting date with the time bands of when the Group expects to recognise secured revenue on its contracts with customers. Secured revenue corresponds to fixed work contracted with customers and excludes the impact of any anticipated contract extensions, and new contracts with customers.

	2019			2018		
	Less than 1 year £m	More than 1 year £m	Total secured revenue £m	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Engineering Services	360.4	1,442.3	1,802.7	390.7	1,648.5	2,039.2
Security	478.3	493.2	971.5	300.1	340.7	640.8
Professional Services	29.7	57.2	86.9	45.8	99.1	144.9
Cleaning & Environmental Services	275.5	387.6	663.1	276.0	380.3	656.3
Care & Custody	100.8	495.8	596.6	100.8	569.3	670.1
Catering	7.2	19.3	26.5	8.2	26.5	34.7
Continuing operations	1,251.9	2,895.4	4,147.3	1,121.6	3,064.4	4,186.0
Pest Control	-	-	-	3.0	2.0	5.0
Social Housing	-	-	-	76.3	228.0	304.3
Discontinued operations	-	-	-	79.3	230.0	309.3
Total	1,251.9	2,895.4	4,147.3	1,200.9	3,294.4	4,495.3

4. Other items

Other items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs including the write-off and amortisation of acquisition related intangible assets, the results of and costs associated with disposals, and other exceptional items and their related tax effect as other items:

	2019					
	Impairment of goodwill £m	Restructure costs £m	Acquisition & disposal related costs £m	Gain on bargain purchase	Gain/(loss) on disposal £m	Other exceptional items £m
Continuing operations						
Administrative expenses	-	(15.1)	(8.7)	8.8	-	(23.0)
Other items before tax	-	(15.1)	(8.7)	8.8	-	(23.0)
Tax	-	2.8	0.6	-	-	4.0
Other items after tax	-	(12.3)	(8.1)	8.8	-	(19.0)
Discontinued operations						
Other items before tax	-	(0.8)	-	-	17.9	(23.1)
Tax	-	0.2	-	-	(0.9)	4.5
Other items after tax	-	(0.6)	-	-	17.0	(18.6)
Total	-	(12.9)	(8.1)	8.8	17.0	(37.6)

	2018				
	Impairment of goodwill £m	Restructure costs £m	Acquisition & disposal related costs £m	Gain on disposal £m	Other exceptional items £m
Continuing operations					
Administrative expenses	(22.7)	(47.0)	(8.4)	–	(4.0)
Other items before tax	(22.7)	(47.0)	(8.4)	–	(4.0)
Tax	–	8.7	0.4	–	0.9
Other items after tax	(22.7)	(38.3)	(8.0)	–	(3.1)
Discontinued operations					
Other items before tax	(11.9)	(0.3)	–	–	(3.6)
Tax	–	0.1	–	–	0.6
Other items after tax	(11.9)	(0.2)	–	–	(3.0)
Total	(34.6)	(38.5)	(8.0)	–	(6.1)

Impairment of goodwill

No charges in respect of the impairment of goodwill have been made in the year ended 31 March 2019.

During the year ended 31 March 2018, the Directors assessed the recoverability of the goodwill allocated to the former Property Management CGU and recorded an impairment charge of £34.6m. Following the disposal of the Social Housing business, the remaining goodwill of the roofing and painting activities previously reported in Property Management, has been integrated into the Engineering Services CGU. See Note 12.

Restructure costs

The restructure costs relate to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

These costs are analysed below:

	2019			2018		
	Continuing operations £m	Discontinued operations £m	Total ¹ £m	Continuing operations £m	Discontinued operations £m	Total ¹ £m
Redundancy payments ²	(4.2)	(0.5)	(4.7)	(4.5)	(0.3)	(4.8)
Cost of change team ³	(0.7)	–	(0.7)	(0.7)	–	(0.7)
Expenditure and provisions in respect of property closure ⁴	(0.2)	–	(0.2)	(4.8)	–	(4.8)
Expenditure in respect of Project Helix transformation activities ⁵	(10.0)	–	(10.0)	(26.6)	–	(26.6)
Expenditure in respect of other transformation projects	–	(0.3)	(0.3)	–	–	–
Impairment of intangible assets ⁶	–	–	–	(10.4)	–	(10.4)
Restructuring costs	(15.1)	(0.8)	(15.9)	(47.0)	(0.3)	(47.3)
Taxation	2.8	0.2	3.0	8.7	0.1	8.8
Restructuring costs net of taxation	(12.3)	(0.6)	(12.9)	(38.3)	(0.2)	(38.5)

Notes

- Includes £13.5m (2018: £14.8m) in respect of the Project Helix transformation activities.
- Costs in respect of roles made redundant as a result of the Project Helix transformation and other projects to restructure the Group's activities.
- Incremental costs of teams involved in the management of Project Helix transformation activities.
- Costs in respect of property dilapidations, lease termination, and asset impairments crystallised following decisions to vacate certain of the Group's properties as part of the overall Project Helix transformation.
- Expenditure in respect of Project Helix transformation projects includes £0.3m (2018: £0.6m) of recruitment costs in respect of achieving the new target operating model, £1.6m (2018: £8.2m) related to dual running and knowledge transfer costs as part of the transfer of the transactional back-office activities to a third-party provider, £6.3m (2018: £4.8m) of transformation project delivery costs, £1.8m in respect of Genpact mobilisation (2018: £nil) and £nil (2018: £13.0m) of professional fees in respect of advice and consultancy activities associated with the design and execution of the Project Helix transformation activities.
- Impairment of intangible assets relates to systems and processes which are redundant due to the changes to the Group's strategy including the outsourcing of certain back-office transactional processes. See Note 13.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

4. Other items continued

Gain/(loss) on disposal

During the year ended 31 March 2019, the Group completed the sale of the Pest Control and Social Housing businesses. See Note 5 for further details.

Acquisition and disposal related costs

Acquisition and disposal related costs from continuing operations include the impairment and amortisation charge for acquisition related intangibles £1.5m (2018: £2.6m), the charge for restricted shares issued per Note 31 of £3.9m (2018: £3.4m), costs of £2.6m (2018: £nil) related to the VSG acquisition, costs of £0.4m (2018: £nil) related to the settlement of claims associated with previous acquisitions, costs of £0.3m (2018: £2.2m) relating to the aborted disposal of the former Property Management division, and £nil (2018: £0.2m) related to the disposal of the Healthcare division.

Gain on bargain purchase

A credit of £8.8m (2018: £nil) representing a gain on bargain purchase in respect of the acquisition of Vision Security Group Limited (VSG) has been recognised from continuing operations. See Note 30.

Other exceptional items

Other exceptional items are analysed below:

	2019			2018		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Regulatory investigation ¹	(1.1)	-	(1.1)	(2.3)	-	(2.3)
IFRS 9/15/16 adoption project ²	(0.7)	-	(0.7)	(0.8)	-	(0.8)
Costs incurred and provision for settlement of contractual disputes ³	-	(20.5)	(20.5)	-	(3.3)	(3.3)
Provision for indemnified costs ⁴	-	(2.6)	(2.6)	-	-	-
Contract termination receipt ⁵	-	-	-	2.0	-	2.0
Pension scheme past service costs (including curtailments) ⁶	-	-	-	(1.9)	-	(1.9)
Cost of equalising Guaranteed Minimum Pensions ⁷	(1.6)	-	(1.6)	-	-	-
Pension scheme Section 75 debt ⁸	(20.0)	-	(20.0)	-	-	-
Gain on closure of Mitie Reinsurance ⁹	0.4	-	0.4	-	-	-
Property dilapidations ¹⁰	-	-	-	(1.0)	(0.3)	(1.3)
Other exceptional items	(23.0)	(23.1)	(46.1)	(4.0)	(3.6)	(7.6)
Taxation	4.0	4.5	8.5	0.9	0.6	1.5
Other exceptional items net of taxation	(19.0)	(18.6)	(37.6)	(3.1)	(3.0)	(6.1)

Notes

- Legal and professional costs of £1.1m (2018: £2.3m) have been incurred in respect of the closed FRC investigation into the Company's treatment of healthcare goodwill and accrued income in the Company's audited accounts for the year ended 31 March 2016, the closed FCA investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016, the manner of preparation and content of the Company's financial information, position and results for the period ended 31 March 2016, and regarding the Company's own investigation into the same matters, facts and circumstances which were subject to FCA and FRC investigation.
- Professional fees and interim staff costs of £0.7m (2018: £0.8m) have been incurred in respect of the projects to adopt IFRS 9 'Financial Instruments', IFRS 15 'Revenue from contracts with customers', and IFRS 16 'Leases'.
- The £20.5m charge for the year ended 31 March 2019 (2018: £3.3m) relates to the Social Housing business and includes £3.4m in respect of the settlement of a contract dispute, £16.1m for the estimated costs of rectification works and legal advice associated with certain of the Group's property maintenance contracts, of which £12.1m is included in provisions at 31 March 2019, and £1.0m for other contractual disputes. This amount is disclosed separately due to the size of the potential cost and the fact that they arise from closed contracts.
- The £2.6m charge for the year ended 31 March 2019 represents the estimated costs arising from certain indemnities provided in relation to the disposal of the Social Housing business. This amount is included in provisions at 31 March 2019.
- The loss of two major contracts in the year ended 31 March 2018 resulted in a one-off termination receipt amounting to £2.0m. These amounts are disclosed separately due to the size of the payments received and the fact that the loss of contracts of this size is an unusual event for the Group.
- As a result of the closure of the Mitie Group plc Pension Scheme to future accrual from October 2017, a past service cost (including curtailments) of £1.9m was incurred in the year ended 31 March 2018. See Note 32 for further details.
- Following judgment issued by the High Court on 26 October 2018 in the case involving Lloyds Banking Group relating to the equalisation of Guaranteed Minimum Pensions (GMP) the Group has recognised additional retirement benefit liabilities for the estimated financial impact of this ruling on the Group scheme. The effect of GMP equalisation has been recognised in the income statement as a plan amendment; the charge has been included within other items due to the size and non-recurring nature of the amount. See Note 32 for further details.
- Estimated Section 75 debt in relation to the participation of Robert Prettie & Co Limited in the Plumbing & Mechanical Services (UK) Industry Pension Scheme. See Note 32 for further details.
- During the year ended 31 March 2019 the Group liquidated its captive insurance company Mitie Reinsurance Company Limited resulting in a net income of £0.4m after settling all outstanding liabilities.
- As part of the rationalisation of the Group's property portfolio a review of the potential liabilities for leasehold property dilapidation costs was carried out and resulted in a one-off £1.3m charge in the year ended 31 March 2018.

5. Discontinued operations and disposal of subsidiaries

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) for cash consideration of £40.0m before tax and transaction costs. The results of the Pest Control business have been classified as discontinued operations and comparative information has been restated. The Group recognised a net gain on disposal of £26.7m, reported in profit from discontinued operations and recognised in other items (see Note 4).

On 19 November 2018, the Company signed an agreement for the sale of Mitie Property Management Limited and MPS Housing Limited (together the Social Housing business) and this transaction was subsequently completed on 30 November 2018. The results of the Social Housing business have been classified as discontinued operations and comparative information has been restated. The Group has retained liability, and made provisions where appropriate, for certain legacy contracts of the Social Housing business so these are not included within liabilities held for sale. The Group recognised a net loss on disposal of £11.7m, reported in profit from discontinued operations and recognised in other items (see Note 4).

The Group has determined that the Healthcare Indemnity provision should be partly released by £2.0m. This has been recorded as a gain on disposal.

The results of these discontinued operations are detailed below.

There were no disposals in the financial year ended 31 March 2018.

Income statement of discontinued operations

	2019		
	Pest Control £m	Social Housing £m	Total £m
Revenue	11.9	89.1	101.0
Cost of sales	(6.7)	(72.9)	(79.6)
Gross profit	5.2	16.2	21.4
Administrative expenses	(2.8)	(15.1)	(17.9)
Share of profit of joint ventures and associates	–	0.5	0.5
Operating profit before other items¹	2.4	1.6	4.0
Other items ²	–	(23.9)	(23.9)
Net finance income	0.1	–	0.1
Profit/(loss) before tax	2.5	(22.3)	(19.8)
Tax	(0.3)	4.0	3.7
Profit/(loss) from discontinued operations	2.2	(18.3)	(16.1)

	2018		
	Pest Control £m	Social Housing £m	Total £m
Revenue	22.3	150.8	173.1
Cost of sales	(16.2)	(115.8)	(132.0)
Gross profit	6.1	35.0	41.1
Administrative expenses	(3.5)	(32.0)	(35.5)
Share of profit of joint ventures and associates	–	0.8	0.8
Operating profit before other items²	2.6	3.8	6.4
Other items ³	(0.1)	(15.7)	(15.8)
Net finance income	0.1	–	0.1
Profit/(loss) before tax	2.6	(11.9)	(9.3)
Tax	(0.5)	0.3	(0.2)
Profit/(loss) from discontinued operations	2.1	(11.6)	(9.5)

Notes:

1. The £1.6m operating profit before other items in Social Housing for the year ended 31 March 2019 includes a £1.4m loss in respect of a contract which has been terminated and £2.6m of recharges in respect of Group central services.
2. The £3.8m operating profit before other items in Social Housing for the year ended 31 March 2018 includes an increased debt provision of £1.2m in addition to £2.3m of recharges in respect of Group central services.
3. Other items are as described in Note 4.

Notes to the consolidated financial statements continued
For the year ended 31 March 2019

5. Discontinued operations and disposal of subsidiaries continued

Gain/(loss) on disposal of discontinued operations

				2019	2018
	Healthcare £m	Pest Control ¹ £m	Social Housing £m	Total £m	Healthcare ² £m
Total consideration	–	38.4	22.5	60.9	(0.2)
Net assets disposed	–	(8.6)	(31.1)	(39.7)	–
Release of indemnity provision	2.0	–	–	2.0	–
Transaction costs	–	(2.2)	(3.1)	(5.3)	–
Total gain/(loss) on disposal before tax	2.0	27.6	(11.7)	17.9	(0.2)
Taxation	–	(0.9)	–	(0.9)	–
Net gain/(loss) on disposal of discontinued operations	2.0	26.7	(11.7)	17.0	(0.2)

Note:

1. Total consideration of £39.2m has been received in cash, but £0.8m is expected to be returned through agreement of the completion accounts with the purchaser of the business.
2. Deferred contribution of £0.2m in the year to 31 March 2018 was payable to the purchaser.
3. Includes goodwill of £3.3m relating to Pest Control and £12.5m relating to Social Housing and cash balances of £3.6m.

Profit for the year from discontinued operations

	2019 £m	2018 £m
Loss for the year from discontinued operations	(16.1)	(9.5)
Gain on disposal of discontinued operations	17.0	–
Profit/(loss) for the year from discontinued operations	0.9	(9.5)

Total comprehensive income/(expense) for the year from discontinued operations

	2019 £m	2018 £m
Equity holders income/(expense)	0.9	(9.5)

Cash flows from discontinued operations

	2019 £m	2018 £m
Net cash used in operating activities	(9.4)	(9.0)
Net cash generated from investing activities	52.6	0.2
Net cash generated from financing activities	–	1.3
Increase/(decrease) in cash and cash equivalents	43.2	(7.5)

Earnings/(loss) per share from discontinued operations

	2019 p	2018 p
Basic earnings before other items per share ¹	0.9	1.6
Basic earnings/(loss) per share	0.2	(2.7)
Diluted earnings before other items per share ¹	0.9	1.6
Diluted earnings/(loss) per share	0.2	(2.7)

Note:

1. Other items are as described in Note 4.

Joint ventures and associates of discontinued operations

The Social Housing disposal group included a 30% interest in an associate, Pyramid Plus South LLP, a limited liability partnership registered in the United Kingdom. The Group's interest in the associate was accounted for in the consolidated financial statements using the equity method.

The summarised financial information set out below for the year ended 31 March 2019 has been taken from unaudited management accounts of the associate.

	2019 £m	2018 £m
Revenue	9.3	12.2
Operating profit	1.8	2.6
Group's share of profit of associate in discontinued operations	0.5	0.8

	2019 £m	2018 £m
Current assets	–	3.8
Current liabilities	–	(1.2)
Net assets	–	2.6
Group's share of interest in associate	–	0.8

During the 2019 financial year the Group received dividends from Pyramid Plus South LLP of £nil (2018: £0.6m).

Notes to the consolidated financial statements continued
For the year ended 31 March 2019

6. Operating profit/(loss)

Operating profit/(loss) has been arrived at after charging:

	2019 £m	2018 ¹ £m
Continuing and discontinued operations		
Depreciation of property, plant and equipment (Note 14)	11.6	12.8
Amortisation of other intangible assets (Note 13)	9.0	13.5
Amortisation of contract assets	0.8	0.1
Impairment of goodwill (Note 12)	–	34.6
Impairment of other intangible assets (Note 13)	1.1	10.4
Gain on disposal of property, plant and equipment	(0.8)	–
Gain on disposal of subsidiaries (Note 5)	(17.9)	–
Impairment losses recognised on trade receivables (Note 23)	1.1	2.3
Impairment (gains)/losses recognised on accrued income (Note 23)	(1.6)	2.0
Operating lease rentals	26.5	25.1

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

A detailed analysis of auditor's remuneration is provided below:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts – BDO LLP	40	40
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation – BDO LLP	1,520	1,161
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation – Deloitte LLP	–	87
Total audit fees	1,560	1,288
Other audit related services to the Group – BDO LLP	127	93
Tax services – BDO LLP	–	6
Total non-audit fees	127	99
Total	1,687	1,387

7. Staff costs

The average number of people employed during the financial year was:

	2019	2018 ¹
Number of people		
Engineering Services	8,711	8,900
Security	15,011	14,804
Professional Services	1,059	1,029
Cleaning & Environmental Services	20,301	21,706
Care & Custody	1,976	1,051
Catering	2,384	2,505
Corporate centre	38	37
Continuing operations	49,480	50,032
Pest Control	190	198
Social Housing	737	831
Discontinued operations	927	1,029
Total Group	50,407	51,061

Note:

1. The information presented for the year ended 31 March 2018 has been restated to reflect the integration into Engineering Services of the roofing and painting activities which previously formed part of Property Management and the transfer of certain business unit activities between Engineering Services and Professional Services.

The number of people employed at 31 March was:

	2019	2018
Continuing operations	52,492	47,394
Discontinued operations	–	1,632
Total Group	52,492	49,026

	2019 £m	2018 £m
Aggregate remuneration comprised:		
Wages and salaries	1,125.4	1,020.7
Social security costs	89.8	77.1
Other pension costs	23.6	17.0
Share-based payments (Note 31)	1.1	1.2
Share-based payments acquisition related costs (Notes 4 and 31)	3.9	3.4
Total	1,243.8	1,119.4

Details of Directors' remuneration is provided below:

	2019 £m	2018 £m
Directors' emoluments	3.7	2.1
Share-based payments	0.8	0.6
Total	4.5	2.7

None of the Directors accrued benefits under the defined benefit scheme, or were members of the defined contribution schemes for the years ended 31 March 2019 and 31 March 2018. Details of loss of office payments (subject to audit) are disclosed in the remuneration report on page 78.

The total amount payable to the highest paid Director in respect of emoluments was £2.2m (2017: £1.1m).

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

8. Finance costs

	2019 £m	2018 £m
Continuing operations		
Interest on bank facilities	4.2	3.2
Interest on private placement loan notes	7.8	9.1
Bank fees	0.5	2.0
Interest on obligations under finance leases	0.1	–
Unwinding of discounts on provisions	0.1	0.2
Loss arising on fair value hedges	–	0.1
Net interest on defined benefit pension scheme assets and liabilities	1.3	2.0
Total	14.0	16.6

9. Tax

	2019 £m	2018 ¹ £m
Continuing and discontinued operations		
Current tax ¹	3.4	(5.6)
Deferred tax (Note 20)	0.2	6.9
Tax charge for the year	3.6	1.3
Continuing operations	6.4	1.1
Discontinued operations	(2.8)	0.2
Tax charge for the year	3.6	1.3

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated. The Group recognised a current tax asset of £0.4m on transition to IFRS 9.

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of profit before tax per the consolidated income statement elements is as follows:

	2019			2018 ¹		
	Before other items £m	Other items ² £m	Total £m	Before other items £m	Other items ² £m	Total £m
Continuing and discontinued operations						
Profit/(loss) before tax	78.5	(44.0)	34.5	73.2	(97.9)	(24.7)
Tax at UK rate of 19% (2018: 19%)	14.9	(8.4)	6.5	13.9	(18.6)	(4.7)
Reconciling tax charges for:						
Non-tax deductible charges	0.9	–	0.9	0.5	1.1	1.6
Share-based payments	0.3	0.7	1.0	(0.1)	–	(0.1)
Gain on disposal of businesses	–	(4.0)	(4.0)	–	–	–
Impairment of goodwill	–	–	–	–	6.6	6.6
Overseas tax rates	(0.2)	–	(0.2)	(0.3)	–	(0.3)
Impact of change in statutory tax rates	(0.4)	0.5	0.1	0.1	0.2	0.3
Prior year adjustments	(0.7)	–	(0.7)	(2.1)	–	(2.1)
Tax charge/(credit) for the year	14.8	(11.2)	3.6	12.0	(10.7)	1.3
Effective tax rate for the year	18.9%	25.5%	10.4%	16.4%	10.9%	(5.3)%

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

2. Other items are as described in Note 4.

In addition to the amounts charged to the consolidated income statement, tax relating to retirement benefit costs amounting to a £2.4m credit (2018: £3.4m charge) has been taken directly to the statement of comprehensive income together with a £0.3m charge relating to share-based payments and hedged items (2018: £0.1m credit).

The UK corporation tax rate will reduce from 19% to 17% from 1 April 2020. This will reduce the Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31 March 2019 reflect this change. A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

10. Dividends

	2019 £m	2018 £m
Amounts recognised as distributions in the year:		
Second interim dividend for the year ended 31 March 2018 of 2.67p (2017 final dividend: nil) per share ¹	9.6	–
Interim dividend for the year ended 31 March 2019 of 1.33p (2018: 1.33p) per share	4.8	4.8
Amounts paid in 2019 and 2018	14.4	4.8
Proposed final dividend for the year ended 31 March 2019 of 2.67p (2018: 2.67p) per share	9.6	9.6

Note:

1. On 7 June 2018, the Company announced its final results for the year ended 31 March 2018. The announcement included a recommendation by the Board of a final dividend of 2.67p per share payable on 6 August 2018. On 28 June 2018 the Company circulated its Notice of 2018 Annual General Meeting (the Notice). The Notice omitted a resolution seeking shareholder approval of the final dividend. In order for the dividend to be paid to shareholders on 6 August 2018 in accordance with the previously published timetable, on 31 July 2018 the Board declared a second interim dividend of 2.67p per share in place of the proposed final dividend.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

11. Earnings per share

Basic and diluted earnings per share have been calculated in accordance with IAS 33 'Earnings per share'.

The calculation of the basic and diluted EPS is based on the following data:

	2019 £m	2018 ¹ £m
From continuing operations		
Net profit before other items attributable to equity holders of the parent	60.6	54.5
Other items net of tax ²	(30.6)	(72.1)
Net profit/(loss) attributable to equity holders of the parent	30.0	(17.6)

	2019 £m	2018 ¹ £m
From continuing and discontinued operations		
Net profit before other items attributable to equity holders of the parent	63.7	60.1
Other items net of tax ²	(32.8)	(87.2)
Net profit/(loss) attributable to equity holders of the parent	30.9	(27.1)

	2019 million	2018 million
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	360.8	357.9
Effect of dilutive potential ordinary shares: share options	2.2	1.9
Weighted average number of ordinary shares for the purpose of diluted EPS	363.0	359.8

	2019 p	2018 ¹ p
From continuing operations:		
Basic earnings before other items per share ²	16.8	15.2
Basic earnings/(loss) per share	8.3	(4.9)
Diluted earnings before other items per share ²	16.7	15.1
Diluted earnings/(loss) per share	8.3	(4.9)
From continuing and discontinued operations:		
Basic earnings before other items per share ²	17.7	16.8
Basic earnings/(loss) per share	8.6	(7.6)
Diluted earnings before other items per share ²	17.5	16.7
Diluted earnings/(loss) per share	8.5	(7.6)

Notes

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.

The weighted average number of ordinary shares in issue during the year excludes those accounted for in the own shares reserve (see Note 29).

The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share options. The loss for the year ended 31 March 2018 means that the identified potentially dilutive shares are anti-dilutive for the purposes of calculating diluted earnings per share.

12. Goodwill

	£m
Cost	
At 1 April 2017	358.9
Impact of foreign exchange	0.3
At 31 March 2018	359.2
Disposal of subsidiaries	(32.9)
At 31 March 2019	326.3
Accumulated impairment losses	
At 1 April 2017	15.0
Impairment of property goodwill	34.6
At 31 March 2018	49.6
Disposal of subsidiaries	(17.1)
At 31 March 2019	32.5
Carrying amount	
At 31 March 2019	293.8
At 31 March 2018	309.6
At 1 April 2017	343.9

Acquisition of Vision Security Group

On 26 October 2018, the Group acquired Vision Security Group Limited (VSG). There is no goodwill recognised on acquisition as the consideration paid was less than VSG's net assets at the acquisition date, giving rise to a gain on bargain purchase, see Note 30.

Disposal of Social Housing

On 19 November 2018, the Company signed an agreement for the sale of Mitie Property Management Limited and MPS Housing Limited (together, the Social Housing business). This transaction completed on 30 November 2018 and the associated carrying amount of goodwill of £12.5m has been included in net assets disposed. See Note 5.

Disposal of Pest Control

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) and the associated goodwill of £3.3m has been included in net assets disposed. See Note 5.

Goodwill impairment testing

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination.

Goodwill has been allocated to CGUs, which align with the business segments, as this is how goodwill is monitored by the Group internally. The £23.1m net carrying value of goodwill associated with the roofing and painting activities which previously formed part of Property Management has been transferred into the Engineering Services CGU.

The Group tests goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

12. Goodwill continued

A summary of the goodwill balances and the discount rates used to assess the forecast cash flows from each CGU are as follows:

	Pre-tax discount rate %	Post-tax discount rate %	Goodwill 2019 £m	Goodwill 2018 £m
Engineering Services ¹	10.1	9.3	130.9	130.9
Security	10.1	9.3	101.7	101.7
Professional Services	13.3	10.3	15.7	15.7
Cleaning & Environmental Services	11.9	9.3	29.8	33.1
Catering	12.1	9.8	15.7	15.7
Social Housing			–	12.5
Total			293.8	309.6

Note:

1. The information presented for the year ended 31 March 2018 has been restated to reflect the integration into Engineering Services of the roofing and painting activities previously reported in Property Management.

Key assumptions

The recoverable amounts for each CGU are determined by the value in use which is derived from discounted cash flow calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the forecast period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The long-term growth rates are based on forecast inflation. Changes in revenue and direct costs are based on past performance and expectations of future changes in the market, operating model, and cost base.

Growth rates and terminal values

For all CGUs the Group prepares cash flow forecasts derived from the most recent budgets for the year ending 31 March 2020 and the Group medium-term plan to 31 March 2024 which have been approved by the Board, and a terminal value using a long-term growth assumption of 1.5%.

Discount rates

The pre-tax discount rates used to assess the forecast cash flows from CGUs are derived from the Company's post-tax Weighted Average Cost of Capital, which was 8.8% at 31 March 2019 (2018: 7.7%), and is adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group's treasury functions and borrowing lines to fund their operations.

Sensitivity analysis

A sensitivity analysis has been performed and the Directors have concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Group's CGUs.

13. Other intangible assets

	Acquisition related		Total acquisition related £m	Software and development expenditure £m	Total £m
	Customer relationships £m	Other £m			
Cost					
At 1 April 2017	88.4	10.9	99.3	97.3	196.6
Additions	–	–	–	9.0	9.0
At 31 March 2018	88.4	10.9	99.3	106.3	205.6
Additions	–	–	–	11.2	11.2
Acquisition of subsidiaries	14.9	–	14.9	–	14.9
Disposals	–	–	–	(31.3)	(31.3)
Disposal of subsidiaries	–	–	–	(6.0)	(6.0)
At 31 March 2019	103.3	10.9	114.2	80.2	194.4
Amortisation					
At 1 April 2017	83.4	9.6	93.0	50.4	143.4
Charge for the year	2.2	0.4	2.6	10.9	13.5
Impairment of software and development expenditure	–	–	–	10.4	10.4
At 31 March 2018	85.6	10.0	95.6	71.7	167.3
Charge for the year	1.2	0.3	1.5	7.5	9.0
Impairment of software and development expenditure	–	–	–	1.1	1.1
Disposals	–	–	–	(31.3)	(31.3)
Disposal of subsidiaries	–	–	–	(2.4)	(2.4)
At 31 March 2019	86.8	10.3	97.1	46.6	143.7
Carrying amount					
At 31 March 2019	16.5	0.6	17.1	33.6	50.7
At 31 March 2018	2.8	0.9	3.7	34.6	38.3
At 1 April 2017	5.0	1.3	6.3	46.9	53.2

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range from four to eight years. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives which currently range from three to ten years. Software and development costs are amortised over their useful lives of between five and ten years, once they have been brought into use.

During the year ended 31 March 2018, the Group impaired £10.4m of software and development expenditure related to intangible assets with the impairment recognised within restructuring costs in other items (see Note 4).

Notes to the consolidated financial statements continued
For the year ended 31 March 2019

14. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and vehicles £m	Total £m
Cost				
At 1 April 2017	1.3	16.8	71.5	89.6
Additions	0.2	4.9	10.7	15.8
Reclassifications within property, plant and equipment	–	0.2	(0.2)	–
Disposals	(1.2)	(0.8)	(2.4)	(4.4)
At 31 March 2018	0.3	21.1	79.6	101.0
Additions	–	4.1	8.0	12.1
Reclassifications within property, plant and equipment	–	(0.3)	0.3	–
Disposals	–	(6.5)	(17.3)	(23.8)
Acquisition of subsidiaries	–	–	0.2	0.2
Disposal of subsidiaries	(0.3)	(0.7)	(2.4)	(3.4)
At 31 March 2019	–	17.7	68.4	86.1
Accumulated depreciation and impairment				
At 1 April 2017	0.4	10.6	46.3	57.3
Charge for the year	–	1.7	11.1	12.8
Reclassifications within property, plant and equipment	–	0.2	(0.2)	–
Disposals	(0.3)	(0.3)	(2.1)	(2.7)
At 31 March 2018	0.1	12.2	55.1	67.4
Charge for the year	–	0.8	10.8	11.6
Reclassifications within property, plant and equipment	–	(0.1)	0.1	–
Disposals	–	(2.7)	(17.2)	(19.9)
Disposal of subsidiaries	(0.1)	(0.2)	(1.7)	(2.0)
At 31 March 2019	–	10.0	47.1	57.1
Carrying amount				
At 31 March 2019	–	7.7	21.3	29.0
At 31 March 2018	0.2	8.9	24.5	33.6
At 1 April 2017	0.9	6.2	25.2	32.3

The net book value of plant and vehicles held under finance leases included above was £0.7m (2018: £0.7m).

15. Trade and other receivables

	2019 £m	2018 ¹ £m
Trade receivables	233.6	205.0
Accrued income	132.6	131.4
Prepayments	27.1	21.3
Other receivables ²	41.9	28.3
Total	435.2	386.0
Included in current assets	435.2	386.0
Included in non-current assets	—	—
Total	435.2	386.0

Notes

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Within other receivables for the year ended 31 March 2019 is £4.5m relating to the acquisition of VSG (see Note 30). This balance represents amounts expected to be recovered following finalisation of the consideration to be paid, and is subject to agreement of the completion accounts with the seller of the business.

The Group makes use of a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. As these trade receivables are sold without recourse, the Group has derecognised them, and so they are not included within trade receivables. The Group has reduced the amount of invoice discounting from £76.3m as at 31 March 2018 to £73.2m as at 31 March 2019.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Information about the Group's exposure to credit risk and its loss allowance against the balance of trade receivables and accrued income, is provided in Note 23.

16. Contract assets

	Pre-contract costs £m	Contract fulfilment costs £m	Total £m
At 1 April 2017	—	—	—
Additions	—	2.3	2.3
Amortised in the period	—	(0.1)	(0.1)
At 31 March 2018	—	2.2	2.2
Additions	2.2	2.5	4.7
Amortised in the period	—	(0.8)	(0.8)
At 31 March 2019	2.2	3.9	6.1
Included in current assets	0.7	0.9	1.6
Included in non-current assets	1.5	3.0	4.5
Total	2.2	3.9	6.1

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2019.

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For the year ended 31 March 2019

17. Trade and other payables

	2019 £m	2018 £m
Payments received on account	0.6	0.2
Trade creditors	160.3	191.3
Other taxes and social security	97.1	79.9
Other creditors	45.0	29.2
Accruals	230.9	196.2
Total	533.9	496.8
Included in current liabilities	533.9	496.8
Included in non-current liabilities	–	–
Total	533.9	496.8

Trade creditors at 31 March 2019 represents 50 days credit on trade purchases (2018 restated: 58 days).

Included within the Group's trade creditors balance is £20.0m (2018: £45.1m) relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements. During the year ended 31 March 2019 these arrangements were used by c.200 suppliers, with a maximum facility available of £50.0m. The Group settles these amounts in accordance with each supplier's agreed payment terms.

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

18. Deferred income from contracts with customers

The significant changes in deferred income are as follows:

	2019 £m	2018 £m
At 1 April	65.0	30.1
Revenue recognised that was included in the deferred income balance at the beginning of the year	(44.9)	(15.9)
Increase due to cash received, excluding amounts recognised as revenue during the year	50.0	50.8
Acquisition of subsidiaries	4.9	–
Disposal of subsidiaries	(1.7)	–
At 31 March	73.3	65.0
Included within current liabilities	54.9	46.2
Included within non-current liabilities	18.4	18.8
Total	73.3	65.0

Deferred income relating to customer contracts mobilising in the year amounted to £5.8m (2018: £2.6m). For any amounts which do not relate to specific contractual performance obligations, the income is deferred to the balance sheet and amortised over the period to which the contracted services are delivered to the customer.

19. Provisions

	Legal costs £m	Disposal indemnities £m	Restructuring £m	Deferred contingent consideration £m	Insurance reserve £m	Contract specific costs £m	Pension £m	Dilapidations £m	Total £m
At 1 April 2017	2.0	6.0	–	0.3	12.5	5.8	–	–	26.6
Amounts recognised in the balance sheet	–	–	–	–	–	–	–	3.4	3.4
Amounts recognised in the income statement	3.2	–	1.2	–	4.0	(1.3)	–	–	7.1
Utilised within captive insurance subsidiary	–	–	–	–	(0.1)	–	–	–	(0.1)
Unwinding of discount	–	–	–	–	–	–	–	0.2	0.2
Utilised in the year	(1.1)	(1.1)	–	(0.3)	(1.1)	(2.1)	–	–	(5.7)
At 31 March 2018	4.1	4.9	1.2	–	15.3	2.4	–	3.6	31.5
Amounts recognised in the income statement	0.2	0.6	–	–	2.5	11.5	20.0	–	34.8
Utilised within captive insurance subsidiary	–	–	–	–	(0.1)	–	–	–	(0.1)
Unwinding of discount	–	–	–	–	–	–	–	0.1	0.1
Utilised in the year	(4.0)	(0.2)	(1.2)	–	(3.3)	(0.6)	–	(0.4)	(9.7)
Reclassification	–	–	–	–	0.6	(0.6)	–	–	–
At 31 March 2019	0.3	5.3	–	–	15.0	12.7	20.0	3.3	56.6
Included in current liabilities	0.3	5.3	–	–	9.0	12.7	20.0	3.3	50.6
Included in non-current liabilities	–	–	–	–	6.0	–	–	–	6.0
Total	0.3	5.3	–	–	15.0	12.7	20.0	3.3	56.6

The provisions balance includes the following items:

The legal costs provision relates to professional fees payable and the potential cost of settlement of outstanding claims against the Group.

The utilisation of the provision represents the settlement of a contractual claim related to a contract of the now discontinued Social Housing business.

The disposal indemnities provision relates to indemnities provided following the disposal by the Group of the Healthcare and Social Housing businesses. The amount recognised in the income statement represents a £2.6m charge in respect of Social Housing net of a £2.0m release in respect of Healthcare.

The restructuring provision relates to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

The insurance reserve provides for the self-insured element of fleet and liability claims that will typically settle over three to five years. This includes a provision for claims that are expected but have not yet been reported.

The contract specific cost provisions relate to various obligations arising in the ordinary course of providing services in line with commercial contracts.

The £11.5m charge for the year ended 31 March 2019 includes the £12.1m estimated costs of rectification works associated with certain property maintenance contracts of the now discontinued Social Housing business, all of which are included within other items. Refer to Note 4 for further details.

The pension provision relates to the Section 75 employer debt liabilities of Robert Prettie & Co Limited as a result of that company's participation in the Plumbing Scheme. This liability is expected to be settled during the year ended 31 March 2020. See Notes 32 and 33.

The provision for dilapidations relates to the legal obligation for leased properties to be returned to the landlord in the contracted condition at the end of the lease period. This cost would include repairs of any damage and wear and tear.

Contingent asset

The Directors are working to ensure that, through a combination of insurance claims and recourse to suppliers a proportion of the £16.1m costs incurred in respect of rectification works for the Social Housing property maintenance contracts, including the £12.1m recorded in provisions above, are recovered. The amount and timing of any recoveries is yet to be determined.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

20. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	Losses £m	Accelerated tax depreciation £m	Retirement benefit liabilities £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	Total £m
At 1 April 2017	25.8	6.5	12.6	(1.1)	0.7	1.6	46.1
(Charge)/credit to income	(7.0)	(0.3)	0.3	0.3	(0.1)	(0.1)	(6.9)
(Charge)/credit to equity and the statement of comprehensive income	–	–	(3.4)	–	0.1	–	(3.3)
At 31 March 2018	18.8	6.2	9.5	(0.8)	0.7	1.5	35.9
Acquisition of subsidiaries	–	0.3	–	(2.5)	–	0.2	(2.0)
Disposal of subsidiaries	–	(0.3)	–	0.5	–	(0.2)	–
(Charge)/credit to income	(1.5)	(1.2)	2.3	(0.1)	0.4	(0.1)	(0.2)
Credit/(charge) to equity and the statement of comprehensive income	–	–	2.4	–	(0.3)	–	2.1
At 31 March 2019	17.3	5.0	14.2	(2.9)	0.8	1.4	35.8

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £m	2018 £m
Deferred tax assets	38.7	36.7
Deferred tax liabilities	(2.9)	(0.8)
Net deferred tax asset	35.8	35.9

The Group has unutilised income tax losses of £102.3m (2018: £112.8m) that are available for offset against future profits. In addition, the Group has £0.8m (2018: £0.8m) of capital losses. A deferred tax asset has been recognised in respect of £92.8m (2018: £102.7m) of losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. Deferred tax has been calculated using the corporation tax rate disclosed in Note 9.

21. Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents	108.4	59.8

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of the assets approximates their fair value.

Included in cash and cash equivalents are deposits totalling £nil (2018: £0.4m) held by the Group's insurance subsidiary, which are not readily available for the general purposes of the Group. The Group's insurance subsidiary was liquidated during the year.

22. Financing liabilities

	2019 £m	2018 £m
Bank loans – under committed facilities	52.1	54.3
Private placement notes	211.9	203.8
Obligations under finance leases (Note 24)	1.5	1.3
Total	265.5	259.4
Included in current liabilities	40.7	0.8
Included in non-current liabilities	224.8	258.6
Total	265.5	259.4

The £275.0m bank facility and the private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements. The final maturity dates of all facilities remained unchanged. The Group was in compliance with these covenants as at 31 March 2019 and hence all amounts are classified in line with repayment dates.

Included in current financing liabilities are £0.7m (2018: £0.8m) of obligations under finance leases (see Note 24).

With the exception of derivative financial instruments, all financing liabilities are held at amortised cost. Derivative financial instruments are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied (see Note 23).

At 31 March 2019, the Group had available £221.9m (2018: £219.3m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facilities have an expiry date of July 2021. The loans carry interest rates which are currently determined at 1.0% over the applicable LIBOR.

Details of the Group's contingent liabilities are provided in Note 33.

The weighted average interest rates paid during the year on overdrafts and loans outstanding were as follows:

	2019 %	2018 %
Overdrafts	2.7	2.0
Bank loans	1.6	1.5
Private placement notes	4.1	3.9

Private placement notes

Following the issue on 16 December 2010 of US\$96.0m and £40.0m of private placement (PP) notes in the United States Private Placement market, the Group issued a further US\$153.0m and £55.0m of PP notes on 13 December 2012. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Group. In order to manage the risk of foreign currency fluctuations and to manage the Group's finance costs through a mix of fixed and variable rate debt, the Group has entered into cross-currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. US\$96.0m of these PP notes were settled in December 2017 upon maturity, along with the associated swaps which had been designated as fair value hedges. The amount, maturity and interest terms of the remaining PP notes are shown below.

Tranche	Maturity date	Amount	Interest terms	Swap interest
9 year	16 December 2019	£40.0m	£ fixed at 4.38%	n/a
10 year	16 December 2022	US\$76.0m	US\$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	US\$77.0m	US\$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.00%	n/a

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

23. Financial instruments

Classification

The Group's principal financial assets are cash and cash equivalents, trade receivables and derivative financial instruments. With the exception of derivative financial instruments, all financial assets are held and measured at amortised cost.

The Group's principal financial liabilities are trade and other payables and financing liabilities. All financial liabilities are held and measured at amortised cost.

Derivative financial instruments are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through the income statement unless they are designated as hedges for which hedge accounting can be applied.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Risk management objectives

The Group's treasury department monitors and manages the financial risks relating to the operations of the Group. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The Group seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by Group policies and reviewed regularly. Group policy is to not trade in financial instruments. The risk management policies remain unchanged from the previous year.

Interest rate risk

The Group's activities expose it to the financial risks of interest rates. The Group's treasury function reviews its risk management strategy on a regular basis and will, as appropriate, enter into derivative financial instruments in order to manage interest rate risk.

Interest rate sensitivity

The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. All financial liabilities, other than financing liabilities, are interest free.

If underlying interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2019 and reserves would decrease/increase by £0.8m (2018: £0.7m).

Foreign currency risk

The Group has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency of individual group entities and some exposure to translational foreign currency risk from the translation of its foreign operations. The Group considers the need to hedge its exposures as appropriate and will enter into forward foreign exchange contracts to mitigate any significant risks.

In addition, the Group has fully hedged the US dollar exposure on its private placement notes into sterling using cross-currency interest rate swaps (see Hedging activities below).

At 31 March 2019 £9.2m (2018: £9.3m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £13.1m (2018: £15.7m) of loans denominated in foreign currency.

Liquidity risk

The Group monitors its liquidity risk using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank loans under committed facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged. Details of the Group's bank facilities can be found in Note 22.

The tables below summarise the maturity profile (including both undiscounted interest and principal cash flows) of the Group's financial liabilities:

Financial liabilities at 31 March 2019	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	160.1	–	–	160.1
Other creditors	40.9	–	–	40.9
Financing liabilities	102.0	162.6	30.9	295.5
Financial liabilities¹	303.0	162.6	30.9	496.5

Financial liabilities at 31 March 2018	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	191.3	–	–	191.3
Other creditors	29.2	–	–	29.2
Financing liabilities	65.6	198.9	31.5	296.0
Financial liabilities¹	286.1	198.9	31.5	516.5

Note:

1. Financial liabilities maturity profile is exclusive of the £16.4m (2018: £6.1m) derivative asset which would naturally offset the settlement value of the maturing private placement notes in financing liabilities.

Credit risk

The Group's credit risk is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis.

The Group's credit risk on liquid funds and derivative financial instruments is limited because the external counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

The Group's credit risk is primarily attributable to its receivable balances from customers. Before accepting a new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty or group of counterparties.

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group measures loss allowances at an amount equal to lifetime expected credit losses (ECLs) using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

23. Financial instruments continued

The following table provides information about the Group's exposure to credit risk and ECLs against customer balances as at 31 March 2019 under IFRS 9:

	2019 £m	
	Gross carrying amount	Net carrying amount
Trade receivables at 31 March 2019		
Current (not overdue)	210.3	198.4
1-30 days overdue	26.4	24.5
31-60 days overdue	6.5	6.0
61-90 days overdue	1.7	1.4
More than 90 days overdue	7.9	3.3
Total	252.8	233.6

Trade receivables at 31 March 2019 represents 29 days revenue (2018 restated: 26 days).

The following table provides information about the ageing of trade receivables as at 31 March 2018 under IAS 39:

	2018 ¹ £m
Neither impaired nor past due	163.6
Not impaired and less than three months overdue	37.4
Not impaired and more than three months overdue	21.3
Provision for doubtful debts	(17.3)
Total	205.0

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

The following table provides the movement in the allowance for impairment in respect of trade receivables and accrued income:

	2019 £m		2018 ¹ £m	
	Trade receivables	Accrued income	Trade receivables	Accrued income
At 1 April	17.3	6.5	16.2	4.5
Impact of change in accounting policy	1.5	1.0	–	–
Impairment losses/(gains) recognised	1.1	(1.6)	2.3	2.0
Amounts written off as uncollectable	(1.5)	–	(1.2)	–
Acquisition of subsidiaries	1.9	0.1	–	–
Disposal of subsidiaries	(1.1)	(0.4)	–	–
At 31 March	19.2	5.6	17.3	6.5

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

Capital management risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Group consists of net debt per Note 26 and equity per the consolidated statement of changes in equity.

The Group is not subject to externally imposed regulatory capital requirements.

Hedging activities

Cash flow hedges

The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US\$153.0m of PP notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. All cash flow hedges were assessed as being highly effective as at 31 March 2019.

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2019 was a borrowing of €9.5m (2018: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Dalkia FM, and is being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to equity to offset gains or losses on the translation of the net investment.

Derivative financial instruments

The carrying values of derivative financial instruments at the balance sheet date were as follows:

	Assets 2019 £m	Assets 2018 £m
Derivative financial instruments hedging private placement notes ¹	16.4	6.1
Total	16.4	6.1
Included in current assets	–	–
Included in non-current assets	16.4	6.1
Total	16.4	6.1

Note:

1. Derivative financial instruments hedging private placement notes comprise cross-currency interest rate swaps designated as cash flow hedges.

Derivative financial instruments are measured at fair value.

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

The Directors consider that the Group's derivative financial instruments fall into Level 2. There were no transfers between levels during the year. Fair values of these instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments. All contracts are gross settled.

24. Obligations under finance leases

	Minimum lease payments	
	2019 £m	2018 £m
Amounts payable under finance leases:		
Within one year	0.7	0.8
In the second to fifth years inclusive	0.8	0.5
	1.5	1.3
Present value of lease obligations	1.5	1.3
Less: amount due for settlement within 12 months	(0.7)	(0.8)
Amount due for settlement after 12 months	0.8	0.5

The average remaining lease term is 18 months (2018: 20 months). For the year ended 31 March 2019, the average effective borrowing rate was 3.8% (2018: 1.4%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are protected by the lessors' rights over the leased assets.

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For the year ended 31 March 2019

25. Operating lease commitments

At the balance sheet date, the Group had total outstanding aggregate commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £m	2018 £m
Within one year	25.3	23.7
In the second to fifth years inclusive	41.4	39.2
After five years	5.3	13.2
Total	72.0	76.1

Operating lease payments represent rentals payable by the Group for certain of its office properties and hire of vehicles and other equipment. These leases have average durations ranging from three to ten years. No arrangements have been entered into for contingent rental payments.

26. Analysis of net debt

	2019 £m	2018 £m
Cash and cash equivalents (Note 21)	108.4	59.8
Bank loans (Note 22)	(52.1)	(54.3)
Private placement notes (Note 22)	(211.9)	(203.8)
Derivative financial instruments hedging private placement notes (Note 23)	16.4	6.1
Net debt before obligations under finance leases	(139.2)	(192.2)
Obligations under finance leases (Note 24)	(1.5)	(1.3)
Net debt	(140.7)	(193.5)

Net debt excludes amounts in respect of customer invoice discounting referred to in Note 15 and amounts in respect of supply chain financing referred to in Note 17.

27. Notes to the consolidated statement of cash flows

	2019			2018		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Cash conversion						
Operating profit/(loss)	50.2	(2.0)	48.2	1.1	(9.4)	(8.3)
Depreciation	11.3	0.3	11.6	12.3	0.5	12.8
Amortisation	9.7	0.1	9.8	13.2	0.3	13.5
Impairment of goodwill and intangible assets	1.1	–	1.1	33.1	11.9	45.0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	72.3	(1.6)	70.7	59.7	3.3	63.0
Cash generated from/(used in) operations	56.9	(9.4)	47.5	1.1	(9.0)	(7.9)
Free cash flow						
Cash generated from/(used in) operations			47.5			(7.9)
Purchase of property, plant and equipment			(12.1)			(15.8)
Purchase of other intangible assets			(11.2)			(9.0)
Disposal of property, plant and equipment			4.7			1.6
Income taxes received			4.7			11.6
Interest received			0.2			0.2
Interest paid			(12.4)			(13.5)
Free cash flow			21.4			(32.8)

	2019					
	Opening balance £m	Total cash movements £m	Reclassification of senior debt £m	Fair value changes £m	Other FX movements £m	Other non-cash movements £m
						Closing balance £m
		Cash flows				Non-cash changes
Long-term borrowings – bank loans	(54.3)	2.1	–	–	0.3	(0.2)
Long-term borrowings – private placement loan notes	(203.8)	–	40.0	(8.1)	–	–
Short-term borrowings – private placement loan notes	–	–	(40.0)	–	–	–
Finance lease obligations	(1.3)	(0.2)	–	–	–	–
Financing liabilities	(259.4)	1.9	–	(8.1)	0.3	(0.2)
Derivative financial instruments	6.1	–	–	10.3	–	–
Net financing liabilities	(253.3)	1.9	–	2.2	0.3	(0.2)

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

28. Share capital

Ordinary shares of 2.5p	Number million	£m
Allotted and fully paid		
At 1 April 2017	369.1	9.2
Issued for acquisitions	4.6	0.1
At 31 March 2018	373.7	9.3
Issued for acquisitions	–	–
At 31 March 2019	373.7	9.3

During the year ended 31 March 2018, 4.6m ordinary shares of 2.5p were allotted in respect of the acquisition of non-controlling interests at an issue price between 266.3p and 278.8p giving rise to share premium of £nil and merger reserve of £12.4m.

29. Reserves

Share premium account

The share premium account represents the premium arising on the issue of equity shares.

Merger reserve

The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006.

The merger reserve increased by £12.4m in the year ended 31 March 2018 as a result of the issue of 4.6m ordinary shares of 2.5p for the acquisition of non-controlling interests.

Own shares reserve

The Group uses shares held in the Employee Benefit Trust to satisfy conditional awards under the Group's LTIP, CSP and DBP share schemes and shares held in the SIP Trust to provide matching shares under the SIP scheme. During the year the trust distributed 0.3m (2018: 0.7m) shares at a cost of £0.8m (2018: £1.6m) to satisfy awards under those schemes.

The Company uses Treasury shares to satisfy share options under the Group's ESOS and SAYE share schemes. No Treasury shares have been issued to satisfy options under the Group's share schemes in the year. During the year ended 31 March 2018, proceeds from the issue of 1.5m Treasury shares to satisfy options under these share schemes were £3.4m at a cost of £4.3m, with the loss of £0.9m being recognised in retained earnings.

The own shares reserve at 31 March 2019 represents the cost of 12.7m (2018: 13.0m) ordinary shares in Mitie Group plc held for the purposes of the share schemes, with a weighted average of 13.8m (2018: 13.8m) shares during the year, as well as the £2.6m (2018: £7.1m) value of the remaining restricted shares issued as consideration to acquire non-controlling interests that is required to be treated as remuneration.

In the year ended 31 March 2019, the £5.3m (2018: £6.9m) movement includes £4.5m (2018: £1.0m) which has been released against the share-based payments reserve following the expiration of the required continuing employment period in relation to restricted shares and £0.8m (2018: £5.9m) for the cost of shares distributed to satisfy awards under the Group's share schemes. The £8.1m credit to own shares reserve in the year ended 31 March 2018 represented the restricted shares issued as part of the acquisition of non-controlling interests.

Other reserves

Other reserves are comprised of the share-based payments reserve of £9.4m (2018: £10.4m), the revaluation reserve of £(0.2)m (2018: £(0.2)m), the capital redemption reserve of £0.9m (2018: £0.9m) and other reserves of £0.2m (2018: £0.2m).

The share-based payments reserve represents credits in respect of the vesting period of equity-settled share-based payment transactions (see Note 31) and credits in respect of the vesting period of restricted shares issued as part of the acquisition of non-controlling interests.

Hedging and translation reserve

The hedging and translation reserve of £(5.6)m (2018: £(7.3)m) includes balances in respect of the Group's cash flow hedges (see Note 23). A net cash flow hedge credit during the year of £2.2m (2018: £0.1m credit) is included within other comprehensive income. The hedging and translation reserve also includes balances arising on translation of the Group's foreign operations and in respect of net investment hedges of which the combined movement was a charge of £0.2m during the year (2018: £0.5m credit). An income tax charge of £0.3m (2018: £0.1m credit) has been recognised on these movements.

Other movements in reserves

A movement of £1.8m (2018: £nil) has been reflected in retained earnings representing the recovery of consideration for the purchase of certain non-controlling interests in the year ended 31 March 2017.

30. Acquisitions

Current year acquisitions – purchase of Vision Security Group

On 26 October 2018, the Group acquired a 100% shareholding in Vision Security Group Limited (VSG). VSG is a leading security services provider offering integrated security systems, manned guarding and key holding services, with a team of approximately 6,000 employees servicing more than 1,400 guarding locations and over 5,000 systems locations across the UK and Ireland.

The acquisition of VSG further strengthens the position of Mitie's Total Security Management business (Mitie TSM) as one of the leading providers of integrated and risk-based security services in the UK. In particular, the combination will offer opportunities to accelerate the growth of Mitie's premium technology-enabled and intelligence-led security solutions.

Consideration of £12.7m (on a debt free, cash free basis) was paid in cash at completion, and funded through Mitie's own cash resources. £4.5m of the cash consideration paid is expected to be returned through agreement of the completion accounts with the seller of the business.

The Group's provisional assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on total consideration of £8.2m following expected adjustments to the completion accounts. The purchase price allocation is as follows:

	Book value £m	Provisional fair value adjustment £m	Fair value £m
Software and development expenditure	0.1	(0.1)	–
Property, plant and equipment	0.5	(0.3)	0.2
Customer relationships	–	14.9	14.9
Current tax assets	0.5	–	0.5
Inventories	0.7	(0.2)	0.5
Trade and other receivables	41.5	(4.2)	37.3
Cash and cash equivalents	1.6	–	1.6
Trade and other payables	(29.8)	(1.2)	(31.0)
Deferred income from contracts with customers	(4.0)	(0.9)	(4.9)
Current tax liabilities	(0.1)	–	(0.1)
Deferred tax liabilities	–	(2.0)	(2.0)
Net identifiable assets acquired	11.0	6.0	17.0
Less: bargain purchase in other items			(8.8)
Consideration			8.2

The Group concluded that the value of the order backlog and the customer relationships to drive renewal of the contracts held by VSG was an intangible asset which has been valued at £14.9m at acquisition and has been recorded as a non-current intangible asset under the caption 'Customer relationships'. The asset will amortise to the income statement in line with the forecast expiry of the underlying customer relationships over a 10-year period.

The Group has recorded a bargain purchase gain of £8.8m in the consolidated income statement within other items. This represents the excess of net identifiable assets acquired of £17.0m over the consideration of £8.2m.

Acquired receivables

The fair value of acquired trade and other receivables was £37.3m. The gross contractual amount for trade and other receivables due was £39.3m, against which £2.0m is the expected credit loss.

Revenue and profit contribution

The acquired business contributed revenues of £79.6m and net profit of £1.4m to the Group for the period from 26 October 2018 to 31 March 2019. If the acquisition had occurred on 1 April 2018, consolidated pro-forma revenue and profit before tax for continuing operations for the year ended 31 March 2019 would have been £2,332.1m and £31.9m respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- Differences in the accounting policies between the Group and the subsidiary; and
- The additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 April 2018, together with the consequential tax effects.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

30. Acquisitions continued

Purchase consideration – cash outflow

Outflow of cash to acquire subsidiaries, net of cash acquired:

	2019 £m
Cash consideration	12.7
Less: cash balance acquired	(1.6)
Less: recovery of consideration ¹	(1.8)
Net outflow of cash – investing activities	9.3

Note:

1. Recovery of consideration amounting to £1.8m was in respect of the purchase of certain non-controlling interests in the year ended 31 March 2017. See Note 28.

Acquisition related costs

Acquisition related costs of £2.6m are included in administrative expenses and recognised in other items (see Note 4) in the income statement and in operating cash flows in the statement of cash flows.

Prior year acquisitions – purchase of non-controlling interests

On 19 July 2017, the Company purchased the minority 49% shareholding in Source Eight Limited. The consideration paid was £4.0m, satisfied with £3.0m in cash and £1.0m in unrestricted shares. A further £5.1m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,196,708 ordinary shares were issued, with a nominal value of 2.5p per share in Mitie Group plc (Mitie shares) at a fair value of 278.8p, of which 1,838,028 Mitie shares were subject to sale restrictions related to continuing employment.

In addition, on 20 October 2017 the Company purchased the remaining minority shareholdings in five Mitie Model companies. The consideration paid was £3.4m, satisfied through the issue of unrestricted shares. A further £3.0m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,396,381 Mitie shares were issued at a fair value of 266.3p, of which 1,139,697 Mitie shares were subject to sale restrictions related to continuing employment. The shareholdings purchased, primarily held by certain of the employees and senior management of the relevant subsidiary companies, are detailed below:

- Mitie Care and Custody Limited (MCCL) – 6.86% of the issued share capital, comprising 42,505 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 169,328 Mitie shares;
- Mitie Events & Leisure Services Limited (MELSL) – 24.08% of the issued share capital, comprising 205,000 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 144,555 Mitie shares;
- Mitie Facilities Management Limited (Ireland) (MFML) – 5.63% of the issued share capital, comprising 146,000 B ordinary shares of £0.01 each, for a consideration of £0.2m satisfied by the issue of 72,228 Mitie shares;
- Mitie Catering Services Limited (MCSL) – 18.55% of the issued share capital, comprising 333,677 D ordinary shares of £0.01 each, for a consideration of £2.9m satisfied by the issue of 1,072,416 Mitie shares; and
- Mitie Waste & Environmental Services Limited (MWESL) – 27.71% of the issued share capital, comprising 332,500 B ordinary shares of £0.01 each, for a consideration of £2.5m satisfied by the issue of 937,854 Mitie shares;

The above acquisitions have been completed based on transfer of consideration of the fair value of the shareholdings of the respective entities. As part of the above transactions Mitie Group issued unrestricted and restricted shares. The restricted shares are attached with a condition that the relevant recipient continues in employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

As a result of the acquisitions outlined above Mitie Group owns 100% of the issued share capital of all of the above entities.

31. Share-based payments

The Company has six equity-settled share schemes. The Group has also awarded performance-related bonuses for Executive Directors which are deferred in conditional shares under the Mitie Group plc 2010 Deferred Bonus Plan (DBP) and are accounted for as a share-based payment charge.

Discretionary share plans:

The Mitie Group plc Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2007 and renewed in 2015. The conditional awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is three years, although for awards granted in 2015 and subsequently some are subject to a holding period of up to a further two years. If the awards remain unexercised after a period of twelve months from the date of vesting the awards expire. The awards may be forfeited if the employee leaves the Group. Before the awards can be exercised, performance conditions must be satisfied which are based on movements in a range of market and non-market measures over a three-year period.

The Mitie Group plc 2001 Executive Share Option scheme (ESOS)

The ESOS exercise price is equal to the average market value of the shares over the five-day period immediately preceding the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group.

The Mitie Group plc 2011 Executive Share Option scheme (ESOS)

The ESOS exercise price is equal to the average market value of the shares on the business day preceding grant or, if the Remuneration Committee decides, the average market value of shares over a number of preceding business days (not to exceed 20). The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. Before options can be exercised, a performance condition must be satisfied; the performance condition is linked to the percentage growth in earnings per share over a three-year period.

The Conditional Share Plan (CSP)

The CSP was introduced in 2014. The conditional awards of shares or the rights to acquire shares (the award) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is determined at the discretion of the Remuneration Committee and is generally two or three years. If the awards remain unexercised after a period of ten years from the date of grant the awards expire. The awards may be forfeited if the employee leaves the Group.

Non-discretionary share plans:

The Mitie Group plc 2011 SAYE scheme

The SAYE scheme is open to eligible UK resident employees. The exercise price is not less than 80% of the market value of the shares determined using either: the share price preceding the date on which invitations to participate in the scheme are issued or an average share price over five days preceding the invitation date. The vesting period is three years. If the options remain unexercised after a period of six months from the date of vesting, the options expire. Options may be forfeited if the employee leaves the Group.

The Share Incentive Plan (SIP)

The SIP was introduced in 2011 and is open to all eligible UK resident employees. Under the scheme, eligible employees are invited to invest in partnership shares which are purchased in the market on their behalf and held in a separate UK trust. One conditional matching share is awarded for every ten partnership shares purchased and has a holding period of three years. Matching shares are funded by way of market purchases.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

31. Share-based payments continued

Restricted Shares

In addition, in certain cases restricted shares are issued to individuals. The restricted shares are attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

Details of the awards and share options outstanding are as follows:

	2019	2018	2019	2018
	Number of conditional share awards (million)	Number of conditional share awards (million)	Number of share options (million)	Weighted average exercise price (p)
Outstanding at 1 April	8.1	9.0	8.2	247
Granted during the year	7.8	4.3	4.3	137
Lapsed during the year	(2.8)	(4.5)	(4.0)	243
Exercised during the year	(0.3)	(0.7)	–	–
Outstanding at 31 March	12.8	8.1	8.5	190
Exercisable at the end of the year			2.0	249

The Group recognised the following expenses related to share-based payments:

	2019 £m	2018 £m
Discretionary share plans	0.2	0.2
Non-discretionary share plans	0.9	1.0
Share-based payments acquisition related costs	3.9	3.4
	5.0	4.6

The movement on the share-based payments reserve, which is part of other reserves, relates to the charge to the income statement for the year of £5.0m (2018: £4.6m). This comprises: i) £3.9m in respect of the vesting period of restricted shares issued as part of the acquisition of minority interests; and ii) £1.1m of equity-settled share-based payment transactions. The share-based payments charge for the year is net of income statement credits of £2.1m relating to changes in assumptions relating to the likelihood of options vesting.

In addition, there has been: i) a release of £4.5m against the own shares reserve on the expiry of restrictions attached to restricted shares issued; and ii) a release of £0.8m to retained earnings regarding share options that were previously exercised, lapsed, forfeited or cancelled.

The weighted average share price at the date of exercise for awards and share options exercised during the year was 139p (2018: 252p). The conditional share awards and share options outstanding at 31 March 2019 had exercise prices (other than nil in the case of the LTIP, CSP, DBP and the matching shares under the SIP) ranging from 137p – 256p (2018: 212p – 256p) and a weighted average remaining contractual life of 3.6 years (2018: 3.6 years). In the year ended 31 March 2019, options were granted in respect of the SAYE, LTIP, CSP and matching shares under the SIP. The aggregate of the estimated fair values of those options granted was £14.0m (2018: £10.6m).

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models.

The inputs into the Black-Scholes model are as follows:

	2019	2018
Share price (p)	258 – 318	258 – 318
Exercise price (p)	0 – 260	0 – 260
Expected volatility (%)	23 – 29	23 – 29
Expected life (years)	3 – 4	3 – 4
Risk-free rate (%)	(0.3) – 1.1	(0.3) – 1.1
Expected dividends (%)	1.6 – 4.7	1.6 – 4.7

The inputs into the Monte Carlo model are as follows:

	2019	2018
Share price (p)	180 – 267	180 – 267
Average correlation with TSR benchmark (%)	23 – 27	23 – 27
Expected volatility (%)	34 – 37	34 – 37
Expected life (years)	3	3
Risk-free rate (%)	0.22 – 0.68	0.22 – 0.68

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

32. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

- Defined contribution schemes for the majority of its employees; and
- Defined benefit schemes which include a group scheme and other smaller schemes.

The Group operates a number of defined contribution pension schemes for qualifying employees. The Group has a defined benefit pension scheme called the Mitie Group plc Pension Scheme (Group scheme) where Mitie Group plc is the principal employer. The Group participates in a number of other defined benefit schemes (Other schemes) in respect of certain employees who joined the Group under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) or through the acquisition of subsidiary companies.

Defined contribution schemes

A defined contribution scheme is a pension scheme under which the Group pays contributions to an independently administered fund; such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once these contributions have been paid. Members' benefits are determined by the amount of contributions paid, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to take at retirement. As a result, actuarial risk (that pension will be lower than expected) and investment risk (that the assets invested in do not perform in line with expectations) are borne by the employee.

The Group's contributions are recognised as an employee benefit expense when they are due.

The Group operates three separate schemes: a stakeholder defined contribution plan, which is closed to new members; a self-invested personal pension plan, which is closed to new members; and a group personal pension (GPP) plan. Employer contributions are payable to each on a matched basis requiring employee contributions to be paid. Employees have the option to pay their share via a salary sacrifice arrangement. The scheme used to satisfy auto-enrolment compliance is a master trust, The People's Pension.

During the year, the Group made a total contribution to the defined contribution schemes of £8.0m (2018: £9.0m) and contributions to the auto-enrolment scheme of £8.6m (2018: £4.3m), which are included in the income statement charge. The Group expects to make contributions of a similar amount in the year ending 31 March 2020.

Defined benefit schemes

Group scheme

The Group scheme provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their final pensionable pay.

The Group scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes. The main Group scheme was closed with effect from October 2017.

Pensions in payment are generally increased in line with RPI inflation, subject to certain caps and floors. Benefits are payable on death and other events such as withdrawal from active service.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

31. Share-based payments continued

The Group scheme is operated under the UK regulatory framework. Benefits are paid to members from the trust-administered fund, where the Trustee is responsible for ensuring that the scheme is sufficiently funded to meet current and future benefit payments. Plan assets are held in trust and are governed by pension legislation. If investment experience is worse than expected or the actuarial assessment of the scheme's liabilities increases, the Group's financial obligations to the scheme rise.

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2017 and was concluded in March 2019.

The Trustee's other duties include managing the investment of the scheme's assets, administration of plan benefits and exercising of discretionary powers. The Group works closely with the Trustee to manage the scheme.

Other defined benefit schemes

Grouped together under Other schemes are a number of schemes to which the Group makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to Mitie under TUPE. The valuations of the Other schemes are updated by an actuary at each balance sheet date.

For the Admitted Body schemes, which are largely sections of the Local Government Pension Scheme, the Group will only participate for a finite period up to the end of the relevant contract. The Group is required to pay regular contributions, as decided by the relevant scheme actuaries and detailed in each scheme's Contributions Certificate, which are calculated every three years as part of a triennial valuation. In a number of cases contributions payable by the employer are capped and any excess is recovered from the entity that the employees transferred from. In addition, in certain cases, at the end of the contract the Group will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

Multi-employer schemes

As a result of historic acquisition activity and staff transfers following contract wins, the Group participates in four multi-employer pension schemes. The total contributions to these schemes for the financial year ending 31 March 2020 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme) a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. The Group has recently received a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme (refer to Note 19 and Note 33). One Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme, however no apportionment of the assets and liabilities attributable to this company is available and consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

The April 2014 valuation of the Plumbing Scheme indicated a surplus on technical provisions basis of £19.0m, on liabilities of £1.47bn. The Annual Member update issued by the Plumbing Scheme in October 2018 stated that the draft triennial valuation as at 5 April 2017 showed a surplus on a technical provisions basis.

As set out in Note 19, a provision of £20.0m has been made for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme.

As set out in Note 33 the Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which has been disclosed as a contingent liability.

Further information in respect of the Group scheme and Other schemes

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2017.

Following the £3.0m paid in November 2017, the Group paid additional contributions of £10.5m to the Group scheme during the year ended 31 March 2019, including amounts of £3.8m and £1.8m in respect of the disposals of the Pest Control business and Social Housing business.

Under the concluded schedule for payments, a further £64.8m is payable in instalments by 31 March 2025, which, if the assumptions above are borne out in practice, should eliminate the deficit by 31 March 2025.

The Group made contributions to the Other schemes of £0.3m in the year (2018: £0.3m). The Group expects to make contributions of around £0.3m to the Other schemes in the year ending 31 March 2020.

Details of latest funding valuation

	Group scheme
Date of latest funding valuation	31 March 2017
Assets at valuation date	£178.7m
Funding liabilities at valuation date	£252.7m
Deficit at valuation date	£74.0m

The total contribution rate was set at between 40.1% and 45.0% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after the deducting the employee rate, which ranges depending on status and earnings. The total contribution excludes any allowances for expenses met by the scheme.

The following table sets out details of the membership of the Group scheme at 31 March 2017:

	Group scheme
Active members – by number	182
Active members – by proportion of funding liability	19.8%
Total pensionable salary roll p.a.	£8.4m
Deferred members – by number	853
Deferred members – by proportion of funding liability	53.9%
Total deferred pensions p.a. (at date of leaving scheme)	£4.6m
Pensioner members – by number	640
Pensioner members – by proportion of funding liability	26.3%
Total pensions in payment p.a.	£2.7m

Accounting assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension schemes, as detailed below, are set after consultation with independent, professionally qualified actuaries.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high-quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

A UK High Court judgment was issued on 26 October 2018 relating to Guaranteed Minimum Pensions (GMP). Although the ruling relates to Lloyds Banking Group pension schemes, it is expected to create a precedent for other UK defined benefit pension schemes. The ruling requires the equalisation of member benefits earned between 1990 and 1997 to address gender inequality in instances where GMP benefits are currently unequal. Whilst there remains some uncertainty, the Group has made a provision for the estimated financial impact of this ruling on the Group scheme, based on a comparison of the cumulative value of members' benefits with the benefits of a notional member of the opposite gender (method C2 under the terminology of the High Court judgment). A past service cost of £1.6m based on the broad profile of the fund (i.e. age profile, service profile and GMP proportion) has been recognised within other items in the year ended 31 March 2019.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality.

Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes	
	2019 %	2018 %	2019 %	2018 %
Key assumptions used for IAS 19 valuation:				
Discount rate	2.40	2.60	2.40	2.60
Expected rate of pensionable pay increases	3.20	3.10	3.20	3.10
Retail price inflation	3.20	3.10	3.20	3.10
Consumer price inflation	2.20	2.10	2.20	2.10
Future pension increases	3.50	3.40	3.50	3.40

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

32. Retirement benefit schemes continued

	Group scheme	
	2019 Years	2018 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	88.0	88.0
Current pensioners at 65 – female	89.0	89.0
Future pensioners at 65 – male	89.0	89.0
Future pensioners at 65 – female	90.0	90.0

Life expectancy for the other schemes is that used by the relevant scheme actuary.

The sensitivity of defined benefit obligations to changes in principal actuarial assumptions is shown below.

Sensitivity of defined benefit obligations to key assumptions

	Impact on defined benefit obligations		
	Change in assumption	Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(2.0)%	(4.9)
Increase in RPI inflation*	0.1%	0.8%	2.0
Increase in CPI inflation (excluding pay)	0.1%	0.7%	1.7
Increase in salary growth	0.1%	0.0%	–
Increase in life expectancy	1 year	4.0%	10.4

* Including other inflation-linked assumptions (CPI inflation, pension increases and salary growth)

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, thus mitigating the increase in the defined benefit obligation to some extent.

The duration, or average term to payment for the benefits due, weighted by liability, is around 22 years for the Group scheme.

Amounts recognised in financial statements

The table below outlines where the Group's post-employment amounts are included in the financial statements.

	2019			2018		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Current service cost	(0.4)	(0.3)	(0.7)	(1.7)	(0.3)	(2.0)
Total administration expense	(1.1)	–	(1.1)	(1.1)	–	(1.1)
Amounts recognised in operating profit	(1.5)	(0.3)	(1.8)	(2.8)	(0.3)	(3.1)
Past service cost (including curtailments)	(1.6)	–	(1.6)	(1.9)	–	(1.9)
Net interest cost	(1.2)	(0.1)	(1.3)	(1.9)	(0.1)	(2.0)
Amounts recognised in profit/(loss) before tax	(4.3)	(0.4)	(4.7)	(6.6)	(0.4)	(7.0)

The past service cost (including curtailments) in the year ended 31 March 2019 was the cost of equalising Guaranteed Minimum Pensions and in the year ended 31 March 2018 was a result of an increase in liabilities driven by the closure of the main Group scheme.

Amounts recognised in the consolidated statement of comprehensive income are as follows:

	2019			2018		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Actuarial (losses)/gains arising due to changes in financial assumptions	(13.6)	(0.9)	(14.5)	8.6	0.8	9.4
Actuarial (losses)/gains arising from liability experience	(1.3)	–	(1.3)	(1.1)	0.8	(0.3)
Actuarial gains due to changes in demographic assumptions	–	0.1	0.1	5.9	0.2	6.1
Movement in asset ceiling	–	–	–	–	(0.5)	(0.5)
Return on scheme assets, excluding interest income	1.3	0.5	1.8	4.6	0.4	5.0
	(13.6)	(0.3)	(13.9)	18.0	1.7	19.7

The amounts included in the consolidated balance sheet in respect of the Group's defined benefit retirement benefit schemes are as follows:

	2019			2018		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	190.5	13.1	203.6	182.3	12.1	194.4
Present value of defined benefit obligations	(251.9)	(15.5)	(267.4)	(237.1)	(14.1)	(251.2)
Net pension liability	(61.4)	(2.4)	(63.8)	(54.8)	(2.0)	(56.8)

All figures above are shown before deferred tax.

Movements in the present value of defined benefit obligations in the year in respect of both the Group and other schemes were as follows:

	2019			2018		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	237.1	14.1	251.2	248.5	14.8	263.3
Current service cost	0.4	0.3	0.7	1.7	0.3	2.0
Interest cost	6.0	0.4	6.4	6.5	0.4	6.9
Contributions from scheme members	–	0.1	0.1	–	0.1	0.1
Actuarial losses/(gains) arising due to changes in financial assumptions	13.6	0.9	14.5	(8.6)	(0.8)	(9.4)
Actuarial losses/(gains) arising from experience	1.3	–	1.3	1.1	(0.8)	0.3
Actuarial gains due to changes in demographic assumptions	–	(0.1)	(0.1)	(5.9)	(0.2)	(6.1)
Movement in asset ceiling	–	–	–	–	0.5	0.5
Benefits paid	(8.1)	(0.2)	(8.3)	(8.1)	(0.2)	(8.3)
Past service cost (including curtailments)	1.6	–	1.6	1.9	–	1.9
At 31 March	251.9	15.5	267.4	237.1	14.1	251.2

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

32. Retirement benefit schemes continued

The defined benefit obligations of the Group scheme are analysed by participant status as at 31 March 2017 below:

	2019 £m	2018 £m
Active	51.4	48.3
Deferred	131.0	123.3
Pensioners	69.5	65.5
At 31 March	251.9	237.1

Movements in the fair value of scheme assets were as follows:

	2019					2018
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	182.3	12.1	194.4	177.8	11.3	189.1
Interest income	4.8	0.3	5.1	4.6	0.3	4.9
Actuarial gains on assets	1.3	0.5	1.8	4.6	0.4	5.0
Contributions from the sponsoring companies	11.3	0.3	11.6	4.4	0.3	4.7
Contributions from scheme members	–	0.1	0.1	–	–	–
Expenses paid	(1.1)	–	(1.1)	(1.0)	–	(1.0)
Benefits paid	(8.1)	(0.2)	(8.3)	(8.1)	(0.2)	(8.3)
At 31 March	190.5	13.1	203.6	182.3	12.1	194.4

The history of experience adjustments is as follows:

	Group scheme				
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of scheme assets	190.5	182.3	177.8	156.9	162.2
Present value of defined benefit obligations	(251.9)	(237.1)	(248.5)	(191.3)	(197.1)
Deficit in the scheme	(61.4)	(54.8)	(70.7)	(34.4)	(34.9)
Experience (losses)/gains on scheme liabilities	(1.3)	(1.1)	0.8	3.1	1.2
Percentage of scheme liabilities	0.5%	0.5%	(0.3)%	(1.6)%	(0.6)%
Experience gains/(losses) on scheme assets	1.3	4.6	18.7	(6.2)	13.0
Percentage of scheme assets	0.7%	2.5%	10.5%	(4.0)%	8.0%

	Other schemes				
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of scheme assets	13.1	12.1	11.3	9.5	9.5
Present value of defined benefit obligations	(15.5)	(14.1)	(14.8)	(10.6)	(10.4)
Deficit in the scheme	(2.4)	(2.0)	(3.5)	(1.1)	(0.9)
Experience gains/(losses) on scheme liabilities	-	0.8	-	-	(0.1)
Percentage of scheme liabilities	-	(5.6)%	-	-	0.9%
Experience gains/(losses) on scheme assets	0.5	0.4	1.3	(0.6)	0.8
Percentage of scheme assets	4.0%	3.3%	11.5%	(6.1)%	8.4%

Fair values of the assets held by the schemes were as follows:

	2019			2018		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Equities	51.7	7.5	59.2	66.3	7.0	73.3
Government bonds	27.1	4.0	31.1	26.9	–	26.9
Corporate bonds	51.9	0.1	52.0	22.0	3.8	25.8
Property	16.8	1.0	17.8	9.5	0.9	10.4
Diversified growth fund	37.0	–	37.0	45.6	–	45.6
Cash	6.0	0.5	6.5	12.0	0.4	12.4
Total fair value of assets	190.5	13.1	203.6	182.3	12.1	194.4

The investment portfolios are diversified, investing in a wide range of assets, in order to provide reasonable assurance that no single asset or type of asset could have a materially adverse impact on the total portfolio. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of government and corporate bonds, designed to mirror movements in corresponding liabilities.

Around 56% (2018: 67%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

The property assets represent quoted property investments.

Risks and risk management

The Group scheme, in common with the majority of UK plans, has a number of risks. These areas of risk and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements:

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields. The Group scheme holds a large proportion of its assets (56%) in equities and other return-seeking assets (principally diversified growth funds (DGFs) and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short term, potentially resulting in short-term cash requirements or alternative security offers, which are acceptable to the Trustee and an increase in the net defined benefit liability recorded on the Group's balance sheet. Equities and DGFs are considered to offer the best returns over the long term with an acceptable level of risk and hence the scheme holds a significant proportion of these types of asset. However, the scheme's assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 19% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

Areas of risk management

Although investment decisions in the scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Certain benefits payable on death before retirement are insured.

33. Contingent liabilities

Contractual disputes, guarantees and indemnities

The Company and various of its subsidiaries are, from time to time, party to contractual disputes that arise in the ordinary course of business. The Directors do not anticipate that the outcome of any of these disputes will have a material adverse effect on the Group's financial position, other than as already provided for in the accounts. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction, due to the uncertainty of the actual costs and liabilities that may be incurred. The Directors will continue to monitor events as matters progress.

Notes to the consolidated financial statements continued

For the year ended 31 March 2019

33. Contingent liabilities continued

In addition, the Company and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf, amounting to £23.0m (2018: £21.7m) in the ordinary course of business. These are not expected to result in any material financial loss.

Multi-employer pension schemes

The Group participates in several industry multi-employer defined benefit schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (Plumbing Scheme). The total contributions to these schemes for the financial year ending 31 March 2020 are anticipated to be £0.1m. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

When the Group (or a subsidiary of the Group) exits such schemes (typically by ceasing to have any active employees in the scheme), pension legislation may require the Group to fund the Group's share of the total amount of net liabilities with a one-off cash payment (a Section 75 debt under the Pensions Act 1995).

On 27 March 2018, the trustee of the Plumbing Scheme provided participating employers with a summary of the draft actuarial valuation of the Plumbing Scheme as at 5 April 2017. That summary detailed the results of the valuation on three measures:

- technical provisions - the amount of money the Plumbing Scheme needs to meet all its obligations and pay benefits in respect of past service as they fall due, based on the scheme assets and the economic position as at 5 April 2017. This measure showed a surplus of £45m on liabilities of £1.885bn;
- Pension Protection Fund (PPF) - the amount used to set the Plumbing Scheme's PPF levies. The benefits under this basis are lower than the scheme's own benefits and the assumptions are prescribed by the Pension Regulator. This measure showed a deficit of £412m on liabilities of £2.342bn; and
- solvency - this is an estimate of the cost of insuring all of the Plumbing Scheme's benefits as at 5 April 2017 with an insurer and is the basis required for Section 75 debt calculations. This measure showed a deficit of £658m on liabilities of £2.588bn.

On 23 April 2019 the trustee of the Plumbing Scheme issued a Section 75 debt estimate to Robert Prettie & Co Limited. A provision for this debt has been made. See Note 19.

The Group continues to have an exposure to Section 75 debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, however no event has occurred to trigger this debt.

Employment claims

The Company and its subsidiaries are, from time to time, party to employment disputes, claims, and other potential liabilities which arise in the ordinary course of business. The Directors do not anticipate that any of the current matters will give rise to settlements, either individually or in aggregate, which will have a material adverse effect on the Group's financial position.

34. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note.

During the year, the Group derived £0.5m (2018: £0.8m) of revenue from contracts with joint ventures and associated undertakings and received £nil (2018: £0.6m) of dividends. At 31 March 2019 trade and other receivables from joint ventures and associates of £nil (2018: £0.2m) were outstanding and loans to joint ventures and associates of £nil (2018: £nil) were included in financing assets.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the year, the Group made donations and gifts in kind of £0.4m (2018: £0.3m) to the Foundation.

No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

The Group's key management personnel include the Executive Directors, Non-Executive Directors and the Executive Leadership team. Details of the Directors' remuneration is included in Note 7. The underlying remuneration for other key management personnel, including the share-based payments charge is £4.0m (2018: £4.4m).

	2019 £m	2018 £m
Short-term employment benefits	3.5	3.7
Pension	0.2	0.3
Share-based payments	0.3	0.4
At 31 March	4.0	4.4

The Company's preferred supplier for delivering apprenticeships to its employees is Aspire Achieve Advance Limited (3aaa), a company whose chairman is also Mitie Group plc's Non-Executive Chairman. The Company pays into a government mandated Apprenticeship Levy Fund, and 3aaa withdraw from that fund to provide the apprenticeship training. On 11 October 2018, the directors of 3aaa presented a petition to the Court for the compulsory winding up of the company. This petition was accepted by the Court and the Official Receiver was appointed as liquidator on 24 October 2018. During the year ended 31 March 2019, 3aaa withdrew £0.6m (2018: £0.2m) from the fund in respect of training provided or to be provided.

35. Subsidiaries

The companies set out below are those which were part of the Group at 31 March 2019.

Company	Country of incorporation	2019 % voting rights and ownership interest	2019 % nominal value owned
Care & Custody (Health) Limited	United Kingdom	100%	100%
Cole Motors Limited [†]	United Kingdom	100%	100%
Creativevents Limited [†]	United Kingdom	100%	100%
Direct Enquiries Holdings Limited [†]	United Kingdom	100%	100%
Jabez Holdings Limited*	United Kingdom	100%	100%
Mitie Aviation Security Limited ^x	United Kingdom	100%	100%
Mitie Belgium BVBA	Belgium	100%	100%
Mitie Belgium Security BVBA	Belgium	100%	100%
Mitie Built Environment Limited [†]	United Kingdom	100%	100%
Mitie Business Services Limited	United Kingdom	100%	100%
Mitie Business Services UK Limited ^{†x}	United Kingdom	100%	100%
Mitie Care and Custody Limited ^x	United Kingdom	100%	100%
Mitie Catering Services Limited ^x	United Kingdom	100%	100%
Mitie Cleaning & Environmental Services Limited	United Kingdom	100%	100%
Mitie Cleaning Services Limited [†]	United Kingdom	100%	100%
Mitie Client Services Limited	United Kingdom	100%	100%
Mitie Company Secretarial Services Limited*	United Kingdom	100%	100%
Mitie Compliance Ltd [†]	United Kingdom	100%	100%
Mitie Deutschland GmbH	Germany	100%	100%
Mitie Document Solutions Limited [†]	United Kingdom	100%	100%
Mitie Dormant (No. 1) Limited [†]	United Kingdom	100%	100%
Mitie Engineering Limited [†]	United Kingdom	100%	100%
Mitie Engineering Services (Bristol) Limited [†]	United Kingdom	100%	100%
Mitie Engineering Services (Guernsey) Limited	Guernsey	100%	100%
Mitie Engineering Services (Jersey) Limited	Jersey	100%	100%
Mitie Engineering Services (Northern Region) Limited [†]	United Kingdom	100%	100%
Mitie Engineering Services (Wales) Limited [†]	United Kingdom	100%	100%
Mitie Engineering Services Limited [†]	United Kingdom	100%	100%
Mitie Environmental Limited*	United Kingdom	100%	100%
Mitie España, S.L.	Spain	100%	100%
Mitie Events & Leisure Services Limited ^{†^}	United Kingdom	100%	100%
Mitie Facilities Management Limited [^]	Ireland	100%	100%
Mitie NI Limited	United Kingdom	100%	100%
Mitie France SAS	France	100%	100%
Mitie Group Pension Scheme Trustee Company Limited*	United Kingdom	100%	100%
Mitie Holdings Limited	United Kingdom	100%	100%
Mitie Infrastructure Limited ^{†^}	United Kingdom	100%	100%
Mitie Integrated Facilities Management Limited [†]	United Kingdom	100%	100%
Mitie International Limited [†]	United Kingdom	100%	100%
Mitie Investments Limited [†]	United Kingdom	100%	100%
Mitie Justice Limited*	United Kingdom	100%	100%
Mitie Landscapes Limited	United Kingdom	100%	100%
Mitie Limited	United Kingdom	100%	100%
Mitie Local Services Limited [†]	United Kingdom	100%	100%
Mitie Managed Services Limited [†]	United Kingdom	100%	100%
Mitie Nederland B.V.	Netherlands	100%	100%

Notes to the consolidated financial statements continued
For the year ended 31 March 2019

35. Subsidiaries continued

Company	Country of incorporation	2019 % voting rights and ownership interest	2019 % nominal value owned
Mitie Norge Akjeselskap	Norway	100%	100%
Mitie PFI Limited	United Kingdom	100%	100%
Mitie Polska Sp. z o.o.	Poland	100%	100%
Mitie Property Services (UK) Limited*	United Kingdom	100%	100%
Mitie Resources Limited‡	United Kingdom	100%	100%
Mitie Schweiz GmbH	Switzerland	100%	100%
Mitie Scotgate Limited‡	United Kingdom	100%	100%
Mitie Security (London) Limited‡	United Kingdom	100%	100%
Mitie Security Holdings Limited‡	United Kingdom	100%	100%
Mitie Security Limited	United Kingdom	100%	100%
Mitie Services (Retail) Limited‡	United Kingdom	100%	100%
Mitie Shared Services Limited	United Kingdom	100%	100%
Mitie Suomi Oy	Finland	100%	100%
Mitie Sverige AB	Sweden	100%	100%
Mitie T S Z Limited*^	United Kingdom	100%	100%
Mitie Technical Facilities Management Holdings Limited‡	United Kingdom	100%	100%
Mitie Technical Facilities Management Limited	United Kingdom	100%	100%
Mitie Tilley Roofing Limited*	United Kingdom	100%	100%
Mitie Transport Services Limited‡	United Kingdom	100%	100%
Mitie Treasury Management Limited*	United Kingdom	100%	100%
Mitie Trustee Limited*	United Kingdom	100%	100%
Mitie Waste & Environmental Services Limited‡	United Kingdom	100%	100%
Mitie Work Wise Limited‡	United Kingdom	100%	100%
Parkersell Limited‡	United Kingdom	100%	100%
Procius Limited‡	United Kingdom	100%	100%
Robert Prettie & Co Limited	United Kingdom	100%	100%
Service Management International Asia Pacific PTE. Ltd.	Singapore	100%	100%
Source Eight Limited ^{ix}	United Kingdom	100%	100%
Source8 Africa Limited‡	United Kingdom	100%	100%
Source8 Delivery (Nigeria) Limited	Nigeria	100%	100%
Source8 Services FZLLC	United Arab Emirates	100%	100%
UK CRBS Limited‡	United Kingdom	100%	100%
Utiylx Asset Management Limited‡	United Kingdom	100%	100%
Utiylx Asset Management Projects Limited‡	United Kingdom	100%	100%
Utiylx Broking Limited‡	United Kingdom	100%	100%
Utiylx Healthcare Energy Services Limited	United Kingdom	100%	100%
Utiylx Holdings Limited‡	United Kingdom	100%	100%
Utiylx Limited	United Kingdom	100%	100%
Utiylx Risk Management Limited‡	United Kingdom	100%	100%
Vision Security Group Limited	United Kingdom	100%	100%
Vision Security Group Systems Limited‡	United Kingdom	100%	100%
VSG Payroll Services Limited*	United Kingdom	100%	100%
VSG Staff Hire Limited*	United Kingdom	100%	100%
VSG Systems Direct Limited*	United Kingdom	100%	100%
Wealthy Thoughts Limited*	United Kingdom	100%	100%

* These entities were dormant during the year ended 31 March 2019 and will take the exemption from preparing and filing financial statements for the year ended 31 March 2019 (by virtue of Section 448A of the Companies Act 2006).

‡ These subsidiaries have taken advantage of the audit exemption under Section 479A of the Companies Act 2006 for the year ended 31 March 2019. As such, Mitie Group plc has provided a guarantee against all debts and liabilities in these subsidiaries as at 31 March 2019.

+ Held directly by the Company.

x The Company holds direct minority interest in these companies.

^ The Company has voting control of these companies through direct interests in a class of shares representing fewer than 50% of the total issued share capital of the companies.

The registered office of all subsidiaries is The Shard, Level 12, 32 London Bridge Street, London, SE1 9SG with the exception of the following:

Company	Registered office address
Mitie Belgium BVBA	Regus Brussels South Station, Marcel Broodthaersplein 8 (box 5), 1060 Brussels (Sint-Gillis), Belgium
Mitie Belgium Security BVBA	Regus Brussels South Station, Marcel Broodthaersplein 8 (box 5), 1060 Brussels (Sint-Gillis), Belgium
Mitie Deutschland GmbH	MeiBtetter StraÙe 8, 70567, Stuttgart, Germany
Mitie Engineering Services (Guernsey) Limited	Martello Court, Admiral Park, St Peter Port, GY1 3HB, Guernsey
Mitie Engineering Services (Jersey) Limited	13 Castle Street, St Helier, JE4 5UT, Jersey
Mitie España, S.L.	Osborne Clarke, Avenida Diagonal, 477, Planta 20, 08036, Barcelona, Spain
Mitie Facilities Management Limited	108 Q House, Furze Road, Sandyford, Dublin 18, Ireland
Mitie France SAS	259 rue St Honore, 75001, Paris, France
Mitie NI Limited	Clara House, Office B5, Dunmurry Office Park, 37A Upper Dunmurry Lane, Belfast, Northern Ireland, BT17 0AA, United Kingdom
Mitie Nederland B.V.	Hoofdweg 52A, 3067 GH Rotterdam, P.O. Box 8540, 3009 AM Rotterdam, 3009 AM Rotterdam, Netherlands
Mitie Norge Aksjeselskap	Kongensgate 9, 0153, Oslo, Norway, Norway
Mitie Polska Sp. z o.o.	Solec 22, 00-410, Warsaw, Poland
Mitie Schweiz GmbH	Brandschenkestrasse 90, CH-8027, Zurich, Switzerland
Mitie Suomi Oy	c/o Ov Visma Services Infocon Ab, Pormestarinne 8, 00160 Helsinki, Finland
Mitie Sverige AB	Kungsgatan 55, 111 22 Stockholm, Sweden, Sweden
Service Management International Asia Pacific PTE. Ltd.	65 Chulia Street, #38-02/03, OCBC Centre, Singapore, 049513
Source8 Delivery (Nigeria) Limited	235 Ikorodu Road, Ilupeju, Lagos, Nigeria
Source8 Services FZLLC	17 The Indium Building, Urm Suqeim Road, Al Barsha, Dubai, PO BOX 391186, United Arab Emirates

No subsidiaries have non-controlling interests that are material to the Group.

36. Events after the reporting period

There are no material post balance sheet events that require adjustment or disclosure in the annual report.

Company balance sheet
As at 31 March 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Investments in subsidiary undertakings	3	528.3	557.0
Deferred tax asset	5	2.6	0.8
Total non-current assets		530.9	557.8
Current assets			
Debtors	4	88.4	98.2
Total current assets		88.4	98.2
Total assets		619.3	656.0
Creditors: amounts falling due within one year	6	(88.3)	(67.4)
Provisions	7	(11.3)	(14.8)
Total current liabilities		(99.6)	(82.2)
Net current liabilities		(11.2)	16.0
Net assets		519.7	573.8
Capital and reserves			
Share capital		9.3	9.3
Share premium account		130.6	130.6
Merger reserve		104.2	104.2
Own shares reserve		(38.1)	(43.4)
Other reserves		23.3	22.9
Retained earnings		290.4	350.2
Equity shareholders' funds		519.7	573.8

The Company reported a loss for the financial year ended 31 March 2018 of £45.4m (2018: £12.7m).

The financial statements of Mitie Group plc, company registration number SC019230, were approved by the Board of Directors and authorised for issue on 5 June 2019. They were signed on its behalf by:



Phil Bentley
Chief Executive Officer

Paul Woolf
Chief Financial Officer

Company statement of changes in equity
For the year ended 31 March 2019

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 April 2017	9.2	130.6	91.8	(42.2)	25.3	367.4	582.1
Loss for the year	–	–	–	–	–	(12.7)	(12.7)
Share-based payments	–	–	–	6.9	(2.4)	0.3	4.8
Acquisitions and other movements	0.1	–	12.4	(8.1)	–	–	4.4
Dividends paid	–	–	–	–	–	(4.8)	(4.8)
At 31 March 2018	9.3	130.6	104.2	(43.4)	22.9	350.2	573.8
Loss for the year	–	–	–	–	–	(45.4)	(45.4)
Share-based payments	–	–	–	5.3	0.4	–	5.7
Dividends paid	–	–	–	–	–	(14.4)	(14.4)
At 31 March 2019	9.3	130.6	104.2	(38.1)	23.3	290.4	519.7

Details of dividends paid to shareholders are given in Note 10 to the consolidated financial statements.

Strategic report

Governance

Financial statements

Notes to the Company financial statements

For the year ended 31 March 2019

1. Significant accounting policies

(a) Basis of accounting

The separate financial statements of the Company are presented as required by company law. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The financial statements have also been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, impairment of assets, standards not yet effective, and related party transactions.

Where relevant, equivalent disclosures have been given in the Group accounts.

As more fully detailed in the Directors' report, the Company's financial statements have been prepared on a going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Company financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

The key area of judgement that has the most significant effect on the amounts recognised in the financial statements is the review for impairment of investment carrying values.

(b) Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment.

Investments in subsidiaries are reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the investment's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset exceeds its recoverable amount.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the profit and loss account, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on temporary differences, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial instruments

Intercompany loans are all assessed as being repayable on demand. The assessment of impairment of receivables from 1 April 2018 is in accordance with IFRS 9. The Group recognises a loss allowance for expected credit losses (ECL) on receivable balances subsequently measured at amortised cost, using the 'general approach' permitted under IFRS 9. In the prior year under IAS 39, appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account where there is objective evidence that the asset is impaired.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at amortised cost.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Share-based payments

Details of the Group's share option schemes are provided in Note 31 to the consolidated financial statements. The costs of options and conditional awards over the Company's shares granted to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of investments in subsidiary undertakings.

Pensions

The Company participates in the Mitie Group plc Pension Scheme. All group companies account for the contributions to the defined benefit scheme in respect of their employees and as part of a group arrangement one of the Company's subsidiaries accounts for the other costs, income, assets and liabilities of the scheme. Note 32 to the consolidated financial statements sets out details of the IAS 19 'Employee benefits' net pension liability of the scheme amounting to £61.4m (2018: £54.8m).

2. Loss for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own statement of comprehensive income (including the profit and loss account) for the year. Mitie Group plc reported a loss after taxation for the financial year ended 31 March 2019 of £45.4m (2018: £12.7m).

The auditor's remuneration for audit services to the Company was £40,000 (2018: £40,000).

3. Investments in subsidiary undertakings

	£m
Shares at cost	
At 1 April 2018	616.5
Capital contribution re share-based payments	5.7
Disposals	(27.0)
At 31 March 2019	595.2
Provision for impairment	
At 1 April 2018	59.5
Charged to income statement	7.4
Disposals	–
At 31 March 2019	66.9
Net book value	
At 31 March 2019	528.3
At 31 March 2018	557.0

A listing of subsidiaries is given in Note 35 to the consolidated financial statements.

4. Debtors

	2019 £m	2018 £m
Amounts owed by subsidiary undertakings	78.0	96.3
Other debtors	0.3	1.8
Prepayments and accrued income	0.1	0.1
Corporation tax	10.0	–
	88.4	98.2

The Directors consider that the carrying amount of debtors approximates their fair value.

Notes to the Company financial statements

For the year ended 31 March 2019

5. Deferred tax

	Losses £m	Share-based payment timing difference £m	Total £m
Deferred tax asset at 1 April 2018	–	0.8	0.8
Credit to income statement	1.7	(0.3)	1.4
Deferred tax asset at 31 March 2019	1.7	0.5	2.2

6. Creditors: amounts falling due within one year

	2019 £m	2018 £m
Overdrafts	18.4	24.8
Trade creditors	4.0	4.4
Amounts owed to subsidiary undertakings	53.2	28.5
Corporation tax liability	–	0.6
Other taxes and social security	0.4	(0.2)
Accruals and deferred income	12.3	9.3
	88.3	67.4

Amounts owed to subsidiary undertakings are repayable on demand. The Directors consider that the carrying amount of creditors approximates their fair value.

The Company's bank overdrafts are part of the Group's banking arrangements and are offset against credit balances within the Group. The Company has adequate liquidity to discharge all current obligations.

For details of Group borrowings, see Note 22 to the consolidated financial statements.

7. Provisions

	2019 £m	2018 £m
Provisions	11.3	14.8

The movement in the provisions balance of £3.5m is due to amounts recognised in the income statement of £2.0m relating to the Healthcare provision and £0.2m utilised from the provision, £1.2m utilised in the year relating to the restructuring provision and other movements of £0.1m. Refer to Note 19 to the consolidated financial statements.

8. Contingent liabilities

Per Note 33 to the consolidated financial statements, Mitie Group plc has taken the audit exemption for a number of subsidiaries by virtue of Section 479A of the Companies Act.

A parent company guarantee has been provided for these entities under Section 479C of the Companies Act.

9. Share-based payments

The Company has six equity-settled share schemes as described in Note 31 to the consolidated financial statements.

The Company recognised an expense of £0.6m (2018: £0.4m) related to the share-based payment charge for discretionary share option schemes.

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models. The inputs into the Black-Scholes and Monte Carlo models are as described in Note 31 to the consolidated financial statements.

10. Related parties

The Company makes management charges to its subsidiaries, whether they are wholly-owned or otherwise, and receives dividends from its subsidiaries, according to their ability to remit them. Other details of related party transactions have been given in Note 34 to the consolidated financial statements.

The Directors are remunerated by the Company for their services to the Group as a whole. No remuneration was paid to them specifically in respect of their services to Mitie Group plc for either year. Detailed disclosures of Directors' remuneration and share interests are given in the audited section of the Directors' remuneration report on pages 70 to 81. The Company had no (2018: two) employees throughout year.

Under FRS 101 the Company is exempt from disclosing key management personnel compensation and transactions with other companies wholly owned by Mitie Group plc. There were no other related party transactions during the year ended 31 March 2019 (2018: £nil).

Appendix – Alternative Performance Measures (APMs)

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance.

In assessing its performance, the Group has adopted certain non-statutory measures because, unlike its statutory measures, these cannot be derived directly from its financial statements. The Group commonly uses the following measures to assess its performance:

Performance before other items

The Group adjusts the statutory income statement for certain other items which, in the Directors' judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These other items include the impairment of goodwill, amortisation of acquisition related intangible assets, acquisition and disposal costs, the gain or loss on business disposals, the cost of restructuring programmes and other exceptional items.

Further details of these other items are provided in Note 4.

		2019 £m	2018 £m
Operating profit/(loss) from operations			
Operating profit from continuing operations	Face of the consolidated income statement	50.2	1.1
Adjust for: impairment of goodwill	Note 4	–	22.7
Adjust for: restructure costs	Note 4	15.1	47.0
Adjust for: acquisition and disposal related costs	Note 4	8.7	8.4
Adjust for: gain on bargain purchase	Note 4	(8.8)	–
Adjust for: other exceptional items	Note 4	23.0	4.0
Operating profit before other items from continuing operations	Performance measures	88.2	83.2
Operating loss from discontinued operations ¹		(2.0)	(9.4)
Adjust for: impairment of goodwill	Note 4	–	11.9
Adjust for: restructure costs	Note 4	0.8	0.3
Adjust for: gain on disposal	Note 4	(17.9)	–
Adjust for: other exceptional items	Note 4	23.1	3.6
Operating profit before other items from discontinued operations	Performance measures	4.0	6.4
Operating profit before other items – Group	Performance measures	92.2	89.6

Note:

1. Operating loss for discontinued operations comprises the loss before finance income and tax of £19.9m (2018: £9.4m) and the gain on disposal before tax of £17.9m (2018: £nil). See Note 5.

Reconciliations are provided below to show how the Group's segmental statutory results are adjusted to exclude other items.

	2019 £m			2018 £m		
	Reported results	Other items (Note 4)	Performance measures	Reported results	Other items (Note 4)	Performance measures
Operating profit/(loss) from operations						
Segment						
Engineering Services	52.5	6.2	58.7	50.4	3.7	54.1
Security	29.1	1.6	30.7	27.1	0.4	27.5
Professional Services	4.8	0.8	5.6	5.0	0.6	5.6
Cleaning & Environmental Services	15.5	2.0	17.5	18.5	1.1	19.6
Care & Custody	3.8	0.1	3.9	1.8	0.1	1.9
Catering	5.1	0.1	5.2	5.6	–	5.6
Corporate centre	(60.6)	27.2	(33.4)	(107.3)	76.2	(31.1)
Total from continuing operations	50.2	38.0	88.2	1.1	82.1	83.2
Healthcare	2.0	(2.0)	–	–	–	–
Pest Control	30.0	(27.6)	2.4	2.6	–	2.6
Social Housing	(34.0)	35.6	1.6	(120)	15.8	3.8
Total from discontinued operations	(2.0)	6.0	4.0	(9.4)	15.8	6.4
Total – Group	48.2	44.0	92.2	(8.3)	97.9	89.6

Appendix – Alternative Performance Measures (APMs) continued

In line with the Group's measurement of profit/(loss) from operations before other items, the Group also presents its basic earnings per share before other items for continuing operations. The table below reconciles this to the statutory basic earnings per share.

Earnings per share		2019 p	2018 p
Statutory basic earnings/(loss) per share	Statutory measures	8.6	(7.6)
Adjust for: losses from discontinued operations		(0.3)	2.7
Statutory basic earnings/(loss) per share from continuing operations		8.3	(4.9)
Adjust for: other items per share		8.5	20.1
Basic earnings per share before other items from continuing operations	Performance measures	16.8	15.2

Organic revenue and order book

The Group adjusts revenue and order book from continuing operations for the impact of acquisitions to show organic measures in order for users of the financial statements to obtain a proper understanding of the underlying movements in these business measures.

		2019 £m		2018 £m	
Organic revenue by segment for continuing operations		Reported revenue	Adjust for: acquisition of subsidiaries	Organic revenue (performance measures)	Reported revenue
Segment					
Engineering Services	Note 3	905.7	–	905.7	886.3
Security	Note 3	536.5	(79.6)	456.9	432.0
Professional Services	Note 3	131.4	–	131.4	131.2
Cleaning & Environmental Services	Note 3	404.4	–	404.4	384.1
Care & Custody	Note 3	107.3	–	107.3	59.9
Catering	Note 3	136.1	–	136.1	137.1
Total for continuing operations		2,221.4	(79.6)	2,141.8	2,030.6

The Group's disclosure of its order book is aimed to provide insight into its future revenue and performance. The Group's order book represents the transaction price allocated to the remaining performance obligations on its contracts with customers. This secured revenue corresponds to fixed work contracted with customers and excludes the impact of any anticipated contract extensions, and new contracts with customers.

		2019 £m		2018 £m	
Organic order book for continuing operations		Reported order book	Adjust for: acquisition of subsidiaries	Organic order book (performance measures)	Reported order book
Segment					
Engineering Services	Note 3	1,802.7	–	1,802.7	2,039.2
Security	Note 3	971.5	(209.0)	762.5	640.8
Professional Services	Note 3	86.9	–	86.9	144.9
Cleaning & Environmental Services	Note 3	663.1	–	663.1	656.3
Care & Custody	Note 3	596.6	–	596.6	670.1
Catering	Note 3	26.5	–	26.5	34.7
Total for continuing operations		4,147.3	(209.0)	3,938.3	4,186.0

Net debt

The Group includes the carrying value of its derivative financial instruments in its balance sheet in its performance net debt measure as this carrying value represents the fair value of cross-currency interest rate swaps on the US\$ private placement notes which form part of the Group's financing liabilities.

The table below shows the reconciliation of statutory net debt to the performance net debt measure.

		2019 £m	2018 £m
Net debt			
Cash and cash equivalents	Note 21	108.4	59.8
Financing liabilities	Note 22	(265.5)	(259.4)
Net debt	Statutory measures	(157.1)	(199.6)
Derivative financial instruments hedging private placement notes	Note 23	16.4	6.1
Net debt	Performance measures	(140.7)	(193.5)

The Group uses an average net debt measure as this reflects its financing requirements throughout the period. The Group calculates its average net debt based on the daily closing figures, including its foreign currency bank loans translated at the closing exchange rate for the previous month end. In line with the performance net debt measure, the average net debt includes the fair value of cross-currency interest rate swaps on the US\$ private placement notes. This performance measure shows average net debt of £302.0m for the year ended 31 March 2019, compared with £286.1m for the year ended 31 March 2018.

Shareholder information

Shareholder information

Overview

HY 19/20 half-yearly results	21 November 2019
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Dividends

FY 18/19 interim dividend (1.33p paid)	12 February 2019
FY 18/19 final dividend (2.67p proposed):	
~ Ex-div date	27 June 2019
~ Record date	28 June 2019
~ Last date for receipt/revocation of DRIP mandate	15 July 2019
~ Payment date	9 August 2019

Annual General Meeting

2019 Annual General Meeting	30 July 2019
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Email: info@mitie.com

Website: www.mitie.com

Registered in Scotland under company number: SC019230

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300*

Website: www.mitie-shares.com

* calls cost 12p a minute plus network extras.
lines are open 9.00 am – 5.30 pm Mon – Fri,
excluding bank holidays.

Dividend reinvestment plan (DRIP)

Mitie has a dividend reinvestment plan (DRIP) to enable you to build your shareholding by using your cash dividends under a standing election to buy additional shares in Mitie. If you would like to receive further information, including details of how to apply, please call Link Asset Services on 020 8639 3402 or contact them by sending an email to: enquiries@linkgroup.co.uk

Mitie online share portal

Mitie has a portal where shareholders can register and can then login to:

- Access information on shareholdings and movements;
- Update address details;
- View dividend payments received and register bank mandate instructions;
- Sell Mitie shares;
- Complete an online proxy voting form; and
- Register for e-communications allowing Mitie to notify shareholders by email that certain documents are available to view on its website. This will further reduce Mitie's carbon footprint as well as reduce costs.

If you wish to register, please sign up at
www.mitie-shares.com

Corporate website

This report can be downloaded in PDF from the Mitie website, which also contains additional general information about Mitie. Please visit www.mitie.com

Cautionary statement

Certain statements contained in this document constitute or may constitute 'forward-looking statements'.

In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'projects', 'aims', 'plans', 'predicts', 'prepares', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. Except as required by applicable law, rule or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. Mitie's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from the expectations disclosed or implied by the forward-looking statements contained in this document. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. The forward-looking statements contained in this document speak only as at the date of this document.

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www.youtube.com/user/mitiegroupplc

Front cover image

Anthony Smallwood, Telecoms Climbing Engineer. Anthony is completing planned preventative maintenance at height, checking the integrity of the structure, antennas and equipment.